Free Trade High Cost

Will the North American Free Trade Agreement bring lower consumer prices and higher employment, or will we lose jobs and hard-fought environmental and safety regulations?

BY JOHN WHALEN

JUDGING FROM the fanfare, the North American Free Trade Agreement (NAFTA) is the Second Coming, the Holy Grail and the pickled brain of Adam Smith all wrapped inside, oh, say, the Magna Carta. The 2,000-page document, writ large and in secret by Mexico, Canada and the Bush administration, promises to transform North America (on Jan. 1, 1994) into the world's largest common economic market, removing restraints on trade and investment for the three trading partners.

NAFTA is "win, win, win" and means "jobs, jobs, jobs," its acolytes enthuse redundantly, as though adjectives are inadequate to express its promise. It is the best defense in trade wars with Europe and Japan. The competition it unleashes will slash consumer prices like a free-market Crazy Eddie. It is Operation Bootstraps-Plus for developing Mexico. And for Silicon Valley pragmatists, NAFTA is the key to new markets and a prophylactic against foreign pillaging of intellectual property.

Though its panegyrists don't mention the fine print, NAFTA could also deregulate rights, social programs and the government's role in guarding against damaging business practices. The treaty could carry a price tag in exported jobs, deflated wages, pollution and perhaps even the subordination of U.S. law to international trade, critics charge.

Those on both sides of the issue tend to agree that in Silicon Valley, NAFTA won't catalyze major employment upheaval. The electronics industry, observes Lenny Siegel of the progressive Pacific Studies Center in Mountain View, "was way ahead of its time when it comes to exporting manufacturing jobs."

Trade attorney Richard Steinberg believes NAFTA will have a generally beneficial effect on high-technology industries, which will enjoy software copyright protection south of the border and perhaps an incentive to relocate some manufacturing from the Far East to Mexico. But, he adds, "I don't think there will be a lot of computer manufacturing in Mexico," because the U.S. tariff on computers assembled there is already relatively low.

Worker's Advocate: *Amanda Hawes, director of the Santa Clara Center for Occupational Safety and Health, worries that NAFTA may have adverse effects on U.S. safety regulations.*

Monterey County is less lucky. Most analysts concur that California agriculture and food processing, already nicked by Latin American imports of produce and cut flowers, is a big loser under NAFTA.

More than "free trade" in the theoretical sense, NAFTA is a bill of rights for investors and large corporations. Its critics contend that as currently drafted, NAFTA and its global counterpart, the General Agreement on Tariffs and Trade (GATT), do more than address the inevitability of economic integration. They grant transnational corporations an unsettling degree of control over heretofore democratic processes. As Walter Russell Mead put it in a *Harper's Magazine* essay last year, NAFTA and GATT create "a new international organization potentially more powerful than the United Nations: a kind of free-trade World Government."

Both treaties (GATT's latest round of negotiations has yet to be completed) empower tribunals to resolve trade disputes and impose penalties on countries with laws deemed to be "technical barriers" to trade. In other words, U.S. laws could go on trial, and it wouldn't be U.S. courts or Congress—nor any entity accessible to the public—gaveling the session to order.

"It's interesting that the agreement negotiated by the Bush team goes a long way [toward] . . . protecting intellectual property rights and the right to invest in Mexico, but it is silent with respect to labor laws and the environment," Bill Clinton observed in a speech last October. Though Clinton supports the Bush-negotiated accord, he has pledged not to submit the treaty for congressional approval until its most glaring deficiencies are amended through side agreements with Mexico. Clinton wants to establish an environmental commission that would police polluters and act as a forum for complaints. He is also seeking another commission to deal with worker standards and safety, and a so-called "snap-back" provision to NAFTA that would reinstall tariffs on industries that might be overwhelmed by a sudden surge in imports.

Next week, U.S. Trade Representative Mickey Kantor will meet with Mexican negotiators to begin hashing out the revisions. The Mexican government considers NAFTA a *fait accompli* (Bush, Mexican President Carlos Salinas de Gortari and lame-duck Canadian Prime Minister Brian Mulroney inked the deal last December) and is loath to revisit the details, so the haggling could drag on into the summer.

Last month, Kantor met with environmental, consumer and labor advocates to hear their qualms about NAFTA, something the Bush administration never bothered to do. Some progressive critics, including Ralph Nader's Public Citizen and the Northern California Coalition for Fair Trade and Social Justice, argue that the agreement is so corrosive to hard-fought consumer, health, safety, labor and environmental laws that the whole thing ought to be junked and rewritten from scratch. As Nader put it in *Harper's Magazine* last September, responding to the Bush administration approach to trade: "I'm for free trade. If people lose their jobs as a result of competition, okay. They can get retraining, annuities. But you can't compensate someone for cancer."

Green vs. Greenbacks

Though EPA Director William Reilly called NAFTA the "greenest trade agreement ever negotiated," its verdure boils down to a clause stating that countries "should not" weaken their environmental, health or safety standards to attract foreign investment. Under congressional grilling, Reilly subsequently admitted that the clause was not enforceable; while NAFTA penalizes countries that violate its tenets of "free trade," environmental deregulation carries no legal sanction.

More than that, NAFTA doesn't deal with lax enforcement of environmental laws already on the books. Mexico is a desirable destination for U.S. companies looking for a license to pollute. A General Accounting Office survey last summer of 12 randomly selected U.S. companies operating in Mexico found all of them to be violating Mexican environmental laws. The National Toxics Campaign has called the *maquiladoras* zone, the border strip of foreign-owned factories, "a two-thousand-mile Love Canal."

Even some NAFTA supporters worry that the accord could encourage a new wave of southern migration by corporate polluters. "That U.S. industry would essentially be able to go down there and take advantage of Mexico's relatively lax environmental standards is a very serious concern," says Richard Steinberg, a former assistant general counsel in the Bush administration trade rep's office. "And it will be troublesome for the new administration to tackle. It's unclear how you do that. Do you force Mexico to come up to U.S. standards? They're unlikely to agree to that." Steinberg, who is NAFTA point man for a San Francisco law firm representing corporate clients, says he knows of three Silicon Valley firms—at least one a semiconductor manufacturer—contemplating a run for the border "to escape U.S. environmental regulations."

NAFTA could also endanger hundreds of federal and state laws regulating pesticides, air and water pollution, food labeling and content, timber cutting, hazardous materials, and endangered-species protection, critics charge. NAFTA proponents disagree, arguing, as Bush trade negotiator Carla Hills did, that the treaty "explicitly maintains our right to enforce existing U.S. health, safety and environmental standards."

But, counters David Phillips, executive director of Earth Island Institute, NAFTA doesn't grandfather any existing environmental laws, and the Bush administration didn't bother to review NAFTA's possible effect on hundreds of U.S. food regulations. Such a review should have been considered critical because NAFTA grants the three countries authority to challenge domestic regulations that are tougher than international standards. If a dispute panel, appointed by the executive branches of the three countries, rules that a food standard regulating pesticides violates NAFTA, the guilty country either would have to strike the law from its books, stop applying it to imports or pay "damages" to the wronged challenger.

The Bush administration countered this concern with the observation that the United States could pay the fine and still maintain its NAFTA-offending laws. However, as a Public Citizen analysis noted, because NAFTA gives Mexican and Canadian companies equal access to the American market, a regulatory double standard "would put U.S. companies who are following environmental rules at a competitive disadvantage to those who have relocated to Mexico to avoid environmental compliance." U.S.-based industrialists might find themselves with a compelling argument against tough environmental regulations deemed too "costly" and "burdensome."

NAFTA supporters suggest that the accord will eventually "raise" Mexican environmental standards to U.S. levels. "When NAFTA is implemented," says David Berger, a designated NAFTA booster and trade analyst with the state, "Mexico will be generating wealth to clean up the environment." Berger and others have termed this process "upward harmonization," a disingenuous reference to NAFTA's "harmonization of standards" goal. Under NAFTA, the latter phrase has nothing to do with Mexico voluntarily spending its burgeoning wealth on tougher environmental stewardship. Instead, it is a euphemism referring to the treaty's goal of stripping regulatory standards down to the *lowest* common denominator. For example, NAFTA's idea of harmony is to make United Nations food-safety standards its yardstick. Many of the U.N. standards are weaker than U.S. standards; DDT, a pesticide banned in America, is allowable under the U.N. standards. Under NAFTA, if the United States were to reject Mexican meat, grains or produce glazed with the deadly pesticide, Mexico could challenge the U.S. regulations.

To survive such a challenge, the U.S. regulations would have to be based on "risk assessment" and "sound science."

" 'Sound science' is an industry buzzword to delay health and safety protections while the body count accumulates," says Amanda Hawes, director of the Santa Clara Center for Occupational Safety and Health (SCCOSH), a local workers' advocacy group.

Hawes points out that some food-safety laws, including the Delaney Clause forbidding carcinogenic food additives, are not based on risk assessment at all, but, rather, are the result of a congressional decision to keep food wholly free of carcinogens. As Public Citizen notes, "It is a health-only, zero-risk standard," and consequently would be susceptible to challenge under NAFTA.

Because California's regulations are some of the toughest environmental and pesticide laws in the world, they could ripe for challenge. In 1990, Carla Hills attacked California's unsuccessful Big Green initiative as too strict to survive a GATT challenge. Natural targets for NAFTA disputes, says Ted Smith of the Silicon Valley Toxics Coalition, might be Proposition 65, the state's toxics initiative, which survived a multimillion-dollar industry attack campaign in 1986, and California's stringent clean-air laws.

An example of what could happen under NAFTA already occurred under GATT two years ago when Mexico challenged the federal Marine Mammal Protection Act. The law prohibits U.S. companies from importing tuna caught with nets that kill dolphins in large numbers. A GATT ruling in Mexico's favor declared the act an illegal trade barrier. Interestingly, as NAFTA moved to the front burner last year, Mexico quietly dropped the issue. Under NAFTA, countries would not be able to limit an import based on its methods of production, which rules out bans on products caught in drift nets as well as those produced with child labor.

According to Smith of the Silicon Valley Toxics Coalition, NAFTA jeopardizes more than existing laws. For the last two decades environmental activists have helped establish tough regulations by working from the grass-roots level up, he says. "We have been able to use the local community as the proving ground for developing new progressive regulations, and then those have filtered up to higher levels of government," says Smith. Under NAFTA, however, "it's not exactly like going down to Superior Court on First Street to try to get justice. If they can take the process away from even Congress and put it up to an ethereal star chamber, it is completely out of local control."

Jobs, Jobs, Jobs

One of NAFTA's major selling points has been the promise that unfettered trade will shift the North American economy into high gear, generating hundreds of thousands of new jobs. Unfortunately, when former Trade Representative Carla Hills promised GOP conventioneers that NAFTA meant "jobs, jobs, jobs," she was riding the clutch.

Last month, the *New York Times* reported that "the two most influential academic experts" on NAFTA, whose projections of short-term U.S. job gains became a Bush administration refrain last year, "have concluded that any net increase in job gains would evaporate after 15 to 20 years." Moreover, the *Times* reported, Gary C. Hufbauer and Jeffrey J. Schott of the Institute for International Economics didn't bother to include this downbeat finding in their upbeat new book on NAFTA. Taking into account the elusive statistics on job displacement due to new Mexican imports (elusive in Hufbauer and Schott's book, at least), their earlier forecast of net U.S. job gains in the vicinity of 175,000 becomes a net job *loss* of 5,400 over the next 20 years.

Studies that have projected major U.S. job gains under NAFTA are "disingenuous" at best, according to *Dollars & Sense* magazine. "They focus solely on lower trade barriers, ignoring the shift of investment from north to south," and although they expect investment to increase in Mexico, they "assume no corresponding loss in the United States."

A study by the Brookings Institute, which generally favors the accord, forecasts that NAFTA could result in "greater dislocation of jobs in both countries than was expected from the U.S.-Canadian Free Trade Agreement" of 1989. Some estimates peg the cost of that pact at 450,000 lost Canadian jobs. Meanwhile, the Economic Policy Institute figures that NAFTA will cost American workers 550,000 jobs, which admittedly is less than 0.5 percent of the U.S. work force.

"There clearly is not a giant sucking sound going south," says Antonio González of the progressive Southwest Voter Research Institute in Los Angeles. The organization's analysis of NAFTA's impact on California workers (and Latino workers in particular) predicts a loss of 25,000 jobs offset by a gain of almost 60,000 new jobs in industries increasing exports to Mexico. The state Employment Development Department forecasts a net gain of between 4,000 and 20,000 jobs in California.

Analysts on both sides of the issue agree that NAFTA's short-term effect on the massive U.S. economy will be minimal. Nonetheless, all studies concur, workers in certain industries won't mistake the pain sensation for something else.

"The new jobs created [by NAFTA] tend to be for more skilled, more educated workers," says González. "Without retraining, the story for displaced workers is not good. Latinos tend to have lower education and a lower level of work skills. So they will have a bigger share of job loss and a smaller share of job gain."

NAFTA's American opponents favor an approach to economic integration modeled on the European Economic Community, which has sought to raise living and working standards in poorer countries, rather than descending to the lowest common denominator.

Though the Clinton administration has proposed worker retraining assistance to NAFTA's victims, opponents worry that those already on the margins might fall through the safety net. "Clinton's idea of providing retraining opportunities sounds good," says Amanda Hawes of SCCOSH. "But opportunities for *what*? What are people [with low-skill jobs] going to be retrained to do?"

The state Employment Development Department thinks the losing industries in California will include apparel and textiles, agriculture, food processing, household appliances, auto parts, and glass products. Industries that make equipment Mexico needs to develop its infrastructure, however, should do well: electronics and telecommunications, machine tools, industrial equipment, chemical producers, concrete suppliers.

In the Bay Area, says trade attorney Richard Steinberg, "the banking, insurance and securities industries are big winners. High-tech is a moderate winner. And Bay Area agriculture, particularly Salinas valley agriculture, is a loser."

Not surprisingly, organized labor is unequivocally opposed to NAFTA, regardless of side agreements. "This isn't a trade agreement," says Richard F. Sawyer, business manager of the South Bay AFL-CIO Labor Council. "It's an investment agreement. NAFTA isn't going to do anything to promote trade. It really allows for the free flow of capital between the borders of the three countries," enabling American industry to finish cheap goods south of the border and ship them back into the United States at a substantial markup. "So it's no new product, it's no new trade," he argues.

At present, Mexico is not much of a consumer market. Mexicans have a purchasing power one-twentieth that of Americans. Still, taking into account Mexico's population of 88 million, nearly half of whom are under the age of 15, American industry sees long-term potential.

Apparently, Mexico's low wages (which have dropped nearly 50 percent in real terms during the last decade, to between $1 and $2 an hour) have hidden benefits for some employers. A recent *Wall Street Journal* poll of corporate executives revealed that 40 percent plan to relocate some of their production to Mexico in the near term. The same survey asked if they plan to threaten workers with the specter of moving south of the border as a bargaining chip to cut wages and benefits. Twenty-five percent said yes.

UCLA Professor Edward Leamer of the Graduate School of Management estimates that downward pressure on wages will cost 70 percent of the U.S. work force a loss of $1,000 a year. White-collar managers, technicians and scientists won't be affected, he notes.

Costs of Free Trade

What NAFTA will mean to Mexico is equally disputed. "NAFTA will be immensely beneficial to Mexico," promises Clint Smith, a visiting professor of Latin American studies at Stanford University. Quite "dramatic," he adds, will be the "easing of pressure on immigration and labor flows as Mexico increases its gross national product and productivity."

In other words, the argument often goes, new jobs in Mexico will stem the flow of undocumented workers into California and other border states, preserving stoop labor for bona fide Americans.

Leaving aside the argument that undocumented laborers make valuable contributions to the California economy, there's reason to believe that NAFTA won't stem the tide of immigration as promised, at least in the near term. Says Antonio González of Southwest Voter Research Institute, the Mexican government has already begun reducing tariffs and subsidies to corn farmers in preparation for free trade. Consequently, Mexican peasant farmers are selling their land and seeking work in Mexico City and the United States. Says González, *ejidatarios*—owners of communal land who till one- and two-acre plots by hand—"will form the bulk of migration into California" as NAFTA opens the floodgates to cheap imports of U.S. corn and beans.

The Mexican economy would have to create a million new jobs annually to employ just the young

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Continued from page 11

people entering the job market, according to Mexican labor groups. But the Mexican unemployment rate is already hovering at 20 percent, and President Salinas' assurance that NAFTA will create 600,000 jobs a year is small comfort at best.

Big Gains for Big Business

The American public has remained skeptical about NAFTA. In July, a CBS-*New York Times* poll revealed that Americans considered NAFTA a "bad idea" by a margin of 2 to 1. Canadians—having seen their own stringent health and environmental regulations damaged by the U.S.-Canada trade pact, and their unemployment rate leap from 7.8 to 10.5 percent while the economy shrank—are not favorably disposed to NAFTA.

NAFTA's American opponents favor a different approach to economic integration, modeled on the European Economic Community, which has sought to raise living and working standards in poorer countries, rather than descending to the lowest common denominator.

Though Clinton seems willing to revisit social issues steamrolled during the original negotiations, his solution doesn't address key issues, say critics. First of all, the original accord would remain intact, rendering the side agreements about as commanding as remoras around a shark. Robert Lehman of the Northern California Coalition for Fair Trade and Social Justice argues that even if Clinton gets what he wants, U.S. regulations would still be subject to challenge, and the public would continue to foot the bill for NAFTA's environmental and occupational hazards.

Beyond that, Lehman argues, NAFTA is "economically unhealthy." Periods of good economic growth have been based on rising wages and investment, and the ability of people to buy the goods they produce, he argues. "NAFTA works well for transnational corporations," Lehman says, "because they can cut their costs, but this downward bias in wages doesn't serve any goal for economic growth if people can't earn enough to buy things."

Adds Craig Merrilees of the California Fair Trade Campaign, NAFTA "was designed by people who wanted to take advantage of cheap Mexican labor to increase short-term profits—even if it means lower wages, lower environmental standards and less investment here in the United States."