

# Economic Change and Labor Market Integration In North America<sup>1</sup>

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One of the most systematically avoided topics in discussions on the prospects of economic integration in the Americas is that of the possibilities for integration of the hemisphere's labor markets. Even in negotiating NAFTA, labor market issues were explicitly skirted. In fact, not many theoretical tools are available as guidelines for carrying out an analysis of the problems involved in such a process. However, the various experiments in regional economic integration taking place in today's world inevitably have a strong impact on the respective labor markets of the countries involved, and to varying degrees constitute some sort of regional labor market, which may in fact turn out to be highly segmented and stratified according to national and/or other types of differentiation.

While labor markets were explicitly left out of the NAFTA negotiations because of the politically sensitive issues involved, the impact of the agreement itself—and of the less formalized but nonetheless real manifestations of regional economic integration—upon working, and hence living, conditions within the region cannot be ignored. Globalization and enhanced competition among the world's leading industrial economies has had an adverse impact on employment and wage levels throughout Europe, in

the United States and Canada, and even in Japan, not to mention the economic and social devastation suffered in most of the less industrialized nations.

A large part of the working population in the United States has had to confront increasingly adverse labor market conditions over the past decade or so and the situation is likely to continue to deteriorate in the future. Up until recently the U.S. had been perhaps the most successful of the industrialized countries in achieving a high standard of living for most of the working population and their dependents as well as a comparatively high degree of equality in income distribution. However, over the last 20 years real wage levels have stagnated, the incidence of poverty has increased, especially for children, and the distribution of incomes has become more unequal, particularly since 1980.

With the exception of the 20 or 25 percent of those who are most highly trained or specialized in their line of work, the majority of the U.S. labor force has recently suffered from increasing income and employment instability. The unemployment rate has tended to increase. It also takes displaced workers more time to find another job and quite often they are forced to accept lower pay. The number of permanent full-time jobs has declined relative to the growing number of temporary and part-time jobs. The new labor market conditions have been accompanied by increasing inequality in the distribution of incomes and a rapid rise in the number of working poor.

These changes coincide with the relative decline in U.S. hegemony and heightened competition among the highly industrialized nations. The almost instan-

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Steady, well paying jobs are becoming difficult to find.

taneous mobility of capital demands greater efficiency, greater flexibility and constant innovation of productive processes in addition to lower costs for those countries and firms that wish to remain competitive. Changes in the international economic panorama along with internal changes in the U.S. economy have combined to produce what is likely to be a profound and lasting transformation of the U.S. labor market.

Due to increasing international competition and the simplification of various tasks as a result of technological innovation, many jobs in certain branches of manufacturing were eliminated in the U.S. and appeared in less developed countries where the same firms established new plants to take advantage of cheap labor. At the same time, the cost of labor directly occupied on the production line has become a decreasing element of the total cost of many goods. Knowledge-based work or conceptual tasks have acquired an ever increasing and fundamental role in industrial production today.

Between 1979 and 1993, 23.8 million new jobs were created in the so-called service sector of the economy, thereby absorbing most of the natural increase in the Economically Active Population (EAP), as well as

the majority of those displaced from manufacturing industries over the same time span. However, this absorption and relocation process is becoming increasingly more difficult. Since the end of the 1960s the percentage of the unemployed who have gone for more than six months without finding a job has increased steadily and now stands at about 21 percent.<sup>2</sup>

In addition to the increasing difficulties involved in obtaining and keeping a job, it is also becoming much harder to find a good, steady, well paying job, especially for the approximately 80 percent of the U.S. population that does not have college degrees. At the beginning of 1993 it was calculated that 43 percent of employed persons between 18 and 24 years old held only minimum wage jobs as opposed to just 23 percent in 1981.<sup>3</sup> A minimum wage job in the U.S. does not provide enough income to maintain a family of three above the poverty level.

As current Secretary of Labor Robert Reich points out, for the first three decades of the postwar period,

<sup>2</sup> *Economic Report of the President 1994*, U.S. Government Printing Office, Washington, D. C., 1994, p. 316.

<sup>3</sup> John Greenwald, "The Job Freeze," *Time*, Vol. 141, No. 5, February 1, 1993, p. 52.

up until about the mid 1970s, poverty in the United States was generally associated with not having a job. However this premise no longer holds at a time when the number of poorly paid jobs and the proportion of part-time or temporary posts are rising rapidly. Janice Castro, in an article published in *Time*, in April 1993, estimated that one out of three employed persons in the U.S. was in a temporary or part-time post, and that by the year 2000 the ranks of these types of contingent workers might exceed the number of permanent full-time job holders.<sup>4</sup> Furthermore, there are indications that over the past few years part-time posts have increased rapidly at the expense of full-time employment. These kinds of practices have increased the flexibility and profitability of many firms but in doing so have sacrificed the job security and economic stability of their employees.

Given the dominant role of the U.S. economy in the North American region, and the commercial and financial integration currently underway, it follows that the labor markets in both Mexico and Canada will also be affected by these changes. Unfortunately the enormous differences in living conditions, working conditions and income levels between Mexico and the United States are not likely to be mitigated by the transformations now underway. It is extremely probable that an attempt to emulate and implement working conditions prevailing in the U.S. will have a highly negative impact on employment levels in Mexico. Most U.S. workers have not been able to defend themselves from the increasingly adverse employment conditions imposed by globalization and restructuring, and Mexican workers, who in general have a much lower educational profile, are even less equipped to do so.

<sup>4</sup> Janice Castro, "Disposable Workers," *Time*, Vol. 141, No. 16, April 19, 1993, p. 40.

While precarious living and working conditions are certainly not new characteristics for the Mexican economy, as regional integration proceeds they will probably become more rather than less pervasive. Before NAFTA was approved, newspapers frequently quoted government officials who insisted that it would bring more trade, more investment and more jobs to Mexico. Since January 1994, however, the headlines have often been filled with news of plant closings and job losses. The downward spiral intensified rapidly after the payments crisis of December 1994, when the incapacity to meet financial obligations in, and/or indexed to, foreign currency triggered a devaluation and provoked the immediate flight of speculative capital that had poured into Mexico during the year or so prior to the crisis.

Thousands of companies have closed over the past year and a half with the consequent loss of well over a million jobs. While most of those affected were

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small or micro establishments, many medium-sized firms have also disappeared and, in fact, entire branches, such as the textile industry, have found it extremely difficult

to survive in a post-NAFTA environment. The recent increase in job losses simply accentuates a tendency which has been prevalent now for more than a decade. Over 200,000 manufacturing jobs were eliminated between 1982 and 1994—representing a decline in employment of approximately 20 percent. Wharton Economics has estimated that between 1985 and 1999 the Mexican economy will only be able to generate 881,000 new jobs in the formal sector, whereas over the same period the number of persons seeking employment will have increased by 17 million.<sup>5</sup>

Official figures recognize an increase of almost 40 percent in the "open unemployment rate" between

<sup>5</sup> "La situación de México en cifras," *Gaceta UNAM*, May 18, 1995, p. 13.

December 1994, when it was reported as 3.7 percent, and May 1995, when it reached 5.1 percent.<sup>6</sup> However official figures and “open unemployment rates” have little meaning in a country where over half of the economically active population —53.5 percent as of November 1994— is employed in the informal sector of the economy.<sup>7</sup> In Mexico City and other important metropolitan areas as many as 20 people or more, from toddlers on up, can be observed at major intersections selling all manner of items, from chewing gum and chilled soft drinks to toys or tools or kitchen utensils, and performing all kinds of activities from cleaning windshields, juggling, eating fire, dancing, playing musical instruments, etc. to simply begging.

which now stands at approximately U.S. \$3.00 per day, is equal to less than 40 percent of the peak level it had reached 20 years ago. Wages represented 36 percent of GDP in 1980 and only 22 percent in 1991.<sup>8</sup> Over three-fourths of the working population in Mexico earn less than U.S. \$3,300 per year.<sup>9</sup> The poverty rate, which decreased significantly during the 1960s and 1970s—from over 75 percent to less than 50 percent— began rising again in the early 1980s and now stands at around 66 percent.<sup>10</sup>

When the U.S.-Canada Free Trade Agreement was implemented, Canadian workers were fearful of losing many of their social benefits, and one of the main reasons cited for opposing NAFTA in both the U.S.

and Canada was the downward impact it was expected to have on employment and wages. Mexicans, on the other hand, were hoping for higher wage and employment levels. It is too early, perhaps, to evaluate the labor market effects of NAFTA itself. However, what has already happened when one of the highest wage countries in the world (the United States) shares a 3,000 kilometer border with one of the lowest wage countries in the world (Mexico) may shed some light on the prospects for labor market integration when a free

trade agreement is implemented but no steps are taken to eliminate, or even take into consideration, the enormous asymmetries existing among the par-



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NAFTA has not had as negative an effect on knowledge-based jobs.

Twenty-seven percent of the economically active population earn the minimum wage or less; 63 percent have incomes equal to twice the minimum wage or less; and 78 percent earn three times the minimum wage or less. In real terms the minimum wage,

<sup>6</sup> *Ibid.*

<sup>7</sup> See *La Jornada Laboral*, February 23, 1995, p. 9. Open unemployment refers only to those not working in the formal or informal sector of the economy; in other words, according to this measure the over 13 million persons employed in the informal sector are not considered as unemployed.

<sup>8</sup> María de la Luz Arriaga, “TLC, precarización y desempleo,” *El Cotidiano*, January-February 1995, p. 11.

<sup>9</sup> “País de contrastes,” *Reforma*, June 4, 1995, p. 13.

<sup>10</sup> Figures presented by Julio Boltvinik in a panel on “Unemployment, Poverty and Income Distribution,” at the Economics Department of the UNAM on March 6, 1995. For an explanation of how INEGI-ECLA figures underestimate current poverty rates in Mexico see his article “La pobreza en México 1984-1992 según INEGI-CEPAL,” *Economía Informa*, No. 237, April 1995, pp.14-19.

ticipating countries. The increasing numbers of Mexicans who emigrate to the United States each year, both legally and illegally—lured by the prospect of earning in dollars—have rapidly become the most poorly paid workers in that country.


Since incomes, or at least potential incomes, have become more and more closely tied to educational attainment, the employment and earning perspectives for the vast majority of the Mexican children now growing up—both north and south of the border—are becoming more limited. Most of them—like the more than 20 percent of all the U.S. children that are currently living in poverty—will probably be confined to low income jobs and an ever increasing number will be relegated to the ranks of either the working poor or the even poorer under- and unemployed. Recent and ongoing economic transformations have lowered the job security and income stability of most working people in North America and many other parts of the world as well.

As restructuring, downsizing and flexibilization become more generalized, labor markets are becoming more segmented and stratified. Over the past 15 years, increasing poverty rates and greater inequality in income distribution have prevailed not only in Mexico—which is not highly industrialized and where macroeconomic indicators were largely negative—but also in the United States, where growth was mainly quite favorable. Increased competition among the highly industrialized countries has been a driving force behind industrial restructuring and regional integration.

Part of the restructuring process consists of reducing direct labor costs by eliminating workers or reducing the costs of employment by substituting permanent full-time workers with temporary and/or part-time ones. Another aspect is the transformation of the work process itself where, due to the growing importance of knowledge-based work, the costs of conceptualizing and designing the goods to be produced has increased greatly relative to proportionally declining direct production line costs. “Just-in-time production” seems indeed to be evolving towards “just-in-time employ-

ment,” which while increasing the flexibility and profitability of corporations means increased instability and insecurity for the workers.

It also seems that world economic leadership is increasingly determined by being at the forefront not only of product innovation but also process innovation. Thus, changing employment conditions and increasing inequality, in terms of economic well-being, for different groups within the labor force depends on the new competitive position of the different tasks and jobs to be done. Only the highly skilled and highly educated will be assured of steady employment and high wages and salaries, whereas the majority of the labor force in almost all countries and regions will face greater uncertainties and less favorable working conditions. Thus as regionalization continues and the economic transformations now underway intensify, the labor markets in North America will in all probability become more and more integrated into a single but extremely segmented and stratified labor market. **W**



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