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**HEARING ON IMPLICATION FOR WORKERS OF THE
FAST TRACK PROCESS AND THE MEXICAN FREE
TRADE AGREEMENT**

JOINT HEARING
BEFORE THE
SUBCOMMITTEE ON LABOR-MANAGEMENT RELATIONS
AND THE
SUBCOMMITTEE ON EMPLOYMENT OPPORTUNITIES
OF THE
COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES
ONE HUNDRED SECOND CONGRESS
FIRST SESSION

HEARING HELD IN WASHINGTON, DC, AT JL 30, 1991

Serial No. 102-12

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JOINT HEARING ON IMPLICATION FOR WORKERS OF THE FAST TRACK PROCESS AND THE MEXICAN FREE TRADE AGREEMENT

TUESDAY, APRIL 30, 1991

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON LABOR-MANAGEMENT RELATIONS AND THE SUBCOMMITTEE ON EMPLOYMENT OPPORTUNITIES, COMMITTEE ON EDUCATION AND LABOR,

Washington, DC.

The subcommittees met, pursuant to call, at 10 a.m., in Room 2175 Rayburn House Office Building. Hon. Pat Williams [Chairman of the Subcommittee on Labor-Management Relations], presiding.

Members present: Representatives Ford, Miller, Murphy, Kildee, Williams, Martinez, Hayes, Perkins, Payne, Unsoeld, Andrews, Visclosky, Petri, Roukema, Gunderson, Armev, Fawell, Ballenger, Molinari, Barrett, and Boehner.

Staff present: Subcommittee on Labor-Management Relations: Jon Weintraub, staff director; Fred Feinstein, chief counsel; Chris Treadway, legislative associate; Gail Brown-Hubb, staff assistant; and Becky Barnhart, staff assistant. Subcommittee on Employment Opportunities: Omer Waddles, staff director; Pat Fahy, senior legislative analyst; and Deborah Katz, office manager.

Minority staff present: Cathy Johnson, professional staff member and Kathy Gillespi, professional staff member.

Chairman WILLIAMS. Good Morning. I call to order this joint hearing of the Labor-Management Relations Subcommittee as well as the Subcommittee on Employment Opportunities, and I note the presence of the chairman of the Subcommittee on Employment Opportunities. Our two subcommittees are meeting this morning to consider the implications for American workers, of the Fast Track process as applied to the Mexico Free Trade Agreement.

It seems clear to me that America is now in a time of accelerated, aggressive trade negotiations between nations which will continue to occur. My own sense of it is that a significant majority of members of Congress are pleased with that occurrence and want to see these negotiations, with regard to trade and other important matters having implications in our international coming together, go ahead.

I have listened to many informed people, at meetings and caucuses and one-on-one visits in my office, about this matter, and I believe that the trade agreements which are now underway may well be only the beginning of significant trade agreements to follow. I

expect that within the next couple of decades we will see hemispheric negotiations on trade.

The question before the Congress today is not whether the current negotiations and continued negotiations should be pursued, it is, rather: What is the role of the United States Congress, House, and Senate, in those negotiations?

There are those who say, and they explain with significant logic and reason, that these negotiations can now only proceed if we use a new mechanism called "Fast Track." The question that I, as chairman of the Labor-Management Subcommittee, have is: Why can negotiations only go ahead if we use the mechanism called "Fast Track?" Is Fast Track necessary, now, to complete trade negotiations?

From 1975 until about 20 months ago, the United States signed, and Congress ratified, 89 international agreements, all of which were multi-national in nature, and we did it without the mechanism called "Fast Track." The International Trade in Endangered Species Convention was signed in the 1970s; the Fur-Seal Treaty, in the 1980s; the International Coffee Agreement, in the 1980s; the International Telecommunication Agreement, in the mid-1980s; the International Wheat Agreement and the International Labor Organization Convention, in the 1980s; and dozens and dozens of others always protecting the right of the American public, through the Congress, to exert some modicum of our legal jurisdiction over changes in the law.

And so we were, all these years, able to avoid Fast Track. The question now for the Congress is: Is Fast Track an abrogation of our jurisdictional responsibilities, perhaps, constitutional? And the second question is: Why Fast Track? So that is part of what brings us together here, today.

Let me add a more personal thought on this, if I might. I'm from Montana. I've played a lot of cards, out in Montana, and I understand that the dealer, in this instance the administration, the negotiators, has to hold all the cards. But I have never sat at a card table when the dealer, understandably holding all the cards, could decide whether or not to deal to me, as a person sitting at that table.

The administration has said to the Congress, "Join us in the negotiations," but they've given us no standardized procedure to do so and no guarantees that we will ever be dealt a single card or ever actually be allowed to play at the table.

Finally, again, in a personal-opinion way, I believe that Fast Track is a continuation of America's decade-and-a-half-long romanticism with this instrument called, "summitry." The White House and Congress have, in my opinion, gone summit-crazy. Whether it's with regard to trade or the budget or Social Security, we have gone summit-crazy.

And I want to quote for you what Chairman Dan Rostenkowski, who, as you know, chairs the committee which has primary jurisdiction over this matter, said, about a year ago, about summits. Chairman Rostenkowski said, "I am generally against summits, and I am specifically against any summit at which I am not a participant."

Our question today is: Is the Congress a participant in trade negotiations when Fast Track is used?

Thank you.

Congresswoman Roukema?

Mrs. ROUKEMA. Thank you Mr. Chairman.

I'm going to resist carrying the card-playing analogy a step further. I'm not going to ask you, "Who's playing with a full deck and who's not?" Agreed?

I really was going to abbreviate my remarks, but now, I guess, I have to acknowledge the fact that the chairman is quite correctly—I'm not in total agreement with him—but he has quite correctly identified that this legislation is becoming the focus of much public debate with respect to whether or not it is wise for Congress to continue to support Fast Track authorization for the Administration and its conduct of both U.S. Mexico Free Trade Agreements, as well as the Uruguay round conducted under the auspices of GATT.

Mr. Chairman, of course, you're correct in that this is a highly-debatable issue. And that's why we're here today, and that's why the debate is continuing and will—until June, I'm sure—reach a crescendo in June. Well, here today, we are only focusing, as I understand it, on the impacts for workers of the Fast Track process on the U.S./Mexico Free Trade Agreement.

Nevertheless, the entire Fast Track process has implications not only for the automotive and communications industries but also for agriculture, textiles, and other important segments of the economy. These interests, as we have already seen among our colleagues, creates strong regional pulls as well as partisan ones.

I am acutely interested in hearing the perspectives of our witnesses, today, on the positive and negative consequences of the Fast Track process. While I do not wish to tie the President's hands by making it impossible for him to conduct both bi-lateral and multi-lateral negotiations on these issues that are vital to the growth of our economy, at the same time, I hesitate to see Fast Track go forward without obtaining firm commitments that issues such as U.S. job loss, the enforcement of Mexican labor standards, and the environmental effects of liberalized trade with Mexico are affirmatively addressed in any final agreement. To this goal, I think our hearing today can be illuminating.

Mr. Chairman, you have agreed to hold a second session on these matters, and I thank you for that. At that time, we expect to hear from the Secretary of Labor with respect to the research the Department's Bureau for International Labor Affairs is conducting on job creation through increased exports to Mexico. At that time, the Secretary will have in hand action plans on addressing labor and environmental issues posed by the Free Trade Agreement, which will be released, it is my understanding, by the administration later this week.

In the meantime, today I want to welcome the distinguished witnesses we have, all of them, and particularly Mr. Abraham Katz, President of the U.S. Council for International Business; and Professor Dornbusch of M.I.T. This topic is very complex, and I look forward to their insights and analysis.

Thank you, Mr. Chairman.

Chairman WILLIAMS. I'll call on the Chairman of the Employment Opportunities Subcommittee, with which we're having this hearing today, Mr. Perkins.

Mr. PERKINS. Thank you, Mr. Chairman. I would like to first acknowledge your leadership, and thank you for putting together this hearing. I think, certainly, that your staff has done most of the work and preparation. But we wanted to join with you today because there are a number of things that this subcommittee, the Employment Opportunities Subcommittee, has a direct personal interest in, and certainly that the Chairman of the subcommittee has an interest in. And that is the question: What will this so-called "Fast Track" trade agreement situation have upon jobs in America?

I'll tell you, frankly, from what I've read and what I've seen, we have seen an expansion along the Mexican/American border, plants in both countries—I think about 500,000, half a million workers—that are along the border. We read about jobs that are going, from plants in Buffalo, from plants in Detroit, to these border industries.

What sort of effect are the so-called Fast Track negotiations going to have on whether or not more industries are going to be moving to border locations, into Mexico? What sort of implication is it going to have five years from now on the industrial make-up? What sort of effect is it going to have on whether or not workers at the lower end of the pay scale retain jobs in America?

I think these are questions that are significant, and I think these are questions that we're going to have to look at. Are these the same sort of opportunities, challenges, that we're going to have with Canada—that we had with Mexico that we have with Canada? What is that playing field that we're talking about? What jobs would most likely be lost? Or what kind of worker will be facing the unemployment lines in a recessionary period? Where will our unemployed workers turn to for employment? What good is retraining if there is no job to get when the retraining is completed? There are a number of questions that impact, to me, on employment in America.

Today, I hope that we will hear a number of answers. I look forward to listening to the witnesses. Certainly, I think the questions that are being raised by this process have not only constitutional implications as to the role of Congress in negotiations between various countries, but will have a direct impact upon the employment situation of this country. For that reason, I certainly hope that the answers we hear today are going to alleviate some of my doubts and fears.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Carl C. Perkins follows:]

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SUBCOMMITTEE ON EMPLOYMENT OPPORTUNITIES

April 30, 1991

Implication for Workers of the Fast Track Process and the Mexican Free Trade Agreement

Statement by Congressman Carl C. Perkins, Chairman
Subcommittee on Employment Opportunities

Chairman Williams, Members of the Subcommittees, Ladies and gentlemen, I am pleased to be able to share in chairing this important hearing today with my good friend, Pat Williams.

Today we are looking to analyze the practical effects of the "Fast Track" request from the Administration. Since my Subcommittee has jurisdiction over the employment opportunities for today's workforce I think it is crucial we become aware of the employment consequences of our choices concerning this request.

I will state up front I have serious concerns about the decision we are asked to make. I perceive these negotiations as leading us to a point of unilateral disarmament on the issue of trade. Based on these concerns I have cosponsored the "Resolution of Disapproval" which Congressman Dorgan has introduced. I have been fighting against the, on again, off again G.A.T.T. talks and feel it is important to remember that these two issues are so closely intertwined.

I have a great concern about the everyday impact these negotiated agreements will have on the typical American. We have heard many differing stories about the actual job loss predictions and some even say it won't hurt at all. I believe it will hurt and it will hurt those that can least cope with the employment loss. Those that do not have an obvious expertise or specific skill but are hard working Americans, will not have the choices that may be available for others. Where will they turn for employment and fair wages if the jobs they have worked at all of their lives are moving across the border?

What impact will the President's request for an extension of the "Fast Track" authority have on this nation's employment situation today, and five years from today? Does Mexico present

the same opportunities and challenges that Canada did in prior considerations? What jobs would most likely be lost and what kind of worker will be facing the unemployment lines in this recessionary period? Where will our unemployed workers turn for employment? What good is retraining if there is no job to get when the retraining is completed?

There are Constitutional, environmental, trade, as well as employment questions that must be answered before this issue can be allowed to move forward. The questions surrounding this issue are extensive and I anticipate we will be getting some of the employment and economic answers during today's hearing. We are quickly coming to the end of the debate period on this issue and it is necessary to explore as many of the questions as we can before the Congress is asked to vote up or down on extending the "Fast-track" authority.

I want to thank our witnesses for coming today and for participating in this hearing. You are helping to frame this issue for myself and others as we approach the deadline on debate.

Chairman WILLIAMS. Mr. Gunderson?

Mr. GUNDERSON. Thank you very much, Mr Chairman. I appreciate the hearing. I hope that all of us on both sides of this issue, however, haven't come to this hearing with preconceived conclusions before all the testimony is in.

I would encourage my colleagues on the other side of the aisle to listen to a quote from one of their colleagues, Congressman Wyden, from Oregon, when he said, "The issue before us is a historic chance for the Democratic Party to decide which way to go. Either we stick with the politics of yesteryear in protection, or we move to a position where we can influence pro-economic growth policies. Not all Democrats will be willing to espouse this point of view. Many of the party's traditional friends insist the Democrats say, 'no, never,' to increase trade, rather than, 'yes, if.'"

I think the real question, today, is: What are the facts? The fact is that trade with Mexico has significantly increased in the late 1980s, from \$12.5 billion in 1986 to \$28 billion last year. It is appropriate that this committee look at that fact, because each additional \$1 billion represents 20,000 new jobs in the United States.

The question of who should negotiate a treaty is an appropriate one. And I would only quote Senator Benson, who said, "The Congress cannot negotiate treaties because they speak with too many voices. The Administration can and must, and the Congress shall then approve or reject." The fact is that we worry too much about inadequate Congressional consultation and involvement on this issue.

I would suggest that this Administration has consulted more with this Congress on the parameters and the basis for developing these negotiations than any consultation that has occurred at any time on any trade negotiations in the past. As my colleague, the ranking member of the Labor-Management Relations Subcommittee, indicated in her remarks, the fact is that that consultation is evidenced by the letter that the Democratic leadership of this House sent to the President. There has, to everybody's knowledge, been great consultation and discussions in the process of formulating a response to that letter, and we expect that tomorrow's response will be one that reassures this Congress and those in America who have concerns and questions regarding the facts on a trade negotiation in the Fast Track process.

I would hope that we go into this hearing today, and into the increasing debate on this issue, not talking about "whether," but, rather, talking about "how." We might then move forward as a nation and do so in a way that, obviously, includes proper protections for American workers, for their health, for their safety, for the American consumer, and for the products they purchase.

Thank you.

Chairman WILLIAMS. Thank you.

Mr. Martinez?

Mr. MARTINEZ. Thank you, Mr. Chairman. I don't know how you can talk about Fast Track without talking about the actual Free Trade Agreement, because one goes hand in hand with the other.

First of all, let me say that the administration, as Mr. Gunderson has pointed out, has a responsibility to negotiate trade agreements, but the Congress has a responsibility, also, ratifying that trade

agreement if they disagree with it. That same process was in place whether there's Fast Track or not. And if the President and the administration wants to make it a Fast Track, he can just expedite his GATT talks, and he can expedite any trade agreement negotiation with any country. He doesn't need to hide behind a Congress for a responsibility that he already has.

And the only reason that I can see that a person would come forth to hide behind the Congress is the same thing is the Gulf War Crisis. He didn't need our permission to move those troops. He could have moved them, because in 485 conflicts, the administration has made that decision without a declaration of war. And in this case, countless number of times more than that have trade agreements been negotiated in which the Congress has ratified. And so that we are somehow ignoring a process that already exists, in order to have a political issue.

I'm sure, just as in that one, people on that side of the aisle, who see us vote against Fast Track and vote against Free Trade, will immediately run out and tell our constituencies that, "Hey, look, they don't want to see our economy improved. The Democrat who says he's for the working class person doesn't want to see your economy improve." That's baloney.

You can quote all the figures that you want to of an increase from \$12 billion to \$28 billion, but you ignore the real problems that are inherent in a free trade agreement. And that is the law and enforcement of those laws in that country who, many times, don't even enforce the laws they have in their constitution, because their labor law is written into their constitution, and they never enforce it.

The abuse of the workers down there and the conditions under which they work are so atrocious, we would not tolerate that even in the worst sweat shop in the United States, but yet, we're going into a Free Trade Agreement in which we're supposed to improve their economy. And their economy improved on the backs of who? Of the working people there? They're going to be improved on the backs of us.

There's an obvious fact that people who want this really ignore: the market is the United States. If people produce a product for market, they're going to produce it for the United States market. That's what it really is. We talk about supply and demand; let's carry that a bit farther in the case of Mexico, because it's not only supply and demand, it's the ability to buy. How can people buy what we produce at the rate we produce it, when they earn 80 cents an hour?

Now, if you want to help Mexico—and I'm 100 percent for that—let's move down there, let's forget this Fast Track idea, let's negotiate a trade agreement that's specific. Because with an economy that's so much weaker than ours, you're going to need a specific trade agreement to address all of the issues, such as environmental and labor conditions and the rest, before you can really have a workable agreement.

Now, I am of the impression that we are not willing to do that in order to diffuse the situation, for some ulterior motive. What that is, let somebody else address that question. I, myself, am going to vote against Fast Track because we have the process that was de-

signed by our Founding Fathers in the Constitution: three branches of government, each one with its responsibility; and the administration, definitely, with the responsibility of negotiating trade agreements, and us, with the responsibility of ratifying those.

And I don't want to give up any rights that my constituent voted for me to address and have the responsibility of. Too many times in the past, as Chairman Williams has alluded to, we have had negotiations in which the Congress had advocated a responsibility to some mechanism that all of a sudden decides for everyone what's going to happen at a specific time, such as the Gramm-Rudman law, and I'm sick and tired of that. I believe that if you got elected, live up to your responsibility and understand your responsibility.

Chairman WILLIAMS. Thank you, gentleman.

Mr. Armev?

Mr. ARMEY. No statement.

Chairman WILLIAMS. Mr. Fawell?

Mr. FAWELL. Thank you, Mr. Chairman. I am pleased that you have convened this hearing and given the members of this subcommittee the opportunity to interact with expert witnesses on this important issue.

The upcoming vote on extending the Fast Track authority will be the most important trade decision Congress will consider this session. And I, for one, am convinced that lower trade barriers and improved market access will generate employment and result in economic growth for all parties to a trade agreement.

Further, I believe that successful completion of the GATT round is essential to the continued progress and development of a multi-lateral trading system. While I am generally supportive in granting the extension and, thus, enabling the administration to negotiate from a position of strength, I, nevertheless, have questions and concerns about the potential impact of the proposed U.S./Mexico Free Trade Agreement on U.S. industry and its workers.

My own State of Illinois ranks sixth in the country in value of exports to Mexico, and sixth in the number of jobs directly related to export industries. In 1990, Illinois exported \$15.7 billion worth of goods to Mexico, an increase of \$13.2 billion over the previous year. Clearly, Illinois has a great stake in any Free Trade Agreement with Mexico, and I am grateful for this opportunity to examine some of the factors relating to labor.

I'm looking forward to today's discussion and appreciate our witnesses taking their valuable time to share their expertise on this important issue with us, and I do plan to listen.

Thank you very much.

Chairman WILLIAMS. Thank you.

Mr. Miller?

Mr. MILLER. No statement.

Chairman WILLIAMS. Mr. Kildee?

Mr. KILDEE. Just a brief comment. I keep asking myself: Who does President Bush really want to help by obtaining Fast Track authority? And this is a very sincere question. I've lost so many jobs from General Motors plants in Flint, Michigan to Mexico already, without the Free Trade Agreement.

Are we going to help the American worker, are we going to help the Mexican worker, or are we going to help, primarily, the Ameri-

can investor who wants some quick, easy profits? That's a very serious question; what will be the result?

I used to have 80,000 General Motors jobs in Flint, Michigan; now we're down to 52,000 jobs. Many of those were lost for other reasons, but I know, directly, many of them—AC Rochester went south of the border to pay workers about a dollar an hour. And I know that helps the American investor, when he can pay a dollar an hour for wages. So I think all through this discussion we have to ask ourselves: Who is this for, the American worker, the Mexican worker, or the American investor?

Thank you, Mr. Chairman.

Chairman WILLIAMS. Thank you.

Mr. Barrett?

Mr. BARRETT. Thank you, Mr. Chairman. I, too, am glad to have the opportunity to participate in this hearing this morning, to hear testimony from witnesses who are concerned, with the impact a possible Free Trade Agreement with Mexico may have on American labor.

I know from participating in hearings as a member of the Agriculture Committee, a Free Trade Agreement with Mexico could very well have a very positive impact on American agriculture. Very briefly, Mr. Chairman, I hope that the subcommittee will keep in mind that what we'll be debating on the House floor in just a few weeks is not a free trade agreement in and of itself, but merely the process by which Congress may vote on the agreement.

I'm afraid that some people have, perhaps, a distorted fear that somehow the United States will be abrogating its territorial sovereignty by giving the President the flexibility to negotiate such an agreement. After all, the buck still stops right here, with Congress, where we will either ratify or defeat an agreement.

However, I do also recognize that many of us have concerns, and I hope the action plans that the administration will provide very shortly will address some of the steps that the negotiators may take to address the potential U.S. job losses, as well as the poor Mexican environmental and labor standards.

With that, I thank you, Mr. Chairman.

Chairman WILLIAMS. Thank you.

Mr. Hayes?

Mr. HAYES. Thank you, Mr. Chairman. I, too, want to commend you for the scheduling of this hearing, and in deference to the time of the witnesses which have assembled here, I have a prepared statement, but my preference would be, with the approval of the committee, to submit it to the record.

Chairman WILLIAMS. Without objection.

Mr. HAYES. I would like to just buttress that statement by adding that this is not a political issue; I wish we'd understand that. This is a human issue.

And I wish we were really concerned about people who are in need, both in America and in Mexico. To put this kind of legislation on the so-called "Fast Track,"—it seems to me if we're interested in the people who are suffering in this country, where poverty is on the rise, unemployment is on the rise, we would put some legislation on the Fast Track that will help find solutions to those kind of problems and halt speeding up the efforts of many greedy

corporate interests whose concern is to increase their profits by seeking low wages and taking advantage of them in Mexico and to avoid having to pay for the so-called "fringe benefits," which include health care—and we've got 37 million people in this country who have no health care, and that number is rising.

It seems to me that these are the kinds of directions in which we ought to be going, here, as a legislative body. And I just hope, Mr. Chairman, that this committee of ours recognizes our need at home. And, yes, do what we can to help those poor Mexican workers to avoid the kind of exploitation that is taking place with the movement of jobs into that area for lesser wages.

I had a chance to be a part of a delegation which visited the big three automobile companies in Detroit last weekend. I was handed a packet from my people there who have been scheduled to work for General Motors to six and a half hours a day—they handed a packet to all of us—and there were some 40 of us from Congress—saying, "Look, save our jobs," in this General Motors plant, which is one of the largest in the country.

I think that we have to be conscious of this and do what we can to help people who need help here. Give them some purchasing power. They've already had their hours reduced to six and a half hours a day in that plant, and that plant is only about half the size it normally would be. These are the things I think we need to be thinking about when we talk about Fast Track.

Let's put help for people here on the Fast Track, and not pass legislation based on knowledge which is going to help those who already have, at the expense of those who don't have. Thank you very much.

[The prepared statement of Hon. Charles A. Hayes follows:]

STATEMENT OF HON. CHARLES A. HAYES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Thank you, Mr. Chairman

While we discuss whether or not President Bush and U.S. trade negotiators should have an extension of fast track authority to negotiate a Free Trade Agreement with Mexico, we must also study the implications for workers. I agree that a North American Free Trade Agreement should exist. But, any trade agreement entered into by this country should reflect dignity, honesty, and justice for all workers that are involved. I am concerned that a free trade agreement that is not fully discussed by the Congress will not reflect reasonable labor policies. The issues surrounding a U.S. Mexico Free Trade Agreement are complex and carry grave consequences for certain U.S. industries and their workers. Simply put Mr. Chairman, fast track authority lessens the possibilities of achieving a free trade agreement that represents dignity, honesty, and justice for all workers involved.

It is clear that Mexican workers earn only a fraction of what U.S. workers earn. Even worse, Mexican children, as young as 13 years of age, are allowed to work in factories. Mr. Chairman, it is no secret that U.S. owned companies have rushed to the Mexican border to take advantage of cheap labor and weak environmental standards. Too often, we see American corporations look for fast bucks in other countries when their capital and employees exist in the U.S. A recent example is Stamp Ventures who contracted with the U.S. Postal Service and later subcontracted with a company in Canada to do the services.

I don't think that this body wants to place a free trade agreement on fast track where substandard labor and environmental policies exist. I would like to commend you, Mr. Chairman, for holding this hearing and look forward to hearing from the witnesses.

Thank you, Mr. Chairman

Chairman WILLIAMS. Ms. Molinari?

Ms. MOLINARI. No statement.

Chairman WILLIAMS. No statement.

Mrs. Unsoeld?

Mrs. UNSOELD. Thank you, Mr. Chairman. I do not have a prepared statement, but some of the remarks that have been said, I feel, require some kind of a response.

We hear a plea that we should withhold judgement on this and listen to the Administration, that we should give the President flexibility in the negotiations. Actions speak louder than words, and I can only respond to that with what I have seen as a result of negotiations that have taken place in the past in the Pacific Northwest.

Our finest resource, our trees, our old growth, the very finest of our Northwest forests were, year after year, sent overseas to Japan as raw logs, rather than as processed wood, because we didn't negotiate tough enough and because some major corporations were getting very, very high profits on this exchange.

Just recently, in our negotiations with the drift-netting nations, who have 30-, 40-mile nets in the north Pacific, stealing our salmon and our steelhead. We have a Drift-net Observer Agreement, whereby we have real human beings on board a very few of those vessels in order to watch what's going on and to collect data, so we can eventually lead to a ban of the use of that kind of technology.

Not only did our government acquiesce to fewer observers than last year, it was the United States that suggested the lower number. We are simply giving away our resources, our jobs, and I believe we should watch the administration's actions and not just listen to words.

Thank you, Mr. Chairman.

Chairman WILLIAMS. Mr. Murphy?

Mr. MURPHY. Thank you, Mr. Chairman. I will reserve my statements in deference to the witnesses who will be providing us with material for our floor debate, and I will reserve my comments for that occasion.

Thank you.

Chairman WILLIAMS. Thank you.

Mr. Visclosky?

Mr. VISCLOSKY. No statement.

Chairman WILLIAMS. I ask our first witness to come forward. We have with us this morning, the Director of the Legislative Department of the AFL-CIO, Mr. Robert McGlotten.

Mr. McGlotten, it's nice to see you this morning.

Mr. MCGLOTTEN. Thank you very much, Mr. Chairman.

Chairman WILLIAMS. We look forward to your testimony. We remind you, and all of the witnesses who will follow you, that your full testimony will be placed in the record. We would ask you to either present it or summarize it in any way that would keep you within our five-minute rule, a rule that each member of the committee, in their opening statements, abided to. It's nice to see you this morning, Mr. McGlotten.

STATEMENT OF ROBERT McGLOTTEN, DIRECTOR OF LEGISLATIVE DEPARTMENT, AFL-CIO; ACCOMPANIED BY WILLIAM CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, AFL-CIO

Mr. McGLOTTEN. Thank you very much. Mr. Chairman. I'm delighted to be here today. With me, on my right, is William Cunningham, our legislative representative who handles our trade matters. Mr. Chairman, I will summarize my statement. I ask that the entire statement be presented in the record. I also have a document entitled "The Maquiladoras, A Broken Promise," I ask, also, that that be included in the record.

[The material referred to is maintained in subcommittee files.]

Mr. Chairman and members of the subcommittees, I am pleased to offer testimony on behalf of the AFL-CIO, on the proposed Mexico Free Trade Agreement and the procedure by which the Congress will consider such an agreement.

This committee is charged with some of the most difficult tasks in Congress. Each of you has fought, debated, and amended various vital statutes that affect the lives and working conditions of American workers in the area of education, U.S. labor laws, occupational safety and health, minimum wage, job training, mine safety, pension protections under ERISA, and child labor. All of these statutes were developed and enacted after extensive deliberations and not without a little blood, sweat, and tears.

Let us suppose for a moment that all of these statutes expire this year and the Executive Branch proposes reauthorizing all of these programs, but with one change: the States of Illinois and Indiana would be exempt from all provisions. Let us further suppose that added to the list of expiring provisions was the Clean Air Act and the Water Pollution Control Act. Again, they would be extended, but not to the states of Illinois and Indiana.

Now let us further suppose that the Congress would be allowed only a Yes or No vote on these necessary extensions; no amendments would be allowed. What would you think of this approach, Mr. Chairman and members of the committee? In our "what if" scenario, if Congress approves such a change, it would be inevitable that many U.S. companies would relocate in the States of Illinois and Indiana, because they would be free of OSHA regulations, minimum wage laws, clean air, or clean water requirements, and prohibitions against the use of child labor.

Perhaps by this example you can understand the AFL-CIO's concern. We sincerely believe that a Mexican Free Trade Agreement negotiations on the Fast Track removes the Congress from its proper role, and like that above example, Mexico would be a magnet for U.S. and foreign corporations which desire a low-wage alternative to relocate their production in Mexico free of worker and environmental protections.

Congress should not remove itself from this process by adopting a two-year extension of the Fast Track procedure when it has no idea what the results of the Mexico-U.S. negotiations will be, and because such an agreement will have profound economic consequences for both U.S. and Mexico workers.

Many members have told me that the AFL-CIO does not want any agreement in Mexico. Let there be no mistake; the AFL-CIO is

internationalist. We favor stronger ties—economic, social, political, and cultural—among the Nations of North America.

Second, we believe that the developed nations on the continent, the United States and Canada, should encourage balanced economic growth in the developing nations, Mexico, Central America, and the Caribbean, indeed, all of Latin America.

Third, we believe that the economic arrangements we have with our neighbors should not be regressive. It is unfair and foolish to adopt policies that help the rich get richer and the poor get poorer. We already have a gruesome preview of that in the maquiladoras, the U.S.-owned plants that operate just across the border, which exploit Mexican workers and produce goods that are exported back here.

There are now 1900 maquiladoras in operation. They employ about a half-million workers. Hundreds of thousands of U.S. workers have lost their jobs. They pay the employees about 60 to 80 cents an hour, hardly enough for subsistence. Workers in many maquiladoras live in shacks made of packing materials, their drinking water is sometimes in large 50-gallon drums that previously contained toxic materials.

The Wall Street Journal noted that the maquiladora's "very success is helping turn much of the border region into a sinkhole of abysmal living conditions and environmental degradation."

Joseph Grunwald, the respected University of California economist, recently wrote in the Brookings Review that maquiladoras "have contributed little or nothing to advancing Mexican industrialization, technological growth, or international competitiveness."

Why? If the maquiladoras were growing by leaps and bounds over 25 years, why have they done so much bad and so little good for those Mexicans that have been affected by them? It is no mystery. The entire purpose of the maquiladoras, their "comparative advantage" in international trade, as classic economists would say, is providing multinational corporations with a work force that is poor, desperate, and easily exploited.

The AFL-CIO deplores this kind of activity. The United States would probably pay a political price as a result. Our nation would expect the hostility of Mexican working people for generations to come. It has been suggested that the U.S. needs to respond to regional trading blocks like the 1992 Single Market in the European Community.

We in the AFL-CIO agree. But if the U.S. is looking for a continental arrangement to compete with the EC Single Market, the FTA is a mean, short-sighted, and simplistic approach. It pretends that tariffs and nontariff barriers are the whole world of trade and international economics.

It is interesting to compare the EC and a limited U.S.-Mexican Free Trade Agreement. The EC includes a Social Charter. It sets out our rights to a minimum wage, social assistance, collective bargaining, vocational training, health and safety protection in all of the member countries party to the agreement.

The Europeans have a \$68 billion Regional Development Fund to narrow the gap between rich areas like West Germany and poorer areas like Portugal and Greece.

Mr. Chairman, as you deliberate on these issues we hope that the position of the AFL-CIO is clear. We are eager to work with you and your colleagues for better relationships between the U.S. and Mexico, and to that end, Mr. Chairman, we are prepared to assist and help you. My colleague and I are prepared to answer any questions that you and the rest of the members of the committee may have.

[The prepared statement of Robert McGlotten follows:]

**TESTIMONY OF ROBERT M. MCGLOTTEN, DIRECTOR,
DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS, BEFORE THE
SUBCOMMITTEE ON LABOR-MANAGEMENT RELATIONS,
U.S. HOUSE OF REPRESENTATIVES
ON THE NORTH AMERICAN FREE TRADE AGREEMENT**

APRIL 30, 1991

Mr. Chairman and Members of the Subcommittee, my name is Robert M. McGlotten and I am pleased to offer testimony on behalf of the AFL-CIO on the proposed Mexico Free Trade Agreement and the procedure by which the Congress will consider such an agreement.

This Committee is charged with some of the most difficult tasks in Congress. Each of you has fought, debated and amended various vital statutes that affect the lives and working conditions of American workers - OSHA, minimum wage, job training, mine safety, pension protection under ERISA, child labor. All these statutes were developed and enacted after extensive deliberations and not without a little blood, sweat and tears.

Let us suppose for a moment that all of these statutes expire this year and the Executive Branch proposes reauthorizing all of these programs - but with one change - Illinois and Indiana would be exempt from all provisions. Let us further suppose that added to this list of expiring provisions was the Clean Air Act and the Water Pollution Control Act. Again, they would be extended but not to Illinois and Indiana. Now let us further suppose that the Congress would be allowed only a Yes or No vote on these necessary extensions - No amendments would be allowed. What would you think of this approach? In our "what if" scenario, if Congress approved such a change it would be inevitable that many U.S. companies would relocate in Illinois and Indiana because they would be free of OSHA regulations, minimum wage laws, clean air or clean water requirements, and prohibitions and use of child labor.

Perhaps by this example you can understand the AFL-CIO's concern. We sincerely believe that a Mexico Free Trade Agreement negotiations on the "fast track" removes the Congress from its proper role, and like the above example, Mexico will be a magnet for U.S. and foreign corporations which desire a low-wage alternative to relocate their production

in Mexico free of worker and environmental protections. Congress should not remove itself from this process by adopting a 2-year extension of the fast track procedure when it has no idea what the results of the Mexico-U.S. negotiations will be and because such an agreement will have profound economic consequences for both U.S. and Mexican workers.

Many members have told me that "the AFL-CIO does not want any agreement in Mexico. Let there be no mistake, the AFL-CIO is internationalist. We favor stronger ties - economic, social, political, and cultural -- among the nations of North America.

Second, we believe that the developed nations on the continent -- the United States and Canada -- should encourage balanced economic growth in the developing nations -- Mexico, Central America, and the Caribbean, indeed all of Latin America.

Third, we believe that the economic arrangements we have with our neighbors should not be regressive. It is unfair and foolish to adopt policies that help the rich get richer and the poor get poorer.

In light of those principles, we in the AFL-CIO advocate a wide range of initiatives in U.S.-Mexican relations.

We support reduction of Mexico's debt to a level where per capita economic growth can be restored. Such a reduction would go far beyond what was negotiated under the Brady Plan. It would clearly be the most useful contribution our nation could make to economic development in Mexico.

The Brady Plan was a small step in the right direction. Its net reduction in debt-service obligations will amount to about \$1.3 billion a year. This is completely inadequate. Our two governments should revisit this issue, and include it in negotiations to restructure our relationship. To ignore debt relief is to damn future generations of Mexican workers to grinding poverty since any increased industrialization will be used for debt servicing, not improving the lot of Mexican workers.

We are also in favor of closer cooperation between Mexico and Washington on environmental protection, narcotics control, public health, resource development, and capital flight restrictions. The last item, capital flight, is often overlooked. Unless capital flight from Mexico is restricted and eliminated many of the so-called "benefits" of a free trade agreement will be lost. All these also should be on the agenda for their negotiations.

While we strongly support such initiatives, we are just as strongly opposed to a limited free trade agreement.

A limited free trade agreement between two such disparate economies is unsound in theory and disastrous in practice.

An FTA between the U.S. and Mexico would change the continental economy in ways that would provide great advantages to capital investors at the expense of working women and men throughout North America.

We should look closely at who it would hurt and who it would help.

It would certainly hurt U.S. workers. It would pave the way for hundreds of thousands of our jobs to be exported to Mexico.

We already have a gruesome preview of this in the maquiladoras, the U.S.-owned plants that operate just across the border, exploit Mexican workers, and produce goods that are exported back here.

There are now some 1,900 maquiladoras in operation. They employ about a half-million workers. Hundreds of thousands of U.S. workers -- including employees of Electrolux, Trico, Zenith, Westinghouse, GE, AT&T, GM, Ford, and Chrysler -- have seen job opportunities vanish here and suddenly appear in Mexico. And their numbers would mushroom with the advent of an FTA. U.S. workers would lose jobs in other ways as well. One of these is "increased labor mobility" -- in other words, the "temporary" use of Mexican workers by contractors on this side of the border.

This issue will come up in negotiations under trade in services. Ms. Hills has ruled out only "large-scale labor mobility," but that leaves a gaping loophole for small- and mid-scale "labor mobility." This is not at all encouraging.

It is interesting that even a report from the International Trade Commission has conceded that "unskilled workers" would suffer a "slight decline" -- as they put it -- in real income because of an FTA, while "skilled workers and owners of capital services" would benefit.

For millions of workers, the decline would be much more than "slight" -- but the important point here is the ITC admission that people on the bottom economic rungs would lose and those on the top rungs would win.

The Commission mysteriously refused to say who it counted as "unskilled workers." We have filed a Freedom of Information Act request for the information -- but it reportedly included all workers with four years of high school or less.

This would mean that a majority of the U.S. working population -- 52.5 percent -- would be hurt by an FTA. Some put it as high as 70 percent!

Farther up the economic ladder, the affluent minority would certainly benefit from an FTA. Multinational corporations would hit the jackpot, just as they have with the maquiladoras.

The multinationals can take advantage of the terrible poverty in Mexico and pay workers a small fraction of average U.S. wages. Moreover, they do not have to pay for workmen's compensation, unemployment insurance, health insurance, and other essentials of civilized life.

What about Mexican workers? Would they benefit from an FTA? Again, the maquiladoras are a gruesome preview.

They pay employees about 60 to 80 cents an hour, hardly enough for subsistence. Workers in many maquiladoras live in shacks made of packing materials. Their drinking water is sometimes in large 50-gallon drums that previously contained toxic materials.

The Wall Street Journal noted that the maquiladoras' "very success is helping turn much of the border region into a sinkhole of abysmal living conditions and environmental degradation."

There is a great irony here.

On the one hand, the maquiladoras have skyrocketed over the last 25 years, especially in the 1980s. They now account for one-tenth of Mexico's industrial work force, and they are Mexico's second-largest earner of foreign exchange.

But on the other hand, they have been an utter disaster for Mexican workers. In the 1980s -- the boom decade for the maquiladoras -- Mexican wages in dollar terms fell from the highest in the Third World to among the lowest.

Joseph Grunwald, the respected University of California economist, recently wrote in the Brookings Review that maquiladoras "have contributed little or nothing to advancing [Mexican] industrialization, technological growth, or international competitiveness."

Why?

If the maquiladoras were growing by leaps and bounds over 25 years, why have they done so much bad and so little good for those Mexicans that have been affected by them?

It is no mystery. The entire purpose of the maquiladoras -- their "comparative advantage" in international trade, as classical economists would say -- is providing multinational corporations with a work force that is poor, desperate, and easily exploited.

Yet this comparative advantage is the premise of an FTA. It would turn much of the rest of Mexico into a huge maquiladora. Mexico's wealthiest classes and U.S. investors would cash in, but countless workers around the country would suffer the same fate that their sisters and brothers along the border have endured since the mid-1960s.

The United States would probably pay a political price as a result. Our nation could expect the hostility of Mexican working people for generations to come.

It has been suggested the need to respond constructively to regional trading blocs, like the 1992 Single Market in the European Community.

We in the AFL-CIO agree -- but if the U.S. is looking for a continental arrangement to compete with the EC Single Market the FTA is a mean, short-sighted, and simplistic approach. It pretends that tariffs and non-tariff barriers are the whole world of trade and international economics.

It is interesting to compare the EC and a limited U.S.-Mexico Free Trade Agreement.

The EC includes a Social Charter. It sets out rights to a minimum wage, social assistance, collective bargaining, vocational training, and health and safety protection in all of the member countries, partly to discourage runaway plants.

The worker protections in an FTA can be summarized in two words: "Tough luck."

Working people in the EC have recourse to a variety of community-wide institutions, like the Court of Justice and the democratically-elected European Parliament.

Here, when difficult trade problems would come up, the only recourse for U.S. and Mexican workers would be to pound the wall and write a letter to the editor.

The Europeans have a \$68-billion Regional Development Fund to narrow the gap between rich areas like western Germany and poor areas like Portugal and Greece.

Here, the per-capita income ratio of U.S. and Mexico is a staggering 10-to-1 -- much larger than anything in western Europe. In a free trade area, that would be an economic time-bomb, but the FTA would not provide a nickel to defuse it.

Another big difference between the EC Single Market and the FTA is that here, no one has even discussed external tariffs of FTA partners, or currency valuation and devaluation. None of those will be negotiated.

Yet all of these dangers -- all of these inadequacies -- do not deter the administration. Its strategy for the FTA is to push for fast track authority. This would foreclose most serious discussion and it would maneuver Congress to the sidelines.

The administration could then negotiate an FTA in six months and ram it through Congress on a simple yes-or-no vote. The administration evidently calculates that if Congress is given the choice of taking it or leaving it, they will take it.

Certainly an FTA deserves more consideration and examination before committees -- and more extensive debate in the Congress and nation -- than this scenario would allow.

Mr. Chairman, we urge you and your colleagues not to sign the administration's blank check. We believe that implementing legislation for FTA negotiations can be developed -- under normal legislative procedure -- so that Congress has the chance to discuss the issues surrounding an FTA, to evaluate the text of an agreement, and to modify it where that is necessary.

As you deliberate on this issue, we hope that the position of the AFL-CIO is clear. We are eager to work with you and your colleagues for better relations between the U.S. and Mexico. But the use of a limited economic trade agreement with Mexico as the only tool of U.S. foreign policy puts the jobs of U.S. workers, our members and your constituents in jeopardy. We believe that this is unfair and wrong.

But we will not support a simplistic proposal like the FTA that would result in North American workers being laid off, exploited, or poisoned.

The working women and men on both sides of the border cannot bear such a burden, and they should not be required to take it on.

Chairman WILLIAMS. Thank you, Mr. McGlotten. And thank you for summarizing. I was trying to follow you in the written testimony, and I note that you summarized within the five minutes; the committee is appreciative of that.

Let me first go to the ranking member for questions. Mrs. Roukema?

Mrs. ROUKEMA. Mr. Chairman, I wasn't quite prepared for that. I'll start off with one question, and then maybe we can come back to me again, later, if I have a follow up question.

Mr. McGlotten, you have heard my reference today to the fact that the Secretary of Labor will be coming before us and outlining an action plan, based on the administration's study of the problems. What is your view of the action plan which, essentially, is sympathetic to some of the concerns that you have raised and intends to, as I understand it—we'll know more after the Secretary comes before us—set up parallel actions in working with the Mexican government to achieve the kind of work rules and worker protections that you have expressed a concern about, consistent with the laws already on the books in Mexico? What is your organization's perspective on that action plan approach, working directly with the Mexican government?

Mr. MCGLOTTEN. First of all, Mrs. Roukema, let me say that we have not seen the action plan. I cannot comment on something that I haven't seen.

Mrs. ROUKEMA. But conceptually, the idea of direct—a concept of working with the Mexican government?

Mr. MCGLOTTEN. Conceptually, let me say that I would rely upon this committee to try to review anything that is done with Mexico, not the Labor Department. Our experience with the Labor Department, in dealing with the whole question of trying to protect workers, has not been the best track record in the world.

I would rather see the issues debated here in this committee. I certainly would rely more on the members of this committee, who have an allegiance to their constituents, to resolve and try to come up with the best answers to deal with the Mexican Free Trade Agreement, than I would with the Labor Department.

Thank you, Mr. Chairman. I'll that go for the moment.

Chairman WILLIAMS. Yes.

Mr. Perkins?

Mr. PERKINS. Thank you, Mr. Chairman.

Bob, good to see you with us today. Let me ask you some questions about the employment side of this equation. What is your reaction to the claim that more jobs, not less, will be coming to America as a result of this agreement?

Mr. MCGLOTTEN. Say that again, Mr. Perkins, I'm sorry.

Mr. PERKINS. Okay. What is your reaction to the claim—the administration has claimed that they're going to actually be producing jobs through a Mexican Free Trade Agreement, as opposed to eliminating jobs; what is your reaction to that statement?

Mr. MCGLOTTEN. My reaction, Mr. Perkins, is that I have seen nothing at all that would lead me to believe that such an agreement would be bringing more jobs to the U.S. On the contrary, we have seen, in a number of communities, plants shut down and jobs flow to Mexico.

You must understand that one of the reasons why we're protesting the whole question of Fast Track is that none of us have any idea of what is going to be in the agreement. And that is the issue that's before us. The issue that's before us is that question "What's going to be in an agreement? How is an agreement really going to be constructed, that really protects workers in this country?"

So I, for one—again, do not put a lot of credence in the Labor Department. I'm not going to put a lot of credence in our trade negotiators to negotiate jobs for us, here, in this country. I do not believe that to be the case at this particular time, until we see something. Again, this is very difficult to really address in a very concrete way, but what we have seen in the past, clearly, does not indicate that we're going to have more jobs here.

Mr. PERKINS. So this dislocation that you're talking about is where American workers have lost jobs, already, through the maquiladora process. What sorts of jobs have become available for these American workers that have lost their jobs? What kind of wages? What kind of benefits? What kind of situation have they run into once their jobs have been transferred to Mexico?

Mr. McGLOTTEN. In most cases, Mr. Perkins, what we have seen, in the case of Mr. Kildee's city, where General Motors has shut down, workers have lost good paying jobs. They try to relocate. One of the reasons that we are developing a tremendous amount of service jobs is that we are providing a new market, but it's not at the same rate of pay.

We're seeing a slow digression in terms of the living standards of a tremendous amount of workers in our society, today. I would suggest to you that there's a correlation between our crime rate and the question of what our living standards are doing. It also relates to the question of the homeless. It also relates to the whole question of the lack of revenue that is now in our cities that are now trying to come to grips with kinds of problems that they have because of an eroding tax base.

All of that is symptomatic of what we're doing in a very callous kind of way, with not really understanding that our human resources are the only resources that we have. Essentially, what I see in terms of the Mexican Free Trade Agreement is an opportunity for companies to invest, but it does nothing about our human resources and the work force in our society.

Mr. PERKINS. What do you see as the relationship of the proposed agreement and the GATT negotiations? Do you feel that we should separate the Mexican Free Trade Agreement and GATT?

Mr. McGLOTTEN. I believe, Mr. Perkins, that there should be no separation at all. I think the question of Fast Track, again, even with GATT and recognizing that GATT—and now we've been involved with those particular countries in terms of negotiating agreements. But again, this whole question of the Fast Track really puts you out of the process.

When you go back to your constituents—and GATT is a fact of life, and the Mexican Free Trade Agreement is a fact of life—and things happen in your community, you certainly want to be in a position to answer it. I mean, you're not going to be doing it with Fast Track.

Mr. PERKINS. Do you think that Fast Track is the only method that's available to approach these kinds of negotiations?

Mr. McGLOTTEN. Let me say, Mr. Perkins, that I've been around this place for a long time. We find all kinds of mechanisms to deal with whatever we want to deal with. And I would suggest to you that we can find a mechanism to deal with the question of a Mexican Free Trade Agreement.

Remember, we're talking about something that is extremely powerful for our nation. And the AFL-CIO is not saying, "We shouldn't have an agreement," the question is what kind of agreement we should have and who is going to be involved in negotiating that agreement; that is what we're responding to. And we're talking about an agreement dealing with the Western Hemisphere, going from Canada all the way down to Central America. And it seems to me that that kind of an agreement ought to have your input.

Mr. PERKINS. Well, I see our time has expired. I thank you for your answers, Mr. McGlotten, and I will allow the chairman to continue the hearing process.

Chairman WILLIAMS. Mr. Gunderson?

Mr. GUNDERSON. Thank you, Mr. Chairman.

Thank you, Mr. McGlotten. I've read the entire statement that you've provided. I have a couple of questions, because I'm trying to figure out where we go from here.

You state, on page 3 your statement, that "a limited Free Trade Agreement between two such disparate economies is unsound in theory and disastrous in practice." Does this mean that there are no conditions or terms or circumstances in which organized labor would ever support a trade agreement with Mexico?

Mr. McGLOTTEN. No, it does not. I just made mention of that. My relation to this was all dealing with the question of the Fast Track, how I responded to the whole question of Fast Track. It's not a question of whether or not we have an agreement with Mexico. I think we will have some kind of agreement with Mexico. The question is how we're going to get that agreement; that is our argument on the whole question of Fast Track.

There are some—clearly, we've got some problems dealing with the disparities: their wages are one-tenth of ours, their gross national product is one-tenth of ours, there are tremendous problems that have to be thought out and, really, negotiated. That's the point that we're raising here.

Mr. GUNDERSON. But hasn't Ambassador Hills indicated that no terms of negotiations have been set, that we can help establish what those terms are going to be?

Mr. CUNNINGHAM. Mr. Gunderson, I think, on page 2, we basically lay out those kind of things that we think are important.

Mr. GUNDERSON. Yes, but none of those refer to a trade negotiation.

Mr. CUNNINGHAM. No, no. But the question is, if you basically want a limited trade negotiation—the whole purpose of the Mexican Free Trade Agreement, at least its justification, is that you're going to build up the wage and infrastructure of Mexico to basically stop illegal immigration into the United States and, basically, lift up the standards of living.

If you don't address the issue of debt relief and capital flight, for example, in these negotiations, you're basically going to have a situation where the debt burden of Mexico will suppress Mexican wages to their low level, and capital flight will assure that capital will not be available in Mexico to lift up the standards of living of Mexican workers.

Mr. GUNDERSON. Okay. I buy that; I really do. Then why don't you come in front of the Congress and say, "We will support negotiations if these five issues—debt retirement, capital flight, worker safety standards, the wage issue, and the environment—are all dealt with as a part of the negotiations; we in the AFL-CIO stand ready to be a positive part of those negotiations," and try to arrive at a positive outcome for workers on both sides of the border?

Mr. McGLOTTEN. Mr. Gunderson, it's still the question of the procedure. The procedure in terms of dealing with any particular law that we have here—there's enough opportunity to come and testify on the issue, there is a mark-up, there's an opportunity to sit and lobby members of Congress about the issue, about the five issues or six issues or seven issues—that doesn't exist in Fast Track.

Mr. GUNDERSON. Of course it does.

Mr. McGLOTTEN. No, it does not.

Mr. GUNDERSON. Sure it does. Because you know what's going to happen, and I know what's going to happen. If there is a trade agreement that you don't like, you're going to come in front of this House, you're going to go to the Senate, and you're going to say, "Do not vote to approve that treaty, or pass the enacting legislation, unless conditions A, B, and C are met."

And if proponents don't have the votes to pass their proposal without considering your position, they're going to have to go back and renegotiate. Now, what's the difference?

Mr. McGLOTTEN. There is a difference in terms of the ongoing process, Mr. Gunderson. Let me just say that we have a number of pieces of legislation that we would like to have Fast Track on.

Mr. GUNDERSON. Without amendment? Vote them up or down?

Mr. McGLOTTEN. Vote them up or down without amendment. Clearly, I mean, everybody would like that. But the point is that—

Mr. GUNDERSON. I don't think even you would like that, because that would mean some of them wouldn't pass, wouldn't it?

Mr. McGLOTTEN. Some of them may pass and some of them may not, but at least, dealing with the process that we have right now, we have an opportunity to sit and negotiate with you and with others to try to convince you of the merits of our argument. And in this case, Mr. Gunderson, we don't.

Mr. GUNDERSON. Before time runs out—

Mr. McGLOTTEN. Surely.

Mr. GUNDERSON. You indicate, as well, on page 3, that the trade agreement "would hurt U.S. workers. It would pave the way for hundreds of thousands of our jobs to be exported to Mexico." Well, obviously, the Department of Labor study doesn't say that. The study by CRS doesn't say that.

Can you share with us the actual studies that show that there will be a job loss?

Mr. McGLOTTEN. Mr. Gunderson, we have asked the ITC for data on their assertion that unskilled workers would basically be hurt, and we were rejected on that, basically saying it's "business confidential." But let me point out—

Mr. GUNDERSON. No, your question to them was, "How do you define a nonskilled worker?" What I'm asking for is a study that shows that there actually will be a job loss.

Mr. McGLOTTEN. I think that Catch-22 situation you find us in is that the data on where jobs will be relocated are basically held by U.S. corporations and foreign corporations in terms of where they want to relocate jobs. Since they want the Fast Track procedure, they're, basically, not going to march in here and, basically, say, "We're going to relocate to Mexico."

Mr. GUNDERSON. You can do your own study. You don't need to count on theirs. Just give us one study that shows that there actually will be a job loss; that's all I'm asking.

Mr. McGLOTTEN. I think in our database, we have the maquiladora plants, which basically show that there is a significant shifting of domestic production to Mexico; that's 500,000 jobs. You may say, "Well, that is not, indeed, the case." But these jobs were basically in the United States beforehand. They are made, exclusively, for the U.S. market. They're basically not for the Mexican market at all. And we think that this is the trendline, that, basically, U.S. production will shift to Mexico for the U.S. market.

Mr. GUNDERSON. Mr. Chairman, can I ask for 30 seconds?

Chairman WILLIAMS. The gentleman is recognized 30 additional seconds, without objection.

Mr. GUNDERSON. I have asked for the additional time in hopes that you will respond to the CRS study on the maquiladora that indicates the two labor-intensive industries—the electronics and auto industries—account for over 60 percent of Mexican maquiladora employment. Nevertheless, between 1985 and 1986, U.S. employment and automotive products declined only 1 percent, and employment in electronics equipment industry actually increased 3 percent. All I'm trying to do is get the facts.

Mr. McGLOTTEN. We think that the direction is clear on, basically, where they want to go. You can basically say that the system is built up. I think if you talk to anybody in domestic electronics industry and the domestic auto industry, you'll find a significant reduction in employment in both of those industries.

Mr. GUNDERSON. Right. But not due to Mexico.

Mr. McGLOTTEN. In terms of people putting stuff together, I mean, that's the question. The question is: Where are people hired and where are they employed? For our membership, that's a crucial question, where the industrial base is going. And I think that—

Chairman WILLIAMS. The gentleman's time has expired.

Mr. Martinez?

Mr. MARTINEZ. Thank you, Mr. Chairman.

I understand the games of figures. And I said it many times, what my dad used to say, "Figures don't lie, but liars often figure." And it's not what you do with figures to what you want to prove. And I don't buy into that game that we just played.

The fact is that if populations increase and business markets increase in other places, there may be additional sales, but there is still the fact that employment percentages over all, in total, are shifting from one place to another, depending on where the cheap labor market is.

The maquiladora situation that you point out is a very good one. I remember, about two years ago, the subcommittee that I sit on in Government Operations, the Consumer, Monetary, and Financial Affairs, held a hearing on maquiladoras because it was assumed by I don't know who on the staff, or maybe the chairman, that these maquiladoras were really a way of Japan moving in to diffuse their trade balance. And it turned out it wasn't Japan at all; they had only one or two. It was mostly United States companies that were moving down there to take advantage of the low labor.

And then they said, well, they created new jobs in an area because they hired people in the plant on this side to do the finish work of the unskilled labor that was done on that side. Well, the truth of the matter is they shift the job from one place to another here again, to take advantage of lower labor, unorganized employment, so that they did not have to pay the large benefit packages. And it all worked out in the favor of the corporations, not the workers; I can guarantee you that.

If you want to talk about studies, anytime that you feel there's not a study you can hang your hat on that argument, "There's no study, show me a study." Well, I'll tell you there's not study, but I'll tell you there's a lot of evidence. And evidence, to me, is more important than any study, because evidence shows the actual facts. And the actual fact is proved by the law we passed, JPTA, to take care of dislocated workers.

What was the whole assumption on dislocated workers? That they were losing their jobs because of foreign products and the import of those products into the United States. What more study do you need? What more proof do you need? That's it, in a nutshell.

The question that I have for you is, because so many people hang their hat on this Fast Track to give the President flexibility, and I suggest that the President has all the flexibility he needs. We don't interfere in his negotiations and no-trade agreements. We don't sit there and tell him what to negotiate. He brings it back to us, and we ratify it, if we like, and if we don't, we do have that process that you talked about.

The other thing I really don't like is telling you that there's a process in place where there is not process in place. You may lobby on a particular package, one way or the other, but you don't get to lobby those individual situations in each of those packages to the extent that you would if the normal process was taking place. Amplify on that.

Mr. McGLOTTEN. I think you're right, Mr. Martinez. I mean—first of all, number one, when we lobby the Congress, when anyone lobbies the Congress, we lobby with you gentlemen and you women who are sitting there. What do we do in Fast Track? Who do we lobby? Is it Carla Hills? Is it somebody from the Labor Department? Some unhidden person? It's somebody who I don't know, somebody who we don't see.

So, obviously, we don't have the same effect as lobbying you face-to-face. That is the very, very vital difference in terms of dealing with Fast Track and a regular process that allows us to get at these issues, which are thorny issues. These are thorny issues that are important not only for U.S. workers and the economy of this country but also for Mexican workers.

We should not be fostering a treaty or a trade agreement that allows that exploitation of the Mexican workers; We should not do that. I mean, the whole question that we dealt with in terms of developing the EC, in terms of 1992, they first dealt with the issue of a social compact to deal with worker issues. And they set aside \$64 billion to address itself to the concerns of two countries out of the 13, mainly Portugal and Spain, that they would try not to bring down the Great Britain and Germany workers and French workers to the standards of Portugal and Spain, but to bring Portugal and Spain up. And that is the kind of issue that we can get when talking with one who is totally faceless.

Mr. MARTINEZ. That would be my suggestion. That if could negotiate, rather than a free trade agreement, a specific trade agreement with Mexico to deal with unique situation in Mexico, you could help that economy. That's not really the purpose of this, to bring that economy up to us.

In the 30 seconds that I know the chairman is going to extend me, as he did my friend on the other side, I would like you to address the question—which, to me, needs no study because, like I said, there's evidence there—of the difference in wages between there and here, or anyplace else and here, that over the years we have seen a flight of major corporations, like Mattel, going abroad and all of the other companies that have moved abroad to take advantage of that lower labor, that in itself is evidence. Would like to address that?

Mr. CUNNINGHAM. Mr. Martinez, this is probably the most crucial issue: the wage differential, economic differential, between the two countries. As I pointed out earlier, I think most economists would say that the wage differential will remain in place for about 20 or 25 years. Our corporations are basically pursuing a low wage option. That means that want to get off-shore, they basically want to do low wages.

If that's the case, we are going to, basically, contribute through this limited free trade agreement, which is basically only to put in place the ability of U.S. corporations to own their facilities in Mexico—that is, basically, the limited agenda of this free trade agreement. They want to own their production facilities in Mexico to, basically, transfer U.S. production down there for the world market.

If the wages remain at this significantly different level, less than \$1 an hour versus \$10.57 an hour, \$15 with fringes, and, basically, you can see the direction. You've seen it in your own state. Most members have seen it in their own district. We are terribly fearful that, basically, this will accelerate this process dramatically, and, as Bob McGlotten has pointed out, it probably will not affect Mexican workers because—

Chairman WILLIAMS. The gentleman's time has expired.

Mr. Armey?

Mr. ARMEY. Thank you, Mr. Chairman.

Mr. McGlotten.

Mr. McGLOTTEN. Yes, sir.

Mr. ARMEY. Lane Kirkland recently wrote in the Wall Street Journal, in an Op-ed piece, that the "free trade agreement with Mexico would lead to a disaster worthy of Stalin's worst." Stalin, as I recall, killed 20 million people. Do you agree with Mr. Kirkland's assessment? Is it going to be that bad?

Mr. McGLOTTEN. Certainly I agree.

Mr. ARMEY. Do you think this is going to result in the death of 20 million people?

Mr. McGLOTTEN. The question is—when Lane referred to Stalin in terms of 20 million, he talked about death by execution and a variety of other things. Death also comes very slowly when you're starving to death and when you're homeless. That can also be very much of an effect in terms of death. I think that—

Mr. ARMEY. Don't use up all of my time. You agree, then. Let me ask you this: As I understand your concern here, your concern is that if we have a free trade agreement with Mexico, there will be a reduction in jobs in the United States, which will make American workers worse off, and there will be an increase in jobs in Mexico as American plants go down there, and that will make the Mexican workers worse off. So that, in fact, you are worse off, under your scenario, whether you lose a job or gain a job.

Mr. McGLOTTEN. Mr. Arme, that is not our concern in terms of a free trade agreement. What we're complaining about is the procedure, the Fast Track procedure.

Mr. ARMEY. Well I've been listening to your testimony very carefully. And I heard you say, very clearly, that your number one concern was that you would have reduced employment for American workers.

Mr. McGLOTTEN. Now, that is correct. That is a concern under the procedure. If, in fact, we do away with the Fast Track procedure, then somebody is going to address those questions. Particularly this committee, hopefully, will address the question of displacement and what happens to workers. But it is the procedure that—

Mr. ARMEY. And you're confident that nobody currently negotiating is addressing these concerns?

Mr. McGLOTTEN. That is correct.

Mr. ARMEY. But you just said a few minutes ago that you didn't know what they were doing or even who they are.

Mr. McGLOTTEN. Mr. Arme, let's be clear. The fact is that what I said is that I would rather deal with the ladies and gentleman who are sitting here in terms of negotiating, to ensure that we don't have that kind of displacement.

Mr. ARMEY. So the question, then, really is: Can you find a way to establish a procedure where you are certain that there is no one involved in the negotiations who isn't taking some instructions from you.

Mr. McGLOTTEN. It's not a question of instructions—that have some accountability to somebody besides—

Mr. ARMEY. Okay. Let me see if I get this—you don't think that administration has accountability to the American people?

Mr. McGLOTTEN. They have accountability to the American people, yes. But I would suggest to you that dealing with an agreement like this, I would rather rely on the members of Congress and relate to them about the kinds of concerns that we have, not to the administration.

Mr. ARMEY. Okay. I'm really amazed. I mean, I've heard you talk, already, about the exploitation of Mexican workers. Is there somebody down there, maybe a Stalin sort of guy, with a gun, that's holding a gun to their head and making them take these jobs? Are they being forced to take these jobs?

Mr. McGLOTTEN. No, it's not that, Mr. ArmeY. What we have—and I asked for it to be printed in the record, I'll be more than glad to see that you get a copy of it,—it clearly demonstrates that the workers down there are being exploited.

Mr. ARMEY. Excuse me a moment, where did the study come from?

Mr. McGLOTTEN. This is a newspaper account. Newspaper accounts are what's happening with workers in terms of the environment, in terms of the safety condition, that workers are being exploited there.

Mr. ARMEY. My final question: Who do you believe is in a better position to decide whether or not a free trade agreement is good for Mexican workers, the Mexican people, who strongly support it, or the AFL-CIO?

Mr. McGLOTTEN. I believe that the Congress of the United States has a right and an obligation to ensure whatever we do does not hurt American workers.

Mr. ARMEY. American workers. I was asking about Mexican workers.

Mr. McGLOTTEN. The issue of the agreement is what we're going to do about the question of having an agreement with Mexico, and I think the Congress has a relationship with—

Mr. ARMEY. Are you here today feigning compassion for the Mexican workers, or are you not? Because that's what I've been hearing from you.

Mr. McGLOTTEN. No the question is—there are two questions: one, dealing with American workers, the other is dealing with Mexican workers.

Mr. ARMEY. So you have no compassion for the Mexican workers? You just—

Mr. McGLOTTEN. Mr. ArmeY, it is clearly stated in our testimony here, about the conditions of the American workers. This also is a document that talks about how the Mexican workers are being exploited. And so, as a result, what we're saying is that we don't want that to happen again.

Mr. ARMEY. So what you want is for Mexican workers to not have jobs. Thank you, Mr. Chairman.

Chairman WILLIAMS. Mr. Kildee?

Mr. KILDEE. Thank you, Mr. Chairman.

In response, no one held a gun to my father's head back in the 1930s when he was being paid about 30 cents an hour, and saying, "If you don't like this job, you can leave it." My dad really had no choice. Both the rich and the poor have the right to sleep under the bridge, but the poor are more likely to exercise that right.

Mr. McGlotten, my city has lost tens of thousands of jobs. Many of them were lost because of relocation to Mexico. My area has, now, about 17.2 percent unemployment. It's a very cruel and difficult situation. Flint, Michigan has been made famous for producing two products: automobiles and lint rollers. A lint roller takes lint off your dark blue suit.

What will Flint be producing and selling to Mexico to offset this 17.2 percent unemployment? More cars? Or more lint rollers? Or will both tend to relocate in Mexico? Would you care to respond? What has been your experience? Have the good jobs been retained, like Trico in New York, or do those jobs tend to go to Mexico?

Mr. McGLOTTEN. Those jobs, Mr. Kildee, that have actually moved to Mexico—the replacement of those particular jobs are that they're never really replaced, the level of wages, the level of benefits, obviously—people try to move around and try to do the best they can, but, clearly, there was really a restriction in the amount of movement that an individual can make, because we're not planning for it very well, in terms of retraining.

So as a result, when there is displacement that takes place, like in your community, people do two things: one, they take a lesser job if there is a lesser job to take, or they try to relocate, but in most cases, they do not get the same job with the same level of benefits. Their standard of living is reduced. And so, as a result, we start to see a statistical pattern starting to take place in a variety of areas.

Mr. KILDEE. I had stated earlier, in my opening remarks, that we have to ask the question: Is Fast Track and whole free trade agreement primarily to help the Mexican workers, the American workers, or the American investor who wants a quick return on his investment. What would be your assumption? Who will this, primarily, tend to help?

Mr. CUNNINGHAM. Mr. Kildee, the ITC study basically said it would be the skilled workers, that's approximately 20 percent of the work force, and the owners of capital. We think it's probably going to be more the owners of capital than skilled workers, because we believe that the jobs will probably move south.

I think one factor that this committee ought to keep in mind is that the Mexican work force is 30 million people, it increments at 1 million a year, and the Mexican unemployment rate is 20 percent. So what we're really doing is adding a 20 percent unemployment rate to our existing 8 percent unemployment rate and hoping that the economies of both nations will be able to lift both people out.

We don't think that's going to happen in the short-term; we think we're going to have more problems in the United States and not solve the problems of Mexico.

Mr. KILDEE. One of the arguments used is that we have a great market of 80 million people in Mexico. We have a great market in this country that we could tap, too. We could tap the 17.2 in Flint who are unemployed, if they were able to purchase. And we have a market of about 50 million people below the poverty level, that would be a great market to tap, if we could sell to that market.

We're always looking for markets, but there's markets right here in this country of people unable to buy cars. I've got people in my district who can't even buy lint rollers. And I think that we should

look at tapping the market that exists right here in this country, and make those people purchasers also.

Mr. McGLOTTEN. Well, we think you're right, Mr. Kildee. And from everything that we've been able to find out in terms of Mexico, in terms of the workers there, less than 10 percent of the people would be able to consume any product that we produce.

Mr. KILDEE. Thank you very much.

Chairman WILLIAMS. Let me take all or part of my five minutes by assuring this witness and members of the panel and interested participants that are here, that I don't know a member of this committee that wants to be part of the negotiations. That isn't what is at stake here. What is at stake is the exercise of the jurisdiction of this committee once the negotiations are completed.

Let me give you an example. When the Canadian-American Free Trade Agreement was successfully concluded, there were required to be some changes in American law. Thus, committees such as this one had that part of the American law that was required to be changed and was under their jurisdiction brought to them. Committees, such as ours, had that part of the Canadian-American agreement brought to us for change.

We could vote "yes" on the change or "no" on the change, but we had to send the bill to the floor for its full consideration, with one up or down vote, then, on the entire agreement. Well, that effectively takes this committee and others out of the process. That's the discussion today.

I don't want to be part of these negotiations, but I question, as chairman of this committee, and I know from talking to Mr. Perkins that he questions as the chair of his committee, as to whether or not we should easily give up the legislative jurisdiction of this committee over American law. And so that, it seems to me, is the relevant question that's before us, and really the only disagreement that I find among members of the Congress or members of this committee with regard to necessary and widely-supported negotiations on trade with our friends and neighbors to the south, in Mexico.

Mr. Fawell?

Mr. FAWELL. Thank you, Mr. Chairman. I just listened carefully to what the chairman has said and I agree with him that we in Congress—as much as we think we are the repository of all truth and knowledge—ought not want to be the negotiators. We all would like to be the negotiators because we think we really could do a better job if we had that opportunity.

It's understandable, Mr. McGlotten, that you would be intensely interested in the substance of issues. And that's what we are talking about in terms of lost jobs, possibly, or disparate economies, and all that might possibly occur when, ultimately, a bill does come to us as a result of the procedural process which is before us.

This confuses me, though, because there are 535 quarterbacks in Congress, all very adept at giving audibles at the line of scrimmage. And when I think of creating a treaty—which is what this really is, but with the added aspect that we have both Houses in the Congress who have the ability to put our 2 cents worth in—I don't know if its possible to produce a good, substantive agreement with 535 negotiators.

As the chairman has pointed out, we ought to be more concerned about the process, I guess, when a bill ultimately is brought forth to us, than with every detail of the actual negotiations. I don't know, practically speaking, as has been stated here—I guess Senator Benson, allegedly, did say that "You can't do it piecemeal." You can't produce this thing piecemeal. We have to have a bill that will be for the benefit of the Nation as a whole.

Sure there are going to be people who will be hurt, whether the investors, the rich, the poor, or what, and so forth and so on. We could talk those substantive issues forever. But I don't know how we're going to get a treaty or a trade agreement—and we've learned this in the past—unless we do have someone that represents the entire nation, negotiating it.

Mr. PERKINS. [presiding] The time of the gentleman has expired.

Mr. FAWELL. My God, that five minutes went faster than I've ever seen it go. Well, if I could have the 30 seconds which have been—

Mr. PERKINS. Without objection, the gentleman is allowed an additional 30 seconds.

Mr. FAWELL. As I was saying, I don't know of any other way that it can be done. And, ultimately, when people talk about a vote just up or down, let me tell you, as a member of the minority, we are used to it. Very seldom do we get our key amendments. We're very used to having bills come in and being told, "We're simply not going to accept your amendments."

But, here, the bill can be debated on the substance when it comes in, it can be rejected and go back to the negotiating table, but I don't know any other practical way of doing it. And that's the point that I wanted to make.

Thank you, Mr. Chairman.

Mr. PERKINS. I thank the gentleman.

Mr. Hayes?

Mr. HAYES. Thank you, Mr. Chairman. I have a couple of questions. I just want to comment, first, by saying to Mr. McGlotten that I think your statement is quite comprehensive. I think it at least shows some interest in the protection of both the American worker and the Mexican worker. And you indicate that a free trade agreement ought to be one that takes that into account.

I was particularly concerned about your approach to the whole maquiladora program. I am privy to some advertisement that was passed out in Detroit, I guess. Advertising what they call "a unique concept for achieving the competitive edge." It's addressed to the manufacturing directors. I'll just read part of it.

"There's a great opportunity for your company to drastically reduce the operating costs by taking advantage of Mexico's maquiladora program. As a U.S. manufacturer, you have the advantage of the short distance from the lowest cost labor market in North America—Mexico. Furthermore, only a short flight to Laredo, McAllen, or Brownsville. Please consider that the full leave fringe labor costs along the border averages \$1.50 an hour, just compare that to your real cost of wages. This equates to almost \$20,000 in savings per employee per year." And this was signed by Marketing Director, Hector J. Remue.

I think that clearly shows what the purpose of this is. We've got some employers, as you well know and say in your statement, who are part of this group. There are some 1900 maquiladoras in operation. They employ about one-half million workers, hundreds of thousands of U.S. workers, including employees—they mentioned a company's name which I won't go into, it's in your statement.

Mr. McGLOTTEN. Yes.

Mr. HAYES. But I just wanted to point out as we try to reach an agreement on a fair trade act, without putting it on the Fast Track—I'm not interested in that—do you think that it's possible—should we have a social contract attached to the U.S.-Mexico Free Trade Agreement? Shouldn't we have something to get some protection for some of our social issues which we are concerned about, safety and this kind of issue?

Mr. McGLOTTEN. Mr. Hayes, we would advocate that there be a social compact that's part of the Mexican Free Trade Agreement, similar to that which was developed in Europe. Currently, what that does is it says, for all practical purposes, that this country is interested in trade, but, also, it's interested in the American worker, but, more importantly, to the Mexican worker. And we're going to try to ensure that any of our plants that move down there are not going to do so at the expense of the Mexican worker. And that is so, so very important in terms of this day and age, given our whole economic situation. I do agree.

Mr. HAYES. Thank you, Mr. Chairman. Time is out.

Mr. PERKINS. Mr. Ballenger?

Mr. BALLENGER. It's kind of strange for me to be on this side in this committee, and suddenly having so many allies. That doesn't happen very often in my situation, but I do recognize that.

I heard Congressman Gunderson and others raise the question—did you really ever see any jobs move to Mexico? Let me use my company as an example. I have supplied, in my own company, packaging for the textile industry for 40 years. If a plant closes down, in Maiden, North Carolina, and the company said, "From now on, would you mind shipping the goods and by that I mean the package, the plastic bag that we're going to put these goods in down to Texas?" It doesn't take a genius to figure out that the people put out of work in Maiden, North Carolina are being replaced by workers close to the Mexican border.

I realize that some people would like to argue that point with me. But I have watched it for 40 years, and if you watch it occur year after year, growing bigger and bigger all the time you understand. Your statement here mentions the 1900 maquiladoras but you're talking about the people that came later.

The textile people went there 20 years ago, and they've been doing the same thing continuously. I would like to put one bug in somebody's ear regarding Fast Track in Mexico as a business-oriented Member of Congress. This same Fast Track that would allow the Mexican treaty to take place is that same treaty that allowed Red China to get most favorite nation status without anybody in Congress having any say about it.

Now, my understanding is that we're going to get a chance to vote on that one; that's going to be fun, because we'll be on the same side again, Carl.

But what I want to do is say that Fast Track is not just Mexico, and it's not just Canada, it is the whole world. The day we say that we are doing the right thing by signing long-term contracts with the Red Chinese who used prison labor to produce products that compete with U.S. products is the day we have serious problems. The Red Chinese have no labor cost in production unlike U.S. companies. It's going to be a long time before I can vote for such a proposal.

Thank you very much. I didn't want to ask a question, because I might embarrass you considering we're on the same side this time.

Mr. McGLOTTEN. Not at all, Mr. Ballenger. And we welcome you to assist us in terms of trying to deal with this. But I think you really put your finger on it.

We are now approaching the 21st century. We cannot do business as we have done business in the past. There has to be some changes. Because we dealt with 86 treaties in one way or another, let's open our eyes and let's take a look at what we're doing. Our country needs some drastic infusion of some kind of backbone that allows us to say, "Hey, look, we have done business like this in the past, but we're losing our competitive edge, and we've got to be more sure of what we're doing."

So this is very important for us. It's very important for Canada, because we're dealing with a country that is, essentially, one-tenth of what we are. And that should open everybody's eyes to say that we don't do business as usual.

Mr. Fawell indicated he says, "Well, you can't have 535 quarterbacks." I would suggest to you that we have 535 quarterbacks when it comes to tax bills, we have 535 quarterbacks when it comes to clean air, we have 535 when it comes to the whole question of energy policy, and now we're talking about a major treaty that will determine where we're going in the 21st century. I suggest to you that we need 535 quarterbacks.

Thank you.

Mr. PERKINS. Thank you, always a pleasure.

[Laughter.]

Mr. PERKINS. Mrs. Unsoeld?

Mrs. UNSOELD. Are there any other comments that either of you would like to make that you didn't have time to, under other people's time. Because I would happily yield to you.

Mr. McGLOTTEN. Thank you, Mrs. Unsoeld. Not myself. Bill?

Mr. CUNNINGHAM. No. Just to point out that this, basically, I think is probably the largest crap shoot that we've ever entered into as a country. We're basically taking on a labor pool that's 20 percent unemployed, 30 million workers, whose average wage is about less than \$2 an hour, and we're trying to meld it with our own, where our own unemployment rate is 6.8 percent, we have between 8.5 and 9.5 million people unemployed. And we say that this is all going to turn out real well. We don't think it's going to turn out real well.

Mrs. UNSOELD. Thank you, Mr. Chairman.

Mr. PERKINS. Mr. Visclosky?

Mr. VISCLOSKY. Mr. Chairman, thank you very much.

First of all, I would want to thank both gentlemen for testifying today. And I would also want to indicate that you have, in your

written testimony as well as your oral comments, indicated that you're not opposed to negotiations with Mexico. You certainly encourage our country to work with the Mexican government as well as the Mexican people, to increase their labor standards or wage rates, their environmental compliance. And for that I would congratulate you.

One point I would want to get back to is the whole question of job loss and job creation, and there tends to be a fixation in terms of those gross numbers. There was also a comment earlier about the low wage option, and I would prefer to talk about the jobs issues in terms of wages for American workers. It's not just a question of losing 30,000 jobs in the First Congressional District in Indiana, in terms of basic steel. It's a question of what do those who are left make.

I ran into a gentleman two weeks ago at a pancake breakfast. I met him at an industrial facility in 1985. That facility is long closed. I asked him what he is doing today. He has a job. He's making one-half of what he made five years ago, and his wife, who's a legal secretary, is making more than he is now.

And I understand at this point in time, there's no agreement in terms of the administration assertion there would be job creation in the United States. But would you want to at least speculate in terms of the effect on existing jobs? And if there is a hypothesis that there would be job creation, what types of new jobs would be created? What types of wage rates are we going to be talking about in that new world?

Mr. MCGLOTTEN. Mr. Visclosky, let me just say that our experience has been, without Mexico, that our loss of jobs in many communities has resulted in low wage jobs in terms of replacement. As we allude to the whole question of maquiladoras, that's the only evidence that we have before us—Mr. Hayes just read a letter where, in effect, there was an inducement to come there for the low wage job.

Obviously, we've got to make a decision, as a nation. Are we prepared, at any cost, to have trade agreements and lower our living standard? That's the decision that we're going to have to make. And that's why we believe, very, very strongly, that the people who are going to be negotiating this agreement may not take that into consideration.

But we know for a fact that all of you, who represent districts, will take that into consideration, because, essentially, what you're doing is that you're making a decision for the 500,000 people who you represent in your district.

And you, certainly, are going to make the right kind of decision. And that's why we believe that it's important that you be involved in the process to ensure that there is consideration for the whole question of who's going to move, how they're going to move, what kind of situation is going to take place.

It's not only for American workers, but it's also for the whole question of Mexican workers. If, in fact, we're going to have plants that fly away to Mexico and produce a product, who are they going to sell them to? Back to the workers who they left back here, who are now unemployed and have a low wage? Or to the Mexican

workers, where only 10 percent can afford to be consumers of American products?

These are the things that have to be thought out. It's just not the question of looking at the low wage. This is why, again, we say that there shouldn't be a Fast Track.

Mr. VISCLOSKY. Well, I appreciate your comments. And if I could just summarize, my concern is that if you take us out of the process too early, the emphasis is going to be on wage reduction and wage suppression in Mexico and in the United States, as opposed to wage improvement in Mexico and, hopefully, in the United States.

Thank you very much, Mr. Chairman.

Mr. PERKINS. Thank you, Mr. Visclosky.

Mr. Petri?

Mr. PETRI. Thank you, Mr. Chairman. I'd like to thank you, Mr. McGlotten, for coming forward and testifying and expressing your concerns about this process.

I actually think it's quite constructive, because if there are legitimate concerns—and I know these are—it's much better to express them before we get into negotiations than after something is negotiated and then shoot it down. And so I think this is very useful because, win or lose on the vote on the Fast Track, this is going to embed in the negotiators' minds a whole series of concerns that they will, in fact, take with them to the negotiations.

We all know there's a lot of give and take in negotiations, and sometimes you've got to look at that final package and decide if, overall, we've been able to take a little more than we gave. But you can't do that if you don't have some idea of where the people you're trying to represent are coming from. And, if we do have negotiations, I think this debate is helping to give our negotiator some clear understanding of the legitimate concerns of a lot of elements of the American society and economy as we embark on this.

My question is whether you feel—if we do go forward with this—that we should write preconditions into law, or whether you would be satisfied with the adoption of some resolution, more or less instructing the negotiators, as they negotiated a Fast Track agreement, to take into account the various concerns that have been raised as they carry forward the negotiations? In other words, is there any middle ground here, at all, or do you want negotiations to occur only with strict statutory constraints rather than expressions of direction?

Mr. MCGLOTTEN. I would lean toward the side of statutory restraints. My experience has been that unless you put some teeth into the law, obviously, people tend to evade it. I think it's important that we become very, very, very serious about this issue, and the only way that I feel that you can be serious is that it's statutory.

Mr. PERKINS. The chair is pleased to recognize the distinguished chairman of the full committee on Education and Labor, Mr. Ford.

Mr. FORD. Thank you, Mr. Chairman, and thank you for being here to carry the weight for this hearing.

Mr. McGlotten, I know that you have to be diplomatic in your position. I don't think that I have to on an issue like this, because I see it as having the potential to make the great depression in my area look like a Sunday school picnic.

I think that opening this Pandora's box is crazy, with the experience we've had with the maquiladoras and even the experience we had with the Canadian Auto Pact, in which case I disagreed with organized labor and voted against that sucker, and I was proved to be right. And the wage differential between the Canadians and the Americans has never, as labor expected it to, closed.

It was well-believed in 1965 that, in no time at all, you wouldn't be able to hire anybody cheaper on the Canadian side of the river than you hired them on the American side of the river. Those of us on the American side of the river told the union, "You're doing your job very well, you collect dues on both sides. We collect votes on one side, and it's not going to work." It hasn't.

And today, there is still a wage differential, plus a dollar differential that has nothing to do with the auto industry, that produces a situation where only a damned fool looking at his computer wouldn't prefer his Canadian plant—given the opportunity with two plants, one in Windsor, Ontario and one in Louisville, Kentucky—which they did very recently with the Ford Crown Victoria. He just closed Louisville, because you build it with 100-cent dollars at American wages. You can build the same car on the assembly line in Windsor with 70-cent dollars and Canadian wages.

Now, when I looked at what's happening to us with our friends in the Big Three— we took a lot of our colleagues to Detroit to help show off the automobile industry last weekend—they talked about a lot of things, but they very carefully stayed away from talking about this. They even talked, two of the presidents at least, about their fear of Japanese competition. But they didn't talk about any competition from Canada or Mexico because they're the competition from Canada or Mexico.

Now, there are some naive people running around here and saying, "If we tell the Mexicans that they have to have a minimum wage law, they have to have OSHA standards, and they have to have child labor standards and so on—that what we will do by encouraging Americans to race down there to take advantage of the presently overabundant supply of slave labor—and that's really what it is at the wages that are being paid, living in slave, or worse, conditions. Sooner or later, this will cause a rise for the ordinary working person in Mexico."

That's really Alice in Wonderland kind of thinking. That's the kind of thinking that went into the Canadian pact, with a very small difference between Canadian-American lifestyles and standards of living. You're talking about, at minimum, a 10-to-1 ratio here, and even the most mundane manufacturing job—there won't be a parts plant left in my part of the State of Michigan in one year after this pact goes into effect.

Because the kind of letters that Mr. Hayes picked up when he was out there with us last week are flooding these people. They're advertising now "come to the maquiladora," that's only a strip 100 miles wide. When the whole country is opened up and you can go and exploit them all over the place, it's going to be just irresistible for the greedy entrepreneurs amongst us to get down there and make their fast buck as fast as they can.

And if anybody thinks that they're going to leave Mexicans better off, they're nuts. And if anybody believes that a treaty that

said that the Mexicans would protect child labor would work ought to read my friends at the Wall Street Journal, who I don't quote frequently—we tend to disagree on issues like this sometimes—they had a great article, a little while back, about the 12-year old kids working in factories in what are, in our factories, considered hazardous occupations.

And this is the Wall Street Journal speaking, not Bill Ford, "In spite of the fact that the Mexicans do have child labor laws, they estimate that between 5 and 10 million illegal children are working in hazardous jobs in Mexico at the present time." Now, what makes us think that, if they add words to the treaty, that they will go back and enforce the already existing child labor law better than they do now?

Anybody who has ever tried to do business down there has to face the fact that these people face such abject poverty. There is no middle class. There are those who have and millions more who have not. And there's not going to be a crack in that. No president lasts for very long, six years and you're out; steal what you can get because you only have one term. And the Mexican businessmen with whom I did business down there, used to say that the most honest president they ever had was the first one because he only had one arm. He lost one arm in the war.

They are quite cynical about the fact that ordinary people are never going to be treated fairly. They are quite cynical about the fact that arguing with the Big Three in any of their plants in the maquiladora is a waste of time, because the government is going to be on the side of the Big Three. The government makes out by having the Big Three there.

And I'll finish with this, Bob: I had the Agricultural Labor Committee of this committee a long time ago, and I learned more about the vicissitudes of working in the fields in this country from migrant workers than any one person from Michigan ought to know. If there's anybody in here who won't agree with me that it's the lousiest job that's available to anybody in this country, then they just don't know what goes on out there.

And the sad thing is that somebody working in a General Motors plant, today, in the maquiladora could leave that plant, come across the border into Arizona or California, and pick vegetables in the field for three times as much per hour as they get paid making parts for the 1992 General Motors products. As long as that exists, everybody who talks about, "Let's negotiate," or suggests some changes in treatment of people, is kidding himself.

All that the Mexican people can look forward to with American entrepreneurs going down there is that they'll do what colonial countries have done, historically: go in there and exploit their cheap labor for as long as they can get away with it. Then someday, if plague or something else slowed down the population growth in Mexico, and they caught up to a situation where there might be a little bit of shortage of jobs, Mexico would be forced to do what they did in 1922 to Standard Oil.

If I could be sure that this bill was conditioned on the fact that Mexico was going to nationalize the Americans who went down there within ten years, I'd vote for it. Let them steal all they want from the peons for ten years, but at the end of the ten years, the

factory belongs to the Mexicans. If you really want to do something for Mexicans—and that's what some people at the White House are pleading—that's the way to do it. That's how Mexico took care of itself against Standard Oil. It just, one day, said, "You now belong to us," and then they formed a democracy at the same time, and it's been going since 1922.

This is a formula for absolute disaster. There will be nobody left in this country, without a profession like mine, that's going to be able to buy an automobile made in Detroit or a part for an automobile made in Detroit if this treaty goes into effect. We may get to that anyhow, but it's taking us a little longer to stumble into oblivion by ourselves. I look at this as that real atom bomb that destroys what's left of a very badly tattered American job market.

Mr. McGLOTTEN. I agree, Mr. Chairman.

Chairman WILLIAMS. [presiding] Mr. Andrews?

Mr. ANDREWS. Thank you, Mr. Chairman.

Mr. McGlotten, I have a question that pertains to the Federal budget and how it's affected by this question. Before I came to Congress last fall, the Congress put through an agreement that said it was going to reduce our Federal deficit for our people by raising gasoline taxes at the pump, by raising deductibles under the Medicare program, increasing premiums under Part B for the Medicare program, making elderly people pay more to go the doctor. And the Administration which supported all of that said that it was a way of reigniting economic growth in America by reducing the deficit.

My experience with these kinds of agreements and these kinds of incentives to export capital and jobs out of this country are that they cause massive unemployment and tremendous difficulties here, in this country. In 1986, when I first ran for public office, in my area, there were seven garment factories. This fall, when I went back to campaign there again there were two.

Campbell Soup in Camden, New Jersey, which I represent, had over 1,000 people two years ago, working at their first plant in Camden, New Jersey, which they closed about a year ago. I've seen in my own district, the impact of this, putting aside all of the rhetoric, and I know what that costs. I know that those folks aren't paying taxes anymore. I know that they are making demands on the Social Service system for unemployment benefits and for stamps and Medicaid benefits and housing benefits, to the extent that they are still there, in a very demanding way.

My question to you is: Have you had access to any research which would demonstrate or prove to us, given the projected job loss in this economy, what this substantive agreement being called for on the Fast Track would cost the American Federal budget in the next few years, in terms of increases in our deficit.

Mr. McGLOTTEN. We don't have any studies such as that. It is a little bit difficult to have a study like that because we don't know what the agreement will entail. That's part of the problem here. Part of the problem is the fact that there is no such agreement now. We're only looking at what we're able to gather information of what's been going on, how workers are being treated. That's what we're bringing here.

We're trying to bring you information, hopefully, Mr. Andrews, to get you involved in this total process, so that, clearly, the members

of Congress can become aware of what this is going to do and what kind of effect it may have on your district, what kind of effect it has on the Federal budget.

Mr. ANDREWS. Going back to the quarterback analogy, it seems to me that we're making a decision—as a matter of fact, we're being asked to step out of a decision here—

Mr. McGLOTTEN. That's correct.

Mr. ANDREWS. [continuing] to abrogate our responsibility here, that has tremendous budgetary implications for the Federal Government. I wonder how the administration would respond if we said, "Here's what we're going to do with the defense budget: what we're going to do is appoint a citizens' commission that's going to look at how much—of course, we've done that with the base closing commission, but that's another question—we're going to appoint a citizens' commission that's going to look at what the defense budget ought to be for the next five years. They're going to come up with a number, and if Congress doesn't overturn that number in 60 days, that automatically becomes the law."

I don't think that what we're being asked to do is all that different than that, because the direct economic consequences of this kind of economic policy are going to lead, I think, to a much larger Federal deficit, much higher outlays, fewer jobs, fewer incomes, and lower collections as a result. And I would be interested if you could come up with any such data.

Mr. McGLOTTEN. We will try to keep you informed as much as we possibly can in terms of what we find as we go along, but again, it's awfully difficult to pinpoint. But the points that you raised are the points that Congress has to be concerned about. And as I said before, because we did business one way, 5 or 10 or even 20 years ago, it seems to me we ought to be looking down the road in terms of the kinds of economic problems that we are going to be facing.

There needs to be some real, in-depth discussions on these issues. We just cannot do business as usual. The world is growing; it's growing faster. We're still operating under 1950 trade laws; this is 1991. There are some things that have to change. And, obviously, because we don't have a blueprint to change it, then you ought to be involved, because if this is what you're going to have to live with, Mr. Andrews, in terms of your district—you're a freshman now. If you're going to be here for 20 years, Fast Track may affect you and your district. And I suggest to you, and what the AFL-CIO is suggesting: be involved in the process.

Mr. ANDREWS. I appreciate that, thank you.

Chairman WILLIAMS. Mr. McGlotten, we appreciate your being with us today and answering our questions and providing us with your good counsel.

Mr. McGLOTTEN. Thank you very much, Mr. Chairman.

Chairman WILLIAMS. I ask our first full panel to come forward. Mr. Frazier, Dr. Rafael Moure-Eraso. Mr. Franklin Frazier is the Director for Education and Employment at the General Accounting Office. Mr. Frazier, thank you for responding to our request that you testify before us today, we look forward to hearing your testimony.

STATEMENTS OF FRANKLIN FRAZIER, DIRECTOR FOR EDUCATION AND EMPLOYMENT, GAO; ACCOMPANIED BY CARLOTTA JOYNER, ASSISTANT DIRECTOR FOR WORKPLACE QUALITY ISSUES, GAO; AND RAFAEL MOURE-ERASO, CIH, ASSOCIATE PROFESSOR, DEPARTMENT OF WORK ENVIRONMENT, UNIVERSITY OF LOWELL

Mr. FRAZIER. Good morning, Mr. Chairman and members of the committee. I have with me today, Carlotta Joyner, who is our Assistant Director for Workplace Quality. We are pleased to be here, today, to describe the similarities and differences in child labor laws, occupational safety and health laws, and enforcement strategies in the United States and in Mexico.

Mr Chairman, I have a full statement for the record, and I will take a few minutes to summarize the three major points in our statement. First, the United States and Mexico have similar laws protecting workers. Both countries have laws and regulations restricting the work of children, and both regulate, essentially, the same safety and health hazards, but there are differences.

For example, in the United States, children under the age of 18 are prohibited from working in hazardous occupations. The hazardous occupation age limit is 16 in Mexico. On the other hand, Mexico requires children to obtain a work permit and a physician's certification before beginning employment. However, in the United States, no Federal laws require a work permit, however, some states do require them.

We found that most of the occupational safety and health hazards addressed in U.S. standards were also addressed in Mexican regulations and guidelines. That is, both countries have similar standards for fire protection, the handling of hazardous materials, and exposure to air contaminants. The similarities in laws and standards are not surprising, since both countries are members of the International Labor Organization which develops standards for member countries.

Second, while the standards are similar, we found that enforcement strategies and responsibilities differ. In Mexico, the primary responsibility for the enforcement of labor laws is the joint workplace committees. The committees are responsible for training the employees on occupational safety and health risks, for conducting workplace inspections, and for working with employers to correct violations. The committees are also responsible for reporting unresolved problems to the Mexican Department of Labor.

In addition to joint workplace committees, the Mexican government conduct target inspections. However, the inspections are usually announced 24 hours in advance to employers. Mexican law provides for a variety of sanctions for noncompliance with safety and health standards. However, mitigation and conciliation of occupational safety and health problems is the primary focus of the joint workplace committees and the inspections.

The U.S. also realizes a voluntary compliance of occupational safety and health laws. However, conducting inspections, usually unannounced, issuing citations, and assessing penalties are the major components of the U.S. enforcement strategy. Both monetary

and criminal sanctions are available for the U.S. as deterrents to safety and health violations.

Third, the enforcement strategy of both countries contain vulnerabilities. The worksite level requires a work force that is both independent and knowledgeable about safety and health hazards. Therefore, worksites are vulnerable to safety and health hazards where either of these conditions do not exist.

The U.S. reliance on inspections and sanctions to deter violation contains vulnerabilities in two areas: infrequent inspections and limited use of monetary criminal sanctions. For example, only 10 percent of worksites identified by OSHA as high safety hazards were inspected in 1989.

The textile and apparel industries illustrate both similarities in laws and vulnerabilities of enforcement strategies. For example, the maximum allowable noise level for an 8-hour shift is 90 decibel in both countries. However, the maximum level for a one-hour period is lower in Mexico, 99 decibels, compared to 105 decibels in the U.S.

In the U.S., OSHA is responsible for inspecting these industries for compliance. However, OSHA rarely inspects textiles and apparel industries. In Mexico, the joint labor management committees are to check noise levels, but our observations lead us to question if these requirements are being met.

To conclude, Mr. Chairman, we found both similarities and differences in worker protection laws and enforcement strategies in the United States and in Mexico. Each country has relative strengths and weaknesses in protecting its work force. Unfortunately, each country's worker protection enforcement strategies also contain vulnerabilities that expose workers to health and safety hazards and threaten the well-being of children.

Thank you, Mr. Chairman.

[The prepared statement of Franklin Frazier follows:]

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Occupational Safety and Health
and Child Labor Policies of
the United States and Mexico

Statement of
Franklin Frazier, Director of
Education and Employment Issues
Human Resources Division

Before the
Subcommittee on
Employment Opportunities
House of Representatives

and

Subcommittee on Labor-
Management Relations
House of Representatives



SUMMARY OF TESTIMONY BY FRANKLIN FRAZIER
ON OCCUPATIONAL SAFETY AND HEALTH
AND CHILD LABOR POLICIES OF THE UNITED STATES AND MEXICO

In considering a potential free trade agreement between the United States and Mexico, Members of Congress have raised questions about the similarities and differences between U.S. and Mexican worker protection standards and enforcement. This testimony compares the two countries' laws and their enforcement strategies in two areas: (1) occupational safety and health and (2) child labor.

United States and Mexico have similar laws protecting workers. Both countries have laws and regulations restricting the work of children and both regulate essentially the same safety and health hazards, but there are differences. We cannot conclude that either the United States or Mexico has substantially more protective laws and regulations--each country has some regulations that are more protective than those of the other. However, in the United States, both child labor and safety and health laws and regulations can be more protective in some states than in others, while in Mexico, these laws and regulations are uniform throughout the country.

Enforcement strategies and responsibilities differ. The Mexican government's approach to obtaining compliance with labor laws places much more emphasis on negotiating workplace solutions to identified problems than on detecting violations and applying sanctions. For example, joint labor-management committees are required at worksites, employers are given advance notice of inspections, and sanctions such as civil penalties or closing of the worksite are applied only when employers repeatedly refuse to correct problems. In contrast, the U.S. Department of Labor seeks to encourage voluntary compliance but also attempts to target inspections to likely violators and assess civil or criminal penalties sufficient to constitute a deterrent.

Both countries' enforcement strategies have vulnerabilities. The success of the Mexican government's approach of relying on collaborative efforts at the worksite level depends on a workforce not only knowledgeable about its rights and possible workplace hazards but also free to participate actively in negotiations with employers. In addition, the nature of inspections in Mexico may provide less intense scrutiny of employers' compliance with child labor and safety and health laws than do the more specialized inspection procedures used in the United States. For example, in Mexican worksite inspections, a single inspector must check for any labor law violations--not only those related to safety and health and child labor but also those governing wages, vacation time, work breaks, and collective bargaining. On the other hand, the U.S. attempt to deter violations through inspections is limited by infrequent inspections and limited criminal sanctions.

Textile and apparel industries illustrate both similarities in laws and vulnerabilities of enforcement strategies. For example, the maximum allowable noise levels for an 8-hour shift are the same (90 dB), although the maximum allowable level for a 1-hour period is lower in Mexico (99 dB compared with 105 dB). In the United States these levels would be checked in an OSHA inspection, but OSHA rarely inspects factories in these industries. In Mexico, joint labor-management committees are supposed to check noise levels monthly, but our observations lead us to question how often this requirement is met in factories in these industries.

Mr. Chairman and Members of the Subcommittees:

I am pleased to be here today to describe occupational safety and health and child labor laws and their enforcement in the United States and in Mexico. You asked us to conduct this comparative study because of your concern about the scope of the proposed free trade negotiations between Mexico and the United States. As you know, members of Congress and interest groups have questioned whether worker protection standards and enforcement may differ so much between the two countries that Mexican industry gains a significant trade advantage by minimizing its compliance cost. Thus, you asked us to describe at these hearings the similarities and differences in U.S. and Mexican (1) laws and regulations and (2) enforcement strategies, and to illustrate them using the textile and apparel industries.

Because of the short time since your March 1, 1991, request, we were limited in the amount of data we could collect and analyze. Thus, we relied on interviews, research studies and other documents, statistical data from enforcement agencies, and a few visits to manufacturing facilities in the United States and Mexico. In the United States we interviewed representatives of the Department of Labor enforcement agencies and Bureau of International Labor Affairs; the Office of the United States Trade Representative; state labor offices in California, Georgia, New York, and Texas;¹ and textile and apparel unions and trade associations. In the Republic of Mexico we interviewed federal labor officials, including the Mexican Secretary of Labor and Social Welfare; state labor officials in the border state of Chihuahua; representatives of organized labor, industry, and the American Chamber of Commerce in Mexico City; U.S. Department of State officials in Mexico City and Ciudad Juarez; and academics.

Our general conclusions are that (1) the United States and Mexico have similar laws protecting workers and (2) their enforcement strategies differ, with both having vulnerabilities.

BACKGROUND

The population of the United States is about 3 times that of Mexico, approximately 247 million compared with 83 million. The estimated formal U.S. workforce is 4 times that of Mexico, 126 million compared with 32 million. Mexico's population is much younger; almost half, about 39 million, are under age 18, while

¹We selected these states to illustrate state child labor laws, standards, and enforcement. We selected these four states because they have relatively large numbers of textile or apparel establishments or, in the case of Texas, have a significant number of twin plant operations with Mexico.

in the United States about one-fourth, about 63 million, are under 18.

In both countries, there is concern about ways to protect the safety and health of workers and limit the work of children so as to protect their health and well-being. The issue of child labor is especially relevant in Mexico, given the larger proportion of children in the population.

SIMILAR REGULATIONS PROTECT WORKERS

Both the United States and Mexico have laws and regulations restricting the work of children, and both regulate essentially the same safety and health hazards, but there are differences. We cannot conclude that either the United States or Mexico has substantially more protective regulations--each country has some regulations that are more protective than those of the other. However, in the United States, both child labor and safety and health laws and regulations can be more protective in some states than in others, while in Mexico, these laws and regulations are uniform throughout the country.

Government Agency Responsibilities for Setting Standards and Regulations

In the United States, the major federal laws regulating these areas are the Fair Labor Standards Act (FLSA) and the Occupational Safety and Health Act. These are administered, respectively, by the Department of Labor's Employment Standards Administration and Occupational Safety and Health Administration (OSHA).² Additional implementing regulations and standards addressing specific hazards are promulgated by the Department and codified in the Code of Federal Regulations.

The FLSA regulates the employment of children in interstate commerce in all states.³ In addition, all states have laws that regulate the employment of children. For those children covered

²Safety and health protection for some workers is covered by other laws and enforcing agencies. For example, the Federal Mine Safety and Health Act of 1977, enforced by the Department of Labor's Mine Safety and Health Administration, protects coal and non-coal miners. However, we will focus on OSHA because of its more general coverage of workers.

³Any employer with gross receipts of \$500,000 or more is regulated by the act, regardless of the nature of the business. Children working for smaller employers are determined to be engaging in interstate commerce--and thus be regulated by the act--depending on the nature of the work. The work of children on family farms is not regulated by FLSA.

by both the FLSA and state laws, the law setting the more stringent standard must be observed.⁴

In the U.S., states that operate their own OSHA-approved safety and health programs (as described below) may have laws and regulations that are more protective than the federal ones, but they may not be less protective. In all other states, the same federal safety and health regulations apply.

In Mexico, child labor and safety and health protections are included in the Constitution. They are further specified in the Federal Labor Law, in a comprehensive set of regulations, and in 21 sets of administrative guidelines published by the Secretariat of Labor and Social Welfare. These laws and regulations apply uniformly throughout the country and in all industries.

Comparison of Child Labor Laws and Regulations

Mexico and the United States both restrict the work hours of children, but these restrictions differ. In both countries, hours are restricted up to age 16. However, Mexico also restricts the hours that can be worked by 16- and 17-year-olds.⁵ For 14- and 15-year-olds, the United States has stricter prohibitions on night work while Mexico has stricter prohibitions on total hours worked in nonschool weeks. Specifically, U.S. federal law prohibits work at night for a 12-hour period during the school year (between 7 p.m. and 7 a.m.) and for a 10-hour period during the summer, while Mexico prohibits night work for an 8-hour period in nonindustrial work and a 10-hour period in industrial work. In the United States, 14- and 15-year-olds may not work more than 18 hours in a school week or 40 hours in a nonschool week; in Mexico, 14- and 15-year-olds may not work more than 36 hours in any week.

Restrictions also differ regarding the age at which children can work. Mexico's child labor restrictions are greater than those of the United States for children under age 14 in that Mexico prohibits employment entirely for this age group. U.S. federal law permits limited employment such as the hand harvest of short season crops as early as age 10. In addition, some states allow children not covered by FLSA (that is, not engaged in interstate commerce) to work before age 14. For example, Georgia permits children to work at the age of 12 in occupations that require age

⁴Although we do not have a good estimate of how many children are not covered by FLSA, we believe that relatively few children, other than those working on family farms, are exempt from coverage.

⁵In Mexico, factory work at night is prohibited for anyone under age 18.

14 in the federal law. The United States has greater protection for minors age 16 and older in that Mexico's occupations restrictions apply only to those below the age of 16 while the U.S. restricts employment in hazardous occupations to age 18 under federal law, and to age 21 under some state laws.

U.S. and Mexican laws also differ regarding the need for work permits. Children under age 16 in Mexico must obtain a physician's certification of their capability to work and a work permit from federal labor authorities before beginning their employment. U.S. law does not require work permits but does require that employers be able, if requested, to furnish proof of the age of employees. Three of the four states we examined require some form of work permit up to age 18. California also requires that those wanting to employ children under age 18 obtain a permit to do so.

Comparison of Safety and Health Laws and Regulations

Laws regulating safety and health in the U.S. and Mexico are similar in placing responsibility for workplace safety and health on the employer--as U.S. law puts it, for employers "to furnish . . . a place of employment . . . free from recognized hazards that are causing or are likely to cause death or serious physical harm."

Both countries' regulations also address the roles of employees, but Mexican law puts more responsibility on them. Mexican occupational safety and health regulations require the establishment of joint labor-management committees. These committees are responsible for monitoring compliance with all labor laws, including workplace safety and health requirements, and resolving any issues that may arise. Mexican Labor Law also provides that workers may be fined for failing to comply with safety and health requirements. U.S. law specifies that workers must comply with applicable standards and regulations, but contains no provision for fining them for noncompliance. OSHA has distributed guidelines encouraging, but not requiring, employers to establish worksite safety/health programs that include employee involvement, but there is no requirement for joint committees.⁶

Both the United States and Mexico have specific laws, standards, and regulations regarding safety and health hazards, which cover a wide range of hazards. Some address specific practices such as providing fire protection, medical services and first aid and handling hazardous material. Other standards govern special

⁶However, some groups, such as the AFL-CIO, have urged that joint labor-management committees be required in this country.

industries such as pulpwood logging, sawmills, and textiles. Another type of standard governs exposure to toxic and hazardous substances. Our comparison showed that most of the specific hazards addressed in the U.S. standards were also addressed in the Mexican regulations or guidelines. However, the only standards we compared in detail were those we will discuss later as they apply to the textile and apparel industries.

ENFORCEMENT STRATEGIES AND RESPONSIBILITIES DIFFER

The U.S. and Mexican approaches to enforcement differ substantially. The Mexican government's approach to obtaining compliance with labor laws is to place much more emphasis on negotiating workplace solutions to identified problems than on detecting violations and applying sanctions. This conciliatory approach takes the form of mandatory joint labor-management committees, advance notice to employers of inspections, and application of sanctions such as civil penalties or closing of the worksite only when employers repeatedly refuse to correct problems. In contrast, the U.S. Department of Labor seeks to encourage voluntary compliance but also attempts to target inspections to likely violators and assess civil or criminal penalties sufficient to constitute a deterrent.

Enforcement in Mexico

Although enforcement of labor laws in Mexico is the responsibility of either federal or state authorities, depending on the industry, the general enforcement strategy in each case has the same two primary components: (1) employer and worker identification of workplace problems through the mandatory joint workplace committees and (2) inspections by government agents, which emphasize conciliation of differences but may include the application of sanctions if employers repeatedly refuse to comply.

Mexican government regulations place primary responsibility for enforcement of labor laws, including those requiring safe and healthful working conditions, on the joint workplace committees. According to the regulations, the committees are responsible for training employees on occupational safety and health risks and identifying and preventing such risks from becoming problems. Further, the regulations require that these committees inspect the workplace once a month and look for workplace hazards ranging

⁷The Constitution establishes exclusive federal jurisdiction over 24 industries or types of firms. The 24 industries specified are among Mexico's largest, including petroleum, petrochemicals, railroads, food processing and textiles. States are responsible for enforcing the law in all industries not under federal jurisdiction.

from the cleanliness of bathroom facilities to the noise, vibration, and fumes from machinery used in the plant. If the employer does not correct the identified hazards, the committee reports this fact to either federal or state enforcement officials. According to information provided by the U.S. Department of State, the Directorate General of Federal Labor Inspection typically sends an inspector to verify the reported violation.

The second portion of the Mexican government's enforcement strategy involves conducting workplace inspections. The Directorate General of Federal Labor Inspections, within the Secretariat of Labor and Social Welfare, is the federal government agency responsible for conducting workplace inspections. The Directorate employs about 600 full-time inspectors, including about 300 college seniors fulfilling their public service requirement. About one-half of the inspectors work in the Federal District of Mexico (Mexico City) and the remainder are employed in regional offices. Each of the 31 Mexican states is responsible for enforcing labor laws, but we were unable to obtain the number of state labor inspectors.

Inspections, which are usually announced to the employer 24 hours in advance, may be initiated in several different ways. They may be (1) targeted to a worksite using a combination of injury rates in the industry and the individual firms' history of violations and work-related injuries or illnesses; (2) initiated by requests from workers or other interested parties or by reports from the joint workplace committees, (3) precipitated by accidents, or (4) performed as part of a periodic inspection program. For example, the Director of Inspections at one local office of a state agency told us that his office inspected all worksites once a year, using a list obtained from tax records. In addition, inspectors may return to a worksite to see if employers have corrected problems previously identified.

Workplace inspections encompass all aspects of labor law. Mexican labor inspectors are responsible for assessing compliance with the entire Federal Labor Law, including not only safety and health and child labor requirements but also other provisions such as payment of minimum wages, vacation time, hours and days of work.

Mexican law provides for a variety of sanctions for noncompliance with safety and health or other standards. For example, if within a reasonable period of time an employer fails to rectify a problem, a fine may be imposed. If the employer is found later to have failed to correct the problem, additional fines may be imposed and the workplace may be closed until the unsafe condition is eliminated. Penalties can range from 15 to 315 times the daily minimum salary in effect at the place and time of the violation.

Workplace inspections conducted by the Mexican government were described to us as an attempt at conciliation more than an effort to deter violations by detecting and sanctioning noncompliance. The basic purpose of the inspections is to resolve and mitigate any occupational safety and health problems. Both the federal and state inspection officials we spoke with told us that penalties are only assessed against firms that refuse to mitigate the hazards identified.

We were unable to determine the number of state inspections performed annually or the results of those inspections, and the federal inspection statistics we obtained are incomplete. For federal inspections, a Secretariat of Labor and Social Welfare publication showed that, in the year ending October 31, 1990, federal labor inspectors issued 23,537 notifications of violations in 11,115 inspection reports. However, no information was available about how many, if any, of the notifications were for safety and health or child labor violations.

Enforcement in the United States

In contrast with enforcement in Mexico, safety/health and child labor regulations are enforced in the United States by different component agencies of the Department of Labor, and states may have separate offices responsible for child labor and safety and health. The Occupational Safety and Health Act vests enforcement responsibility in the Department of Labor, but it also provides that OSHA may approve state-operated programs to enforce safety and health laws in their states. Both the state laws and the state-operated program's policies and procedures must be monitored by OSHA to confirm that they are "at least as effective as" the federal standards and program. For child labor, the Wage and Hour Division of the Labor Department's Employment Standards Administration (ESA) is responsible for enforcement of federal child labor standards; states are responsible for enforcement of their own child labor standards.

The enforcement strategies of both OSHA and ESA rely heavily on voluntary compliance by employers, and both agencies have educational and assistance efforts specifically intended to foster compliance. ESA has recently increased its emphasis on educating the public about child labor laws. In addition, both agencies characterize inspections as also having an educational component. This reliance on voluntary compliance is due in part to the large enforcement task facing the agencies. For example, OSHA and the 25 states that operate OSHA-approved state safety and health programs cover about 88 million workers and about 6 million employers.

The other major component of both agencies' enforcement strategy is conducting inspections; issuing citations and assessing

penalties; and, in the case of safety and health inspections, verifying that employers have abated (corrected) the identified hazards. This component is intended not only to find and correct problems but also to constitute a deterrent, that is, to encourage employers to comply with the law rather than take a chance on being detected and sanctioned for noncompliance. A significant feature of this approach is that inspections are usually unannounced.⁸ The Congress recently acted to increase this deterrent effect by significantly raising penalties for both child labor and safety and health violations: the Omnibus Budget Reconciliation Act of 1990 included a sevenfold increase in OSHA maximum penalties and raised the maximum penalty for nonwillful child labor violations from \$1,000 to \$10,000.

Safety and health and federal child labor inspections are similar in giving priority to inspections where there is a specific reason to believe there may be violations. OSHA's highest priority is to alleged imminent danger situations, accidents involving a fatality or catastrophe, complaints alleging serious violations that threaten physical harm, or referrals describing a potential serious hazard. However, some inspections are targeted to worksites in industries that are considered especially hazardous, such as construction, manufacturing industries with above-average injury and illness records, and industries with a history of health hazards. For all its FLSA inspections, ESA has traditionally relied heavily upon complaint-driven investigations.⁹ To better detect child labor violations, however, it has recently channeled more of its enforcement effort into directed investigations and strike forces because of a concern that child labor violations are less likely to generate complaints.

The maximum civil penalties for safety and health violations are higher than those for child labor violations. The maximum penalties for safety and health violations range from \$7,000 for a serious violation to \$70,000 for each willful or repeat violation, and there is a minimum penalty of \$5,000 for willful

⁸OSHA inspections are, with only limited exceptions, always unannounced. ESA generally informs employers before it comes to inspect for FLSA violations, including child labor violations. However, its strike force efforts targeted at child labor problems have been unannounced.

⁹ESA inspectors check for violations of the child labor provision of FLSA as part of their inspections for compliance with other parts of FLSA, such as its minimum wage and overtime provisions. Thus it considers that all FLSA investigations are child labor investigations because any child labor violations would be noted.

violations.¹⁰ The size of civil penalties for child labor violations depends on whether it is a repeat violation and whether it could be expected to, or has, resulted in harm to the health and safety of the child. At the federal level the maximum penalty is \$10,000 per violation; according to ESA policy, a penalty this high would only be assessed in the case of a child labor violation associated with a fatality or permanent disability.

Available sanctions include criminal penalties, although they have rarely been used. For safety and health violations, if convicted, an employer cited for a willful violation that caused death of any employee can be fined up to \$10,000 or imprisoned for up to 6 months; a second such offense can result in a fine of up to \$20,000 and/or imprisonment for not more than a year. There are also criminal sanctions for giving employers advance notice of an inspection and knowingly making false reports or statements regarding safety and health enforcement. The federal criminal penalty for a repeat and willful child labor violation can include up to six months in prison.

In fiscal year 1990, federal inspectors and inspectors from state-operated safety and health programs conducted over 180,000 inspections. Approximately 2,200 federal and state inspectors conducted nearly 140,000 safety and health inspections. With about 1,100 inspectors each, OSHA conducted about 46,000 of these and state programs conducted about 93,000. ESA's approximately 1,000 inspectors conducted about 41,800 investigations.¹¹

VULNERABILITIES IN BOTH COUNTRIES' STRATEGIES

Enforcement strategies in both the United States and Mexico have vulnerabilities. The Mexican reliance on collaborative efforts at the worksite level requires a workforce not only knowledgeable about its rights and possible workplace hazards but also free to participate actively in negotiations with employers. And it is possible that the nature of inspections in Mexico reduces inspectors' ability to detect potential problems. On the other hand, the U.S. attempt to deter violations through

¹⁰A serious violation is one that includes a substantial probability that death or serious physical harm could result. A willful violation is one that the employer intentionally and knowingly commits.

¹¹To obtain a complete view of the enforcement effort in these areas, one would have to include the state child labor enforcement efforts because the same workplaces may be investigated by both federal and state child labor inspectors. However, we were unable to obtain comparable data from all states.

inspections is limited by the infrequent inspections and limited criminal sanctions.

GAO has done extensive work analyzing the vulnerabilities of U.S. enforcement strategy. In a recent report we identified the infrequency of inspections and weak sanctions for noncompliance as significant limitations to OSHA's ability to provide an effective deterrent to noncompliance.¹² In fiscal year 1989 only 10 percent of the worksites OSHA identified as high hazard for safety reasons were inspected and only 3 percent of the worksites identified as high hazard for health reasons were inspected. Although recent legislation has increased civil penalties, statutory criminal sanctions remain limited. And the extent to which the increased maximum civil sanctions will provide an increased deterrent will depend on how OSHA uses that authorization to assess higher penalties. Similar problems exist in Labor's enforcement of child labor laws.

Although we were unable to analyze the Mexican government's enforcement strategy as thoroughly as we have the U.S. approach, we believe there are at least two major vulnerabilities. These involve the operations of the joint workplace committees and the thoroughness of the inspections.

First, Mexican workers may not have enough information about workplace hazards and may not be able to use this collaborative mechanism fully. If the labor representatives are either untrained or non-independent, the system is subject to abuse. For example, in those workplaces with "sindicatos blancos," or fake unions, the worker representative on the committee may be selected by the employer, which presents a conflict of interest if violations occur.¹³

In addition, the committees are supposed to be backed up by inspections triggered by reports they send to state or federal government offices, but we were unable to determine what actions, if any, the Mexican government takes in response to those reports. The Director of Inspections at one state office told us that his office would only respond with an inspection if committees continued to report the same problems over several months.

¹²Occupational Safety and Health: Options for Improving Safety and Health in the Workplace, GAO/HRD-90-66BR, August, 1990.

¹³These are unions created by employers, generally to prevent union organization. Although these unions are officially registered with the federal government, they do not represent the workers in negotiations with employers.

Second, the nature of inspections in Mexico may provide less intense scrutiny of employers' compliance with child labor and safety and health laws than do the more specialized inspection procedures used in the U.S. As we noted earlier, in Mexican worksite inspections, a single inspection would require checks for any labor law violations--not only those related to safety and health and child labor but also those governing wages, vacation time, work breaks, and collective bargaining. In addition, the policy of announcing inspections in advance probably reduces the likelihood of finding certain violations. This may be especially true for child labor violations because it is so easy for children to vacate the premises in advance of the inspection.¹⁴ The Director of Inspections for one local office of a state labor agency told us that they had issued no violation notices in the over 685 inspections conducted by his five inspectors in the first three months of 1991.

WORKER PROTECTION IN THE TEXTILE AND APPAREL INDUSTRIES

The textile and apparel industries can be used to illustrate the similarities and differences in U.S. and Mexican (1) occupational safety and health and child labor laws and regulations; (2) enforcement strategies and responsibilities; and (3) enforcement vulnerabilities. We chose these industries for our illustration largely because the U.S. International Trade Commission's February 1991 report on the likely impact of a free trade agreement with Mexico identified them as among the industries that would be affected in both countries.

Textile mill workers perform such activities as preparing fiber and manufacturing yarn, fabrics, carpets, and rugs; dyeing and finishing fiber, yarn, fabrics and knit apparel; coating, waterproofing, or otherwise treating fabrics; manufacturing knit apparel or other finished articles from yarn; and manufacturing felt goods, lace goods, nonwoven fabrics, and miscellaneous textiles. Apparel industry workers produce clothing and fabricate products by cutting and sewing purchased woven or knit textile fabrics and related materials.

The textile and apparel workforce in the United States in 1989 consisted of about 1.8 million workers: 724,000 in textiles and about 1.1 million in apparel. Mexico's textile and apparel workforce totaled about 382,000 workers: 168,000 in textiles and 214,000 in apparel. U.S. textile and apparel industry employment

¹⁴The U.S., for example, found far more child labor violations in the ESA fiscal year 1990 unannounced strike force efforts targeted to likely child labor violators than in its--usually announced--regular FLSA investigations (40 percent compared with 13 percent).

is concentrated in the southern states and in California and New York where most apparel is produced. Mexico's textile and apparel employment is geographically concentrated in states along its border with the United States and in major metropolitan areas such as Mexico City, Monterrey, and Guadalajara.

Potential Problems in These Industries

In the textile and apparel industries, workers can be exposed to a wide variety of occupational safety and health hazards. In addition, at least in the apparel industry, there appears to be a sizeable likelihood that children will be employed illegally.

Safety and health hazards include potentially hazardous levels of air contaminants that result in dust diseases of the lungs; toxic agents that result in respiratory conditions or skin diseases and disorders; and noise levels that contribute to hearing impairment or loss. Apparel industry workers frequently work in small establishments, which also necessitates particular attention to electrical safety, fire protection, uncluttered walking and working areas, and clear access to exits. In addition, some evidence exists in the United States that child labor violations may be a problem in the apparel industry.

Regarding the risk of child labor abuse, expert sources we consulted indicate that child labor is more likely to be a problem in the apparel than in the textile industries. This is primarily because of the nature of these industries. The textile industry is more likely to involve larger factories with substantial investments in equipment, while much of the work in the apparel industry can be done with sewing machines or hand sewing, which can be done at home or can more readily use the assistance of children. We have no reason to believe the likelihood of problems would be substantially different in Mexico than in the United States.

Laws, Regulations, and Standards for the Textile and Apparel Industries

Both Mexico and the United States have adopted regulations and standards that protect workers in the textile and apparel industries. Most of these are regulations that protect workers in these industries but are not unique to the industries. For example, general safety and health standards that address hazards occurring frequently in these industries include those for air contaminants, electrical safety, fire prevention, machine guarding, formaldehyde, occupational noise, and hazard communication. However, in the safety and health area, the United States also has a textile industry-specific safety standard and a health standard addressing exposure to cotton dust, while Mexico lacks comparable protections.

Among the range of safety and health standards that each country has adopted for industries, including textile and apparel, there are differences. For example, both the U.S. and the Mexican standard for occupational noise use 90 decibels as the maximum allowable noise level for an 8-hour period. However, Mexico has a more stringent requirement for 1-hour periods (99 decibels) than does the U.S. (105 decibels). Both countries require that any work environment with a noise level above certain levels must have a hearing conservation program in place to periodically check for workers' hearing loss.

The U.S. safety standard specific to the textile industry includes requirements for machinery and equipment safeguarding and work practices such as wearing of personal protective equipment and workroom ventilation. Mexico's contract law for the textile industry, on the other hand, refers to those requirements contained in separate federal regulations and standards for all industries, such as machine guarding or personal protective equipment, but does not specifically detail such safety and health requirements.¹⁵

U.S. and Mexican protections against the hazards of cotton dust are similar in their permissible exposure levels but different in the additional protective practices required. OSHA's cotton dust standard requires employers to assure that no employee in yarn manufacturing and cotton washing operations is exposed to airborne concentrations of respirable cotton dust greater than 200 micrograms per cubic meter of air, averaged over an 8-hour period. It allows higher exposure levels for certain other textile industry activities. Mexico has a single permissible exposure limit for cotton dust equal to the U. S. minimum level-- 200 micrograms. Because the regulation makes no distinction for different types of textile industry activity, it appears to be stricter than the U. S. standard. However, OSHA's Deputy Director for Health Standards Programs told us that he did not think current technology exists to enable textile industry employers in either the United States or Mexico to achieve this level in the other activities for which OSHA allows higher levels.

In addition to the permissible exposure limits, the U.S. standard also requires specific protective practices that the Mexican law does not require. These include (1) requiring employers to institute engineering and work practice controls where feasible, (2) conducting a medical surveillance program for all employees

¹⁵Article 406 of the Mexican Federal Labor Law authorizes unions representing two-thirds of an industry to negotiate with employers a contract that is binding on the entire industry, and this has been done in the textile industry.

exposed to cotton dust, and (3) requiring employers to post warning signs in work areas where the exposure limits are exceeded and notifying employees that respirators are required to be worn in such areas.

In the child labor area, the standards may permit children to work in these industries at a younger age in Mexico than in the U.S. In the U.S., children below the age of 16 would be prohibited from working in textile and apparel because these are manufacturing industries. In addition, 16- and 17-year-olds would be prohibited from performing certain operations, such as driving forklifts. In Mexico, 14- and 15-year-old children would be prohibited from performing activities considered hazardous, but the law does not specify what those activities would be.

Enforcement Strategies and Responsibilities Differ

U.S. and Mexican enforcement strategies and responsibilities are the same in these industries as they are for other industries, except that, in the United States, both the federal and some state governments have targeted more efforts specifically to child labor problems in the apparel industry.

In fiscal year 1990, OSHA and state inspectors conducted 1,076 initial inspections in the textile and apparel industries and issued citations for about 4,200 violations. Total initial penalties assessed were \$685,000.

In child labor, during fiscal year 1990, ESA conducted 217 inspections in the textile industry and found only 2 child labor violations. ESA also conducted 1,245 apparel industry inspections and found 12 child labor violations.

In spite of the relatively low number of child labor violations found in routine inspections of these industries, many people are concerned that there is a problem of child labor abuse in some segments of the apparel industry. Their concern is that the segment of the apparel industry which operates in the underground economy may be missed by the usual enforcement efforts, and that child labor abuses are more likely to occur in that sector. As a result, both the U.S. Department of Labor and the State of New York have targeted enforcement efforts in apparel.

In May 1990, Labor initiated a garment industry strike force in the New York City metropolitan area involving several teams of investigators focusing several weeks on the garment industry. This was followed by additional garment industry sweeps in other major metropolitan areas.

New York State has targeted enforcement resources specifically at the apparel industry. The Apparel Industry Task Force had 34

full-time staff dedicated to it for fiscal year 1990. Activities have included a drive to register all apparel manufacturers and targeted child labor enforcement efforts which resulted in an increase in child labor violation detections of over 400 percent.

Enforcement of labor laws in Mexico is the responsibility of the federal government in the textile industry and of the states in the apparel industry. We were unable to obtain any data on the number of inspections conducted by the state in the apparel industry. In 1990, the federal government conducted about 6,000 inspections in the textile industry and issued 1,034 citations for violations.

Vulnerability of Enforcement Strategies

Our visits to apparel and textile worksites in both the U.S. and Mexico illustrate some of the vulnerabilities in enforcement. For example, in the U.S., we staff observed problems in an apparel manufacturing plant near the Mexican border. According to the manager, he was unaware of significant safety and health requirements, such as the hazard communication standard which requires that information be given to workers about the chemical hazards in the workplace. Although we saw likely safety and health violations, this plant had not been inspected in the 3 years that it had operated. Under OSHA's procedures, OSHA would be unlikely to inspect the plant unless a fatality or accident occurred or someone filed a complaint.

In another apparel plant in a Mexican border town, GAO staff observed likely safety hazards such as broken floor tiles and frayed electrical wires. In addition, discussions with the owner raised serious questions about the effectiveness of the joint labor-management committee and the state inspections in protecting workers. The employees we asked knew nothing about a joint committee, even though the owner insisted that it existed. He said that he picked the workers to be on the committee. He also said that they met every 2 or 3 months but that they did no workplace inspections and were given no instructions about problems to look for.

He did say the plant was inspected regularly by Mexican labor inspectors and he showed us a sample inspection report from 1988. It included the results of interviews with workers, asking them about the employers' compliance with specific labor law requirements such as minimum wages, but it also listed the names of the workers along with what they said about the employer.

GAO's visit to a textile factory further demonstrated that the joint committees do not always follow requirements for their activities. For instance, the plant manager told us that the joint committee did not measure noise levels, because inspectors

do that when they come to the worksite. However, that is specifically listed as a responsibility of the committee in its monthly inspections.

To conclude, Mr. Chairman, we found both similarities and differences in worker protection laws and enforcement strategies in the United States and in Mexico. Each country has relative strengths and weaknesses in protecting its workforce. Unfortunately, each country's worker protection enforcement strategies also contain vulnerabilities that expose workers to health and safety hazards and threaten the well-being of children.

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This concludes my statement. I will be glad to respond to any questions you may have.

Chairman WILLIAMS. Thank you.

Dr. Rafael Moure-Eraso, an Associate Professor at the Department of Work Environment at the University of Lowell. Doctor, we're pleased to have you with us today.

Mr. MOURE-ERASO. Thank you, Mr. Chairman.

My name is Rafael Moure-Eraso. I am an Associate Professor in the Department of Work Environment of the College of Engineering of the University of Lowell, in Lowell, Massachusetts. I perform research and teach at the graduate level in occupational health.

I hold a doctorate in Environmental Health from the University of Cincinnati, and one Master's degree in Industrial Hygiene from the same university, and a second Master's degree in Chemical Engineering from Cornell University. I hold a professional certification from the American Board of Industrial Hygiene in the comprehensive practice of industrial hygiene, and I am also a member of the American Academy of Industrial Hygiene.

Currently, I am the chairperson of the Occupational Health section of the American Public Health Association. During the last 17 years, I have been practicing in industrial hygiene continuously.

As you know, Mr. Chairman, industrial hygiene is the science that identifies, evaluates, and controls hazards in the workplace. With my colleagues in the Work Environment Department of the University of Lowell, we have finished a study on the U.S.-Mexico border that we entitled "Back to the Future: Sweatshop Conditions on the Mexico-U.S. Border."

We found that what appears to be the future working conditions in one of the most active areas of the maquiladora system in the Mexico-U.S. border is in many ways a journey into the past. The working conditions identified in this study are reminiscent of the 19th century sweatshops of the U.S. industrial towns. They are well illuminated worksites and they serve lunch in the maquiladora operations to be sure, but still, the worst abuses of the methods of production of Taylorism are evident.

These were the conclusions of a study conducted by a research team of the Work Environment Department of the University of Lowell in the city of Matamoros and Reynosa. Their corresponding cities in the United States are Brownsville and McAllen in Texas. They are one across the border from each other. The team consisted of two industrial hygienists, an economist, an epidemiologist-ergonomist, and a manufacturing engineer from the faculty and staff of the University of Lowell.

The study consists of two separate but interrelated surveys: one of community leaders from the two towns, Matamoros and Reynosa, that was open-ended and exploratory, and one of workers of maquiladora enterprises in the Mexican towns of Matamoros and Reynosa.

Two hundred sixty-seven workers with more than a year seniority in the maquiladora industry in the two cities, responded to an extensive questionnaire given by trained canvassers. The interviews were conducted in the homes of the workers inside their communities.

This cross-sectional study was designed to evaluate various aspects of the working conditions in the worksites of the persons interviewed. In addition, 25 community leaders were also inter-

viewed. The two surveys together should be interpreted as hypothesis generating research. However, as you will see in the tables that I include in my testimony, substantial issues of concern were identified in the surveys which warrant immediate precautionary actions that we recommend at the end of the study. I have submitted the complete study for the record.

The workers' survey found clear evidence that maquiladora workers, who are mostly young and female—25 years old is the average, and 81 percent female—are suffering from musculoskeletal disorders related directly to working conditions, including: 43 percent reported working in chronic uncomfortable position; 66 percent reported stressful repetitive movements; 59 percent reported effects of vibration exposures; 34 percent reported bad illumination; and 44 percent were exposed to heat stress. Symptoms that correspond to those particular conditions appear correlated with the presence of these particular working conditions.

A summary of the ergonomic hazards is included in the tables that you have in my testimony, in Tables 11 to 17. In addition, acute health effects compatible with chemical exposures were also identified, indicating that the potential for the future development of chronic diseases in the work force. Chronic disease was not apparent, other than musculo-skeletal disease that I have mentioned before. This result is not unexpected in a young worker population.

However, it is remarkable that more than 41 percent of the workers reported exposure to dust, gas and vapors, and skin-irritating substances, and that is summarized in my Table 5. Nausea and vomiting, stomach pain, urinary problems, and breathing problems were significantly correlated related to the frequency of exposure to airborne contaminants, and this appears also on my tables.

Eye and nose secretions and breathing problems were significantly associated with frequency of dust exposures. Headaches were significantly associated with frequency of dust exposures. And the relationship between these acute symptoms compatible with chemical exposure reports should trigger quick remediation of the conditions in the plants.

The survey demonstrated, also, inequities in salary and hours required to work between the two communities, even within the same plant, the same enterprise, in the two communities of Reynosa and Matamoros. Matamoros workers were substantially better paid and work fewer hours than Reynosa workers. Also, the Reynosa workers reported receiving more company-sponsored training in health and safety, but they performed poorly in knowledge of occupational health hazards. The Matamoros workers, in their majority, were independently trained and performed better on questions about health and safety.

Since my time is running out, I would like to express the conclusions and recommendations of our study that said that the findings of this study are alarming enough to invoke the conservative public health principle that action cannot be postponed indefinitely in the face of scientific uncertainty.

Worker and community leaders' accounts of hazards were validated by significant association with health effect reports warrant action. And that warrants actions by the government of Mexico, by the companies that run the maquiladoras, by the unions that rep-

resent the workers, and by citizens' organizations. It's not advisable to wait for an epidemic of chronic disease of a Bhopal-type disaster to take precautionary action.

The Mexican government should also ensure that an expanded scientific investigation of reported health hazards occurs, either by undertaking such studies itself or ensuring that the companies cooperate with investigators. The Mexican labor movement should demand such investigation and monitor their conduct. In any event, although further investigation is warranted, public health action must not wait on further investigation.

It is apparent that "voluntary compliance" with internationally established occupational and environmental health standards and procedures are not being practiced by the owners of the maquiladoras. This demonstrated failure of transnational firms to operate responsibly, and the apparent failure of the host country to regulate effectively, raises serious questions about the desirability of further deepening of economic relations.

Thank you, Mr. Chairman.

[The prepared statement of Rafael Moure-Eraso follows:]

**BACK TO THE FUTURE:
SWEATSHOP CONDITIONS ON THE MEXICO-U.S. BORDER**

Presented by:

Rafael Moure-Eraso, Ph.D., CHL

Associate Professor - University of Lowell

EXECUTIVE SUMMARY

What appears to be the future of working conditions in one of the most active areas of the Maquiladora system in the Mexico-U.S. Border is in many ways a journey to the past. The working conditions identified in this study are reminiscent of the nineteenth century sweatshops of the U.S. industrial towns. They are well illuminated worksites and they serve lunch in the maquiladora operations (to be sure, but still the worst abuses of the methods of production of Taylorism are evident). These are the conclusions of a study conducted by a research team of the Work Environment Program of the University of Lowell at the Mexico-U.S.-Texas border (Matamoros-Brownsville -- Reynosa/McAllen). The team consisted of two industrial hygienists, an economist, an epidemiologist-ergonomist, and a manufacturing engineer from the faculty and staff of the University of Lowell.

Maquiladora Workers and Community Leaders Surveys

This study consists of two separate but interrelated surveys, one of community leaders that was open-ended and exploratory, and one of workers of maquiladora enterprises in the Mexican towns of Matamoros and Reynosa, Tamaulipas State, Mexico.

Two hundred and sixty seven (267) workers with more than a year seniority in the maquiladoras in the two cities responded to an extensive questionnaire given by trained canvassers. The interviews were conducted in the homes of the workers inside their communities. This cross-sectional study was designed to evaluate various aspects of the working conditions in the worksites of the persons interviewed. Twenty-five community leaders were interviewed. The two surveys together should be interpreted as hypothesis generating. However, substantial issues of concern were identified in both surveys which warrant immediate precautionary actions.

The workers' survey found clear evidence that maquiladora workers who are mostly young and female (25 years old, Avg. 81% female) are suffering from musculoskeletal disorders related to working conditions, including: 43% reporting working in chronic uncomfortable positions; 60% reporting stressful repetitive movements; 59% reported vibration exposures; 34% reported bad illumination and 44% were exposed to heat stress. A summary of the ergonomic hazards findings with the significant trend correlations between symptoms and ergonomic stressor can be found in Tables 11 to 17 of the report (included). Acute health effects compatible with chemical exposures were also identified, indicating that the potential for the future development of chronic diseases in the workforce. Chronic disease was not apparent, other than musculo-skeletal disease. This result is not unexpected in a young worker population. However, it is remarkable that more than 41% of the workers reported exposure to dusts, gas and vapors and skin-irritating substances (Table 5). Nausea or vomiting, stomach pain, urinary problems and breathing problems were significantly related to the frequency of exposure to airborne contaminants (Tables 6, 7, 8).

Eye and nose secretions and breathing problems were significantly associated with frequency of dust exposure (Table 7). Headaches were significantly associated with frequency of dust exposure (Table 8). The relationship between these acute symptoms compatible with chemical exposure reports should trigger quick remediation of the conditions in the plants.

The survey demonstrated inequities in salary and hours required to work between the two communities (Table 3). Matamoros workers are substantially better paid and work fewer hours/week than Reynosa workers. Also, although Reynosa workers reported receiving more company-sponsored training in health and safety, they performed poorly in knowledge of occupational health, including their rights under the Mexican law. The Matamoros workers, in their majority were independently trained and performed better (See Table 21).

Environmental Concerns - Community Leaders Survey

Community leaders were ambivalent on the purported benefits of the development of these types of industries in their communities. In general, the leaders (21/25) did not think that the coming of the maquiladoras was a positive development to their community other than simply job creation. Serious concerns about environmental deterioration were voiced. Disturbing reports of industrial waste disposal practices were also described. Those reports combined with results of environmental sampling of streams in the community (performed by the National Toxic Campaign, NTC), and the observation of the research team point out to serious water contamination problems in both communities. For example:

the contents of a stream were one of the maquiladora plants dump chemicals wastes is so polluted that according with U.S. EPA Regulations, the whole stream should be drummed in 55 gallon drums and buried in a hazardous waste site. The result of the analysis of the stream appears in Table IV.

The Mexican labor union representing the maquiladora workers has attempted to provide for some of the infrastructure needs in housing, schooling and health care, but the issue of equity in salaries and working conditions (between maquiladoras in Tamaulipas and between maquiladoras and Mexican workers of industrial towns in the interior) is unresolved. The community leaders commented on the enormous infrastructure needs with which the municipal authorities are unable to cope without substantial industrial help. It was a consensus that the infrastructure contributions of the industry were minimal, at best.

Conclusions and Recommendations

The findings of this study are alarming enough to invoke the conservative public health principle that action cannot be postponed indefinitely in the face of scientific uncertainty. Worker and community leaders' accounts of hazards that were validated by significant association with health effect reports warrant action: by government, by companies, by unions, by citizen organizations. It is not advisable to wait for an epidemic of chronic disease or a Bhopal-type disaster to take precautionary action.

The Mexican government should ensure that an expanded scientific investigation of reported health hazards occurs --either by undertaking such studies itself or ensuring that

the companies cooperate with investigators. The Mexican labor movement should demand such investigations and monitor their conduct. In any event, although further investigation is warranted, public health action must not wait on further investigation.

It is apparent that "voluntary compliance" with internationally established occupational and environmental health standards and procedures are not being practiced by the owners of the maquiladoras. This demonstrated failure of transnational firms to operate responsibly---and the apparent failure of the host country to regulate effectively--raises serious questions about the desirability of further deepening of economic relations.

Table 11. Exposure to physical agents and ergonomic stressors, by duration of exposure.

Type of Exposure	None	Part of Shift	All of Shift
Noise	41 (15%)	44 (16%)	181 (67%)
Heat	135 (50%)	45 (17%)	74 (27%)
Vibration	90 (33%)	29 (11%)	130 (48%)
Bad illumination	163 (60%)	20 (7%)	74 (27%)
Intense visual demands	120 (44%)	44 (16%)	100 (37%)
Uncomfortable position	146 (54%)	30 (11%)	86 (32%)
Repetitive movements	54 (20%)	27 (10%)	177 (66%)
Monotonous	134 (50%)	54 (20%)	74 (27%)
Machine rhythm	79 (29%)	12 (4%)	155 (57%)
Forceful manual work	136 (50%)	33 (12%)	86 (32%)
Heavy physical work load	182 (67%)	24 (9%)	47 (17%)

Table 12. Frequency (percent) of symptoms, by increasing duration of exposure to vibration.

Symptoms	None	Part of shift	All of shift	p-value *
Nausea or Vomiting	20 (30%)	8 (35%)	38 (39%)	.27
Stomach Pain	33 (38%)	8 (30%)	50 (40%)	.75
Headache	40 (46%)	16 (55%)	79 (62%)	.02
Sensation Loss	17 (19%)	9 (31%)	29 (23%)	.62
Urinary Problems	12 (13%)	3 (11%)	12 (9%)	.34

* Test for linear trend (chi-square on one d.o.f.)

Table 13. Frequency (percent) of symptoms, by increasing duration of exposure to heat.

Symptoms	None	Part of shift	All of shift	p-value *
Nausea or Vomiting	26 (25%)	13 (46%)	27 (47%)	.004
Headache	66 (50%)	31 (69%)	45 (63%)	.05
Urinary Problems	7 (5%)	8 (18%)	9 (12%)	.06

* Test for linear trend (chi-square on one d.o.f.)

Table 14. Prevalence of shoulder pain, by increasing duration of exposure to specific ergonomic risk factors.

Risk Factor *	None	Part of shift	All of shift	p-value **
Uncomfortable Position	15 (11%)	2 (7%)	21 (25%)	.005
Repetitive	3 (6%)	1 (4%)	32 (19%)	.009
Monotonous	21 (16%)	8 (15%)	9 (12%)	.48
Machine Rhythm	10 (13%)	1 (8%)	23 (15%)	.63
Forceful Manual Work	15 (11%)	2 (6%)	19 (23%)	.03
Heavy Work	19 (11%)	1 (4%)	13 (29%)	.005

* See appendix for wording of each questionnaire item.

Table 15. Prevalence of elbow/forearm pain, by increasing duration of exposure to specific ergonomic risk factors.

Risk Factor *	None	Part of Shift	All of Shift	p-value **
Uncomfortable Position	11 (3%)	6 (20%)	14 (16%)	.04
Repetitive	3 (6%)	2 (7%)	24 (14%)	.08
Monotonous	14 (11%)	8 (15%)	9 (12%)	.63
Machine Rhythm	11 (14%)	1 (8%)	17 (11%)	.52
Forceful Manual Work	13 (10%)	3 (9%)	14 (16%)	.16
Heavy Work	16 (9%)	2 (8%)	11 (23%)	.01

* See appendix for wording of each questionnaire item.

** Test for linear trend (chi-square on one d.o.f.)

Table 16. Prevalence of hand/wrist pain by increasing duration of exposure to specific ergonomic risk factors.

Risk Factor *	None	Part of Shift	All of Shift	p-value **
Uncomfortable Position	23 (16%)	4 (2%)	25 (29%)	.015
Repetitive	6 (11%)	4 (15%)	44 (25%)	.02
Monotonous	30 (23%)	13 (25%)	13 (18%)	.48
Machine Rhythm	18 (23%)	2 (1%)	28 (18%)	.40
Forceful Manual Work	22 (16%)	5 (16%)	27 (32%)	.008
Heavy Work	37 (21%)	3 (1%)	11 (24%)	.79
Vibration	16 (18%)	8 (24%)	28 (22%)	.55

* See appendix for wording of each questionnaire item.

** Test for linear trend (chi-square on one d.o.f.)

Table 17. Frequency of pain in the shoulder, elbow/forearm and hand region in relation to work pace.

Work Pace	Shoulder Pain	Elbow/Forearm Pain	Hand Pain
Slow	4 (17%)	4 (17%)	2 (9%)
Normal	14 (10%)	13 (9%)	30 (20%)
Rapid	13 (19%)	12 (17%)	13 (25%)
Very Rapid	6 (55%)	2 (18%)	5 (45%)
p-value *	.006	.35	.017

** Test for linear trend (chi-square on one d.o.f.)

Table 5. Frequency (percent) of chemical exposures, by duration of exposure.

Chemical Type	None	Part of Shift	All of Shift
Any airborne	105 (41%)	37 (14%)	114 (45%)
Dust	133 (49%)	26 (10%)	88 (33%)
Gas or vapor	107 (40%)	36 (13%)	86 (32%)
Poor ventilation	132 (49%)	34 (13%)	71 (26%)
Skin contact	135 (50%)	40 (15%)	70 (26%)

Table 6. Frequency (percent) of symptoms, by increasing duration of exposure to any airborne contaminants.

Symptoms	None	Part of shift	All of shift	p-value *
Nausea or Vomiting	22 (27%)	9 (32%)	35 (43%)	.03
Stomach Pain	26 (27%)	14 (38%)	53 (47%)	.002
Urinary Problems	6 (6%)	2 (6%)	17 (15%)	.02
Coughing	22 (22%)	14 (39%)	30 (26%)	.48
Eye or Nose Secretions	24 (23%)	9 (24%)	35 (31%)	.20
Short of breath	19 (21%)	17 (50%)	50 (45%)	.001

* Test for linear trend (chi-square on one d.o.f.)

Table 7. Frequency of respiratory symptoms by increasing duration of exposure to dust.

Symptoms	None	Part of shift	All of shift	p-value *
Coughing	32 (25%)	10 (38%)	26 (30%)	.38
Eye or Nose Secretions	28 (21%)	8 (31%)	29 (33%)	.05
Short of breath	29 (24%)	12 (52%)	40 (47%)	.001

* Test for linear trend (chi-square on one d.o.f.)

Table 8. Frequency (percent) of symptoms, by increasing duration of exposure to gas or vapor.

Symptoms	None	Part of shift	All of shift	p-value *
Nausea or Vomiting	24 (29%)	12 (43%)	24 (41%)	.15
Eye or Nose Secretions	23 (24%)	11 (31%)	25 (29%)	.38
Headache	46 (43%)	23 (64%)	57 (68%)	.001

* Test for linear trend (chi-square on one d.o.f.)

Table 3. Weekly work time and pay among Maquiladora workers, by city (mean $\pm$ SD).

Weekly Work Time and Pay	Reynosa		Matamoros	
	Female	Male	Female	Male
Hours/week	48.6 $\pm$ 3.3	49.2 $\pm$ 1.5	41.3 $\pm$ 3.4	40.7 $\pm$ 2.3
Pay/week	82,747 $\pm$ 24,839	89,571 $\pm$ 28,074	138,136 $\pm$ 20,625	179,768 $\pm$ 83,325
Pay/hour	1,705 $\pm$ 554	1,760 $\pm$ 473	3,398 $\pm$ 606	4,446 $\pm$ 2,117

Table 21. Workers' knowledge of occupational health and safety, by city (sum percentage of workers answering each item as shown).

Knowledge Item	Correct		Don't Know		p-value
	Reynosa	Matamoros	Reynosa	Matamoros	
Chemicals never have chronic effects without acute effects	32%	45%	68%	55%	< .1
Chemicals absorbed through the skin may affect internal organs	33%	45%	67%	55%	< .1
There is always a sufficient warning period before loss of consciousness from chemical exposure	34%	52%	66%	48%	< .1
Noise-induced hearing loss is not always reversible	35%	54%	65%	46%	< .1
Workers may elect plant health and safety representatives	39%	52%	61%	48%	< .1
Plant health & safety commission may not have decision-making authority	39%	54%	61%	46%	< .1

* Chi-square on two-by-two test for differences in proportions.

Table IV. Concentrations of Organic Chemicals in the RIMIR Effluent.

Contaminant	Concentration (ppb)
Xylenes	2,800,000
Ethylbenzene	430,000
Methylene chloride	41,000
Acetone	56,000
Toluene	5,700

Source: National Toxics Campaign (see Appendix A)

Chairman WILLIAMS. Thank you. My thanks to both of you.

We will go, first, for questions to Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I would like to ask Mr. Frazier, I didn't quite understand the complete implications of your conclusion. So let me ask you the question this way: Although you have indicated that there are certain laws on the books in Mexico, how would you evaluate the enforcement mechanism for those laws? Would you qualify them as serious deficiencies or marginal deficiencies? I didn't get a clear picture as to how you evaluated the status of those enforcement mechanisms.

Mr. FRAZIER. We did not evaluate the quality of the enforcement of those laws. We only had time to take a look at the laws themselves and the strategies. We did not attempt to evaluate the effectiveness of the enforcement process.

Mrs. ROUKEMA. So, in other words, you would say that with respect to the one example that has been brought up here today, the maquiladoras—did I pronounce that correctly, the "maquiladoras?"

Mr. FRAZIER. I hope so. I've been struggling with that, myself.

Mrs. ROUKEMA.—that with respect to them, you made no value judgment at all, and you did not study how the laws were or were not being applied to these people?

Mr. FRAZIER. That is correct.

Mrs. ROUKEMA. So you don't refute anything that has been said here, thus far, with respect to the inadequacies of the laws?

Mr. FRAZIER. We are certainly aware of all the newspaper accounts and the television accounts of what happens, but we have not, at the GAO, investigated how those laws are being enforced, neither in the interior or on the borders.

Mrs. ROUKEMA. Obviously, Dr. Eraso believes they are not being enforced. But not only on the borders, are you suggesting that it's widespread and endemic throughout Mexico?

Mr. MOURE-ERASO. I could, Mrs. Roukema, I could refer to the information that we obtained from our study. Part of our study was to talk with community leaders that include government officials that have the responsibility of informing and enforcing the law. And the specific information that we got is that there were 106 maquiladora companies between the two cities of Reynosa and Matamoros, and in neither of the two towns there is one Ministry of Labor inspector.

The closest inspector to enforce occupational health for the two towns resides and lives in Ciudad Victoria. That is 200 miles south of Matamoros and Reynosa. So in the view of the community leaders, they didn't have a lot of confidence that the laws, as good as they can be on paper, are really being enforced by anybody in the Mexican government.

Mrs. ROUKEMA. Let me ask another aspect of this for both of your opinions, if you will. While we haven't yet seen the action plan that the administration will put forward, what is your assessment of how effective we can be in laying down parallel action plans with the Mexican government? And what is your opinion as to how they would be enforceable, and how effective those agreements would be towards improving the work standards?

Mr. FRAZIER. We tried to get a copy of the action plan, but we have not seen the action plan, ourselves, at this particular moment. I think the problem for us, in the General Accounting Office, is going to be, mainly, one of having access to information that we can really make a reliable estimate as to how well things are going.

Mrs. ROUKEMA. I would suggest that, in addition, the GAO, when they get the access to the information there would be some attempt to quantify the costs of raising the standards—the costs in Mexico to raising those standards based on the action plan now.

I don't know whether or not we have time to do that, but it would seem to me that that would be a very useful exercise. Yes, do you want to comment?

Ms. JOYNER. I was just going to comment on the amount of enforcement activity at this point. We visited some border towns, as well, and some of our GAO staff met in Mexico City with the Secretary of Labor and with other people there. And I think we need to point out that, as Mr. Frazier mentioned, there are inspection activities in the textile industry.

Alone, in 1990, we were told that 6,000 inspections were performed in the textile industry by the Federal Government. So while the action plan may profitably focus on the nature of those inspections or the resources available to them to do it, I think we need to be aware that there is a certain level of enforcement activity at this point, already.

Mrs. ROUKEMA. Thank you, Mr. Chairman. I have no further questions.

Chairman WILLIAMS. Let me follow up on the number of inspections, and ask about sanctions. How many employers receive sanctions, if any sanctions are warranted?

Mrs. JOYNER. What we were told by the Federal Government was that in those 6,000 inspections, about 1,000 citations were issued, or about 1,000 of them were sanctioned. That has to be put in a context, as we mentioned before, that their orientation in doing inspections, the purpose of inspections as they see it, is really quite different from what OSHA has in view on inspections.

For example, as we mentioned, employers are told ahead of time—

Chairman WILLIAMS. Twenty-four hours? I believe Mr. Frazier said 24 hours.

Ms. JOYNER. Twenty-four hours notice, that's correct. Their policy is to let them know 24 hours ahead of time that they will be coming. There is no penalty at the first offense. The sanctions, monetary or whatever, are imposed only if the effort of conciliation with the employer fails, across time. And the reliance in the first line of defense, so to speak, is on the joint committees.

So, in a sense, it's hard to compare the statistics between what are really two different approaches to enforcement. And we didn't make a judgement as to which approach, the conciliation and involvement of employers, is better or worse than ours. But I just wanted to put the number in the—

Chairman WILLIAMS. On page 11, Mr. Frazier, of your testimony, you cite that the U.S. found far more child labor violations in fiscal year 1990 with unannounced visits. You also report that in Mexico,

the Director of Inspections for one local office of a state labor agency found no violations, even though there were 685 inspections.

Is it the 24 hour notice, the vacating of children from the work line, or is it that fact that, in fact, there are no violations, in your judgement?

Mr. FRAZIER. Well, we believe that it could be all of the things that you mentioned, Mr. Chairman. It seems highly unlikely that an inspector could go in for 675 inspections and not find anything wrong. However, the employer is notified ahead of time, and so they can possibly get their act together. But, quite frankly, the other part of this strategy, Mr. Chairman, is a conciliatory kind of affair, where they try to work it out. So that's the point that we were trying to make.

In the United States in 1990, we generally, also, kind of go after child labor laws by notifying employers. But, as you know, we did some of the strike-force kind of things under Secretary Dole, and we found quite a bit of violations in 1990. So we think that the unannounced inspections certainly have something to say about that.

Chairman WILLIAMS. Thank you.

Mr. Perkins?

Mr. PERKINS. Thank you, Mr. Chairman.

It's kind of interesting, I was going through this book that the AFL-CIO gave us, "Maquiladoras, A Broken Promise," and there are some real horror stories when you go through it. These are just newspaper articles that are, essentially, taken and presented to us.

Am I correct in saying that the health and safety conditions are, in your opinion, considerably worse on the Mexican side of the border than they are on the American side?

Mr. FRAZIER. Mr. Perkins, we are talking about a very narrow issue here, we are talking about the OSHA safety and health standards and laws, and how they go about enforcing them. And I think what you are looking at has a lot to do with the environmental situation at the border towns.

We are in the process—"we," not my group, but in the General Accounting Office—we do have a study underway that's looking at the environmental issues. And I believe—

Mr. PERKINS. That's a separate issue.

Mr. FRAZIER. [continuing] which is a separate issue, yes, sir. And I believe that our group will be in a position in a very short time, I think the May time frame, to report on the environmental issues, that I think are what you're looking at, at the particular time.

Mr. PERKINS. All right, let me ask, specifically—any of you can answer—when American companies go to Mexico as *maquiladora* enterprises, do they fall in with the working conditions that they find, as a rule, in the area, or do they bring in, perhaps, the same standards that they were utilizing when they were doing the same process in the United States? Is there a change in the working conditions?

Mr. FRAZIER. Well, I can't answer that factually, Mr. Perkins. There certainly are implications that says that when some of the American companies go to the *maquiladoras*, that they change their behavior, that they don't take care of the toxic waste as they should, and that sort of thing. But again, we have not studied that

particular issue, and I don't have a lot of facts for it. What I'm talking about now is just a newspaper accounting or the television accounting of those kinds of activities.

Mr. PERKINS. I'm concerned. I've got a Wall Street Journal article here that's saying it's illegal in Mexico to hire children under 14, but the Mexico City assembly recently estimated that anywhere from 5 million to 10 million children are employed illegally, often in hazardous jobs.

That, in conjunction with the same sort of studies that you're telling me about, that there were 685 inspections and there were no instances of any children under age being found. That gives me great concern as to what sorts of things are actually coming out from the study process, on the Mexican side of the border. Could you comment on that?

Ms. JOYNER. I think the issue of child labor violations is one in which we heard the report from, for example, the Secretary of Labor, saying that they are not finding violations, they're not finding children working illegally in Mexico. And what is very difficult to put together is the kind of information or studies that come from one source with studies that come from another.

If you're talking about the formal work force, those people who obeying the other laws, who will show up on the tax roles and, thus, be subject to inspections, and, as the chairman pointed out before, where they were told in advance that they were coming, that's really what the officials who talked with us were able to use as their basis for saying what's the nature of the problems.

We know in this country, too, that we have a large problem with—

Mr. PERKINS. Sure. Did you interview workers, or did you just interview the officials?

Ms. JOYNER. We talked with workers, some workers when we were in the plants. We talked, on the U.S. side, with some advocacy groups for workers in one of the border towns in the apparel industry.

Mr. PERKINS. Did you talk to any on the Mexican side?

Ms. JOYNER. We did not talk very much with workers. It would be more when we were just walking through the plants that we went through, we had a Spanish language-speaking evaluator from GAO.

Mr. PERKINS. All right, thank you.

Dr. Moure-Eraso, did you have an opportunity to talk to any of the workers on the Mexican side?

Mr. MOURE-ERASO. Yes, to 267 of them. I didn't talk, personally, with all of them, but our team of trained interviewers, that did the interviews in Spanish was done by us.

I would like to point out something that you mentioned. We did interview some of the workers of one operation, a maquiladora operation in Matamoros that is called Mariscos Baghdad. And precisely in the time that we were conducting interviews, an incident occurred in which 40 workers had to be hospitalized because of exposure to ammonia gas in this plant. Mariscos Baghdad, what they do is they package seafood for the United States.

And what is interesting about this issue—the workers pointed out to us, and you have it in pages 37 and 38 of AFL-CIO clippings

of newspapers—is that exactly one year before, the exact same incident happened in which 34 people, again, were sent to the hospital under the same situation of an escape of ammonia in the plant.

And the statements of the workers says that nothing has changed since the first incident, and it continues being a dangerous work operation in which you can get overcome by ammonia at any time, and there is absolutely nothing that has been done in a full year. And this we could see with our own eyes, and in talking with the workers.

Mr. PERKINS. Thank you, Doctor. I see our time has expired.

Chairman WILLIAMS. Mr. Gunderson?

Mr. GUNDERSON. Thank you, Mr. Chairman.

I have a question Dr. Mor-Eraso?

Mr. MOURE-ERASO. Moure.

Mr. GUNDERSON. My Spanish is not very good. It got me through college, but that's about it, so I apologize.

Bill Riley, the head of the Environmental Protection Agency, made the following statement, and I would like your response to it. He said, "I urge Congress to support the Fast Track procedures that will allow negotiations between our two countries to proceed expeditiously. Environmental improvement will not occur in Mexico or any other developing country, without the money to reduce pollution, the money to apply new technologies, the money to support government programs and pay for inspectors, regulators, and prosecutors."

Would you agree with that statement?

Mr. MOURE-ERASO. Well, I am not sure about that after going through the experiences that I went. What I observed is that the companies that I visited are producing materials that are coming into the United States, maquiladora industries, don't really have any particular reason to take care of the environment; as a matter of fact, they are not, at the time.

We found substantial situations in which —we found, for instance, the emissions that come out of a plant in waterways were of such a high level of contamination that they should, according with EPA regulations, be put in 55-gallon drums and bury the hazardous waste. And this is an extreme that we are talking about, this is what is happening today.

Mr. GUNDERSON. But nobody disagrees with that. The question is: How do we solve it? And I'm struck, sitting here in the Education and Labor Committee—this committee has a longer tradition than any committee in the Congress of the United States, of saying, "We will promote equal opportunity for all." What I'm hearing today is witness after witness saying, "Uh-uh. We want equal results. Only if we have equal results today, will we consider equal opportunity."

The whole heritage of this committee has been trying to promote and empower individuals through equal opportunity so that someday, in this Nation, we will have truly equal results. What you are saying is until Mexico solves all of their worker safety enforcement problems, all of their environmental problems, that they can't have economic growth and that they can't participate in a trade agreement with us.

And my answer to you is: How are they ever going to get it?

Mr. MOURE-ERASO. Well, I know of a method that they are not going get it, and that is, Mr. Gunderson, by being paid one-tenth of the salaries that are paid across the border, which is the average that they are paying the maquiladora workers. And having a cost of living that is quite comparable, in terms of cost of living cities here with the United States, with the wages that are one-tenth of what the wages are in the United States.

I do agree with you that we should think about equal opportunity. But the expansion of the maquiladora system as a way of obtaining that equal opportunity will be a failure. That's my—

Mr. GUNDERSON. I would hope that equal opportunity is the goal of all of us. I don't see anything in the Free Trade Agreement that says that its goal is to expand the maquiladora system. I think it's, hopefully, to do just the opposite, to empower those people through education, through training, and through other means, so that their productivity is equal to that of the American worker, so that their quality of product is equal to that of the American worker. And, I hope, through that that we will be able to give them an increase in wages which will solve their poverty, which will allow their government to deal with the kind of environmental and worker safety issues that you've raised. It's a question of which comes first.

Thank you.

Chairman WILLIAMS. Thank you.

Mr. Hayes?

Mr. HAYES. Mr. Chairman, I have just one question directed to both witnesses and our staff. Do you think that the U.S. trade adjustment policies currently serve the U.S. workers that have been dislocated due to foreign competition?

Mr. FRAZIER. Mr. Hayes, we are not prepared to answer that question.

Mr. MOURE-ERASO. It's really outside my purview as a health occupational person, but it seems to me that—I come from the State of Massachusetts, for example, and what I need to do in my class to teach industrial hygienists is to make them visit plants so that they will see how occupational health is practiced in different plants in the United States.

And one of that plants that I used to visit was the GM plant in Framingham, Massachusetts. Last year was the last time that I could visit that plant to show my students. It was closed down, lock, stock, and barrel. And all of those jobs are now producing automobiles and the parts of the automobiles from Mexico.

So what I can tell you from that small experience is that there were about 4,000 people that were completely dislocated in their lives, in the State of Massachusetts, when that plant was closed. And that happened last year, in July.

Chairman WILLIAMS. Mr. Hayes, I would ask you to yield to me a minute or so of your time.

Mr. HAYES. I would be glad to yield.

Chairman WILLIAMS. I appreciate the gentleman yielding. I'm sorry Mr. Gunderson had to leave, because he was addressing the point of how our environmental standards increased through funds, through money. And although I know a lot of my colleagues still wear that button that says, "You can't solve problems by throwing

money at them," Mr. Gunderson's indication is that you do need money to begin to solve them.

I want, therefore, to make the following point: Should those problems be solved through public law, after hearings and votes, in the historic, standard, Congressional way? Or should we turn those decisions over to our negotiators, and then simply rubber-stamp their agreements?

Now, let's take Mr. Gunderson's point about the environment and money. The Clean Air Act amendments of 1990, debated in the normal Congressional process, established a United States-Mexico Air Quality Office within the Environmental Protection Agency, to create and monitor a program of improving border air quality.

The Rio Grande Pollution Correction Act of 1987, again done through the normal Congressional process, authorizes the American Secretary of State, acting through the U.S. Representative to the International Boundary Water Commission, to conclude agreements with Mexico to correct the international pollution problems caused by the discharge of sewage and other wastes into the Rio Grande River from several border cities.

In just the last half-decade, the United States Congress, again working through the normal legislative process, has appropriated \$55 million to address Tijuana sewage problems, including construction of the Tijuana sewage treatment facility. That's through the normal process.

One of the questions this committee has is: Should we abrogate that process, now, to our negotiators? So the question is not whether or not you can help lift all the boats in Mexico through an infusion of appropriations, it's whether the authorization for that infusion of appropriations should take place in committees like this or at a negotiating table far away, where the American people, through their elected representatives, have no influence. That's the Fast Track question.

I appreciate the gentleman yielding.

Mr. Payne?

Mr. PAYNE. Thank you, Mr. Chairman. I am simply listening today. I, as you know, got in late, and I'm just here to listen and learn, and so I have no questions at this time.

Chairman WILLIAMS. Thank you. Folks, we appreciate very much you're being with us today. Thank you.

Our final panel, today, we'll ask to come forward, Mr. Katz and Dr. Dornbusch. We appreciate all of you being with us. We'll hear, first, today from Mr. Abraham Katz. Mr. Katz is the President of the United States Council for International Business. We appreciate you responding to our invitation to appear here, today, Mr. Katz. Please proceed.

STATEMENTS OF ABRAHAM KATZ, PRESIDENT, UNITED STATES COUNCIL FOR INTERNATIONAL BUSINESS; ACCOMPANIED BY KEVIN CORNACCHIO, MANAGER, INTERNATIONAL LABOR AFFAIRS, UNITED STATES COUNCIL FOR INTERNATIONAL BUSINESS; ACCOMPANIED BY EDWARD POTTER, ATTORNEY, MCGUINNESS & WILLIAMS; AND RUDIGER DORNBUSCH, PROFESSOR, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. KATZ. Thank you, Chairman.

In the short time allotted to me, I will not go through my degrees, but I do want to simply say that I have had a lot of experience, both, in this job and in 34 years in the Foreign Service on Mexican issues, common market issues, employment and structural adjustment issues, in the ILO and in the OECD. So I think it all comes together in this debate.

Mr. Chairman, I just want to start with something that is not in my written testimony, which I hope you will put in the record of my testimony—but the point about the Fast Track as being something new. Mr. Chairman, the Congress has always authorized in advance trade negotiations. Trade negotiations are different from the agreements that you cited.

In the days when most trade negotiations dealt with tariffs, the Congress set the ballpark of the tariff cuts that the administration went out and negotiated. And as soon as it got out of the area of tariffs, in the Kennedy round on American Selling Price for chemicals, Congress turned it down—that was 1972. And from that time on, we had to be in the Fast Track mode—in the Trade Act of 1974. As soon as you get beyond simple tariff cuts or average tariff cuts, you need the Fast Track.

The last time Congress made trade policy by itself was in the Smoot-Hawley tariff. And I think that experience was sobering enough so that they left trade negotiations, the actual negotiation, to the Executive Branch with the understanding that the Executive Branch had to bring back the results and the Congress could approve or disapprove those results.

If those results are subject to 535 amendments, then, Mr. Chairman, you're back in Smoot-Hawley. And nobody is going to negotiate with you on that basis, they certainly are not going to square with you or show you their bottom line if they're going to expect 535 amendments.

Mr. Chairman, a lot has been said in the course of these hearings about loss of jobs. I'm going to leave the numbers to Mr. Dornbusch, but it's quite clear to me that there's only one way to get jobs, and that's economic growth. And there's no way to get economic growth without trade and investment. Trade and investment have been the motor of economic growth.

Trade, worldwide, has increased 5 percent over the post-war period; World GNP has increased 3 percent. Trade is the motor of growth. Economic integration is the way to increase trade and investment. So if your interest, Mr. Chairman, and that of your committee is jobs, then you have to be pro-trade and you have to be pro-economic integration.

And we have many examples of that from the European Community to the Caribbean Basin, and the Pacific Rim. We've also had

some examples of where people thought they could mandate growth—that's the Communist bloc. We've just seen the end of that false start.

Mexico followed, for many years—and when I was stationed there, and even when I dealt with them as Assistant Secretary of Commerce—a policy of autarky and protectionism. They have realized that that's a false road, and they have bitten the bullet on structural adjustment. They've reduced subsidies; they've privatized and stabilized their economy, or they are doing that; they've joined the GATT, and they've reduced trade protection drastically. Why? Because they want growth and they want job growth. An FTA will lock in this very bold policy, and both countries are going to benefit.

Mr. Chairman, let me just talk about collateral issues. When you have an FTA, which implies a much closer relation between countries, you also are justified to ask about nontrade issues and to discuss and to deal with nontrade issues. There are certain technical nontrade issues that have to be in agreement. We believe intellectual property and competition policy are such issues that have to be included in an agreement.

There are other issues, which are primarily domestic policy, which have to be handled by what we think should be institutionalized consultation and cooperation on a bi-lateral level. In my testimony, I point out that the U.S. and Mexico share a corpus of international legislation and understandings on international labor issues from the Mexican adherence to international labor conventions, and from their adherence and ours to the ILO Tripartite Declaration on Multi-national Corporations.

So there is no need for drafting a new social compact, the social compact exists. We know what the basic international labor rights are. But it is entirely appropriate, in our judgement, that there be set up a mechanism by which we can intensify consultation, cooperation, technical assistance, on those issues which are essentially domestic policy issues, which, as you've rightly pointed out, do have an impact, ultimately, on trade.

Mr. Chairman, there's a question of what happens to the American worker. It's quite clear, Mr. Chairman, as Mr. Dornbusch will point out, that jobs have increased, already, in the United States as a result of the growth of our exports to Mexico. This trend will continue. Yes, there will be some job displacement; there always is. We're talking about job growth, net.

And I heard somebody else say, "Where are these people going to work after they get retrained?" Why is it that the Labor Department has to ease up on restrictions on skilled labor? Because we have a skilled labor shortage in this country. There have been many anecdotes bandied around this room today. These are anecdotes of individual shifts of production to Mexico, and probably to other countries.

The fact is, Mr. Chairman, that I spent a couple of years arguing with the Mexicans about their automotive decree which forced American manufacturers to establish plants in Mexico as part of their autarkic and highly protectionist policy. We got nowhere. And in an FTA, those distorting protectionist devices are going to

have to be eliminated, so that investment and production become rationalized on both sides of the ocean.

And also, Mr. Chairman, I would like to add that this is not a two-country world, not even a three-country world. It's a wide-open world, and if you want to develop American competitiveness in this world, you have to work with your neighbors, provide for economic integration, provide for greater efficiencies in economies of scale and rationalization of production. Only in that way are you going to increase growth and are you going to increase incomes.

And, Mr. Chairman, the example of the European Community is eloquent in this regard. Germany and Portugal are both members of that community. German jobs and German investment did not run away, to use the AFL-CIO's phrase, to Portugal. Jobs increased on both sides and incomes increased, they doubled, on both sides, both Portugal and Germany. This is a win-win situation, and, Mr. Chairman, if we want to assure American competitiveness, American job growth, we will go for the FTA.

Thank you.

[The prepared statement of Abraham Katz follows:]

**STATEMENT OF AMBASSADOR ABRAHAM KATZ
President, U.S. Council for International Business**

April 30, 1991

North American Free Trade Agreement

Introduction

Mr. Chairman and Members of the Committee:

I am Abraham Katz, president of the U.S. Council for International Business. The U.S. Council is the organization that represents American business interests on international economic policy issues at the major international economic institutions, including the GATT, and to the executive and legislative branches of the U.S. Government. As the U.S. member of the International Chamber of Commerce, it consults with the various bodies of the United Nations. It represents business views in the Organization for Economic Cooperation and Development as the U.S. member of the Business and Industry Advisory Committee to that organization. It also performs the same functions in the International Labor Organization as the American affiliate of the International Organization of Employers. In addition, the Council serves as the secretariat and is the leading member of the U.S. Industry Coordinating Group on European Community affairs. Consequently, the U.S. Council has extensive experience of the consequences of trade and investment issues that are particularly relevant to these hearings on the North American Free Trade Area (NAFTA).

Trade, Investment and Economic Growth

Economic integration leads to higher levels of trade and investment which, in turn, produce economic growth. Economic growth leads to higher levels of employment and living standards from which all parties benefit. Trade has been the engine of worldwide growth in the past decade, increasing in real terms at an annual rate of approximately 9% while the growth rate for the world economy has averaged around 3%.

The logic of increased flows of international trade and investment driving increased growth has been demonstrated again and again throughout the world. Economies that pursue open trade and investment succeed; those that oppose it fail. The best examples of success have been the European Community (EC) and the Pacific Rim. The worst failures have been the Eastern Bloc, and until recently, many countries of Latin America.

In the EC, increasing efforts to achieve economic integration have been met with increasing flows of investment and trade, leading to higher growth and better employment opportunities. A NAFTA would be the counterpart to this development in our own hemisphere. Although not going so far as a customs union, let alone a full economic or monetary union, the further economic integration of North America through the elimination of obstacles and distortions to trade and investment will produce economic growth with all its benefits.

Greater integration of the U.S and Mexican economies, from trade in finished goods and from co-production on intermediate

goods will benefit workers in both countries.

While there has been significant testimony thus far regarding the beneficial effect of freer trade and investment with Mexico, there remain those who are unconvinced of these benefits. With that in mind I would like to stress a number of points.

Exports to Mexico Will Enjoy Large Reductions in Trade Barriers

Mexican tariffs are currently 2 to 3 times more on average than U.S. tariffs (10% on U.S. imports into Mexico compared to 4% for Mexican imports into the U.S.) In areas such as computers, automobiles, auto parts, machine tools, and processed foods, Mexican tariffs range from 10 to 20%. Furthermore, those non-tariff barriers which in the past distorted trade and investment at the expense of U.S. interests, will be the main target for elimination by a NAFTA. For example, the Mexican automotive decrees placed stringent requirements on investments and imports which forced U.S. firms to produce in Mexico rather than the U.S. Other restrictions on U.S. exports forced firms to produce in Mexico in order to gain market access.

These types of restrictions, which are rarely discussed, are often more damaging to U.S. exports and employment than simple tariff barriers. There are, for example, various performance requirements--such as local content requirements, job creation requirements, export requirements, and research and development requirements. The U.S. Council is developing a list of these kinds of restrictions and other trade and investment distorting

measures that we recommend that the Administration seek to eliminate through these negotiations.

The Merits of Increased Integration Among Disparate Neighbors

Much has been made of the role of wage rate disparities as the driving force for investment in one country versus another. This view is a serious distortion of what actually happens. If wage rate disparities were the main consideration, Haiti ought to be the industrial capital of the Western Hemisphere.

In fact, investment decisions are based on many factors: availability of adequate transportation, communications, infrastructure, and financial and business services; vendor and client considerations; market access; tax structures; workforce characteristics; and natural resources. The key concern about labor is not wage rates but total labor costs, which involve costs other than wages that are mandated by the government (e.g., health insurance) and the relative productivity of labor.

The European Community provides one example. After enlargement to include Portugal and Spain, there has been an increase in investment in both Northern Europe and Southern Europe based on various economic benefits particular to the different markets. Growth in Portugal, where wages are one sixth of those in Germany, has not been at the expense of Germany. There has been no wholesale movement of production from Germany to Portugal. There has been, however, an increase in wages and employment in both Germany and Portugal, and in France, Britain, and Spain. Greece, which has low wages and high unemployment has

it enjoyed such investment due to deficiencies in various other factors which determine where an investment is made.

In our own hemisphere, the AFL-CIO has previously tried to effect an effort for economic integration between countries at different levels of development. In 1982 the AFL-CIO testified that the Caribbean Basin Initiative would "serve only to further weaken the U.S. industrial base by encouraging new runaways by U.S. industries to the Caribbean region." The result? Since 1986 the U.S. has enjoyed a \$2 billion increase in its net trade position with the region. An increase in net exports is an increase in employment, not a weakening in the industrial base.

In the same way that economic integration spurred trade and investment in the EC and between the U.S. and the Caribbean, trade and investment between Mexico and the U.S. will increase in the wake of a NAFTA. Co-production between countries is part and parcel of economic integration. Global competitive pressures often force the decision between sending components made in the U.S. to Mexico for assembly, or outsourcing the whole product elsewhere. The removal of existing trade barriers between the U.S. and Mexico will save and create U.S. jobs by providing added incentive to maintain production in North America by reinforcing co-production with Mexico.

Addressing Labor and Employment Issues

Based on our members' experience with economic integration, particularly in the European Community and the U.S.-Canada Free Trade Agreement, there are a wide variety of collateral issues,

not necessarily directly related to the lowering of trade barriers that will need to be addressed. Labor and environment have been frequently mentioned, but there are other issues as well including competition policy, intellectual property, subsidization, and a host of other concerns which must be addressed.

Those which directly affect trade and investment flows such as those addressed in the U.S.-Canada FTA should be covered in the NAFTA agreement itself; others--like cooperation on labor and environmental policies and standards--are better dealt with in parallel agreements or bilateral efforts, either in place now or to be established, to consult, cooperate and exchange experiences on collateral issues that will become more pertinent as an outgrowth of NAFTA.

The U.S. Council believes that parallel consultations and cooperation should be undertaken on environmental and labor issues, but that they should not be included in the proposed North American Free Trade Agreement itself.

Thus, the U.S., Mexican, and Canadian governments should increase their cooperation and consultation on issues related to adherence to labor and employment standards. For example, there currently exists a cooperative program between the U.S. Environmental Protection Agency and its counterpart in Mexico, the Department of Urban Development and Ecology (known as SEDUE). A similar program should be established for labor and employment standards. With increased economic integration, Mexico, the

U.S., and Canada have a legitimate interest in understanding and assisting in upgrading their trading partners' respective standards.

Mexico's labor and employment laws, including those on occupational safety and health, are comparable to, if not better than, those in the U.S. for the degree of protection they afford workers. Improved compliance with such standards will occur, in part, as the result of the increased economic growth resulting from the NAFTA--better jobs and working conditions at better wages.

Moreover, experience has shown that U.S. businesses generally take high standards with them wherever they invest and that these practices spread to the local economy. Many U.S. companies, as a matter of corporate policy apply, at minimum, U.S. health and safety standards worldwide. In addition, it is not unusual for U.S. firms to require their suppliers to meet certain employment standards and working conditions.

Finally, there exist international standards that can serve as a frame of reference for bilateral cooperation and consultation. For example, Mexico has ratified 59 ILO conventions, including key conventions on freedom of association, employment discrimination, forced labor, and occupational health and safety. Mexico, Canada, and the U.S. are all signatories to the ILO Constitution and as such are bound to uphold the principles of that Constitution as well as the ILO Tripartite Declaration of Principles concerning Multinational Enterprises

and Social Policy. The Declaration is a voluntary set of guidelines to be applied by ILO member countries to multinational companies investing within their territory. It addresses: employment promotion; equal opportunity; employment security; wages, benefits and conditions of work; health and safety; collective bargaining; and training. The Declaration, which cross-references a large number of ILO Conventions and Recommendations, including those protecting basic human rights, explicitly states that "All parties concerned by this Declaration should respect the sovereign rights of States, obey national laws and regulations, give due consideration to local practices and respect relevant international standards."

The point is that, in a free trade area as economic relations are intensified, it is natural, appropriate, and indeed necessary to enhance consultations on domestic policies that impinge on trade. But in the case of labor and employment standards, not only do we have an advanced body of Mexican labor law, but the two countries also have in common a set of international understandings on this subject which can help form the framework for enhanced consultation and cooperation on a bilateral level. The Declaration and relevant ILO standards can serve as the basis for bilateral or trilateral consultations between Departments of Labor.

Finally, there are a number of business associations in the U.S., Mexico and Canada with ongoing relationships. Bi-lateral consultations and technical cooperation by business organizations

can help raise workplace standards and practices.

Labor Market Adjustment in the Wake of a NAFTA

Adjustments that will follow a NAFTA will not be of the order of magnitude to require any large scale change in existing federal systems for easing the transition of workers from jobs characterized by low-skilled, low-value-added production into higher skilled, higher value-added production jobs. In fact, the adjustments that will follow the liberalization of trade and investment between the three countries are dwarfed by those adjustments currently taking place within domestic markets for domestic and other trade reasons.

The nature of the U.S. workforce is being continually redefined by competitive pressures, demographic changes, changing consumer tastes, mergers and acquisitions, and technological advances which are calling for a better educated workforce and the continual movement from low-skill to higher-skill jobs. Although we can expect that freer trade and investment between the three countries will add to this trend, its contributions will not be in any sense overwhelming.

Existing measures to facilitate labor mobility and to mitigate the cost of adjustment are adequate and are working. Because implementation of NAFTA should be phased in over at least a 10 year period, existing structural adjustment mechanisms like the Jobs Training Partnership Act (JTPA) and the Economic Dislocation and Worker Adjustment Assistance Act within the JTPA, should be adequate to address any adjustment problems resulting

from a NAFTA. Business has supported and will continue to support adequate funding of these programs.

An incorrect, and potentially damaging response would be to establish another type of Trade Adjustment Assistance program. There is no need to experiment again with this mechanism which entails high administrative costs in proving injury due to trade, and which therefore discriminates against workers whose displacement is not due specifically to trade. There is no basis for providing someone who loses a job because of trade with special assistance not available to someone who loses a job as a result of, for example, technological change. There is no useful purpose served by creating different levels and types of benefits which depend upon why a worker loses his or her job due to circumstances beyond his or her control.

Federal programs to assist mobility are necessary and are supported by business. However, we need a broad adjustment policy, not a rifle shot approach.

Conclusion

The business community, especially the U.S. Council for International Business, is very conscious of the fact that every layoff constitutes a very real human cost. But the most important and productive response to that reality is to get that person rehired as soon as possible, and the best way to ensure that is to provide a healthy economic environment characterized by growth and not stagnation. Federal programs to assist labor mobility may be necessary for some workers to obtain new

employment: however it is more important to secure the conditions for new employment: economic growth which stems from increased flows of domestic and international trade and investment.

Chairman WILLIAMS. Thank you, Mr. Katz.

Dr. Dornbusch is a Professor at the Massachusetts Institute of Technology. Doctor, thank you for being with us.

Mr. DORNBUSCH. Thank you very much, Mr. Chairman, for the opportunity to discuss with the committee the economic effects of the proposed Free Trade Agreement with Mexico.

I want to, first, briefly talk about the employment effects, because they are most central to the discussion. It's extremely hard to guess, industry by industry, which particular one will be ahead and which will be behind.

The one focus that is, perhaps, least appropriate is to look at the wage here and there. Of course the wage matters, and the wage is behind a lot of shift of industry, within the U.S. and across borders. But if the wage only mattered, all of world manufacturing would be taking place in China.

Transport costs are not so terrible, otherwise Japan and Korea wouldn't be selling here. So there has got to be something else than wages. Quality, certainly, is one of the issues. U.S. quality is far superior to Mexican, and as a result, Mexicans want to buy our goods. Location is important. Stability is important. All of those assets go into giving U.S. production locations an overwhelming edge. And that's why firms have stayed here despite the fact that there are low wage countries and extremely low wages countries.

One doesn't want to believe that—look at Eastern Europe today. Why is not everybody running to Poland where the wage is 50 cents? Well, they aren't running.

What can we expect in detail? Mexico has very substantial trade restrictions today, even after opening up. I show in my testimony, on page 7, restrictions in the automobile industry, quotas against U.S. imports, in chemicals—a host of industries where free trade agreement, without question, would open up opportunities for the U.S.

It's not a one way street. We do have quota protection, for example, cheap glassware, some agricultural products. There will be displacement here, without any question. But if we look at the range of protection there relative to here, in my judgement, even at the detailed level, substantially, U.S. benefits.

But the chief argument is, surely, what happens to net job creation—sometimes we have to look at that. Net job creation, in the last four years, from trade with Mexico is 140,000 jobs here. There is an arithmetic that is extremely easy: More exports is more jobs, more imports is less jobs, look at the trade balance.

The Institute of Economic Policy that is substantially supported by organized labor, says, "Thirty jobs for every million workers." If I use their numbers—just so I don't make any up—we have, from the shift in trade with Mexico, 140 billion extra jobs.

What lies ahead? What lies ahead is that with a trade agreement, Mexico will regain access to the capital market. Not because there is so much wonderful trade that's going to happen, but because it puts in cement the modernization in Mexico, reasonable stable government, and prosperity around the corner. With access to trade, Mexico can finally import.

I would expect, in the next three, four, or five years, as the trade agreement is negotiated, is approved, is recognized as supporting

opening in Mexico and modernization, at least an extra 150,000 jobs. So in the balance at the micro level, a lot of good jobs in the export industry, with some offset because we will suffer displacement, but net at least 150,000 extra in the next few years. Those extra jobs ought to be the focus of what we can do. And I return to the very critical issue of displacement.

The second point that I wish to make is that the Mexican trade discussions have assumed a proportion that is totally unreasonable. The U.S., today, is wide open. That's where the whole discussion of competitiveness comes from. Mexico is very little new in that context. Maquila programs, the general system of preferences, make the U.S. open to Mexico.

On the trade side, there is very little that we will do, except in very, very specific sectors like cheap household glassware. We have to ask whether the objective of trade policy is to keep those jobs or whether it be to get good jobs and then solve the problem of how to move people.

My next point is to say that we have to ask, occasionally, "What happens if we don't do this?" And my point would be that Mexico, without any question, will have a deep crisis because the whole modernization is put in question. We might say, "Never mind," but, certainly, that will hurt our exports. Those 140,000 jobs we got in the last few years we got from the reconstruction of Mexico. We have to ask whether we might not lose those.

It really isn't free to close our eyes to how a U.S. "no" on trade negotiation would be interpreted in all of those countries that have opened up to our exports. I would note that exports have been the single most important source of U.S. gross in the last three years.

I would add that trade relations with Mexico, along a free trade agreement, will open up, politically and economically, that country. And will, in that way, open the door to all those objectives we have: labor rights, labor standards, environment. Those, certainly, will not flourish in a crisis Mexico. In a crisis Mexico, the wage will go to half, as it did in 1985, to be low enough to jump our hurdles. We will not get rid of Mexico.

I would urge the Congress to focus on three issues in looking at the trade agreement. The first is that the focus should be on a major, major program of adjustment, assistance, and skill-building, and they should hold the administration hostage to getting that. That's what we need in the 1990s to avoid falling real wages.

Stopping Mexico isn't going to solve that problem. Looking at U.S. workers and how to equip them to produce high value added jobs is the only possible way. We cannot close ourselves to the rest of the world.

My second point is that, of course, there needs to be a major transition period that interacts with the skill programs.

And my third is to look at how to get good jobs, because those are the only ones that pay wages of \$14 to \$24 an hour, that we want. We do not want to protect terrible jobs.

I would lastly, and I conclude with that, emphasize that there is a lot of very, very substantial poetic license in the discussion. We were told this morning that there are five to ten million children working in Mexico. The total labor force is 30. It's a bit hard to imagine that a third of the labor force was unaccounted for.

In the testimony of the AFL-CIO, from the first sentence to the last, the Mexican wage went from \$60 to two hours, that's the biggest increase per hour that we have ever seen; in fact, it's near three.

And lastly, we were told by the AFL-CIO that in Europe the adoption of a social charter preceded the formation of the common market. Well, I have here the Community Social Charter which was adopted in December 1989. And programs under it are supposed to be prepared over the next two years.

I would hope that for the record, this brief 11-page charter could be included, because it shows exactly the issues that arise when sovereign countries from very, very different levels of development try to address the critical issue of how to raise people's standard of living.

There is one lesson we have, and that's East Germany. If you legislate prosperity, you have 40 percent unemployment within half a year. We have to be very careful not to go that way, but rather look at opportunities, push hard, politicize, be aggressive, but respect the market a little bit, because otherwise the jobs will go to China, they won't come from Mexico. Thank you, Mr. Chairman.

[The prepared statement of Rudiger Dornbusch follows:]

April 1991

US-MEXICO FREE TRADE: GOOD JOBS AT GOOD WAGES

Rudiger Dornbusch
Massachusetts Institute of Technology

• Free trade with Mexico is in the national interest and far too important to be sunk by ignorance, protectionism or prejudice. Congress should sustain the fast track authority without which a meaningful free trade agreement cannot be achieved.

• Trade policy should create good jobs rather than focusing primarily on the protection of bad jobs. Free trade with Mexico represents a step in the direction of enlarging US export markets. Because the US is already wide open to world competition, and especially to Mexico, further bilateral trade liberalization cannot have dramatic dislocation effects but will on balance create better jobs in the US.

• By fostering confidence in Mexico, an FTA will help mobilize the return of flight capital to Mexico. Availability of financing will allow Mexico to return to growth and to imports. Every extra billion of US exports creates 30,000 jobs in the US. If Mexico moves to a deficit of 2 percent of GNP in the mid-90s that means an extra 150,000 jobs in the US.

• Democracy, workers' rights, safety and environmental standards are obvious issues on the political agenda of modern, open economies. A Free Trade Agreement supports modernization in Mexico and thus nurtures these objectives. It will also help raise wage levels in Mexico, back to their 1980 level and beyond. By contrast, trade restriction here must mean even more poverty there; and with more poverty there will be fewer rights and political radicalism, neither of which is in the American interest.

• It is now very costly to turn back on a free trade agreement. In Mexico the idea of trade opening has become a corner stone of the economic modernization strategy. If we reject the overture we end up with more immigration here and more poverty and destitution there. Turning our back on trade opening means inviting a resurgence of protectionism not only in Mexico but throughout Latin America and beyond.

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*Testimony before the Subcommittee on Labor-Management Relations and Employment Opportunities, Committee on Education and Labor, U.S. House of Representatives, April 30th, 1991

April 1991

US-MEXICO FREE TRADE. GOOD JOBS AT GOOD RATES

Rudiger Dornbusch
Massachusetts Institute of Technology

A free trade agreement with Mexico would represent a significant step in focusing trade policy on creating more and better jobs. Most of the work in improving the standard of living must come from education, skill building and research, but trade policy can contribute by opening and strengthening markets for our export industries. Except in the case of Japan or some Asian countries, increased market access will inevitably require that we also must give in on retaining protection at home. More and better jobs therefore come at the price of more competition for protected industries and they are sure to cause some losses of employment and wage pressure in uncompetitive sectors.

The controversy surrounding the proposed FTA with Mexico is misplaced. Free trade with Mexico cannot be a panacea for all US problems, nor will it create "an economic and social disaster for US workers and their communities" as argued by the AFL-CIO.¹ Any job losses are bad news at a time where real wages are depressed and employment at best stagnant. But these issues must not become an argument for stopping a good move in trade policy. Even if trade liberalization inevitably causes some dislocation, that must not

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¹This view was advanced by Thomas R. Donahue, Secretary-Treasurer, AFL-CIO, before the Senate Finance Committee on February 6th 1991. "The enactment of a free trade agreement with Mexico, as proposed by President Bush, would be an economic and social disaster for U.S. workers and their communities and do little to help the vast majority of Mexican workers."

deseritize us into maintaining the status quo for poor jobs. It is bad trade policy, to keep workers and their children in poor jobs and even pervert protection to the point where we attract immigrants to perform this work. We should not let go of competition. Of course, displaced workers should get adjustment programs, skill building and education to help them get into good jobs.

Labor opposes the FTA because opening in their experience focuses on Japan and developing economies which have participated in successive GATT trade liberalization rounds without such visible effect on their openness, thus creating a sharply biased competition. Labor is right on that score and should urge remedies in our trade relations with Japan. But that has no bearing on the proposed free trade agreement with Mexico. The dramatic effect of opening measures in Mexico on our exports is already amply demonstrated by the experience of the past three years.

TRADE AND EMPLOYMENT EFFECTS

Concerns about the effect of free trade on US jobs focus on the low level of Mexican labor cost. Numbers such as 61 cents an hour are routinely cited. Of course, Mexican labor costs, as shown in Table 1, are far higher than that even if they are low by comparison with the US. Moreover, even with these low labor costs, a move to free trade stands no chance of having major effects on the US economy at large or on manufacturing.

Table 1 The US and Mexico Compared: 1989

	US	Mexico
GNP (Bill. \$US)	5,461	226
Manufacturing	948	50
Population (Mill.)	251	81
Labor Force	124	30
Compensation (\$US/hour) ^a	14.21	2.32

^a1989 Hourly compensation for production workers in manufacturing reported by the US Bureau of Labor Statistics, Report 794.

Puerto Rico with an average wage of \$ 5.70 in manufacturing has not destroyed manufacturing in the continental United States, nor has the free trade agreement with Israel where hourly compensation is half that in the United States.

Employment Effects: Three factors support the assertion that an FTA with Mexico cannot plausibly bring major harm and is very likely to be beneficial. First, Mexico is very small relative to the US. Any significant increase in Mexican exports (measured on the US scale) would increase labor requirements and wages in Mexico dramatically and thereby squash competitiveness.

Second, although Mexican labor costs are low relative to those in the US, these labor costs also reflect a low level of productivity and in some areas such as textiles the very low quality of output. The quality factor especially is a major obstacle to a dramatic development of Mexican exports.

Third, the United States is a very open economy. Competition from abroad is not a threat but a complete reality. Protection continues only in a

few sectors, not across the board in all lines of activity. Moreover, Mexico enjoys already a privileged position both as a result of the GSP and more importantly as a consequence of the maquila program which exempts reimports from US duties except for the Mexican value added component. The combination of factors reduces the extra impact of US trade liberalization to a few sectors and to a total effect that have simply no chance of amounting to much in terms of aggregate employment or output.

The maquila program has been cited as a major source of US job losses in the 1980s and a FTA is interpreted as a vast maquila program. But the fact is that the maquila program is quantitatively small -- less than one third of a percent of US manufacturing GNP and wages there are far higher than is commonly reported.

Table 2 Mexican Labor Compensation in Manufacturing
(\$US per Hour)

	Skilled	Unskilled
Maquila	2.40	1.60
National	2.70	1.80

Source: Survey by Intergamma (a subsidiary of Hewitt Associates)

Table 3 shows the developments of US-Mexican nonoil trade since 1986 and the employment implications. The swing in our net exports is \$1.816 billion. A rough rule of thumb (developed by the Economic Policy Institute) translates an extra \$1 million net exports into 10 new jobs. With this benchmark the swing in our trade balance with Mexico since 1986 means 181,600 extra jobs in the United States. Without the Mexican trade opening and

recovery (and whatever caused Mexico to shift to a deficit) we could have today 1-3110 less jobs

Table 3 US Monnet Trade With Mexico and US Job Creation
(Billion US\$)

	US Exports	US Monnet Imports	Net Monnet Trade Balance
1986	12.191	14.040	-1.849
1990	28.275	25.206	3.069

Net US Job Creation 1986-90
30 Jobs per \$1 Bill 23 Jobs per \$1 Billion
164,932 120,420

Note: 30 jobs per \$1 billion exports is the number used by the Economic Policy Institute.

This demonstration runs a bit counter to the folklore that Mexico is cutting our throat. Note that if one used a different benchmark, say 23 jobs per \$1 billion exports we would have less job creation but still an impressive 120,420 extra jobs.

The focus on the Monnet trade balance is appropriate because the trend in the bilateral balance is the chief determinant of US job creation. To the extent that a FTA reinforces confidence in Mexico's modernization, as it already has started doing, foreign capital will return to Mexico and foreign direct investment will grow. The availability of external capital until now has been a severe constraint on growth and an investment in Mexico.

High international confidence by a FTA. Flow of capital will largely substitute as a serious problem and Mexico will reduce trade deficits as appropriate for developing countries. Because the United States is Mexico's

chief supplier. Mexican growth and deficits become a source of increases in US employment. Assuming that Mexico runs a trade deficit of 2 percent of GNP, US job creation over the next 3 years could be as high as 130,000. Even larger numbers are quite possible because a FTA gives us privileged access.

Sectoral Effects: A FTA will create more and better jobs, but in the process of doing so, some jobs are almost certain to be lost. The accompanying Table reports the key sectors where employment impacts can be expected.

Table 4 Sectors With Significant Remaining Trade Barriers

	US Employment (1,000s)	Hourly Compens.	High Trade Barriers ^a US	Mexico
Agriculture	n.a.	n.a.	70. *	110. *
Automotive Products	592	21.51	-	-
Cement	20	n.a.	-	100.
Chemicals	835	18.19	-	150. *
Energy Products	275	21.26	-	-
Electronic Equipment	2,000	10.51	20	160. *
Glass Products	143	14.52	220	200
Machinery and Equipment	110	15.33	30	10-200
Steel Mill Products	277	23.49	3.5-110	10-150
Textiles and Apparel	1,418	9.75	60. *	12-250 *

^aFigures report average tariff rates where these are high and an * stands for some form of nontariff barrier

Source: USITC Publication 2253 and US Bureau of Labor Statistics data and author's estimates

The table shows that Mexico still has significant protection in key areas where the United States can as a result expect to score export growth. This includes specifically electronic equipment, automotive products, steel and textiles. Textiles in fact are a key example of an industry that has already demonstrated its ability to compete very effectively in Mexico. In

1989, and more so in 1990, the United States ran a bilateral trade surplus with Mexico in textiles and apparel. The key to understanding this is to look at quality, not only at wages. In the quality perspective, the US is to Mexico, what Japan is to the US.

Since the United States does continue to protect certain sectors with high duties and nontariff barriers, a FTA would open these areas to Mexican competition. Interestingly, the USITC identifies only horticulture and inexpensive household glass products as the areas where significant import increases must be expected. The explanation, once more, is that the United States is already substantially open to competition from low cost countries and even more so to Mexico. In automobiles, for example, the maquila program offers Mexico the opportunity to compete in the US.

To the extent that import increases can be expected in an area such as apparel, part of the extra imports will mostly displace sales by low cost producers in Asia. In part it will also reflect the result of US textile exports to Mexico which raises the quality of Mexican apparel to the levels required for the US market.

The upshot of this discussion is that trade liberalization will give rise to increased imports, but that there is no plausible alarm scenario. Moreover, going beyond the particular loss of sensitive industries, trade creation induced by the FTA will produce new products. It will not primarily be bad jobs or jobs that, in any event, are under threat from world competition.

Foreign Investment in Mexico Investment in Mexico by Asian or European firms should not be considered an unqualified disadvantage of a FTA. Clearly, such

investment will be motivated to a large extent by the desire to build up an export base to the US market and as such seems threatening. But for the most part the goods come anyway, whether it be from Thailand or from Korea and Japan.

The penetration of our market by imports from Asia is already a fact, the only question is whether, at the margin, shifting the production from Asia to Mexico is in our interest. And here the answer is clearly yes. Mexican workers spend a far larger share of their income on our goods and hence we have an interest in their having good jobs at good wages.

It is understood, of course, that import content provisions would apply. Location of Asian plants in Mexico cannot simply be a means of circumventing US trade restrictions by performing negligible assembly tasks in Mexico. The experience in Europe with certificates of origin demonstrates that while administratively cumbersome, it is by no means overwhelming.

The argument used for Asian producers goes in the same way for US firms. Co-production with Mexican labor is far better, from the point of view of US labor, than losing an entire operation to Asia or other locations. In many industries it is today totally implausible to produce goods fully with labor priced at the US level; foreign production is far too cost competitive. Co-production with Mexico represents by a wide margin the lesser of the two evils. In fact, the cost reducing effects may well be important enough to allow higher US wages and, at the same time, increased US competitiveness at home and abroad.

PROGRESS IN MEXICO

Democracy, workers' rights, safety and environmental standards are obvious issues on the political agenda of modern, open economies. A Free Trade Agreement supports modernization in Mexico and thus nurtures these objectives. It will also help raise wage levels in Mexico, back to their 1980 level and beyond. By contrast, trade restriction here must mean even more poverty there, poverty in turn fosters political radicalism, which is not in the American interest.

If we are seriously concerned about the standard of living in Mexico, and about democratization, we cannot escape the recognition that a thriving, open market economy will raise wages, create individual freedom, decentralize political power and allow people to organize around local issues. If Mexico prospers, it will in a far better position to take up costly but urgent measures on safety standards at the work place and the environment.

Work standards and environment standards can obviously not become part of a free trade agreement, even in Europe where political integration is the object, social harmonization is on the political agenda, not an object of the 1992 regulations. But it is altogether plausible to foster crossborder union dialogue on the issue of safety standards. There is also an urgent need in reinforcing regional and North American environmental policies. This should be handled separately from the FTA discussion, but at the same time. Agreements might be expected to phase in stricter Mexican standards by requiring new plants to abide by US environment standards, while existing plants might have 12 years to adjust.

In discussing standards abroad we must not be tempted to make Mexican producers uncompetitive. The object is to spread prosperity at an affordable pace. It will take a long time before Mexico will look like the United States, but we can start making some headway.

REGIONAL CONCERNS

If Mexico prospers, Central America will benefit. Mexican authorities already have started taking an active hand in the economic stabilization of Central America and much more can be expected. The United States shares in this stabilization: enhanced political stability and security in the region and reduced pressure of immigration are clearly in the national interest.

The example of Europe deserves far more attention in our design of trade policy. The core countries of the Common Market have systematically reached out to the periphery to spread prosperity and stability. Bringing Spain, Greece or Portugal into the Common Market is no different from a FTA with Mexico. And the discussion now with Eastern Europe serves much the same purpose. Unless the periphery has trade access there will be no investment. Without investment, jobs will be poor and the pressure for migration enormous.

Mexico is recognizing these realities on her own border in the South, responding to the dramatic decline in living standards in Central America, notably in Nicaragua. Mexico has now started filling the leadership vacuum, helping stabilize the region. A rising tide raises all ships; a prosperous Mexico will be a powerful shock absorber for us and a great help in

nurturing economic stability and prosperity in a region that is too close to neglect but, except for communist threats, too small to draw much of our attention.

NO GOING BACK NOW

At this stage it has become very expensive to turn back on a free trade agreement. In Mexico, the idea of trade opening has become a corner stone of the economic modernization strategy. The United States has every interest in Mexico's demonstration that with sensible policies all of Latin America can return to prosperity.

In the postwar period the United States has invariably favored an open world economy. Successive GATT rounds have opened markets, at least across the Atlantic. In Europe, on a parallel track to GATT, the Common Market has pursued an aggressive project of regional integration with unquestioned benefits. The United States has so far done little to exploit the parallel track. Free trade with Mexico offers an important market opening for the 1990s and beyond. The focus must shift from seeing trade as a threat to viewing it as an opportunity for jobs and profits.

Today the United States faces an unusual opportunity to implement an outward looking trade policy with Mexico. Looking for modernization as the way out of a difficult economic situation, Mexico today is open to far reaching trade reform. If we miss this opportunity we are bound to fail building an important Western Hemisphere trade and investment block in the 1990s.

Turning our back on trade opening means inviting a resurgence of protectionism not only in Mexico but throughout Latin America and beyond. Going back on the FTA with Mexico would send signals to the world economy far worse than the recent failure of the Uruguay Round.

APPENDIX

Table A-1 US and Mexican Hourly Compensation in Manufacturing
(\$US per Hour and Index US=100)

	US	Mexico	Ratio
1979-82	10.33	2.91	0.28
1983-86	12.70	1.86	0.15
1987	13.36	1.57	0.12
1988	13.65	1.99	0.14
1989	14.31	2.32	0.16

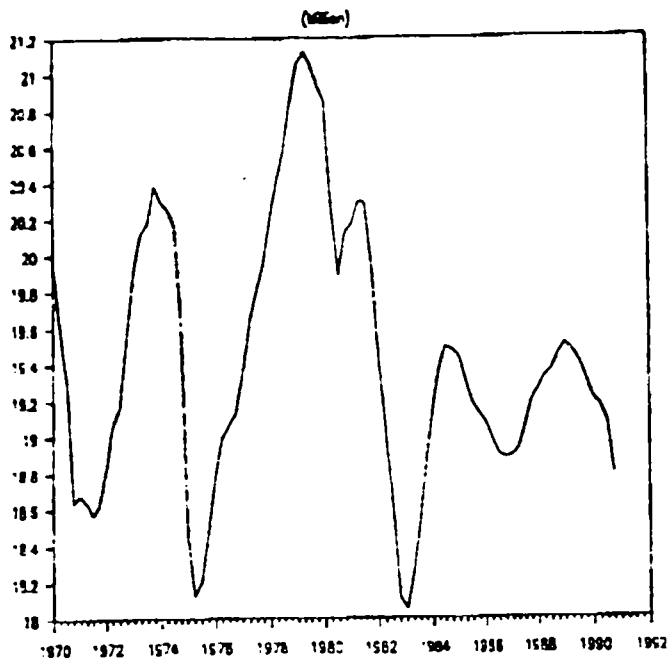
Source: US Bureau of Labor Statistics

Table A-2 Hourly Compensation in Manufacturing
(\$US per hour)

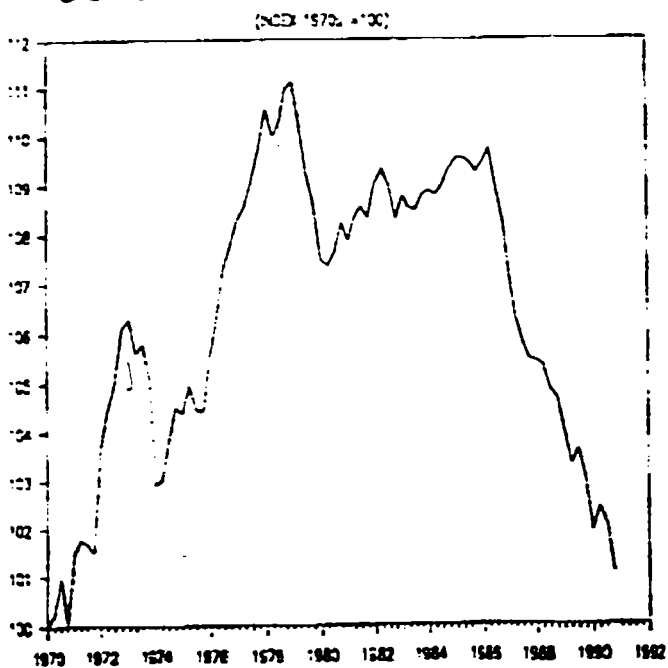
	1980	1989
US	9.84	14.31
Canada	8.17	14.72
Mexico	1.96	2.32
Israel	3.79	7.69
Germany	12.35	17.55
Spain	5.96	9.10
Greece	3.75	5.48
Portugal	2.06	2.77

Source: US Bureau of Labor Statistics, Sept. 1990

EMPLOYMENT IN MANUFACTURING



REAL HOURLY EARNINGS IN MANUFACTURING



Chairman WILLIAMS. Thank you, Professor. You made several suggestions for the Congress and for the administration with regard to these upcoming negotiations, and at least with regard to your first suggestion, you recommended that the Congress hold the administration hostage. How would you suggest that we do that? We, too, would like to have our influence felt in these negotiations, and that's part of what we're hearing today. If we're going to have Fast Track, tell me how we're going to hold them hostage.

Mr. DORNBUSCH. Well, I would like to make a proposal that you will adopt any trade agreement they negotiate if there's one percent of GNP devoted to labor skill programs. That is a lot of money, and we have budget problems and we have terrible problems, but our worst problem is the falling real wage for lack of a serious labor market problem.

Chairman WILLIAMS. What mechanism do you suggest that Congress use, legislatively, to require that?

Mr. DORNBUSCH. I would think that the first mechanism is to hold a hearing on European labor market skill and adjustment programs, and ask what is culturally, what is economically a reasonable American adaptation. And that way we could start discussing things.

Chairman WILLIAMS. You're talking to a Congress that asked President Bush what he would do if we voted against the use of arms in the Middle East, and his answer was, "Ignore you and go ahead anyhow." Now you're suggesting that hearings might hold him hostage on trade negotiations?

Mr. DORNBUSCH. I do not believe that hearings would, but I'm impressed with the total lack of any discussion of skill-building programs anywhere in the context of a trade discussion or labor market discussion. In the advanced countries of Europe, it is recognized that the only way you can have high wages is by having flexibility.

Flexibility means that some people have to move from one job to the other, and that means skill retraining. Unless we look that way, we will have more and more of a falling wage because we do not have exclusive recipes for goods and we're unwilling to keep firms hostage. The only way the U.S. will solve the problem is by going straight to the labor market and working on the people, not by stopping the firms from running away.

Chairman WILLIAMS. I'll reserve the balance of my time.

Mrs. Roukema?

Mrs. ROUKEMA. I want to be helpful to those who are testifying here on behalf of this proposal and, certainly, those who reflect my concerns about a healthy business climate. But I must say that I had hoped that you would give, with a little more specificity, some substantiation for the assertion both of you have made, that this will result in good jobs and more business and better jobs.

I'm going to give you an opportunity to speak at greater length on that and maybe give me some specificity. And let me say, without naming the company, I will tell you that we have one company, for example, in New Jersey, a major company, who has already announced a shift, with or without the free trade position, of manufacturing facilities from New Jersey to Mexico, a major shift, thousands and thousands of jobs being lost.

How do you address that subject? How does this Free Trade Agreement address that subject to my constituents? And the greater concern is that we never hear where those new jobs are. We only see the flow outward. We don't see where the new jobs are coming from. Are we only going to be a service economy, or is there—for example, in answer to the Northeast problems, how do we substitute, where are those good jobs in manufacturing?

Mr. KATZ. Well, Madam Congresswoman, my understanding is that the latest statistics show that, first of all, manufacturing is at the historically highest position in the GNP for many years, about 23 percent. And manufacturing employment has kept pace, there's been no appreciable shift in manufacturing employment.

Now, obviously, there's been a shift within those broad categories. Some of the old traditional jobs have gone to other countries, not only Mexico—

Mrs. ROUKEMA. No. That's correct.

Mr. KATZ. Many jobs go to the Far East, many labor component jobs go to the Far East, some go elsewhere. But, obviously, that frees resources to enable this very dynamic economy to go into new high-tech areas, to go into the more productive manufacturing areas. Now that's manufacturing.

When you say "only services," I think Commissioner Norwood has demonstrated that this "only services" concept does not mean lowly jobs. It does not mean McDonald hamburgers, it means jobs in the financial services area and the like, which are extremely high paying and better than some of the unpleasant jobs in the more traditional manufacturing areas.

That being the case, the overall statistics are still very positive. And with all due respect to my fellow panel member, our unemployment is 6.8 percent right now; it's high because of cyclical factors. Europe has been hovering around 9 percent unemployment, and there are some great variations between countries in the European Community. But it's curious that the more intervention in labor legislation, the more the government has fiddled with the labor market the lower employment has been and there are institutional impediments to job creation, which the Europeans, themselves, recognize, and they realize that they need a more flexible labor market along the lines that we have in this country.

But I think Mr. Dornbusch has really put his finger on the need for increasing job training and education. First of all, that's basic education for job training. And I think that the Job Training Partnership Act has shown that it is a cost-effective method. Whether it has enough resources or not is something, I think, a legitimate role for this committee to explore.

Mrs. ROUKEMA. Mr. Chairman, I wonder if we might have a little more time here to ask—I appreciate that, Mr. Katz—but have Dr. Dornbusch expand a little bit on, specifically, where are these 150,000 jobs that you predict to be open in the next three years coming about? In what sectors?

Mr. DORNBUSCH. There are two ways of going about the job thing; one is firm by firm, and we'll never find the whole story. The other is to say, looking at net jobs, what can be said. And if I look at the last four years, we have a swing in our trade balance

with Mexico from -1.6 billion to +3.2. So we run a surplus with Mexico; we are not sellers of goods to them.

That swing of almost 5 billion has created jobs. We can argue whether it's a 120,000 or 150,000—and I'm not going to defend either of them—some number in there. The Economic Policy Institute's number would be 150,000. I'm willing to say 120,000. So they are there, somewhere.

Now, I have a hard time finding each of them. I can look at the highlights of foreign trade where we have detailed trade statistics with Mexico, very disaggregated. And each item is sort of up, and they're unexcitingly up, most of them, but there's 290 that are up.

So I can't give you a list of 290 things, because you and I both would be bored. But I make this one point, you cannot talk about U.S.-Mexico trade without recognizing that we have gotten well above 100,000 jobs out of that business in the last few years. Textiles, for example, is one of the stories.

Textiles and apparel, we have a sharp improvement of our trade with Mexico. We run a surplus in textiles and apparel with Mexico. People keep saying it's a disaster for the textile industry. No, it's wonderful. The textile industry is selling textiles to Mexico because their textiles are terrible. When they get into the sun they bleach; when they get into the rain, they fall apart. People buy our textiles to make their garments, some of which come here, but with a surplus because the Mexicans, themselves, also want to buy garments made with American textiles.

Cooling equipment for plants—Massachusetts firms said, "We haven't looked at the Mexican market for six years, because who can sell there?" We just opened an office and we're going to be selling a lot. Environmental improvement equipment—well Mexico has a lot of environmental problems. We have the technology; we'll be selling the equipment.

Even automobiles will sell because they have a quota. But there is 1 million people in automobiles and 124 million in the American labor force, so automobiles cannot be the ultimate test of America. But even those will do well because they have quotas now, and the Mexicans want to buy American cars. Maybe not in 20 years, but at the front end, a lot of cars we will sell as they buy from us.

So there is a list of things, including, for example, microchips. A Massachusetts firm just sent a salesman to Mexico because they're getting normal, a market starts. I expect well over 100,000 jobs in the next few years, as Mexico grows. The internal market in Mexico has been starved of goods and of investment, capital goods, Caterpillar, those things will sell a lot.

Were is the idea that America cannot produce? What we need is markets. There is one. Now we can do two things. We can say, "Let's help them a little bit so they really get prosperous," or, "let's try and see what happens if we pull the rug out from under them." With the debt crisis we did that second one. We said, "Let's see what happens when a country really gets poor." Well, we lost a lot of jobs in that.

Why not go the other direction when the balance is so clearly in one direction? So that would be my argument.

Mrs. ROUKEMA. Thank you Mr. Katz and Dr. Dornbusch.

Chairman WILLIAMS. Thank you.

Mr. Hayes, any questions for the panel?

Mr. HAYES. Thank you, Mr. Chairman. It's often been said that a fool will rush in where angels fear to tread. I guess I'll play the role of the fool, because I think our positions are so far apart, as far apart as the two poles.

I talked to a producer—not just me, but some of us from Congress, last week—and he said of automobiles, "If our current trend continues, if we continue to have to play on an unlevel playing field when it comes to producing cars, by the beginning of the next century, you will hardly find an automobile produced here in the United States." Those are jobs of people that will be gone.

Now you, Mr. Katz, on page 9 of your statement, you suggested a 10-year phase-in of the National Association of Free Trade Agreement. Do you support—you mentioned JPTA, Joint Partnership Training Act—do you support increased funding for that organization of that phase of our program, for the dislocated worker program, given that it currently serves only 10 percent of those in need? Do you think we ought to expand upon that?

Mr. KATZ. Mr. Hayes, it's not only I, but the business community supports that Act. Whether it needs increased funding, at this point, I'm not prepared to assert, but I certainly think that if there is need for adjustment assistance the business community will support it. This program has proven its cost-effectiveness. It has placed, I believe, 700,000 workers, and its rate of success is a lot higher, for example, than the far more expensive Trade Adjustment Assistance Act, which had only a 40 percent success rate.

Now, in the case of Mexico, as Mr. Dornbusch has pointed out, we're going to have an adjustment period of about 10 years, but that remains to be negotiated. We'll probably also have a surge control mechanism, some sort of escape clause, safeguard clause. And I think in the course of this period, the Congress and this committee, notably, can make some judgement as to whether there's a greater need for adjustment assistance—and I'm not talking about trade adjustment assistance, I'm talking about the kind of adjustment assistance that does not discriminate between or among workers, that feels that a worker fired for whatever reason due to structural change, whether it's technology change or market shift, is entitled to assistance and to retraining.

If this Congress, and this committee in particular, feel that there's a greater need, it should say so. I'm not sure I'm willing to join the Professor in holding any hostages, but I still—you know hostage taking is a pretty risky business—and I wouldn't put a number on it. I'm not prepared to say what the number is. But I can assure you that you will have the business community's support if, in fact, this agreement turns out to require greater adjustment assistance.

But my guess is—and it's more than a guess, it's almost a certainty based on all the weight of historical experience—that with increased trade, we're going to get more jobs, not less jobs. And we're going to have job shortages and skill shortages in this country, as we have today.

Mr. HAYES. Who is going to be able to buy what we produce or what's produced elsewhere? Do you realize that the garment industry that used to be very prevalent in the northeastern part of this

country is no longer existent. You can hardly buy a pair of shoes that are made in the U.S.

Your figures that you throw out, in terms of number of unemployed, I think, are very wrong, because a lot of people are no longer counted because they've been unemployed so long that they've lost their unemployment compensation. We know that.

What are these people going to be able to buy with no income or less income?

Mr. KATZ. Well, let me just say that incomes and wages in this country have increased, but that, inevitably, as your economy grows and participates in the world economy, there are going to be adjustments.

It's been some time since I studied the shoe industry, as Assistant Secretary of Commerce, but we predicted the complete end of the shoe industry, and we gave temporary protection to the shoe industry, which was finally phased out. What happened was a great deal of specialization in the shoe industry.

When I left the Commerce Department, we were exporting high quality men's shoes to Europe. We also make work shoes for the American working man, that nobody can touch. And we make other specialty items. In the meantime, we import—that means more jobs in the shoe industry—and we import those items that we have a less comparative advantage.

Mr. Hayes and Mr. Chairman, if you want to stop the world and get off, that is exactly what the AFL-CIO recommended when it said, "No more Fast Track for either the Mexican Trade Agreement or the Uruguay round. We want out." And, therefore, in the face of this ineluctable evidence, what that means is not that they're worried about jobs or job creation, they're worried about certain jobs and certain members. But they are sports in this world.

When I deal with the Australian trade unions in the ILO, they learned the lesson of protectionism in the automobile industry. Now a labor government is liberalizing trade and eliminating subsidies and realizing that there's only one way to go, and that's the market way.

Mr. HAYES. Mr. Chairman, my time has expired.

Chairman WILLIAMS. The gentleman's time has expired.

Mr. Fawell?

Mr. FAWELL. Thank you, Mr. Chairman. I happen to agree with your views very much, but this morning, I briefly commented on the fact that what we're basically involved with here is talking about a procedure. I guess, theoretically, approaching it as an attorney, I would say we're talking about how does one draw and prepare a treaty or international agreement, which is a lot different than what Congress normally deals with.

We're talking about preparing ultimate legislation to come before this Congress. And to make an analogy with legislation that normally comes before us, Congress is not, as a body, usually involved in preparing that. Individual members of Congress, obviously, do it, and come at it from many different sources.

So for Congress to say here, that it wants to be involved or have more say—so, I gather, in the negotiation process—though I know that's not the chairman's viewpoint. The chairman, I think, does

not take that view—but when you talk about all of these substantive issues, you're mixing a discussion in reference to procedure, and, the many, varied, myriad numbers of substantive issues which will come before us depending on what kind of a bill, is negotiated by our national negotiator, who is the President and who, obviously, was elected by all of people when we were not.

And when we talk about international, intercountry laws, it doesn't seem to me that, as much as all of us have some feelings about being not as much a part of the process, I don't know how it can be otherwise done. The Fast Track, I guess, that I would be more concerned about—and I think the chairman has indicated this—is once the bill finally does come before us. At that point maybe labor won't have all of these fears they have, or maybe North Carolina won't have as many fears as it has, as we all engage in an educational process. But at that particular time, there is a Fast Track there, and our deadlines—under which Congress really functions best, I think, and Congress cannot say, "No, we'll deep-six this. You've got to present it," and we don't have amendments that we can present.

I mentioned this morning, not facetiously, that we, in the minority, are somewhat used to that because, even with the deficit reduction agreement we really could not present—it was up or down on something that was amalgamated and brought together by leadership on both sides of the aisle.

So I guess my question to you—and other nations must debate this point—is there any other way, under the circumstances, of doing this? I can't see where there is. And it seems to me that we're debating substantive issues prematurely. Any good negotiator, certainly, is going to want to know how those for whom he is negotiating feel—he would be dumb not to because he's going to have to satisfy Congress eventually. He knows that. And he's just cutting off his nose to spite his face if he doesn't take into consideration the concerns, the substantive possible concerns we have.

I don't know of any other process to get there from here, do you?

Mr. KARZ. No, Mr. Fawell. I don't want to sound as if I'm lecturing on the way the trade policy mechanism works, but the fact is that there are a number of ways for Congress to get involved. One is to help set the negotiating objectives for this negotiation. That's one of the things we try to contribute in our testimony. And I would say that we also have given suggestions on what should be in the action plan to the USTR, to the Labor Department, to the Environmental Protection Agency. Our committees have worked those issues.

And we have some very specific proposals of how to handle these legitimate concerns. So in setting the negotiating objectives, there is a legitimate role for Congress and also—and that's been done in all previous trade negotiations, by the way—and also a role for consultation between the Congress and the Executive Branch, as to what's acceptable to negotiate, because the Executive Branch knows what is not sellable and what is against public policy as far as the Executive Branch is concerned.

Having set the negotiating objectives, you don't, if you're a good trade negotiator, your sensitive executive branch leave it alone and wait until the end of the period, then wait for the results to come

back. You're consulting all the time. That's why my namesake is based in Washington. In Geneva, we have a negotiator in Geneva. And Jules is over here, and he's on the Hill a good part of the time, and so is Carla Hills. And so there will be other parts of the government on the Hill consulting, taking the temperature, seeing what sells.

Ultimately, this is a very, very sensitive process in which there is a political calculus about what sort of trade-offs there are in the Congress, in the body politic, and what is negotiable overseas. And then, the final result is put together for an up or down vote.

That is the procedure. It's very complex, it's very sensitive. If it's not well-tuned and if it's not well-handled, the administration will fall on its face. We, the business community, have not committed ourselves to approving this negotiation until we see the results.

They have to satisfy us within the business community, we are not monolithically united on this. The pharmaceutical industry has one thing; the automobile industry has another; the textile industry has another. All of those issues are going to have to be worked out in this consultative process before they come to the Congress with a vote.

Now, if you want to do it another way, you end up saying, "Go negotiate. Play in the traffic, children." You will come back and then 535 amendments will be put in. Those amendments will then be subject to the same sort of logrolling procedure that produced Smoot-Hawley.

Mr. FAWELL. Thank you.

Chairman WILLIAMS. Let me reclaim the small amount of balance of my time that I had. And one thing I want to do, Mr. Katz, is assure you something that I know you know now from having patiently, along with your colleagues, sat through this hearing, and that is that the members of this panel don't want to stop the world and get off.

We're not for Smoot-Hawley. I think that was a mistake supported by industrialists as well as Congress in the United States. And we don't want to make that mistake again. I wouldn't want to create a situation where we had 535 amendments to the agreement.

I do think, in going through your testimony, that you have created, I guess under the term "conditionality," some things that you would request of the administration. I agree with many of them. There has been some thought by some of us of allowing the "Fast Track" to go ahead, and then passing some sense of Congress resolutions guiding the administration. That would be our mechanism of conditionality.

And then creating a legislative situation when the agreement returns to us, which provides a rule which allows for given amendments on matters such as those you've exercised under conditionality. And allow those two or three or half a dozen amendments to be offered on the floor, to the agreement.

Otherwise, we're concerned that conditionalities, such as those that you and Professor Dornbusch have suggested, will simply be ignored by the administration. And the Congress, the legislative body of the United States, the most important legislative body in

the world, would simply have no authority to try to enforce its conditionality.

What about that kind of a mechanism? Fast Track would go ahead, but we would try to capture and enforce the conditionality in a very limited way at the end of the process.

Mr. KATZ. Mr. Chairman, I'm convinced that four or five amendments, as your colleague Mr. Levin has proposed—I have seen the draft resolution, I don't know if its been submitted yet, can gut an agreement as effectively as 535 and can make it unacceptable to the other side. And I don't think I have to coach legislators on how to do it if they were of such a mind.

And therefore, I think one should rely much more heavily on the fact that Congress must approve this operation. And the fear that the Executive Branch is going to ignore Congress on the broad lines of the agreement, on the overall package, I think, is just not demonstrated or supported by the facts of previous trade negotiations.

It may be that this committee was not very much involved in them, but there are a lot of interests involved in some of the multilateral trade negotiations. And I was on the periphery of a number of those in the Commerce Department. And I know that Bob Strauss and his predecessors were working the Hill all the time, and not only the Hill but the industry sectors, and the labor unions and the farm vote to see what was sellable and what was not.

And if that's not done, the administration will fall on its face. They might even risk not only AFL-CIO disapproval, conceivably even business community disapproval. Or, let me put it this way, not only disapproval, there's something more destructive than that, lethargy, saying, "Well, that's not a good agreement," and therefore major sectors of business might not work for the agreement. That too, will spell the end of the agreement.

It's not just the question of submitting something and everybody snapping to and saluting. They have to get the enthusiastic support of a good part of the body politic and also of yourselves especially, because that's where the buck stops, with the votes on the Hill for the overall package. So it's a process that demands constant consultation about how we're doing.

And when they go out to negotiate this institutionalized mechanism on international labor standards with Mexico, which we recommend, which Mexico already adheres to, it seems to me that they ought to be coming back to you and consulting about that, you know, "is this mechanism adequate?" They're going to have to discuss with you the conversations that they're having with the Mexican authorities and how effective is it going to be. Is it just going to be blah-blah, or is something going to happen?

Now, I know that that's what the—by the way, I have not seen the action plan. But the action plan, in order to convince you, is going to have to be credible that that's what they want to do.

Chairman WILLIAMS. Well, thank you. I appreciate, as do the other members of the committee, the good counsel of both of you and your compatriots. We appreciate your patience in waiting to be the final panel.

This hearing is adjourned.

[Whereupon, at 1:35 p.m., the subcommittees were adjourned, subject to the call of the Chair.]

[Additional material submitted for the record follows.]

STATEMENT OF HON. DONALD M. PAYNE, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF NEW JERSEY

Mr. Chairman, let me commend you for calling this hearing on the implications for workers for the fast track process and the Mexican free trade agreement.

Both large United States businesses and United States labor groups have valid arguments for and against this new trade initiative.

Large businesses could benefit from more open trade and investment opportunities, principally by benefiting from the relatively lower Mexican wage. Additionally, Mexico hopes to attract increased foreign capital and to gain greater access to the United States market for Mexican products.

However, labor groups have voiced strong opposition to a free-trade agreement. They believe that low-cost imports from Mexico will lead to lower wage and severe job loss in the United States. Moreover, they assert that difference in labor standards, and safety and environmental rules and enforcement would give unfair advantages to Mexican producers.

Mr. Chairman, indeed this is an important issue and each side makes some valid points. I look forward to hearing the testimony of the witnesses and I hope they can provide us with some additional insight into the issue.

