United States General Accounting Office

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Report to the Chairman, Committee on Commerce, Science and Transportation

May 1991

U.S.-MEXICO TRADE

Information on Wages, Fringe Benefits, and Workers' Rights

144079

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-243939

May 10, 1991

The Honorable Ernest E. Hollings
Chairman, Committee on Commerce,
Science and Transportation
United States Senate

Dear Mr. Chairman:

As you requested, we obtained information on Mexico's labor practices under the Mexican "maquiladora" program.[1] Specifically, in this report we (1) discuss U.S. and Mexican employees' wages and fringe benefits and (2) provide information on workers' rights under Mexican law.

For this report we relied on information provided by U.S. government officials, international organizations in Washington, D.C., and private research firms. We plan to issue a comprehensive report at a later date that will more fully explore these issues.

Results in Brief

In 1989[2] the average wage rate, including fringe benefits, for Mexican production workers employed in the maquiladora industry was $1.39 per hour. This wage rate was considerably below the average wage rate of $14.31 per hour paid to U.S. production workers. According to the U.S. Department of Labor, both countries provide specific, legally required fringe benefits to their workers, such as social security and workers' compensation. However, maquiladora employers provide additional fringe benefits to their employees.

According to the U.S. Departments of State and Labor, Mexican workers' rights are specified in the 1970 Federal Labor Law and its subsequent amendments.

Background

The Mexican government initiated the maquiladora program in 1965 to generate economic development and employment along Mexico's economically depressed northern border by attracting subassembly operations. The number of maquiladora assembly operations has grown

[1]A system that allows duty-free importation of U.S. manufacturing components to factories in Mexico for processing or assembly with the general stipulation that the plants export their output.

[2]We used 1989 data for comparability with data obtained for Mexico.

steadily from 12 in 1965, employing approximately 3,000 workers, to over 1,800 in 1990, employing over 400,000 workers.

According to the U.S. Department of Labor, the Mexican Federal Labor Law states that all employees are entitled to a minimum wage. The minimum wage in Mexico is determined by the National Minimum Wage Commission. There are two kinds of minimum wages in Mexico: (1) the general minimum wage and (2) the professional minimum wage.

The minimum wage in the United States is established by the Fair Labor Standards Act of 1938. As in Mexico, total compensation to U.S. workers includes wages and benefits.

Mexican Wages Are Lower, and Both Countries Provide Legally Required Fringe Benefits

Comparing maquiladora production workers' wages and U.S. production workers' wages showed that in 1989 the Mexican maquiladora worker earned an average of $1.39 per hour while the U.S. worker earned an average of $14.31 per hour. It is also evident that this wage gap has been substantial since 1983 (see table 1).

Table 1: Comparison of Nominal Wages for U.S. Production Workers and Mexican Maquiladora Production Workers

	Average hourly wage rate	
Year	**U.S. worker**	**Maquiladora worker**
1983	$12.10	$1.03
1984	12.51	1.21
1985	12.96	1.24
1986	13.21	0.94
1987	13.40	0.97
1988	13.85	1.19
1989	14.31	1.39

Note: Wages include fringe benefits. The decreases in Mexican wages are due to the peso devaluation. Nominal wages shown are reported wages that have not been adjusted for U.S. inflation.

Source: Wharton Econometric Forecasting Associates and the U.S. Department of Labor.

Maquiladoras pay a wage and benefit package that depends on the labor market conditions in the area. If a high turnover rate is common in a certain area, then maquiladora employers in that area will offer a higher wage and a much more attractive benefit package.

According to the U.S. Department of Labor, fringe benefits provided by maquiladoras include those mandated by law and additional benefits provided by the employer. In general, employee benefits mandated by law include a minimum wage, vacations and holidays, legal rest days, seniority and year-end bonuses, training, social security, and profit sharing. In addition, maquiladora employers may offer employees supplementary nonwage benefits such as subsidized meals and free transportation.

Benefits provided to U.S. workers include legally required benefits and discretionary benefits. These discretionary benefits include paid leave (holidays, sick leave, and vacations); supplemental pay; health and life insurance; and retirement and savings. Legally required benefits include, among other things, social security, federal and state unemployment insurance, workers' compensation, and state temporary disability insurance.

Mexican Workers' Rights Guaranteed by Federal Law

According to the U.S. Department of Labor, workers' rights are specified in the Mexican Federal Labor Law of May 1, 1970, and its subsequent amendments. These laws and regulations guarantee workers the right to form unions and strike; provide for a minimum daily wage; set a minimum age for children to be eligible to work; prohibit forced labor; and require employers to establish an acceptable workplace with regard to wages, hours of work, and health and safety.

Scope and Methodology

To obtain information on U.S. and Mexican employees' wages and fringe benefits under the Mexican maquiladora program, we relied on statistical data from government, private, and international labor agencies. For U.S. employees, we obtained wage and fringe benefit information from the Department of Labor. For Mexican employees, we obtained labor statistical data from Wharton Econometric Forecasting Associates, CIEMEX affiliate.

To get information on Mexican workers' rights, we reviewed reports from the U.S. Departments of State and Labor on Mexico's laws and regulations governing labor practices under the maquiladora program.

We conducted our work between March and April 1991 in accordance with generally accepted government auditing standards.

As requested, we did not obtain official agency comments on this report. However, we discussed the information presented in this report with responsible program officials from the Department of Labor. Their comments have been incorporated in the report where appropriate.

We plan no further distribution of this report until 30 days from the date of this letter unless you publicly announce its contents earlier. At that time, we will send copies to the Secretaries of State and Labor; the Office of the U.S. Trade Representative; and other interested parties. Copies will also be made available to others on request.

This report was prepared under the direction of Allan I. Mendelowitz, Director, International Trade, Energy, and Finance Issues, who can be reached on (202) 275-4812 if you or your staff have any questions. Other major contributors to this report are listed in appendix I.

Sincerely yours,

Frank C. Conahan

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Assistant Comptroller General

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