Vernon Briggs, professor of labor relations at the New York State School of Industrial and Labor Relations at Cornell University, co-authored with Leon Bouvier: Population and Labor Force in New York from 1990 to 2050, *published by the Population Reference Bureau. His books include* Immigration Policy and the American Labor Force, *and he is currently at work on* Mass Immigration and the National Interest. *This article follows up the proposed Free Trade Agreement with Mexico highlighted in the Fall 1991 issue of* The Social Contract.

THE MEXICAN FREE TRADE AGREEMENT:

An Idea Whose Time Has Not Yet Come

By Vernon M. Briggs, Jr.

Like a "bolt out of the blue," the idea of a free trade agreement with Mexico suddenly appeared on the nation's political agenda. With no advance discussion or careful forethought of its ramifications, the presidents of the United States (George Bush) and Mexico (Carlos Salinas de Gortari) jointly announced on June 10, 1990 their intention to commence negotiations between their countries for such a mutual relationship. The idea was to replicate the process whereby both the United States and Canada had ratified a similar accord only a year before. The ultimate objective, it seems, is to create a North American free trade area encompassing the economies of the three nations.

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Without diverting to a prolonged discussion of the events that led to the Canadian-United States agreement, it is imperative to state the obvious: Mexico is not Canada. There is little comparison between the economic conditions and the institutional structure that exist between Canada and Mexico. Among the world's industrial nations, Canada has one of the strongest labor union movements (close to 40 percent of the labor force are members). Its union movement is independent and fiercely defensive of worker rights. In Mexico, less than 10 percent of the labor force are unionized at best. Moreover, the labor movement (i.e., the *Confederación de Trabajadores de Mexico*) is part of the broad coalition of interest groups that comprise the political party that has ruled Mexico for over 60 years, the Party of Revolutionary Institutions (PRI). It is not an independent force nor an active voice for worker welfare. As Octavio Paz has poignantly written, the Mexican union movement is but another example of an institutional structure where "form everywhere masquerades as substance." In Canada, the wage rates in comparable occupations closely approximate those of the United States whereas in Mexico the respective wage rates are but a fraction of those in the United States. For example, in Canada the average hourly earnings in manufacturing in 1988 were $13.53 while they were $13.85 an hour in the United States but only $1.99 in Mexico (and only $.98 in its border assembly plants called "maquiladoras").[1] In Canada, there is a broad array of social insurance programs (including national health insurance) and a commitment to their continuance; in Mexico, there are only minimal social protections and they are very limited in coverage and benefits. The unemployment rate in Mexico for 1989 was three times the rate of Canada and four times that of the United States. In Canada there is an institutional structure of governmental agencies in place whose mission it is to enforce worker and environmental protections; in Mexico few such laws and fewer such agencies exist. Where they do, the relevant government agencies are underfunded, poorly staffed, inadequately trained, and often lack dedication to their missions. Laws to protect the worker and the environment that do exist in Mexico are seldom enforced with vigor or regularity and, when attempts are made to do so, they are often undermined by the widespread toleration of the practice of the *mordida* (i.e., the "bite", or the bribe of the enforcement officials). Hence, to compare the ground rules that led to the feasibility of a trade agreement with Canada with those of Mexico is to compare something that is substantial with literally nothing.

Nonetheless, the Bush Administration, following the joint presidential announcement, sought to place these negotiations on a "fast track" that would preclude subsequent amendments by Congress of the end product. Congress would be presented with only a "yes" or "no" option. After extensive debate in the Spring of 1991, Congress ultimately gave its approval to this procedure but the vote was close and the critical tenor of the debate should serve as a warning that the fate of the proposal is far from assured.

THE BROADER POLICY CONTEXT:
MARKETS VERSUS RULES

The proposal for a free trade agreement with Mexico is but the latest example of a broader movement led by the United States toward less regulated trade worldwide. It has its peculiarities, of course, because of the vast disparities in the stages of economic development between the neighboring nations, but its specific efficacy must also be evaluated within this wider context as well.

"Free trade" as an abstract slogan is hard to question. It is analogous to the emotive phrases "right to life" or "right to work" in its ability to simplify complexity and to stifle thought. Such phrases act as "sound bites" to the mind of the uninformed listener. They often preclude responses because it takes time to answer in a reasoned manner to a cliche.

But "free trade" is more than just a passing political gambit. It is part of a broader and conscientious strategy currently in vogue in the US that is designed to discipline the hopes of the nation's workers and to reduce their expectations for a better and more secure standard of living in the future. It is the latest plank to be added to the free market catechism of free trade, unlimited immigration, and deregulation of industry. Collectively, the pursuit of these principles is designed to reduce the discretionary rule-making and regulatory role of public and private organizations in democratic nations by increasingly moving toward a *laissez faire* environment where invisible market forces alone determine economic outcomes.

Market forces, however, have traditionally manifested little concern for worker rights, human welfare, or environmental protections. These forces have no sensitivity for the adjustment difficulties often experienced by individuals, their families, or their communities to such unfettered decisions. Indeed, since the early 1970s, the increasing acceptance of these principles has contributed to a steady decline in the real income of US workers and their families.[2] Yet their supporters continue to extol their imagined virtues.

Under the free market paradigm, markets are assumed to be efficient. Hence, any interference in their operation is alleged to be a distortion from perfection — no matter how humane, compassionate, or wise it might seem to do so. But if one starts from the opposite assumption: that markets are not inherently efficient, interventions into an imperfect world can improve the conditions of life and welfare of both individuals and nations. For instance, anti-discrimination laws can provide greater opportunity for work to be done by the most productive workers; health and safety laws can assure that workers are able to have long and productive work lives; and child labor laws can guarantee that there will be a future supply of healthy and capable workers.

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Market forces, as they apply to trade between nations, operate essentially on the basis of cost comparisons between trading partners. The market does not care who produces what or under what circumstances. Hence, without work standards, the loss of economic sovereignty is tantamount to the loss of political sovereignty. Those countries that seek to protect their workers and their natural environment are placing themselves at an unfair advantage if they participate in trade without international regulations. What sense does it make, for example, to say that US industries must pay at least minimum wages, or submit to collective bargaining representation if a majority of the work force so wish, or refrain from employing children in dangerous occupations, or provide safe workplaces, or be prohibited from practicing employment discri-mination, or desist from sexual harassment on the job, or be prohibited from employing forced labor, or be required to adhere to strict environmental pro-tection standards if private enterprises can simply move to Mexico (or anywhere else) and export their goods and services back to the United States at competitive advantages through non-adherence to such principles? To encourage such relocations would not only serve to undermine decades of policy and institutional development in the United States, but it would also represent a contemptuous belief that the welfare of Mexico and the lives of its workers (or those of any other nation) are of insignificant consequence.

It is not that trade among nations is a bad idea *per se*. In fact, it is a far superior option to the fighting that has traditionally occurred over the centuries between nations who became envious of what others had but they did not. Rather, it is that the goal of a nation's trade policy should be like that of any other public policy: it should be designed to further the national interest. Thus, the fundamental rationale for trade between nations should be to raise real living standards — not to contribute to an erosion of existing work standards, or a loss of employment opportunities, or to allow pollution of any nation's environment, or to provide a vehicle for employers in advanced nations by which to exploit workers in less developed countries for competitive gain. Yet these seem to be the implicit goals of evolving US trade policy — especially as it relates to the proposed free trade agreement with Mexico.

"...it seems to be forgotten that the United States economy was not built on the basis of free trade or anything that resembled it."

It is often forgotten these days that there are reasons why industrialized nations in the past have imposed man-made rules to govern the work place and to regulate trade between nations. It is one of the greatest weaknesses of contemporary free market economics that it is ahistorical. It should not be necessary, but it often is, to remind the current generation of US citizens as to why there are policy interventions in the marketplace. Without government regulation there were `sweatshops', long workdays, unsanitary and unhealthy work places, unsafe working conditions, widespread employment discri-mination, child labor, frequent spells of high unemployment, and a total disregard for the physical and natural environment.

As for trade, it seems also to be forgotten that the economy of the United States was not built on the basis of free trade or anything that resembled it. Indeed, its rise to world economic dominance was based precisely on the fact that it did not depend upon the control of foreign markets but, rather, on the production for its vast home market. The pace of US economic development was also greatly stimulated in the 20th century by the expanded production demand associated with two world wars that were fought on foreign shores. Immigration was sharply curtailed from the mid-1920s to the late 1960s. The US labor market over this time-interval generated high wage and high income jobs that became the envy of the world. In the process, the US economy developed a mass domestic market — especially for expensive and advanced goods and services that were produced by its highly heterogeneous industrial structure. As other industrial nations gradually regained and expanded their productive capabilities after World War II, they have been able to reclaim production for much of their own domestic markets. Moreover, because the US has been in the process of opening its marketplace for foreign competition entry since the early 1970s, some of these nations have been able to select and to pick-off certain sectors of the US economy for competition with their specifically tailored export policies. Even some less economically developed nations have been able to join the feast. Unconstrained at home by environmental and worker protection laws comparable to those in the United States, they can choose particular segments of the US economy that are susceptible to competition from their less costly production requirements. Or, alternatively, these nations can successfully attract formerly US-based enterprises to locate in their countries and then export back to the US the output that once was domestically produced at higher costs. Already a trend, this process would be vastly accelerated as an outcome of a free trade agreement between the United States and Mexico unless strong labor standards and environmental protections are included in any final agreement.

It is a sorrowful litany of economic woes that have befallen the US economy since it adopted its free trade stance. The United States, which for most of the 20th century had been a net creditor nation, has within the past decade become not only a net debtor, but the world's largest debtor. The value of the dollar has declined sharply and the depreciation of the currency has made the value of US businesses and land very attractive to foreign investors. As Japan's Vice Minister of Finance and International Affairs, Makato Utsumi, has said, the falling value of the dollar is "not putting American products on sale, but putting America on sale."[3] Indeed, the sale of domestic assets has been so extensive that the specter of the United States becoming the world's first internationally-owned nation is no longer a mere speculative possibility. It is becoming the most likely scenario should the indifference to the nation's long-term welfare be perpetuated much longer. In the process, the ideal of the "American dream" is being shattered as the people of the nation — collectively and individually — are increasingly unable to shape their own destinies. Foreign owners, motivated only by short-run profit goals, can hardly be expected to be as concerned with the long-term welfare of the citizens or the environment of the United States.

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In this same vein, the struggle by social reformers over the decades to develop a strong and viable labor movement as well as to enact a broad array of worker-protective policies and environmental safeguards is seriously endangered. None of these developments can be interpreted as representing positive trends; yet all can be linked directly to the "free trade" era that began in the 1930s; spread slowly in the post-World War II years; accelerated in the 1970s and 1980s; and is now in high gear in the early 1990s.

THE PRE-CONDITIONS FOR A VIABLE MEXICO-U.S. TRADE AGREEMENT

Before moving to the stage of including Mexico in a regional trade pact with the US and Canada, certain pre-conditions are necessary. These conditions are no different than those that other industrial nations, seeking to establish regional trading blocs, would agree to to govern their negotiations. In Europe, for instance, a central component of the move toward a regional European Economic Community has been a series of prior agreements on workplace standards, worker benefits, and common regulatory regimes.[4] The European negotiations have also involved proposals for massive governmental transfers of direct aid from the richer nations (e.g. Germany) to the poorer members (e.g. Portugal) to assure that when free trade between them starts it will benefit all the members. No such aid package for Mexico has even been mentioned in the Bush proposal.

The negotiations between Mexico and the United States over the feasibility of such an agreement should be predicated on the following broad principles:

- First, comprehensive labor safeguards and environmental protections must be included as integral features of any final accord and they must be spelled out in clear language that can be easily understood.
- Second, the basis for setting such standards should be with fairness to both Mexico and the United States (and Canada).
- Third, all parties that are going to be affected in the respective nations should be involved in setting the standards (i.e., the program should not only involve meeting the interests of businessmen but also those of workers, consumers, and environmentalists).
- Fourth, mechanisms for enforcement of standards must be in place prior to the actual implementation of such an agreement, and ways to verify compliance on an on-going basis must be included in the written terms.
- Fifth, equity concerns must be an essential part of any agreement to protect the weak in each nation from any predatory actions by powerful economic interests.
- Sixth, the goal should always be to write standards that assure that societal living standards will be raised as a consequence of enhanced trade and not lowered in the future.

Realistically, it is likely that it will take a considerable number of years for the aforestated conditions to be met and to be agreed upon by both nations. But this is as it should be. After all, the process of economic integration in Europe, which is scheduled to take effect in 1992, began with the Treaty of Rome in 1958! Protracted debate and detailed studies were a prelude to each step along the way. It is unlikely that discussions with Mexico should take 34 years to complete but it is unlikely that anything agreed upon within the next decade or so could possibly be in the best interests of both nations.

The proposed Mexico-United States trade agreement needs to be subjected to lengthy debate in both countries followed by a period of prolonged implementation of comprehensive social reform in Mexico before any deal is consummated. In the meantime, the United States itself needs to enact a series of reforms. Among these are a firm commitment to full employment (with programmatic obligations); adoption of an enforceable immigration policy that is keyed to meeting demonstrated labor market needs and not to mollifying special interest groups; and establishment of a comprehensive human resource development program to assist individuals and communities to adjust to the adverse conse-quences of any trade policies. Both nations, and Canada too, would be wise to adopt a social agenda similar to that which is now part of the new trade relationship among the members of the EEC, which offers a much more enlightened alternative involving adherence to international rules, rather than to the free market path currently being advocated by the Bush administration.

CONCLUDING OBSERVATION

It is ironic that as communism seems to be collapsing around the world, economic policy in the United States seems designed to do its best to revive Marxism from its deathbed. After all, *Das Kapital* was a critical analysis of what reliance on purely free-market principles can produce. At the time of its publication in 1867, it correctly portrayed the exploitive proclivities inherent in unregulated free market systems. But Marx did not foresee, in the capitalist nations, the rise of a viable labor union movement, nor the adoption of worker protection laws and full-employment policies by governments, nor the creation of regulatory bodies to check otherwise unbridled private sector economic power. We can hope that history will not be ignored — that we do not revalidate the Marxian predictions of what the future may bring by recreating the economic climate that he described. ■

NOTES

1 American Federation of Labor-Congress of Industrial Organizations, *Exploiting Both Sides: U.S.-Mexico Free Trade*, (Washington: AFL-CIO, 1991) p.3 [Based on data provided by the U.S. Department of Labor].

2 Wallace Peterson, "The Silent Depression," *Challenge*, (July-August, 1991), pp. 29-34.

3 D.E. Sanger, "Tokyo's Top Official for Overseas Trade is Critic of the U.S.," *New York Times*, August 8, 1989, p. D-1.

4 European Economic Community, "Community Charter on the Fundamental Social Rights of Workers," Adopted by the Heads of State and Government of the Member States, Strasbourg, France, December 9, 1989. See also, Michael Calingaert, *The 1992 Challenge from Europe: Development of the European Community's Internal Market*, (Washington: National Planning Association, 1988).