Photo by Ginette Riquelme.

An employee of Mexico City's Department of Labor takes information to help a recently returned deportee find a job.

Finally, Amalia García and Harley Shaiken closed the session reflecting on two programs that offer ideas about pathways that might address the deeper structural issues and social dynamics under discussion. García looked at the Mexico City public policy geared towards migrants called "diversity and cultural recognition." Under this law, non-Mexican migrants are considered "guests." For example, three times a week 135 deported migrants are flown from the U.S. to Mexico City. While they take off in handcuffs and leg chains, they are released before landing and are received at the airport by city workers offering aid. They are given six months of unemployment insurance, training, certification, and job-search assistance. This approach is a matter of both dignity as well as security, since having access to a job and basic security make crime a considerably less attractive alternative.

Harley Shaiken addressed programs in Medellín, Colombia, that directly spoke to the issues of education and jobs. Shaiken noted that at its peak, the city "had the astronomical murder rate of 370 per 100,000." Under the leadership of then-Mayor Sergio Fajardo, the city administration concentrated on three things: "education, building civil society, and jobs." In part, these social programs helped lower the murder rate to fewer than 60 per 100,000. Like the program García discussed, the approach in Colombia can "prevent young people from being sucked into criminal activity" and violence by investing in civil society and public works infrastructure at the neighborhood level. This type of investment might address the most important underlying causes of violence and migration in the region.

On the Table: NAFTA, Wages, and Development

Harley Shaiken opened the concluding session by framing the discussion of NAFTA within the context of the 2016 U.S. presidential election. NAFTA was "a critical issue" in the election, he noted, and "the decision of the Trump administration to re-open it in the current context has created a lot of controversy."

Gordon Hanson began by summarizing the main economic and development challenges faced by the United States and Mexico. For the U.S., it is "wage stagnation for the bottom 50 percent of wage earners in the United States," a trend Hanson dated to around 1980. He explained that the U.S. experienced "a spectacular century" from 1870-1970, growing at an average annual rate of greater than 3 percent. "In the 1970s," Hanson continued, "things changed for a complicated set of reasons." He pointed to the growth in productivity driven by innovation as the key factor that "started to sputter" in the early 1970s. Since then, Hanson explained, the U.S. has not been able to recover the previous rate of productivity growth. "Compounding this," he stated, "after 1980 … the fraction of income, growing at a slower rate, going to the bottom 90 percent of income earners was getting ever smaller." Hanson reviewed reasons identified by economists: "Technological change — automation in particular — globalization, including NAFTA in various manifestations, changes in the mobility of workers … that we've kept minimum wages low and the fact that unions play a smaller role in the American labor force all matter."

For Mexico, he identified income distribution as one area in which Mexico had gradually improved in recent decades. Hanson instead emphasized "the absence of productivity growth" as the cause behind "Mexico's slow growth episode" in that time. Indeed, in a comparison Hanson published nearly a decade ago, Mexico was "the worst-performing country" with the exception of Venezuela. At least Mexico has become a "stable place that's not growing very fast," having "gotten rid of the currency crises, the financial crises that plagued the country from the 1970s until the middle 1990s." Mexico has the challenge of "the missing middle" Hanson explained. "They don't have productive middle-sized firms that are the typical source of innovation and productivity growth in most market-based economies." This problem has actually gotten worse as Mexico has modernized because development has tended towards "a completely segmented economy." As a result, small firms in Mexico are generally trapped in the informal sector, don't pay the Value Added Tax (which was made crucial after a recent tax law reform) and are thus legally excluded from NAFTA trade and the production chains and income that it generates.

In this overall context, Hanson evaluates NAFTA as "disappointing." For the United States, it was unrealistic to expect a dramatic impact from the trade agreement, Hanson argued, because "at the time the U.S. signed NAFTA, the size of Mexico's economy was equivalent to that of Ohio." It did, however, "help make the U.S. auto industry more globally competitive," as well as benefit parts of the aerospace, medical device, and electronics industries. For Hanson, "it's hard to imagine that NAFTA has the potential to do much for the U.S. in confronting this challenge of … middle-income workers," as "NAFTA is still primarily about manufacturing when it comes to employment," and that sector now only employs 9 percent of the U.S. labor force.

For Mexico, "NAFTA has been much more significant," Hanson said. Still, the agreement has not lived up to the unrealistic expectations in that country, either. Whereas

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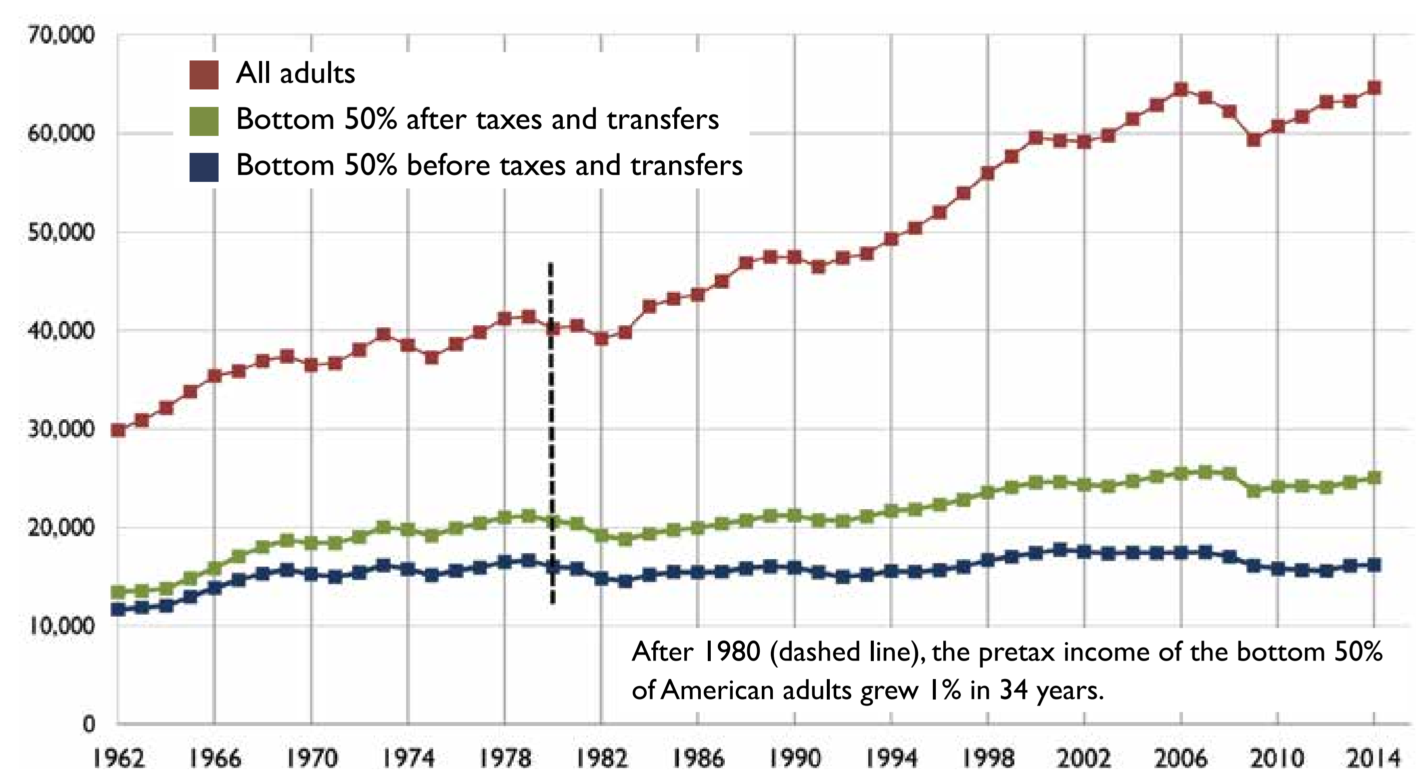
Growth in U.S. national income per adult, 1962-2014 (in constant 2014 dollars)

Data from Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," NBER Quarterly Journal of Economics 133(2), 553-609.



the hope was that NAFTA could help Mexico break out of the maquila form of manufacturing integration with the United States — even making Mexico "a global manufacturing powerhouse" — in reality, the country "in many senses is still the *maquila* arm of the U.S. economy," despite the fact that "the level of manufacturing happening in Mexico is much more sophisticated than 25 years ago." Ultimately, NAFTA did not bring the macroeconomic growth that was expected.

With respect to "NAFTA 2.0" that might emerge from current re-negotiations, Hanson doubted that the trade agreement would make a significant difference to the "key challenges" facing Mexico: "How do you rearticulate an economy that's become quite segmented?" Thus, the re-negotiations hold out little hope for addressing the main issues in either country.

Finally, Hanson noted that both the U.S. and Mexican manufacturing sectors had been held back by the "China Shock," the Asian country's emergence as a major global manufacturing and trading power. However, he noted that this effect "is over [because] China's period of incredible productivity growth came to a surprising halt in 2008," reducing competitive pressure on the U.S. and Mexico.

Gerardo Esquivel contextualized his remarks within what he termed "the NAFTA paradox": in all three NAFTA countries, public opinion tends to view the effect of the trade agreement as generally good. Yet, according to polls from each country, the public feels that the other countries are the primary beneficiaries of the agreement. Esquivel noted that while Mexico had the largest expectations for major change and growth — especially if there were any significant wage convergence — it was exactly this expectation that then-Mexican President Carlos Salinas used to sell the agreement in the public forum.

Esquivel went over some other crucial economic trends in the more than two decades since NAFTA came into effect. In terms of growth, the country averaged only 1 percent per year between 1994 and 2016. In terms of inequality, while Mexico began the NAFTA period with a rate of poverty comparable to the Latin American average (around 45 to 46 percent), poverty had only declined slightly to 41.2 percent by 2014. Yet, in the region as a whole, the poverty rate had fallen by nearly half. Even with respect to wages, Esquivel noted a strange phenomenon: little convergence has occurred. Wages in Mexico stand at a quarter of those in the United States, the very same ratio as in the pre-NAFTA era.

In addition, Esquivel explained that NAFTA had exacerbated regional economic disparities within Mexico, particularly in the north and center of the country as compared to the south. He referred to the Zapatista uprising on January 1, 1994 — the day NAFTA came into effect — as in many ways driven by such regional inequality. He called this uprising a warning about the ways in which "NAFTA has failed to deliver for the Mexican people."

Photo by Eneas de Troya.

A tale of two Mexico Cities: Wealthier neighborhoods on flat land, poorer ones climb the hills.

Despite being a supporter of integration, which can benefit consumers and make the region more competitive, Esquivel expressed pessimism about the current NAFTA re-negotiations, particularly because of the perspective and rhetoric coming from the Trump administration. In fact, Esquivel argued that the instability of the U.S. administration on an issue of such crucial economic importance to Mexico highlights the country's vulnerability to changes in U.S. politics and trade policies.

Finally, Esquivel spoke to the disconnect between productivity and exports, which have grown in recent years in Mexico, and wages, which have stagnated. Esquivel argued that "this has to do with the way that labor and unions work in Mexico, how labor laws work … that has meant that productivity gains have not translated to wage gains for the workers." This labor union mechanism for limiting inequality, assuring the connection between rising productivity and rising wages, has been a missing link in the U.S. and Mexico and exacerbated inequality in both countries.

Harley Shaiken picked up on precisely this mechanism as the main theme of his remarks. Like Esquivel, Shaiken expressed confidence that "trade can bring real benefits to people, communities, and economies." Yet, despite being "an internationalist," Shaiken is "very critical about NAFTA." Noting that the U.S. economy is more than a dozen times larger than Mexico's at $18 trillion and $1.4 trillion, respectively, and that a limited impact on the larger country is to be expected, Shaiken targeted his comments at "the NAFTA model." Shaiken characterized this model as "high productivity and advanced manufacturing without that productivity being translated to workers and communities in both countries." A trade agreement that actually worked for the people of both countries would insure trade does not come at the expense of either Mexican or American workers.

As an example of shared prosperity, Shaiken discussed the economic history of the post-World War II United States. Until the mid-1970s, he explained, the U.S. saw "rapid productivity growth" and "rapidly rising wages and benefits during that same period." The link, since broken, between the two trends in this "virtuous circle" was "strong labor unions and collective bargaining." This, in turn, provided a basis for "expanded purchasing power" and, as a result, robust economic growth. Noting that NAFTA undermines this dynamic, Shaiken argued that "the missing link between the very real benefits of trade, particularly in advanced manufacturing in Mexico — and Mexican workers benefitting — is the fact that you do not have independent unions or independent collective bargaining, virtually at all, in the export sector." Furthermore, due to the highly integrated nature of the North American economies after nearly 25 years of the NAFTA framework, these low-wage trends in Mexico "impact Ohio, Michigan, Pennsylvania, and Wisconsin." "And of course," Shaiken continued, "that is going to have a political reaction, as we've just seen."

He emphasized this point with the contemporary example of a new BMW plant in San Luis Potosí, Mexico. Despite state-of-the-art technology and production quality, a premium-price brand-name consumer product, and a massively profitable company, the extremely productive workers in this new plant were paid $1 per hour in 2014. These very low wages do not provide the basis for the type of purchasing power that might drive demand for U.S.-made goods. Moreover, they put downward pressure on the wages of U.S. auto and auto-parts sector manufacturing workers. Auto-parts workers have seen "a sharp decline in real compensation as a result," said Shaiken. "What these low wages reflect," he contended, "is a completely dysfunctional labor system in Mexico that is designed to keep wages low to attract investment." Although this model is "very profitable for investors" in the short, or perhaps even medium term, "it stymies growth … ironically, it limits trade, and it creates a very troubling situation for U.S. manufacturing workers."

The means of addressing the disconnect between rising productivity and declining real wages and benefits in the manufacturing sector in Mexico "is the ability for workers to decide to have independent unions if they choose, and the ability of those unions to bargain collectively in an open manner," concluded Shaiken, "absent that, there is no way to translate the potential gains to workers." The key factor he highlighted was the need for "rules of the game in place that result in wages harmonizing upwards, not in pressures that

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Photo by Thomas Hawk.

NAFTA negotiators failed to take into account the explosive growth of China's economy.

push downwards.” That type of downward dynamic “is not in the interests of Mexico” and “not in the interests of the United States.” After 23 years of NAFTA, Shaiken lamented, “none of the labor promises have been met.”

Art Pulaski and Gordon Hanson discussed the role of labor unions in building a prosperous middle class in the post-World War II period. “Manufacturing wages in the U.S.,” said Pulaski, “created the middle class.” He also commented on the fact that most manufacturing jobs that left the United States did not go to fellow manufacturing powers like Germany, but to “areas where corporations were able to exploit low wages and the environment.” He also insisted that electoral backlash in 2016 in key Midwestern manufacturing states was, in part, due to many workers in that region blaming candidate Hillary Clinton for NAFTA because of its passage during the administration of President Bill Clinton.

Hanson agreed that “manufacturing was the vehicle by which those with high school or less education were able to achieve a middle-class lifestyle.” But when manufacturing began to decline as a share of the U.S. workforce in the 1950s, “that vehicle started to break down.” He further agreed that “trade has played a role in the decline of manufacturing presence in the U.S. workforce.” Hanson pointed to “the China Shock in U.S. manufacturing,” which, his research suggests, can account for about a quarter of the decline in the share of employment in this sector from 13 percent to 9 percent, from the 1990s to the mid-2000s. He argued that NAFTA's role would be smaller than that. So “globalization certainly has a role, but there is a whole constellation of factors at play,” particularly highly capital-intensive technological change. For this reason, Hanson did not find it remotely realistic that a revision of NAFTA might bring back a meaningful amount of manufacturing jobs. “In terms of going back to the 1950s,” he insisted, “in terms of manufacturing being a source of middle-class incomes, those days are unfortunately past.”

Beatriz Manz, Professor Emeritus of Anthropology and Ethnic Studies at UC Berkeley, discussed the potential for labor union alliances across the U.S.–Mexico border as a way to boost Mexican wages and help the pressure on U.S. jobs, as well. She also pointed to NAFTA re-negotiations as a theoretical point of intervention on labor rights issues.

Cuauhtémoc Cárdenas, President of the Fundación para la Democracia (Foundation for Democracy) and mayor of Mexico City (1997–1999), argued that the whole development model pursued by Mexico was in need of fundamental change. He noted that while exports have increased significantly along with manufacturing, the benefits have been concentrated among a small group of corporations. On the other hand, employment has increasingly concentrated in the informal sector.

Gerardo Esquivel offered support to both analyses. He spoke to the importance of both the development of the internal market and the translation of export growth to wages and benefits for workers. “The reason why workers cannot get the benefits from this foreign direct investment — in the auto industry, for example, but this is true for any industry — is that the labor laws in Mexico do not favor the creation of authentic unions,” said Esquivel. He noted that Mexican labor law was soon to change, an effect of the Trans-Pacific Partnership trade agreement, something Esquivel expressed hope might be a start towards incorporating stronger labor rights standards within trade agreements.

Amalia García reiterated that the Mexican government needed to move away from a development strategy and trade negotiation position based on the offer of cheap labor. She noted that the dollar value of the Mexican minimum wage had fallen by two-thirds since the 1970s and is currently not even enough for the basic basket of goods.

García also discussed two recent labor legislation reforms in Mexico. The first, in 2012, worsened the labor rights problems associated with outsourcing and subcontracting. A recent labor justice reform appears very promising regarding union democracy, García suggested, yet she expressed grave concern about a constitutional-level provision that creates a new state labor-regulating institution under the direct control of the executive branch. García noted that this legislation goes along with a recent strategy to promote Mexico as a safe place for investment because “there are no strikes.” Of course, she explained, workers do strike, but they are not officially recognized, and this new state power risks a tight centralized control of unions.

Harley Shaiken re-emphasized García's point addressing “a new constitutional reform that has been passed in Mexico that does add transparency” and added that García had “raised real questions about the secondary legislation and the likely proposed implementation, which will be defining.” Lamenting that “the whole process of labor reform has been done very secretly,” Shaiken said, “you can't call for collaborative and transparent reform, and then do it in a secretive or unilateral way.” He also emphasized that independent union leaders he had spoken to on a recent trip to Mexico had communicated that they perceived the pressure on labor rights from U.S. unions as “very positive.” While Shaiken insisted that “nobody is calling for” U.S. interference in Mexico — which those unions reject and which is difficult in terms of Mexican domestic politics — labor and other interests actually welcome that pressure. Shaiken addressed this tension, noting that the official Confederación de Trabajadores de México (CTM, Confederation of Mexican Workers) was “raising strong campaigns” against cooperation

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Independent Mexican labor leaders meet with Congressman Sander Levin and Harley Shaiken in Mexico City.

Photo courtesy of Sander Levin.

with U.S. union leaders, casting their efforts in a highly distorted way as "an imperialist grab."

Soffía Alarcón-Díaz returned to the point of environmental regulation under NAFTA. She explained that "Mexico has very weak regulations when it comes to protecting the environment" and asked whether trade deal negotiations might be a forum in which to strengthen environmental safeguards. However, noted Gordon Hanson, since China has been a significant source of pressure on competition to lower environmental standards, trade negotiators had to face the fact that a stringent regulation regime might only "lose the most pollution-intensive industries." He suggested the World Trade Organization as a more appropriate venue for addressing the issue in a multilateral fashion. Harley Shaiken drew a direct parallel with the dynamics of the close integration of the U.S. and Mexico meaning that harmonization could occur upwards or downwards with respect to environmental standards, just as with wages.

Finally, Rafael Fernández de Castro offered an important exception to an overly negative assessment of developments in Mexico during the NAFTA period. He noted, for example, that in terms of the health and education components of the Human Development Index, Mexico had gone some distance towards "bridging the gap with the United States" in that time frame.

The U.S.–Mexico relationship exemplifies the dense interconnections across international borders that have increasingly come to define the modern world in an era of globalization. Just as the main issues that affect one country will inevitably affect the other, so the main issues in the bilateral relationship — climate change, migration, security, trade, and inequality — are all pressing global challenges. They are also complex and closely interrelated dilemmas. These macro trends have been key drivers of the dynamics of the bilateral relationship, from the effects of NAFTA on economic inequality and migration patterns to the pressures for institutional corruption arising from the international illegal drug trade. These large-scale dynamics and associated social problems are also driving a great deal of the tensions affecting the fraught U.S.–Mexico relationship in the current moment.

With a wide and diverse array of voices and expertise, the U.S.–Mexico Futures Forum not only explored these issues in their nuance, complexity, and inter-connection, but also pointed the way towards creative, future-oriented solutions that can address the crucial concerns of these "overlapping societies."

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References for this article are available at clas.berkeley.edu.

The Futures Forum and the San Francisco Bay Area both specialize in building bridges.

Photo by Dionicia Ramos.

U.S.–Mexico Futures Forum 2017
Tiburon, California

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Maria Echaveste
Senior Scholar, Center for Latin American Studies;
White House Deputy Chief of Staff, 1998–2001

Harley Shaiken
Professor, UC Berkeley; Chair, Center for Latin American Studies

Rafael Fernández de Castro
Professor, ITAM

Linda Sánchez
U.S. Representative, California;
Vice-Chair, Democratic Caucus, U.S. House of Representatives

Soffía Alarcón-Díaz
Director, The Carbon Trust, Mexico

Yulma Rocha Aguilar
Representative, Guanajuato, Mexico

Amalia García
Secretary of Labor, Mexico City

Chris Edley
Professor, UC Berkeley School of Law

(Photo by Jim Block.)

Back row (from left):

Pete Gallego
U.S. Representative, Texas, 2013–2015;
Member, Texas House of Representatives, 1991–2013

Dionicia Ramos
Vice Chair, Center for Latin American Studies, UC Berkeley, 2009–2017

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