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The Free Trade Charade

by John G. Swartout

The United States of America is plunging headlong into a bottomless sea of debt from which it will not emerge without dragging most of its citizens into poverty. That is the unimpeachable conclusion of last year's nonfiction bestseller *Bankruptcy 1995*, by industrialist Harry E. Figgie, Jr. and economist Gerald Swanson. Our national debt is over $4.1 trillion and is growing three times as fast as the economy. If we don't fix it, and soon, say Figgie and Swanson, the spiraling debt will bankrupt the country by the middle 1990s.[1]

Without question, higher taxes will retard economic growth and lower everyone's standard of living, but they will not solve the debt crisis. The only way out of this morass of red ink is to combine a rationalized federal budget with a private sector economy that creates a job equal to the skills of every taxpayer who wants one, and reverses the twenty-year slide in the standard of living of middle class America. Only full employment and higher wages will ensure the rising tide of federal revenues necessary to conquer the debt and deficit.

In this mission we are failing. In our government's passion for free trade, we are pursuing a strategy that will transform the United States into a Third World country in our own time. In the global economy we are creating, it is the richest countries which have the most to lose, and we Americans seem determined to lead the world in the race for the bottom.

The Decline of the Middle Class

Evidence of our error is immediately at hand. Over ten million Americans are out of work. Were they all to find a job, their annual income taxes would add $42 billion to federal revenues. (But don't look for full employment anytime soon; U.S. wages are still much too high.) Most of the new jobs being created are part-time, temporary, and low-paying service jobs, while high-wage manufacturing jobs are disappearing. A quarter of the U.S. labor force is employed at full-time jobs paying $250 a week or less.[2] And 40% of males aged 18-24 working full-time are earning less than a poverty-level wage, up from 18% a decade ago.[3]

There is no one simple answer to why this is happening. It would be a mistake to ignore domestic factors such as rising productivity, which means that improving methods of production have made it possible to accomplish the same tasks with fewer workers. Or that our schools are graduating hundreds of thousands of functional illiterates every year. Or that exploding health care costs have induced many large employers to fill formerly full-time positions with part-time or temporary employees in order to avoid paying for fringe benefits.[4] But much, if not most, of the blame for the distress in the U.S. economy can be traced directly to the tax and trade policies of the U.S. government, which have nurtured the "global economy" and facilitated the transfer of millions of American jobs to foreign countries. This plunder of middle class America is not finished. In fact, if the North American Free Trade Agreement (NAFTA) is ratified, what we have witnessed so far will be only the prelude to a wholesale erosion of the American standard of living.

"...we are pursuing a strategy that will transform the United States into a Third World country in our time."

President Clinton intends to see NAFTA ratified by Congress, despite his pledge to grow the economy and work for more and better-paying jobs in the U.S. The recently negotiated "side agreements" he insisted upon, which were supposed to safeguard labor and the environment, fell far short of their advance billing. Warned by Senate Republicans not to compromise on NAFTA's "benefits" to U.S. companies (i.e, downward pressure on labor costs and environmental standards), and stymied by the refusal of Canada and Mexico to further compromise their sovereignty, U.S. Trade Representative Mickey Kantor achieved only phantom agreements, which will in no way avert the severe damage NAFTA holds in store for working families and businesses on both sides of the border.

Reading Between the Lies

The North American Free Trade Agreement proposes to unify the developed economies of the United States and Canada with the much less developed economy of Mexico within fifteen years, by removing all tariffs, quotas, and other restrictions affecting investment, trade, and services between the three countries. But the name is deceptive. The implication is that NAFTA simply promotes growth and opportunity, for the benefit of all, by removing barriers to the free flow of merchandise across national borders, and providing entrepreneurs throughout the continent with free market access to 360 million customers. But the great developmental gulf between the economies of Mexico and her northern neighbors reduces the mantra of "free trade" to a term of propaganda, an insidious proxy for radical changes in the social contract which would be widely viewed as treasonous if spoken in plain language. NAFTA is the blueprint for a monstrous shakedown of working Americans which will make the savings and loan fiasco look like a case of purse snatching. It is an attempt by private interests to use the power of government to guarantee the success of an enormous foreign investment program which will lay waste to the American job market and imperil the economic survival of the country. NAFTA will bring to the United States a declining standard of living, rampant unemployment, higher taxes, deeper debt, and a government even less responsive, less accountable, and less able to influence our nation's own destiny.

The apparent subterfuge in the naming and the selling of this treaty is not an accident; the artful use of language is the keystone of the free trade lie. For evidence of this strategy, consider these lines quoted from an article by NAFTA advocate M. Delal Baer, the Director and Senior Fellow of the Mexico Project at the Center for Strategic and International Studies, a Washington, D.C. think tank funded primarily by multinational corporations:

> *NAFTA will enhance U.S. competitiveness vis-a-vis Europe and Asia through economies of scale and specialization in production to be achieved with continental rationalization. Trinational clarity of investment rules will provide a stable environment for long-term production strategies. Most attractive is the production-sharing option within North America. Production-sharing is a strategy that Asia and Europe have used to great advantage in penetrating U.S. markets. Japan, for example, has deliberately shifted labor-intensive production to less-developed neighbors in Asia. A North American production-sharing alliance will help U.S. industries gain competitiveness in a world where multipolar geoeconomic rivalry is supplanting bipolar geostrategic conflict....*
>
> *NAFTA, if and when completed, will reshape corporate strategies, redraw the mental map of citizens in each country and gradually create a North American economic identity based on global competition....*[5]

Sounds marvelous, doesn't it? But what does all of this sophisticated argot really mean? Defining a few of Ms. Baer's terms will help to reveal some of the guiding principles behind NAFTA:

1. **"U.S. competitiveness."** Essentially, this means adopting the Bangladesh model for making North American products price-competitive with European and Asian goods both at home and abroad: lowering the cost of labor to Third World standards. But it is misleading to refer to the United States as a discrete economic entity in a post-NAFTA world, since the treaty aims to integrate the economies of the three countries. The distinction is valid only as it refers to the decline in U.S. wage rates which will occur as Americans are forced to openly compete for jobs with Mexicans who typically earn 58 cents per hour (and less, when Mexico devalues the peso again, which many analysts believe will happen soon). As for boosting our exports, it is also naive to think that price competition will overcome the mercantile trade practices of the Pacific Rim and Europe.

2. **"Economies of scale."** For the large corporations with the financial resources necessary to expand into foreign countries, this refers to spreading the fixed costs of doing business over more units in order to lower the price. But it also implies that the big will get bigger, their already formidable ability to influence government policy will grow accordingly, and smaller competitors will wither away.

3. **"Specialization in production."** Refers to the theory of comparative advantage, which postulates that where free trade prevails, each participant, whether nation, enterprise, or individual, will tend to specialize in the things it does best. However, this does not bode well for the majority of Americans who have neither specialized skills of their own nor the capital to invest in the special advantages of others. This environment favors not individuals, but multinational corporations, which have the means and the apparatus to profit from opportunity wherever on the globe they find it. The unfortunate fact is that there is little which we Americans do for a living that could not be done equally well and for less money by Mexicans, Thais, Chinese, or Malaysians, if we encourage corporations to invest abroad by allowing them free access to the U.S. market. That is the reality of free trade — trading American jobs for cheaper foreign goods. Only, those goods are not as cheap as they should be — just cheap enough to undersell and drive the domestic competition out of business. The real benefits go not to consumers, but to the corporations and investors who perpetrate this disintegration of the U.S. economy. The shortsightedness of this strategy should be self-evident: It's killing the goose that laid the golden egg.

4. **"Continental rationalization."** Rationalization, strictly speaking, means applying modern methods of efficiency to industry and agriculture. Naturally it improves productivity, but that means fewer workers are needed. The naive assumption of the 1970s was that this improving productivity would

mean shorter work weeks and higher incomes for American workers, who would have to find new ways to spend their windfall of leisure time. What the overzealous prognosticators didn't figure on was that free trade would cut laborers out of the gravy. Says economist Tony Riley of A. Gary Shilling & Co.: "A weak labor market makes it easy for employers to keep the fruits of productivity growth for themselves."[6] NAFTA, by sharing with Mexico the bounty of this improved productivity, will mean higher unemployment throughout North America at first, and then lower and lower wages as the cost of labor equalizes across the continent over a period of years — years of excruciating upheaval and extreme hardship for families in all three countries.

5. **"Clarity of investment rules."** Fearing exploitation and loss of sovereignty, the Mexican government has heretofore discouraged foreign investment both by statute and by being unpredictable in its treatment of such investment after the fact. NAFTA would make Mexico a safe place for capital investment by preventing the Mexican government from changing the rules once the game begins.

6. **"Long-term production strategies."** Moving factories to Mexico, permanently.

7. **"Production-sharing."** This means moving labor-intensive manufacturing functions to countries where labor is cheap and/or market access is impeded by restrictions on direct imports. As practiced by Japan, the high-wage, high-profit, and administrative functions remain in the home country. There is little evidence of such economic nationalism by the United States.

"The shortsightedness of this strategy should be self-evident: It's killing the goose that lays the golden egg."

8. **"Penetrating U.S. markets."** Relatively free access to the U.S. market has allowed Japan in particular to target and capture a succession of U.S. industries, deliberately incurring losses over a period of years in order to build market share and drive competitors out of business.[7] To lower costs, Japan has used cheap labor in Third World Asian countries to assemble products for export, while retaining the best jobs for Japan's own workers. This strategy, together with Japan's autarkic practice of barring the importation of manufactured goods and many agricultural products,[8] has so far allowed Japan to keep its unemployment rate under 2.5 percent, even during the current deep recession in the Japanese economy. By contrast, the official unemployment rate in the U.S., where little effort is made to retain good jobs and where the recession supposedly ended well over two years ago, is still 7 percent.

9. **"U.S. industries."** Again, a misleading representation. This is an appealing concept but unfortunately it is deceptive in two ways. First, what was once a U.S. corporation might indeed become more competitive by moving its operations to a low-wage, low-regulation, low-tax country, but that certainly doesn't help the United States. In fact, it deprives the U.S. of taxpayers and increases the burden on the lucky ones who still have a job. Second, a large number of corporations with American names are in fact multinationals doing business all over the world, and have no particular allegiance or interest in the affairs of the United States or of any other country in which they do business, aside from how it affects their profits.

10. **"Multi-polar geoeconomic rivalry, etc."** In other words, the Cold War is over and now the world is presumed to be splitting into competing Asian, European, and Pan-American trading blocs (far from a *fait accompli*.)

11. **"Redraw the mental map of citizens."** This is Ms. Baer's way of speaking indirectly about the loss of national sovereignty which NAFTA would mean to all three nations. Sovereignty is the right of an independent nation to conduct its own affairs in the best interests of its citizens. In a democratic society such as our own, the idea of sovereignty includes our Constitutional freedoms and guarantees. It appears to be Ms. Baer's view that we should surrender our rights and responsibilities as citizens of the United States of America, and begin to think of ourselves as North Americans, who owe allegiance to international treaty obligations rather than to our own people and our country's high ideals. NAFTA would weaken the independence and autonomy of all three nations, and further diminish the accountability of our government to its citizens.

The quote examined here is an example of the use of cryptic language to conceal unpleasant realities from all but the cognoscente. It is one of two common varieties of deception employed by many self-interested advocates of free trade schemes. The other is reductionism. Reductionism disregards the complexities of trade issues and insists on confining the dialogue to a mindless dogma: Free trade is good; protectionism is evil, and never mind the erroneous assumptions necessary to arrive at this conclusion.

Evidence of this widespread prejudicial dogma may be found almost daily, not only in the pages of *The Wall Street Journal* and *Forbes* magazine, where the use of reductionism betrays a premeditated bias, but also in the parlance of the popular media, where "free trade" and "protectionism" are too often convenient but disinformative journalistic shorthand for concepts not well understood.

The matter was summed up nicely by Ford Motor Company chairman and CEO Harold Poling, lamenting our annual $50 billion trade deficit with Japan before the National Press Club: "If we continue to profess the philosophy of free trade, nothing will happen. They don't believe in free trade. I find it fascinating that there is no middle ground," he said. "Either you're a [virtuous] free trader or a[n evil] protectionist."[9]

"...no nation has ever prospered for long by practicing free trade, including our own."

The irony is that the pejoration of protectionism has succeeded so well at distorting history. The fact is that no nation has ever prospered for long by practicing free trade, including our own. For 125 years, the United States government obtained half of its revenues from tariffs of up to 100% on imported goods. But at the end of World War II, the U.S. gave tens of billions of dollars in reconstruction aid to Europe and Japan, and began the series of one-sided trade concessions in the GATT treaties (the 110-member-nation General Agreement on Tariffs and Trade), which dropped U.S. tariffs from an average 32 percent ad valorem down to 8.5 percent in 1972, providing a robust market to nurture the world's new industrial powers.[10] This strategy succeeded at building strong free world economies to resist communism beyond American shores, but it also built the foundation of the "global economy" which now is taking away our jobs, our prosperity, and our self-determination. Unless we adopt a rational trade policy free from utopian one-world ideology, we will soon discover that winning the Cold War was a Pyrrhic victory.

We Have Met the Enemy

Note that 1971 was the last year in which the United States protected its high-wage industrial jobs with high tariffs. It comes as no surprise that our balance of trade with the rest of the world, which had been positive for 77 consecutive years, turned negative in that year, and save for two times, it has been negative every year since. Nor is it an accident that manufacturing employment has shrunk to less than 17% of the U.S. work force from 30% in the 1960s.[11] Nor that 1972 began a twenty-year, twenty-percent decline in average real wages for nearly four-fifths of American workers.[12]

But the mischief didn't end in 1972. In fact, it didn't really get rolling until the 1980s. In 1980, the United States granted most-favored nation trading status to communist China, lowering tariffs on Chinese goods from 40% down to 6%. And already, Chinese exports account for more than one-third of the U.S. toy market, 10% of the footwear market, and 15% of all apparel imports.[13] Many of those Chinese exports are produced by prison laborers, in spite of U.S. trade laws which are intended to block such practices.[14] Our trade deficit with China in 1992 was more than $18 billion, second only to our nearly $50 billion gap with Japan. In recent years the trade deficit with China has doubled every two years, thanks to that country's penurious wages and Japan-like autarky.[15]

"It is precisely in anticipation of a free trade deal with the U.S. that Mexico has taken steps to light a fire under its erstwhile moribund economy."

The 45-year American experiment in unilateral free trade has been an abysmal failure for the domestic economy. The U.S. has lost the consumer electronics industry, nearly all of the commercial shipbuilding industry, a third of the automobile industry, large sectors of the machine tool, semiconductor, textile, apparel, shoes, steel, and farm machinery industries, and even a substantial share of the world market for agricultural products. And in the process, we have gone from first in the world to thirteenth in wages.

> *The failed priests of Adam Smith [the 18th century creator of the antiquated theory of free trade] continue to run the think tanks, corner the op-ed pages, and set policy for this country. Each recovery is shallower than the one before because the true value-added manufacturing base is getting smaller and smaller .... If every family bought a new car, on average, 29 percent of that money would go to Japan, and the 57 automobile plants in the Mexican maquiladora program might be stressed, but in all truth, how many new jobs would be created in America? If every man, woman and child went out to purchase new clothing and shoes, whose economies would be stimulated when 60 percent of our textiles and 80 percent of our shoes come from abroad? In every instance, we might gain a little, but every one of our trading partners would gain much more.*
>
> (— Helen Delich Bentley)[16]

The global economy is a beast of our own making. It is an economy that (in his 1991 book *The Work of Nations*) Labor Secretary Robert B. Reich says only one-fifth of all Americans can cope with.

This fact alone may be the most compelling reason to postpone the giant leap towards global free trade embodied in NAFTA. If we are to fulfill President Clinton's campaign vision of becoming a high-skill, high-wage, high-growth society, we have a great deal of homework to do before inviting the free trade Trojan Horse through the gate. Even if we believe it is possible for the United States, on merit alone, to secure a hugely disproportionate share of the world's high-paying jobs in this era of footloose capital, then we must somehow mobilize our entire society to achieve that goal before exposing it to the hostile winds of free trade. Simply offering worker retraining and investment tax credits is nothing more than an empty gesture, a political placative.

Why Mexico?

What the world's multinational corporations find so attractive about Mexico is its labor force of some 40 million souls who typically earn a dollar an hour, or less, adjacent to the world's most lucrative consumer market. But Mexico's vulnerable labor force and strategic proximity to the U.S. are not the only attractions. The others include substantial natural resources, fertile agricultural land, the near absence of environmental and occupational safety enforcement, repression and manipulation of organized labor, and a legendary climate of graft and corruption where everything is negotiable, including law enforcement.

Mexico has made no secret of the fact that what it hopes to gain immediately from NAFTA is capital investment. Mexico's cheap labor and laissez-faire regulatory environment require only the strait jacket on investment rules (i.e., NAFTA guarantees *no changes* in the rules) and the guaranteed free access to the U.S. market to make it one of the world's most attractive places to invest money. It is partly in anticipation of a free trade deal with the U.S. that Mexico has taken steps to light a fire under its erstwhile moribund economy. Privatization, equity-for-debt swaps, tight monetary policy, liberalized foreign investment rules, and the encouragement of export-oriented manufacturing ventures have weaned Mexico from its dependence on declining oil revenues, attracted billions of dollars of new investment capital, and provided hard currency to service Mexico's $80 billion foreign debt. Together with billions of dollars in sometimes surreptitious economic aid to Mexico from the U.S.,[17] these measures have caused the Mexican economy to spurt in recent years, giving ammunition to proponents of the NAFTA treaty. The prospect of completing the agreement, which would lock up free access to the U.S. market, has already enticed Volkswagen, Nissan, and other Asian manufacturers, as well as many U.S.-based companies, to begin building new plants in Mexico.

The significance of the global battle for capital is two-fold. First, a nation's jobs, productivity, and hence its standard of living, depend directly upon capital investment at home, particularly in this age of rapidly changing technology.

Second, it is feasible today for a large corpora-tion to build a state-of-the-art production facility almost anywhere in the world, based solely on the risk-adjusted potential return on the investment. The U.S. is not exempt from the global competition for capital, and in fact, is faring rather poorly in that regard. For the moment, the United States is per capita the most well-capitalized country in the world and, not by accident, also the most productive. Yet our productive assets are aging and our lead shrink-ing fast because American capital is flowing out of the country and into places like Mexico and China. Capital investment in the United States in 1991 was at the lowest level since the Great Depression, and continues to be alarmingly low. The situation will be severely worsened in the U.S. if the North American Free Trade Agreement is ratified, because NAFTA will launch a predatory boom in the Mexican econo-my and divert capital investment from the U.S. to Mexico. This is the agenda of the U.S.-based interna-tional banks which hold $30 billion of Mexico's foreign debt,[18] and despair of ever seeing it repaid without the snake oil tonic of free trade.

"...The United States is per capita the most well-capitalized country in the world. ...Yet our productive assets are aging and our lead is shrinking fast."

Unfortunately, investors need little incentive to look beyond the United States to invest capital. There are three principal reasons that capital is fleeing the United States.

1. **U.S. government tax and regulatory policy.** U.S. Representative Richard Armey (R-TX) points out that the "government burden per worker" for a typical small business rose 34 percent between 1989 and 1992, from roughly $3,950 to $5,300. (A figure which approximates the total employment cost of the average Mexican.)[19] This burden consists of employment taxes, indirect business taxes, the cost of environmental regulations, and the change in wage costs as the result of the increased minimum wage.[20] During the same period, business profits per worker slid 20 percent. In addition, former HUD Secretary Jack Kemp cites the tax treatment of capital itself as a disincentive to invest in the United States.[21] Interest income on savings — which are the source of capital — is taxed at the same rate as ordinary income. Dividends on capital invested in the stock market — which provides businesses with the resources to expand and create jobs — are also taxed at the same rate as ordinary income. And capital gains — the

rewards of putting capital at risk to build a business — are also taxed the same as ordinary income, even when inflation merely creates the illusion of a gain. In addition, tort law in the U.S. adds the enormous cost of product liability and malpractice insurance to everything from airplanes to delivering babies. In sum, we have a tax structure and a regulatory labyrinth which discourage capital investment, job creation, and economic growth in the U.S. And our enormous debt burden makes the prospect of tax relief rather remote.

2. **Better opportunities abroad.** In addition to more favorable tax treatment in many foreign countries eager to attract capital, many countries have also enjoyed growth rates in recent years several times that of the United States. These factors have combined with the low cost of Third World labor to entice American corporations to relocate or expand into Latin America, Asia, and Europe, rather than to invest in the U.S.

3. **Risk management.** Perhaps the most disturbing of the three explanations for declining investment in the U.S. is this: Many American companies have gone global in part to improve their chances for survival should the U.S. economy collapse. Such a doomsday scenario is the subject of the current nonfiction bestseller *Bankruptcy 1995*, by industrialist Harry E. Figgie, Jr., and economist Gerald Swanson. Figgie, founder, chairman, and CEO of $1.17 billion Figgie International, Inc., served on the Grace Commission in the 1980s, and the book grew out of research done for the Commission by DRI/McGraw Hill. That research showed that the accelerating rate of deficit spending and the resulting debt service requirements incurred by the U.S. government would, if unchecked, exceed the government's ability to tax or borrow, and result in hyperinflation and/or financial collapse by 1995. Every nation which has gone this route before us has suffered a devastating debasement of its peoples' standard of living.

According to a February 5, 1993 *Wall Street Journal* article, Figgie is expanding abroad to position his own corporation to weather such a crisis. The program seeks to achieve a 50-50 balance between U.S. and foreign sales, to make overseas acquisitions, and to build foreign plants.

It is easy to see how apprehension about America's ability to manage its debt could become a self-fulfilling prophecy. Capital flight is a leading indicator of unsound money.

Selling the Emperor's New Clothes

To understand who will benefit from NAFTA, look at who is promoting it. Mexico has taken a page out of the Japanese foreign relations playbook, and launched the biggest campaign in history to lobby Congress for passage of NAFTA. The Mexicans spent far in excess of $14 million last year, and this year will spend a minimum of $50 million, to marshal a host of high-powered influence peddlers in Washington to press for the pact.[22]

"...Mexico has ... launched the biggest campaign in history to lobby Congress for passage of NAFTA."

Their efforts will be matched, if not exceeded, by commercial interests in the United States. NAFTA's backers in the U.S. are the multinational corporations, insurance and brokerage firms, large commercial banks, and other special interests represented under the umbrella of USA-NAFTA. This coalition of more than 1,100 companies, trade associations and business groups, admits planning to spend at least $2 million to lobby Congress and campaign for public support of the treaty,[23] but private estimates peg the war chest at up to $50 million.[24] Fund-raising is being coordinated by a division of Hill & Knowlton, the same powerful lobbying and public relations firm retained by the Kuwaiti government to rally public support in the United States for the Gulf War.[25]

The ambitions of these NAFTA proponents are not hard to divine. Most of Mexico's nearly 90 million people are in extreme poverty; they will not be lining up to buy duty-free merchandise from the U.S., even if they are fortunate enough to land one of those new dollar-an-hour factory jobs. Still more will be in poverty when capital-intensive American methods of mechanized agriculture and computerized banking and insurance replace Mexico's labor-intensive family farms and service industries. In truth, access to Mexico's consumer market is not the plum the big money seeks. The real money will be made on Wall Street. Huge profits will come from closing American factories, putting well-paid Americans out of work, and building new state-of-the-art facilities in Mexico to capitalize on that country's rock-bottom employment and environmental costs and exporting the products and services back to the U.S. and to other markets opened up by the GATT treaty.

"[NAFTA's promoters] have concluded that international wage competition — the race for the bottom — is the way for industry to become competitive in the world."

For evidence of this strategy, one need only look to the AmeriMex Maquiladora Fund L.P., an investment fund created by entrepreneurs in Mexico and New York. According to *The New York Times*, the fund will acquire several U.S. manufacturing firms and move them to Mexico, replacing $7-$10 per hour U.S. workers with Mexicans who earn from $1.15 to $1.50 per hour for the same work. The fund will operate the companies for several years, realizing savings of some $10,000 to $17,000 in labor costs for each employee each year, before reselling the companies and closing out the fund.[26] The Mexican government's largest industrial development bank was a major investor in the fund until this embarrassing fact came to the attention of the American public in February. Hasty damage control in Washington and Mexico City resulted in the bank withdrawing from participation in the investment scheme. In the words of AFL-CIO Secretary-Treasurer Tom Donohue, the fund "is wonderfully revealing of the attitudes behind the enthusiasm for the NAFTA."[27]

In a recent episode of the television program "Wall Street Week," investors of a different stripe were subtly reassured about the benefits that NAFTA would confer upon them. Inflation is the enemy of bondholders, driving interest rates up and the value of bonds down. But when asked about the outlook for inflation, veteran Wall Street analyst Henry Kaufman had this to say:

> *The rate of inflation will remain subdued at around three percent or perhaps even less. I think it's very important to recognize the structural changes that are taking place in the United States that will hold down the inflation rate. After all, restructuring is still very much in force in the United States. Plants closing, corporations downsizing, <u>and internationally the supply of labor is extraordinarily large. So wage demands will be moderate</u>...*[28] [Emphasis supplied.]

This is what NAFTA's promoters really mean when they talk about the "enhanced competitiveness" that the treaty will create.

They have concluded that international wage competition — the race for the bottom — is the way for industry to become competitive in the world. What the million-dollar CEOs and their corporate boards wish to do — have already begun to do — is to cut costs by firing their U.S. workers and moving their plants to Mexico, where labor is cheap, taxes are low, and regulation is lax. In the last few months alone, Outboard Marine Corp., Smith-Corona, and Zenith have announced plans to pink slip 2,350 Americans and move their factories to Mexico. The agreement will assure them that their mission will succeed. Many know they have no choice. They are competing for U.S. market share with China's prison laborers.

In the 1980s, Washington lawmakers wrote the rules that allowed all this to happen. Businesses are simply doing what they must do to survive. If our people suffer, it isn't personal, it's just the demands of the market. In any Darwinian struggle, there is a premium on treachery.

Speaking of the excesses of the 1980s, Donald Barlett and James Steele wrote in *America: What Went Wrong?* "[W]e are in the midst of the largest transfer of wealth in the nation's history. It is a transfer from the middle class to the rich, and from the middle class to the poor — courtesy of the people in Washington who rewrote the rules. Those who have taken advantage of the changed rules are beneficiaries of the transfer."[29] NAFTA is chapter two of the same nefarious story.

Ford Had A Better Idea

Unfortunately the transfer of jobs from the United States to Latin America and Asia, and the transfer of wealth to the owners of capital from the users of capital, is a self-perpetuating phenomenon, and it has only just begun. What began as opportunism has become necessity. The competitive imperative of the "global economy" is to produce the world's best products at the world's lowest cost, and that means employing the cheapest labor that can perform the necessary work. If you can find that cheap labor in close proximity to the raw materials and the end markets, so much the better. And if you are the CEO of a big corporation, for your enterprise, you will be richly rewarded.

But this myopic perversion of the social compact spells doom for the American standard of living, and perhaps a deflationary depression unprecedented in our history. The genius of Henry Ford is being profaned by this mindless transfer of wealth away from the middle classes. Ford's vision, which made the great middle class experiment succeed in this country, was that business must share with labor the riches that flow from improved productivity. Only in that way could businesses assure that there would be customers able to buy what they built. Ford believed, and proved, that his business would succeed only if he paid his workers enough so that they could buy his cars.

"The theory of comparative advantage works only to the extent that you are investing your own time in something more productive. ...Drawing unemployment benefits does not qualify."

The supply of cheap labor in the world is vir-tually unlimited. But our capacity to benefit from it has already been exceeded. The theory of compara-tive advantage works only to the extent that you are investing your own time in something more productive than the jobs you farm out to others. Drawing unemployment benefits does not qualify.

The Ties That Bind

What everyone should know about NAFTA is that this agreement, if approved by Congress, is the legal equivalent of a treaty; only the procedure for adopting it is different. Whereas a treaty requires a two-thirds vote of the Senate to ratify, this agreement, on the trade-pact fast-track, requires a simple majority of both houses after strictly limited debate. Legally, a trade agreement is no less binding than a treaty. This is important because the U.S. Constitution makes treaties, no less than the Constitution itself, the supreme law of the land:

> Article VI, Sec. 2
> *This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.*

The trouble with a treaty is that it creates far-reaching legal obligations to other nations. It limits a nation's freedom to take unilateral action on behalf of it's own citizens. And like any contract, it is much easier to get into than get out of, and getting out comes only at a price. Best to understand the fine print before signing.

This is the key to the sovereignty question. NAFTA shares a feature with the ongoing Uruguay Round of the General Agreement on Tariffs and Trade (which *is* a treaty) — a feature lacking from any previous round of the GATT: a mechanism for ensuring compliance and resolving disputes which appropriates a measure of sovereignty from the member nations, and further consolidates the political power of the plutocrats who conceived it.

Each of these pacts, purporting to put teeth into the trade deal it strikes, usurps a measure of self-determination which properly belongs with the people, and vests it in an autonomous, secretive, and unaccountable panel of trade insiders, mainly lawyers and judges, who are "immune from suit and legal process relating to acts performed by them in their official capacity."[30] There does not appear to be any mechanism for ensuring that this so-called "Free Trade Commission" will not be subject to the influence of the same special interests which have purloined the allegiance of our elected officials. The nominal purpose of this organ is to arbitrate disputes between nations in the observance of the treaty's provisions. But the language of these treaties seeks to do more than simply reduce or eliminate tariffs; it goes much deeper than that.

It seems that nations party to previous trading agreements have at times reneged on their commitments to open up certain markets, but not by erecting a tariff, which would be an obvious violation of the treaty. Rather, they have created a technical impediment to a given form of commerce — not a tariff or a quota, but some arcane regulation which effectively prohibits the unwanted competition. It is such "technical barriers to trade" that these panels of bureaucrats were invented to disarm, and which they would be empowered to strike down whenever a party with standing in the dispute filed a complaint.

However, there is a fly in the ointment which could hardly be construed as a careless mistake by our meticulous trade negotiators. Just exactly what is a "technical barrier to trade," has been left sufficiently vague to allow for creative interpretation once the jaws of these treaties snap shut. It is this vagueness, this lack of precision which permeates the text of the North American Free Trade Agreement, which has aroused the concerns of environmentalists and consumer groups. Depending on how these amorphous treaty provisions are interpreted by the aloof trade ministers appointed to deal with such things, NAFTA could spell the end of the Clean Air Act, the Endangered Species Act, the Marine Mammals Protection Act, laws prohibiting oil drilling in the Alaska National Wildlife Refuge, the Aleutian Islands, and the Great Lakes, and the prohibition of the export of Alaskan oil. All of these laws, which manifest values we as a people wish to protect, could be deemed technical barriers to trade or investment by a trade tribunal.

Conceivably, it would not even be necessary that a petition to overthrow such laws originate in a foreign country. For example, an American company, finding some pesky U.S. regulation (such as Florida's ban on offshore oil drilling) interfering with its business interests, need only set up a subsidiary in Mexico to succeed to those interests, and then find a trade-related pretext for arguing that the offending regulation is a technical barrier to trade, and ask the tribunal of trade lawyers to abolish it.

"...it is not our business to become intimately involved in determining the internal affairs of Mexico or any other country."

The enforcement power of this tribunal, should diplomacy between all of the like-minded bureaucrats fail, would be trade sanctions against the obstinate party. Just remember, the U.S. Constitution makes treaties, no less than the Constitution itself, the supreme law of the land. The specter of this over-arching multilateral body having a supra judicial review of laws passed by the United States, whenever a foreign interest is inclined to deem such laws inconsistent with the aims of the treaty, is simply beyond the pale for many Americans. Yet this legitimate anxiety over the potential for trade treaties to compromise U.S. sovereignty and abridge the Constitution is not without precedent. The Bricker Amendment was several times proposed (and narrowly defeated in Congress) in the early 1950s to address this issue. The Constitution says treaties made by the U.S. are the law of the land; does that mean even when they conflict with that same Constitution? Bricker sought to make sure that no law created by a trade treaty would stand if that same law would be unconstitutional without the treaty.

Patience and Prudence

The United States Congress should carefully consider what the people of the United States stand to gain — or lose — from a free trade agreement with Mexico. Above all, the United States government should not be in the business of guaranteeing the foreign investment schemes of private interests. On the contrary, our government should, indeed it must, make the U.S. more attractive to investors who will create jobs here at home.

Mexico is a nation with enormous problems — problems which the United States cannot solve. An exploding population nearing 90 million, overwhelming poverty, endemic corruption, crime, and strangling debt. The U.S. should applaud and encourage progressive reforms in Mexico, but we should not stake our own future on the success or failure of another country. We would be wise to heed George Washington's admonishment in his farewell address to beware of entangling foreign alliances, be they military or economic. We must not become entangled in a web of paralyzing trade covenants in which the failures of one country endanger the rest because of their growing trade interdependence. Nor should these pacts place the exigencies of trade and the interests of huge multinational corporations above the general welfare and the Constitutional rights and freedoms of the people to manage their own affairs. We must keep clearly before us the purposes for which our Constitution was adopted as stated in the Preamble:

> *We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.*

Mexico's economic reforms of recent years have yielded benefits to the United States without any complicated treaties. We enjoy a trade surplus with Mexico at present. (Never mind that over half of all U.S. "exports" to Mexico are actually soon-to-be U.S. imports, semi-finished goods bypassing American workers through the *maquiladora* factories.) If Mexico chooses to continue along the rocky path towards true democracy and free enterprise, perhaps our relationship will continue to be beneficial. But it is not our business to become intimately involved in determining the internal affairs of Mexico or any other country. Ultimately, it will be the people of Mexico who will choose their own fate, NAFTA or no NAFTA. We cannot ensure their prosperity, but we can easily squander our own.

In spite of the benefits we have realized, we should also be aware of the tragedy our intercourse with Mexico has wrought. Most of the 600,000 Mexicans employed in U.S.-owned maquiladora factories live in squalor, with incomes barely enough to subsist on in their shanty towns, lacking electricity, potable water, even sanitary facilities. Open sewers choked with heavy metals, toxic chemicals and human waste course through the makeshift villages. The American Medical Association describes the maquiladora region as "a virtual cesspool and breeding ground for infectious disease."[31] There is no EPA here, and no OSHA. Scores of children have been born defective because of the toxins their mothers were exposed to in the maquila factories.[32] But the pollution tolerated by Mexico is not confined to the border region. A single federal inspector is assigned to an area along the Coatzacoalcos River in Veracruz state where 6,000 factories add a toxic stew of petroleum, mercury, lead, sulfur, acids, and phenol to the raw sewage contaminating the river.[33]

"But if we are determined to marry the economies of the United States and Mexico, let us take our vows of poverty now..."

Corruption is woven into the social fabric of Mexico. It is naive to believe that a trade pact will change that. Reports indicate election fraud in 1988 brought Mexican President Carlos Salinas to power.[34] Since 1929, the IRP (Institutional Revolutionary Party) has never lost a presidential election. Political repression is the order of the day. According to a report for the World Policy Institute's Mexico Project, "Torture is universal; and dozens of journalists, more than 100 members of political opposition parties, and a prominent human rights advocate have been murdered since Salinas took office."[35] Yet NAFTA boosters frequently trumpet the "stability" NAFTA will bring to Mexico by bolstering the IRP regime.

The American road to economic hell has been paved with the good intentions of U.S. trade negotiators.

NAFTA was conceived to profit the captains of industry and finance, not to "promote the general welfare," as the Preamble to our Constitution envisions. Congress should put an end to this charade once and for all.

But if we are determined to marry the economies of the United States and Mexico, let us take our vows of poverty now, because Mexico's problems will be our problems. ■

NOTES

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