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Introduction to the Panel on Social Costs of Urban and Industrial Growth in Northern Mexico

Author
Kopinak, Kathryn

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Panel on Social Costs of Urban and Industrial Growth in Northern Mexico

Introductory Presentation by

Kathryn Kopinak, Ph.D.
Department of Sociology, University of Western Ontario

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I. INTRODUCTION:

Both sides of the U.S.-Mexico border have been the destination for unprecedented numbers of incoming migrants and investors in the last forty years. Within Mexico, there has been a movement north of people displaced from their jobs seeking new ones, and industries converting from production for domestic consumption to maquiladora production for export. North of the border, industries have also restructured, moving from the "rustbelt" to the "sunbelt," setting up maquiladora industries along the border. Firms have also relocated transcontinentally from Asia and Europe. This has been compounded by the growth on the northern side of the border of military bases, tourism and retirement communities.

This rapid growth of industry and population has occurred in fragile ecosystems, and usually without the benefit of urban planning. In Mexico, there has been systematic, scientific research on maquiladora growth and development since the sixties, but the effects of population and industrial pressure north of the border only began to attract investigators' attention more recently. The subject of this seminar and the book of which it is a part, the social costs of industrial growth in northern Mexico, was a central part of the early maquiladora literature. It was last addressed in a debate between George Baker and Ellwyn Stoddard in the first two issues of the journal *Río Bravo*, in 1991 and 1992.

The issue of social costs was de-emphasized in the literature during the boom in maquiladora industries during the nineties. The focus of research in the last decade was on the appearance of more capital intensive, large plants requiring more highly skilled labor, those called second and third generation maquilas by Carrillo and Hualde (1998). Maquiladoras doing simple assembly also grew in number and size during the nineties, leading some analysts to use the three generation argument quite differently to refer to the fact that grandparents, parents and children in the same families had succeeded each other as employees in cost reduction centers based mainly on cheap wages.[1]

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[1] Dale Fox, Vice President of Business Development of the TACNA International Corporation, a shelter program, explained this version of the three generation argument to participants in the Mexport Maquladora Tour, in his shelter company in Tijuana on June 20, 2002.

Interest in the social costs of industrial growth has been renewed by the spread of maquiladoras as the predominant form of industry and the onset of the worst economic crisis in maquiladora history. However, the industries and communities involved present very different characteristics than they did in the eighties when social costs were previously considered, making it impossible to generalize from previous debates and discussions. In some areas, such as the assessment of maquiladora industries' effect on public health, there is very little earlier research to generalize from and insufficient baseline data, as Harlow, Denman, and Cedillo show in their article in this volume.

We planned this seminar, and the book of which it is a part, as a way of beginning to update our knowledge about social costs of industrial growth along the border. This is important not only for the U.S.-Mexico borderland, but also for more interior regions of Mexico, as industries move south to locate throughout the country and in Central America. Border growth has in many ways been paradigmatic for the maquilization of other areas of Mexico and Central America. In this volume, De la O shows how women's jobs defined as less skilled have moved from Mexico's northern border to the interior, where there are higher levels of unemployment and poverty due to the closure of parastatals. Trejos shows how the social costs incurred by maquiladoras in Central American countries are greater than those in northern Mexico, given the weakening of workers' organizations there via civil war and economic restructuring. Both of these articles can be used to inform the current discussion of the possibility of industrializing a corridor from Puebla to Panama with export processing industries.

II. What Are Social Costs?

Feagin (1984: 122, 123) argues that there are usually always social costs associated with private enterprise because individual firms use narrow accounting methods concerned with calculating only the costs and profits for their own companies. "They plan for higher profits and expanded markets, but seldom plan to *reduce* social costs." (emphasis in the original). He defines social costs as "the negative consequences of private for-profit production, they are the costs which are not paid for by the individual firm; they are costs which are shifted onto other people, onto third parties including individuals and whole communities."

Other uses of the term may also be instructive. For example, in their study of inner city African American communities, Durr et al. (2000: 59) say that "social costs are successful disenfranchisement efforts, grounded in prejudice and discrimination, that are aimed at denying racial/ethnic minorities and women opportunities to participate in the larger social, cultural, and economic arenas of society." There are interesting parallels in how the concentration of African Americans in inner city neighborhoods prevents their participation in the larger society and how the U.S.-Mexican border legally distances Mexican workers from their employers. Employees of Mexican maquiladora factories, most of which originate in the United States, are not primarily disenfranchised in the same way as African Americans, i.e. via racism and sexism. Although prejudice and discrimination may operate to disadvantage Mexican workers in their work places, the obvious reason for them not having the same rights as US workers is that they are not US citizens. They are enfranchised in Mexico, which enshrines different labor laws in its constitution, which in some cases (such as maternity leave for women) mandate better worker protection. Quintero's article in this volume shows how maquiladora workers' enjoyment of these legal rights depends on the kind of labor union which is legally charged with representing them.

Maquiladora employees are very connected to the US and world economies, unlike inner city African Americans who may have fewer employment opportunities. Their separation from the parent companies of their maquiladora employers via the border, however, results in their occupation of a very similar location in the social stratification hierarchy. Erik Olin Wright (1995: 96) argues that both employed persons in the United States who earn poverty level wages and Mexican maquiladora workers are part of the "working poor" because they are disempowered on the US side by "a weak, fragmented, and relatively conservative labor movement," and on the Mexican side by "the absence of a solidaristic international labor movement." As Fleck (2001) has shown in a longitudinal study of wages paid to maquiladora workers, the much needed jobs supplied by these industries do not provide for the growth of a middle class, as industrialization has in more developed countries, but instead have been responsible for a decline in real wages.

While inner city African Americans in the United States and Mexican maquiladora workers have both devised strategies at the household and community levels to help them cope with being among the working poor, there are nevertheless social costs involved. Silvers (forthcoming, 2003), for example, argues that maquiladoras have had a positive impact on how much lower income workers earn because they work very long hours. Thus, they may have reduced poverty at the aggregate level, but it is the longer hours put in daily which are responsible for this. As Harlow et al. indicate in their essay in this volume, the long hours worked can have negative health impacts, and create stress both in and outside of the workplace. Combined with noise on the shop floor and only a few short breaks for lunch and rest, coworkers can feel isolated from each other and unsupported by those with whom they spend most of their days.

In many regions where people commute to work, such as the Coal Basin of Coahuila which was maquilized after the mining companies downsized drastically, long work days are extended by a two hour commute (round trip), keeping workers away from their homes, families and communities for an average of twelve hours each day. Contreras's (2001) survey found that the commute was considered lost time they believed their employer should compensate them for in some way. They take maquiladora jobs to survive, because of the disappearance of so many mining jobs. However they are marginalized and their communities fragmented in the process. They are not integrated into the larger aggregate of workers, since it is difficult for them to participate in after work activities such as sports. They can only engage in family and community events on weekends, which is when many women maquiladora workers catch up on housework.

Social costs may even be paid by successive generations, as when families' cannot adequately support children's formal education, resulting in their early departure from school in order to enter the labor force. In this volume, Harlow, Denman and Cedillo's public health perspective on Mexican export led development documents the over representation of low birth weights among the babies born to women maquiladora workers.

Poorly paid as maquiladora jobs may be, they are arguably better than no jobs at all. High rates of unemployment have periodically plagued northern Mexico because of the economic dependence of maquiladora cities on foreign markets, and the lack of diversification of their economies. Such a downturn began at the end of 2000, and was caused by recession in the US and several Asian economies, as well as other factors, such as the overvaluation of the peso, and lack of clarity by the Mexican government on new tax legislation. While many Mexican jobs were also lost in 2001 in tourism,

> the most dramatic losses are in the manufacturing and assembly sectors, which INEGI says lost more than 6% of the work force, or about 226,000 jobs, to layoffs (sic) in 2001.[2] The loss was especially evident in the states of Baja California and Chihuahua, and in particular the cities of Ciudad Juarez and Tijuana, home to thousands of maquiladora plants. Deputy economy secretary Rocio Ruiz said job loss in the maquiladora sector was accompanied by the relocation of dozens of operations to Central America and the Caribbean for the cheaper labor and lower production costs. The maquiladora industry experienced its worst year ever in 2001… (SourceMex, 2002a)

While Wright pointed to the lack of protection by labor unions in explaining the class character of maquila workers as the working poor, there are a host of other differences involved in living and working at the border which are also fundamental to the social costs incurred by industrial and population growth. Industries in the United States must pay a “connection fee” to cover some infrastructure costs, whereas taxes paid by maquiladora plants in Mexico are applied only on the value added in that country, are very low, and are collected by federal authorities more than state or municipal levels of government, contributing little to local improvements.

Within Mexico, domestically owned industries which are mostly small and medium sized have been disadvantaged compared to the few larger Mexican industries and non-Mexican owned industries. Exports have become the main form of economic growth in the last two decades, and access to reduced tariffs on imports is crucial, since 84% of all exports are made with temporary imports (Alvarez and Dussel, 2001: 447). At the end of 2000, Mexico passed new legislation, known by its Spanish acronym PROSEC, which has been called a second, unilateral NAFTA, because it reduced tariffs on imports from NAFTA countries as well as from the rest of the world. The effect is to make much less tax revenue available to the Mexican federal government. Alvarez and

[2] Mexican labor law specifies that if an employer has insufficient work for its employees, the latter are to be fired and paid a certain period’s wages as severance. The practice in other countries of temporarily laying off workers who may be called back to work later does not legally exist in Mexico unless negotiated in specific union contracts. Thus, this quotation should say that 226,000 workers were fired in 2001.

Dussel argue that while the main winners are importers of merchandise from non-NAFTA countries, the losers are domestic producers who make the same products as non-Mexican producers, especially small Mexican companies, which will not be able to compete due to cheaper imports.

Mexico's growing dependence on export processing for job creation has put it in an even more difficult situation in the economic downturn beginning in 2000. With company downsizing and flight to Asian countries, the government has responded to the private sector's calls for relief by granting more tax breaks. In August, 2002, the Mexican Secretary of the Economy, Luis Ernesto Derbez, took time out of his busy schedule to announce that export manufacturing companies no longer have to pay any import taxes on 1,400 different products, mainly used in electronics manufacturing. The report on this in the Maquila Portal Weekly Bulletin (2002), a publication aimed at investors, commented in August that,

> The tax exemptions, which every one hopes will bring employment rates back to their pre-recession levels, are to be implemented this month. Another desired effect of the program will be to convince those export manufacturers who are thinking about moving their operations to China, to stay in the good old Republic of Mexico. The possibility of eliminating the permanent establishment tax clause, which increases company tax burdens, is also being discussed.

Ernesto Ruffo, former governor of Baja California, and current head the Commission for Border Affairs, had said in the early period of his leadership of the commission that he was planning to tax maquiladoras to help pay for infrastructure. However, with the deepening of the economic crisis, his position changed, saying that tariffs would not be raised which caused companies to leave Mexico (Treat and Kouros, 2001).

New tax breaks for maquiladoras come at a time when the federal government has had to cut back spending, slashing budgets in mid-term, thus making less public money available. President Fox announced a reduction in the budget of more than 10 billion pesos (US$1.106 billion) in public expenditures in 2002. The reduction was justified by weak government revenues in the first quarter of the year due to lower oil revenues and reduced tax collections. Two billion pesos (US$221.2 million) of the reduction was taken from the program created to allocate funds to state governments (Programa de Apoyo para el Fortalecimiento de las Entidades Federativas, PAFEF). Many governors throughout Mexico said the reductions would force cutbacks in state programs for public safety, education, and health. “The PAFEF reduction no doubt will have a negative impact on our commitment to social programs in our states, “ Guerrero Gov. Rene Juarez of the PRI said. (SourceMex: 2002b).

Mexico has developed a small dynamic export sector made up of foreign owned companies which is polarized from the rest of the domestically owned economy (Dussel: 2000). Government efforts to support small and medium sized domestic companies has diminished to a minimal level since 1988 (Dussel, 2001: 25). Legislation to reduce tariffs, such as PROSEC, widens the gap further. While all industries in Mexico benefit from the existing infrastructure, the taxes spent to build it are paid mainly by Mexicans, leading many of them to feel it is unfair that they are subsidizing non-Mexican companies which produce in their country. This often translates into a greater distrust of their own government for facilitating such a situation, rather than negative sentiment directed toward foreign owned maquiladoras, especially in times and areas of high unemployment.

With regard to the environment, Mexico has introduced new legislation since the late eighties, but it has few resources to enforce its laws. This allows maquiladoras, especially those abandoning hazardous waste there, “to use the border as a shield against legal action,” according to the Commission for Environmental Cooperation (2002: 42) Moving production to Mexico in order to save environmental costs is possible not only due to different sets of laws and vastly unequal amounts of public money available for enforcement on either side of the border, but also because border communities have historically been alienated from the central parts of their respective countries. They have less status and power, making it easier for the violators of environmental law to act with impunity.

Tijuana, for example, has had been plagued by a *leyenda negra* since the 1930s, when it grew as a provider of entertainment services for U.S. nationals during Prohibition. This tendency for Americans to see Mexico as their backyard, where they can get away with things that would be illegal at home (Paz: 1982), has the effect of "normalizing" bad environmental practices in cultural terms. Likewise, what happens in twin cities such as Ambos Nogales is influenced by their place in the existing hierarchy of cities and regions. Their character as transshipment cities places them mid-way on the scale of importance, with places such as Tucson, Phoenix, and Los Angeles occupying more commanding rungs of the hierarchy (Kopinak: 2002).

Without continuing investment in environmental infrastructure, the negative environmental impact of industrial growth in border communities will make things even worse. Picou (1996: 213) says that "substantial sociological evidence exists to suggest that toxins in the environment contaminate more than air, water, or soil; they also damage the social fabric of a community, its neighborhoods, its families, and its residents' self-esteem. Environmental contamination, in short, is often both a biospheric and a sociological disaster." The effect of contamination in industrial, retirement and tourist communities on the border is similar to the negative impact Picou (1996, 216-217) describes technological accidents as having: residents perceive "that their community is a less desirable place to live, raise children, and (in general) have a happy life." They also are increasingly aware of possible negative impacts in the future and express doubts about the sustainability of their communities.

In concluding this brief introduction to the kinds of social costs associated with industrial growth in northern Mexico, I turn to Baker's (1989: 904, 905) assessment that in the border area, there are three particular types of social costs associated with the maquiladora industry: (i) the cleaning and conservation of the environment; (ii) adequate financing of physical and human infrastructure; (iii) and eradication of the Austin syndrome. Bob Varady's presentation is an example of how the book focuses on environmental costs, especially those associated with water on both sides of the Arizona/Sonora border. By the third type of social cost, the "Austin syndrome", Baker means Mexican reliance on foreign experts from US cities occupying the higher rungs of urban hierarchies, who promise to bring capital, technology, jobs, and world class manufacturing 'know how' to Mexico via maquiladoras. Baker says Mexicans can do more than sell real estate and cheap labor to foreign industrialists, and should engage more actively in the design, manufacture and export of Mexican products abroad.

In the dozen years since Baker's articulation of the "Austin syndrome" as a social cost of maquiladora growth, there has been tremendous effort within Mexico to upgrade the labor force and reap more benefits from maquilization. Alfredo Hualde's presentation looks at how the "Austin Syndrome" is and is not being eradicated in the Tijuana region, and the costs of constructing an internationally competitive labor force. I will devote the rest of my time to summarizing what the book says about how social costs have been reduced and offset.

III. OFFSETTING AND REDUCING SOCIAL COSTS:

The final section of the book contains work on social organizations at three different levels of analysis, each of which have been able to address issues of environmental degradation, health and safety of employees, benefits which support a better quality of life, etc. I will briefly summarize this here.

At the community level of analysis, Diane Austin and her colleagues analyze a new approach to partnering among maquiladoras, government agencies, educational institutions, NGOs and residents in Ambos Nogales to mount a re-vegetation project there. Responding to problems in air quality, these different groups from both the private and public sector have made indigenous types of trees available for planting and begun to help areas which had eroded to recover. This case study will be an important example for the entire western end of the border, where arid conditions have made re-vegetation difficult and where the subordinated unions which exist have made workers extremely suspicious of unions and turned them against such organizations in any form.

The eastern end of the border has always had stronger Mexican trade union organizations, and they are worthy of study to help understand how the best wages and working conditions have been achieved there. Cirila Quintero compares the social benefits negotiated by unions in two of the largest maquiladoras in Matamoros and Ciudad Juárez, and finds that the long history of robust trade unionism in Tamaulipas, starting in the cotton industry and predating maquiladoras, as well as the combative strategy of these unions, have made an important difference for maquiladora workers there. Not only do Matamoros workers earn the highest wages and work the fewest hours per week, but they have the best health and safety benefits, not only for themselves, but for their entire families. The union has also played an important role in providing workers' housing, building hospitals, community recreation centers and schools. Moreover, these benefits can be maintained by workers and their families by the payment of reduced dues even after retirement, increasing the quality of life for the entire community. In contrast, the company studied in Juárez, where unions are very weak, makes payments to union leaders so that they do not make demands on behalf of workers, and provides good health benefits only for union leaders and not workers. Matamoros workers share benefits much closer to those previously enjoyed by workers in traditional industries in the center of Mexico, and Quintero shows how this history of Mexican unionism can still improve workers' situations.

Another important level of organizing on behalf of workers takes place across borders, with the involvement of social movements in both countries to try to achieve the recognition of unions which are independent of the large Mexican centrals. The work of Joe Bandy contrasts efforts to build an independent union in the Han Young plant in Tijuana which supplies Hyundai, and the Kukdong plant in Puelba which supplies Nike, and finds that the latter were more successful for several reasons. Like Quintero, he argues that efforts to achieve independent organizations to protect workers' right are more successful in regions without the kind of subordinated unionism prevalent in Ciudad Juarez. His analysis also found that transborder solidarity was more effective in supporting the achievement of an independent union in the Kukdong case because the labor violations were more obvious. The parent company, Nike, was better known in the United States than Hyundai, so that it was easier to mobilize the anti-sweatshop movement on university campuses in support. Moreover, workers in the Kukdong case had more previous experience in the political sphere—locally, nationally and internationally. Their own efforts, with the support of their international networks, were able to outlast the demobilizing effects of counter movements, and they were able to more effectively pursue simultaneously the strategies of monitoring, public education, protests, strikes, litigation, consumer and political pressure. Finally, Kukdong was not as willing as Han Young to close up shop and leave.

Although there have been many plant closures and jobs lost recently, I believe maquiladora industries will be a relatively permanent feature of the U.S.-Mexico border, although their future characteristics are unknown. It is important for local and well as transnational communities to engage them in efforts that lead to greater corporate responsibility. I am told by colleagues in Administrative and Commercial Studies that the study of corporate ethics and responsibility are currently undergoing somewhat of a revival, but the newly emerging field has so far only been applied in developed countries.

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