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PROCEEDINGS FROM THE EIGHTH ANNUAL
LABOR SEGMENTATION CONFERENCE

April 21-23, 1995

IMPACT ON WORKERS AND UNIONS OF THE FREE TRADE AGREEMENT INVOLVING CANADA, THE U.S. AND MEXICO

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Charles Craypo, Editor

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NAFTA INTEGRATION: UNPRODUCTIVE FINANCE AND REAL UNEMPLOYMENT

by Melvin Burke

What do the North American Free Trade Agreement (NAFTA), the peasant Zapatista rebellion in Chiapas, and the recent $50 billion "Mexican bailout" triggered by the free falling peso have in common? Are these events related and if so, how? What can we learn from Mexico's last financial crisis? What does all this portend for the future? These are some of the questions addressed in this paper. This critical analysis applied to NAFTA is political economic in perspective. It is argued that the agreement and its economic stratagem are not new, that NAFTA is not a free trade agreement, and that it is a "lose, lose" proposition which will worsen both the Mexican and the global crisis. Because official and corporate domination of information is an integral part of the brave "New World Order," this reality has been and will continue to be obscured, distorted, and denied. Nowhere has this been more glaring than with respect to unproductive financial capital and rising real unemployment. We begin with a synopsis of Mexico's current NAFTA crisis, followed by a brief history of the country's debt crisis of 1982. This will help us to discover the roots of NAFTA, its *raison d'être*, and its essence.

A tale of two crises

On November 17, 1993, the US House of Representatives passed the North American Free Trade Agreement which on January 1, 1994, became the law of the land in Canada, Mexico, and the United States of America. On this latter date, the indigenous peasants of Chiapas took up arms and launched an insurrection against the government of Mexico. Both the names of these revolutionaries and the date of their uprising are significant. The Zapatista Army of National Liberation, named after Emiliano Zapata, the Mexican revolutionary hero of 1917, timed the uprising to coincide with the implementation date of NAFTA.

The economic euphoria, celebrated in the cliché "win, win," which accompanied the signing of the agreement, lasted less than a year. On December 20, 1994, the government of President Ernesto Zedillo Ponce de Leon abruptly devalued the Mexican peso by 14%. The government correctly reported that it could no longer continue financing the country's large trade

deficits and foreign debt service obligations while maintaining the peso at its overvalued exchange rate. The Mexican government simply exhausted its dollar reserves (the exact amount of which was always an official secret). Financial speculators (Mexicans and others, mostly from the United States) immediately lost a reputed $10 billion and exchanged their devalued pesos for dollars which fled the country—virtually overnight. This, in turn, caused the peso to be devalued by more than 45% and Mexico entered into its latest financial and economic crisis. President Clinton felt obliged to put together an international financial package of more than $50 billion to bail out (subsidize) Mexican investors and supposedly to "stabilize" global finance. These loans are reportedly guaranteed by Mexican oil export revenues, whatever that means. While this may seem like a great deal of money, it is worth remembering that Mexico has a foreign debt in excess of $140 billion and in 1995 had to repay $35 billion in short-term debt, including $17 billion in dollar-dominated bonds called *tesobonos.*[1] Commercial banks had another $8 billion falling due in certificates of deposit redeemable in dollars. While the price for the US taxpayer seems high; it is already clear that this $50 billion is just the first installment. In addition to these monies, it is apparent that the latest devaluation of the US dollar, relative to the German mark and the Japanese yen, is related to the use of $20 billion of monies reserved for the stabilization of the dollar to support the peso. By committing these funds to Mexico, the US Treasury opened the door to foreign exchange speculators, who wasted no time in taking advantage of this new "window of opportunity."

Nevertheless, the real cost will be borne by the Mexican people through a typical austerity program forced upon the country by the International Monetary Fund and the industrialized countries which control it. Mexico's latest austerity measures include a 50% increase in the VAT (sales) tax, a 35% increase in the price of gasoline, a 20% rise in electricity rates, and 100% interest rates. Wages are officially limited to a 10% increase, while inflation is expected to be 40-45% annually. The government is further obligated, as the condition for IMF

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[1] Lecuano, R.A. "The latest economic bailout of Mexico," unpublished manuscript, 1995, p. 4.

loans, to shrink the size of the government via privatization and budget deficit reduction.[2] What is striking about this IMF package is that it is virtually identical to the others imposed upon Mexico after its 1982 default. Indeed, the crises themselves are similar and the whole is interrelated. Knowledge of the earlier Mexican debt crisis and IMF stabilization programs helps to understand the present situation and NAFTA. The 1982 debt and the 1995 NAFTA crises in Mexico were not isolated national phenomena. They were part of the greater global stagnation which has existed since at least 1970. Post World War II average annual growth rates for the world economy of 5% have been reduced to less than half that amount during the last two decades. Zero and even negative growth has been recorded in the last couple of years.[3] In an attempt to develop the easy way, via foreign loans instead of domestic savings, the Mexican government borrowed billions of petro-dollars from private multinational banks at real interest rates of less than 1%, short-term. Much of this money was productively invested in oil with expectations that prevailing high world prices would continue. The rest remains unaccounted for and most likely ended up in US banks, bonds, stocks, and real estate.

Mexico's foreign debt in 1979 was a manageable $29 billion.[4] In October of that year, the US Federal Reserve Board adopted a monetarist policy of reducing domestic inflation by contracting the money supply and raising interest rates. Interest rates subsequently rose to 10% in 1981 and to 16% in the first half of 1982, which induced a global recession.[5] Mexico, unable to repay the loans, was obliged to refinance them at these usurious interest rates and its foreign debt rose to more than $85 billion by 1982. Financial capital flight from Mexico had, at this time,

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[2] *Houston Chronicle*, "Highlights of Mexico's plan," Feb. 12, 1995, p. A22.

[3] World Bank. 1992. *World Development Report 1992,* New York, Oxford Press; *The Washington Post National Weekly Edition* 1992. "The global gloom: the slowdown in the US, Europe and Japan has a ripple effect," Sept. 28-Oct. 4, 1992, pp. 6-8.

[4] World Bank. 1984. *External Public Debt of Developing Countries*, New York, Oxford Press, volume 1, August.

[5] *Business Week.* 1982. "Worry at the world's banks," September 6, p. 81.

soared to an estimated $36 billion.[6] These monies were both attracted and repulsed abroad by high real interest rates and by the deficits, depression, devaluation, and inflation in Mexico. Then-President Lopez Portillo said that those responsible for this drain of finances "had taken from the country more money than all those who have exploited us since the beginning or our history."[7] By late 1982, Mexico's service charges on its foreign debt equaled more than 100% of its export earnings. On August 20th of that year, Mexico defaulted on its external debt obligations.

The United States and the IMF responded to this earlier Mexican crisis by putting together a rescue package of loans conditional upon economic policy changes and institutional reforms being undertaken in Mexico. These IMF stabilization (later called structural adjustment) programs can be compressed into three broad goals: (1) privatization; (2) *laissez faire* (deregulation); and (3) *laissez passer* (free trade). Ostensibly, these were the means to achieve stable finances, economic efficiency, and sustainable growth. But this did not happen in the case of Mexico and instead the means became the ends.[8] The economic reforms of President Carlos Salinas de Gortari (1988-1994), institutionalized in the North American Free Trade Agreement, are but the historic continuation of these earlier IMF conditions for loans.

When President Salinas, a Ph.D. economist trained at Harvard[9], assumed office, the Mexican economy was increasingly dependent upon foreigners and rapidly underdeveloping. Capital flight had not been reversed, foreign investment had not been attracted, the economy had

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[6] *World Financial Markets.* 1982. Morgan Guaranty Trust Company, New York.

[7] Jose Lopez Portillo, VI Informe Presidencial, as cited in *Ultimas Noticias*, December 1, 1986.

[8] For more on this subject, see Melvin Burke, "The beginning of the end of the IMF game plan," *Public Administration Economic and Finance: Current Issues in the North American and Caribbean Countries 1988-1989*, CIDE & NAFTA, Mexico City, 1989, pp. 330-344.

[9] President Zedillo is also a Yale-educated Ph.D. in economics. These new technocrats/politicians are not unique to Mexico. See, for example, "The Latin 'techno-yuppies' young and American-educated, they are shaking up state-run economies across South America," *Newsweek*, Nov. 12, 1990, p. 58.

stagnated, and the nation's external debt exceeded $100 billion. From 1980 to 1988, Mexico paid $84 billion in interest on this debt, another $46 billion in principal, and still owed some $102 billion.[10] The peso was devalued from 26 to $1 in 1982 to more than 1000 to $1 and these devaluations fueled an annual inflation of 60%. In 1988, approximately half the population consumed less than the minimum 2000 calories required daily for nutrition and labored in the informal sector of the economy. Real wages haddecreased by nearly 40% since 1982 and millions of Mexican's sought relief by illegally emigrating to the United States.[11] All this set the stage for NAFTA *de facto* and *de jure*.

NAFTA: *de facto* and *de jure*

In light of what has transpired in Mexico since 1982, it is difficult to understand how journalists, politicians, and much of the general public was surprised when NAFTA changed in one year from a "win, win" proposition to one of "lose, lose." They claimed they were never forewarned about the pitfalls of NAFTA or of potential problems in the Mexican economy. But alternative investigations and evaluations of NAFTA had been published and made available to all those who bothered to look for them outside of the government- and corporate-dominated information systems.[12] Those who were shocked by the NAFTA-induced Mexican devaluation and financial crisis obviously had relied upon the analyses of NAFTA proponents such as in this "intelligence":

> On Dec. 16, a group of nearly 50 US intelligence analysts, Wall Street financiers and academic experts gathered at the State Department for an unusual, closed-door discussion of the Mexican economy. The consensus was upbeat: Mexico could solve its problems in 1995. Three days later Mexico's economy began a free-fall from which it has yet to fully

[10] World Bank. 1989. *World Debt Tables, 1989-90*, Washington, DC, p. 254.

[11] Lustig, Nora. 1992. *Mexico: The Remaking of an Economy,* Washington, DC, The Brookings Institute; Riding, Allan. 1984. *Distant Neighbors,* New York, Alfred A. Knopf; Pool, John C. And Stamos, Steve. 1987. "The Mexican debt crisis: a case study," *The ABCs of International Finance*, D.H. Heath & Co., Lexington, Mass.

[12] In addition to other works cited here, see, Melvin Burke, "The human costs of NAFTA," *The Humanist*, vol. 53, no .5, Sept./Oct., 1993; Pat Choate, *Save Your Job: Save Your Country* New York, Hyperion Press, 1993.

recover.[13]

As it turned out, the Zapatistas were better social scientists, economic forecasters, and politicians than this army of experts employed first to rationalize, then to justify, and now to apologize for the Agreement. They understood that the pro-market reforms of Salinas, referred to here as NAFTA *de facto*, had worsened them economically, socially, and politically prior to January 1, 1994. They also were forewarning the world that NAFTA *de jure* would not be beneficial for anyone except the wealthy, the multinational corporations, and conservative politicians.[14]

NAFTA's economic policies of tariff-free trade, unrestrained foreign investment, privatization, and deregulation were implemented in all three countries years before the Agreement became the law of the land. Reaganomics in the United States, the Free Trade Agreement (FTA) between Canada and the US, President Salinas' "modernization" of Mexico, as well as the *maquiladora*[15] program, are all forerunners to the legal NAFTA. Therefore, a *de facto* NAFTA has been in existence since at least the mid-1980s. It began in the United States, was extended to Canada, and finally imposed upon the Mexicans.[16] Everywhere the effect of these neo-liberal economic policies was the same. The promised benefits were overstated, income and wealth were redistributed, and all associated costs were attributed to factors other than NAFTA.

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[13] *The Washington Post National Weekly Edition*. 1995. "Washington's siesta," Feb. 20-26.

[14] See "Text of declaration from the Lacandon Jungle from the Zapatista National Liberation Army," *Internet* (Peacenet)

[15] *Maquiladoras* are multinational corporate assembly plants located on the Mexican side of the US/Mexican border. Virtually all capital equipment, raw material, and component parts are imported from the United States. More than 90% of the production of these plants is exported from Mexico, predominately to the United States, and is taxed only on the value added.

[16] "But perhaps the most common political technique of British expansion was the treaty of free trade and friendship with or imposed upon a weaker state." Quoted from John Gallagher and Ronald Robinson in *International Political Economy*, (eds.) Jeffery A. Frieden and David A. Lake, New York, St. Martins Press, 1987, p. 123.

In Mexico, *de facto* NAFTA began with the IMF stabilization programs after 1982, was extended when the country entered the GATT (General Agreement on Trade and Tariffs) in 1986, and reached its zenith with President Salinas' economic reforms of 1988-1994. These orthodox, neo-liberal policies were imposed upon Mexico by the International Monetary Fund shortly after the country's 1982 debt crisis and have since been made permanent national policy by NAFTA.[17] Among these pro-market policies, Mexico's average tariff was reduced to 10% and billions of dollars of capital gains from privatization were realized from the sale of TELMEX and other public enterprises in Mexico. Stocks on the Mexican exchange increased seven fold in value between 1989 and 1994. The number of *maquiladoras* (multinational corporate assembly plants) along the US/Mexican border was vastly expanded; the *ejidos* (small peasant farms) were removed from Constitutional protection and decreased in numbers, size, and economic viability. Combined, all this and more gave rise to levels of land and wealth concentration not seen since the pre-revolutionary days of Porfirio Diaz. When Salinas assumed the presidency, Mexico had only one billionaire; today it has twenty-four, more than any other nation except the United States, Germany, and Japan.[18] But such meteoric increases in stock values and wealth plus income concentration are not considered financial crises.

This wealth accumulation was not the result of increased production or productivity, nor will it "trickle down" to the people. An estimated 40 million Mexicans live in extreme poverty, about half the country suffers from malnutrition, and the purchasing power of the workers decreased by an estimated 60% since 1982. Moreover, fully half of Mexico's economically active population is employed in the informal sector, without regular jobs, social benefits, or labor

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[17] See Melvin Burke, "The beginning of the end of the IMF game plan: the case of Mexico" in *Public Administration Economics and Finance*, Edgar Ortiz, (ed.), Mexico City, CIDE & NAEFA, 1988-1989, and Nora Lustig, *Mexico: the Remaking of an Economy,* Washington, DC, The Brookings Institute, 1992.

[18] "Mexico's elite like ruling party agenda," *Globe and Mail*, Toronto, Canada, January 24, 1994, p. 1B; John Ross, "After elections, apocalypse?" *The Nation*, August 8-15, 1994, p. 158.

protection.[19] Mexican peasants were big losers in this historic redistribution and restructuring of the Mexican economy. Peasant lands were placed in the trust of *ejidos* by the Agrarian Reform Law and the Constitution of 1917. These lands, which account for about half of Mexico's territory, were privatized by President Salinas in the Land Reform Act of 1991, which overturned Article 27 of the Mexican Constitution.[20] Subsidies to traditional peasant farming communities were eliminated and free trade in corn, coffee, and sugar depressed local prices and rendered their small farms uneconomical. These and other market reforms made it possible for large landholders to evict Indians from their traditional lands in Chiapas and elsewhere, thereby expropriating nearly half the arable land in Mexico.[21] Twenty-five percent of Mexico's registered land disputes are in the state of Chiapas. Of the 500,000 indigenous Mayas in the country, half are illiterate, more than 90% of the children suffer from malnutrition, and nearly all are poor according to the UN and other official reports.[22] Massive illegal migration to the United States is one outcome of all this and the Zapatista armed rebellion is another.

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[19] David Brooks, "Mexico's future hinges on political and economic reforms," and Adolfo Aquilar Zinser, "Free trade: prosperity for the few or development for the majority," reprinted in *Trading Freedom: How Free Trade Affects Our Lives, Work and Environment*, John Cavanagh, et.al. (eds.) Institute for Food and Development and Institute for Policy Studies, Montpelier, Vermont, Capital City Press, 1992, pp. 50-54.

[20] A World Bank report explained that "certification (privatization) coupled with Mexico's reduction of agricultural subsidies and its entrance into the North American Free Trade Agreement will lead to even lower productivity because the measures force many non-competitive growers out of the market." "Private sector fails to bail out farmers," *El Financiero, International*, Mexico City, January 31-February 6, 1994, p. 3.

[21] "In recent years the migration from rural areas has grown as crop prices have fallen 50% in real terms .... Mexico now imports 10 million tons of agricultural products annually, equivalent to one third of its food consumption. The import bill would be higher were it not for the fact that per capita consumption of basic foods has fallen by 30% over the last eight years, due to the 60% decline in real wages and high urban unemployment." Ecumenical Coalition for Economic Justice, "Free trade won't help Mexico's poor," in *Trading Freedom*, pp. 55-57.

[22] "Indians continue to suffer poverty and discrimination," Interpress Service/Spanish Peacenet, February 17, 1994; "UN cites 15 million indigenous poor," *El Financiero International*, Mexico City, March 21-27, 1994, p. 2.

Canada's ordeal with its *de facto* NAFTA, the Free Trade Agreement (FTA) signed with the United States in 1989, parallels the 1994 NAFTA, which is modeled after the earlier agreement. When the Free Trade Agreement was being publicly debated in 1988, neoclassical economists forecasted that it would generate 250,000 additional jobs in Canada and induce an 8% annual growth rate. Instead, within five years, Canada had lost more than 400,000 high-wage manufacturing jobs, the Canadian dollar had been devalued more than 30%, and the nation's economy had stagnated. Its federal budget deficit now equals about 5% of its Gross Domestic Product (GDP), its total governmental debt equals GDP, and Moody's Investors Service has downgraded the country's credit rating.[23] Canada, like Mexico, was introduced to free trade years before NAFTA became law and experienced many of the same negative consequences. If the Mexican experience did not alert the world to the perils of NAFTA, then the Canadian experience should have done so.

NAFTA is not free trade

NAFTA is not a free trade agreement at all. Exaggerated claims that the agreement will enhance trade, expand markets, and increase competition are founded upon abstract theory under conditions which do not remotely approximate reality on the North American continent. NAFTA is precisely the opposite of free trade. It is the creation of a North American trade block— a protectionist mechanism. The agreement was designed to achieve the new international, strategic trade policy goals of American multinational corporations. Figure 1 illustrates the triad of global trade blocks of the United States, the European Common Market, and Japan. NAFTA is but an expansion of the dominant US block in the global triad of foreign investment, production, and trade.

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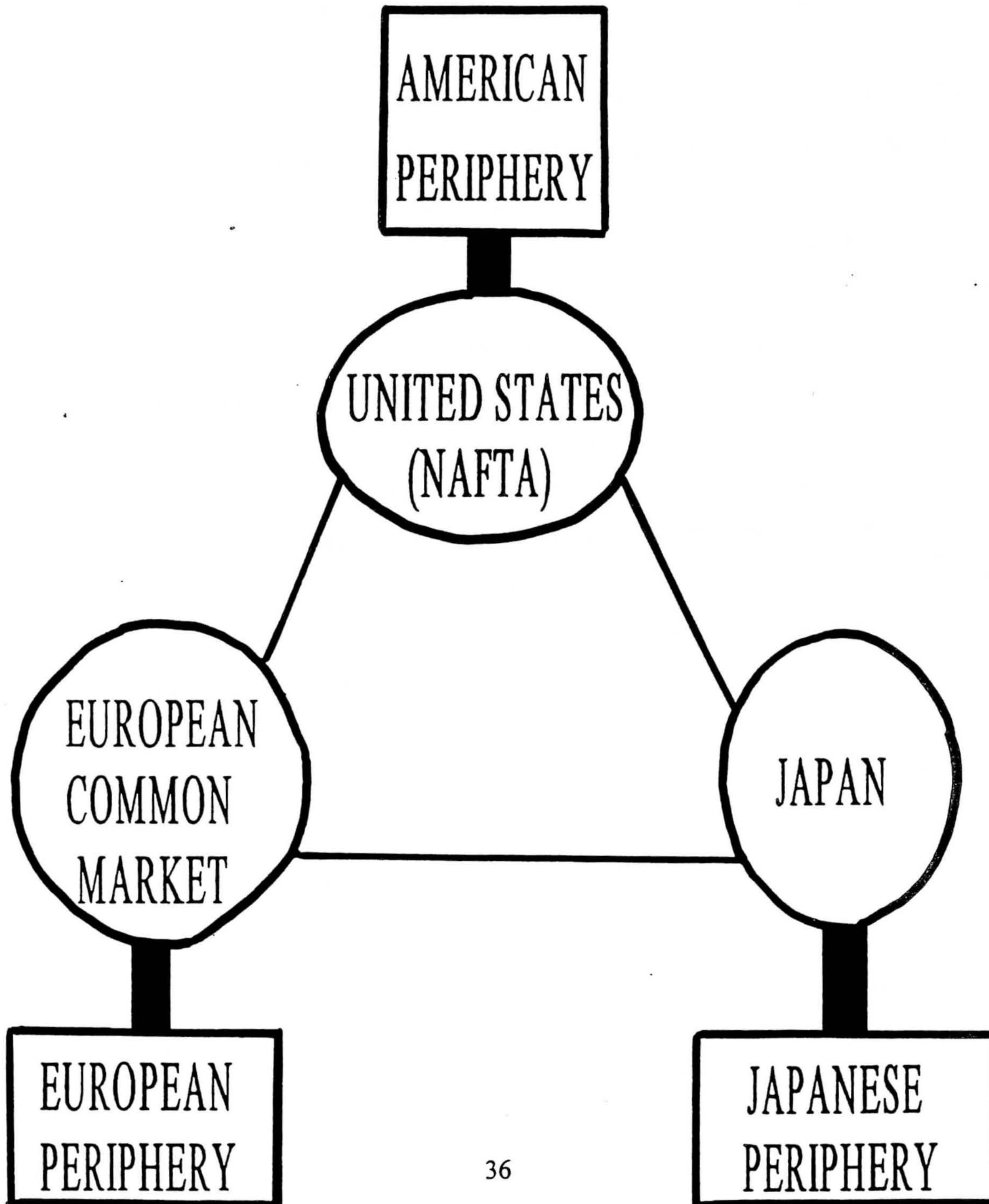
[23] "Moody's downgrades Canada's rating, pressuring government to reduce debt," *The Wall Street Journal*, April 13, 1995, pp. A2 and A4.

FIGURE 1: FOREIGN TRADE / INVESTMENT TRIAD



The doctrine of free trade assumes (1) capital immobility between countries, (2) full employment and (3) perfect competition within all countries. If these conditions exist, then tariff-free trade in goods will theoretically increase country specialization, exploit existing comparative advantages among nations, globalize efficiency, increase world output, and raise living standards.[24] NAFTA was not founded on this ideal, nor was it crafted to achieve these objectives. On the contrary, NAFTA was designed explicitly to reduce country specialization, create new comparative advantages, exclude foreign competition, and enhance multinational corporate expansion. The two overall objectives of NAFTA are: (1) to protect the continental markets from further European and Asian encroachment in the short run, and (2) to enhance the global share and monopoly power of American multinational corporations in the long run. NAFTA, as such, is intended to restore the international order of yester-year, the early post-WWII era of United States global hegemony.

By establishing a North American common market, NAFTA closely follows the policy prescriptions of the new international economics[25], a more contemporary and pragmatic trade theory which tells us that an economy can only grow and compete internationally if it pursues a strategic trade policy. This theory calls for active government intervention in international trade by creating, subsidizing and protecting industries which have unique attributes such as increasing returns to scale, external economies and advanced technology. Industries which produce goods with high income elasticities of demand are also singled out for preferential treatment. The objective here is not global growth through free trade, but global redistribution via protection and subsidies. A neglected fact is that although international trade has been increasing under FTA, NAFTA, and GATT, total global output and income have been decreasing. In 1993, the last year of complete data, the World Trade Organization reported that global trade increased by 4% while

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[24] For a contemporary summary and assessment of this doctrine, see Robert E. Prasch, "Reassessing comparative advantage: the impact of capital flows on the argument for laissez-faire," *Journal of Economic Issues*, June, 1995.

[25] For more on this theory and policy, see Paul Krugman (ed.) *Strategic Trade Policy and The New International Economics*, Cambridge, MIT Press, 1986.

world output registered zero growth.[26] Expanding global free trade is a strategy of the multinational corporations in the dominant trade blocks to obtain a larger share of a smaller pie. What we have here is, at best, global redistribution. The United States, as a country, appears to be losing this international competition inasmuch as it suffered a record monthly merchandise trade deficit of $12.23 billion in January 1995, including a deficit of nearly $1 billion with Mexico and $3 billion with Canada.[27] These trade deficits, however, do not adversely impact upon American multinational corporate profits. The reason for this anomaly is that an estimated 40% of international trade today is composed of intra-corporate transactions. Approximately 30% of imports to the United States are the exports of US-based corporate subsidiaries located abroad. The percentages are even greater for NAFTA trade. Multinational corporations, paradoxically, benefit both from exports and imports—they "win, win." This explains how the US Department of Commerce can optimistically report "NAFTA Facts" such as these:

> Trade among the NAFTA partners (US, Canada, Mexico) soared 17% in 1994, growing over $50 billion in just one year...
>
> US merchandise exports to Canada and Mexico grew *twice as fast* as US exports to the rest of the world (16.4% vs. 7.5%), accounting for *half* of the 1994 gain in US exports...
>
> NAFTA accounted for only $4 billion of the $36 billion overall deterioration in the US merchandise trade balance.[28]

Free intra-corporate trade, not free international trade, is what FTA and NAFTA are all about. Accompanying this trade are transfer prices—not market prices—which corporate accounting departments alone determine. Thus the time has come to develop macroeconomic theory models with multinational corporations, not nation states, as the aggregate economic unit

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[26] "World exports of goods rose 9% in '94, outpacing the growth of production," *The Wall Street Journal*, April 4, 1995, pp. A2 and A8.

[27] "US trade deficit soars to record," *The New York Times*, March 23, 1995, pp. A1 and D7.

[28] "NAFTA: first year snapshot," US Department of Commerce, *NAFTA Facts*, Document No. 4003.

and focus of inquiry. Only then, perhaps, can we begin to understand the New World Order and its revision of economic theory, including free trade. Countries don't invest and trade, corporations do.

NAFTA: Perceptions, illusions, and reality

We have seen that NAFTA is neither new nor a free trade agreement. We also shall see that NAFTA (*de facto* and *de jure*) was not designed for and did not create new markets, increase productive investment, or generate employment in the newly integrated North American markets. The "win, win" benefits of NAFTA are little more than neoclassical free trade fables, corporate public relations craftiness, and government deception. What they failed to tell the public was that these benefits, if they materialized, would profit the multinational corporations and the costs of NAFTA would be shouldered by the rest of society. This reality has been disguised by proponents of NAFTA by (1) altering the semantics of economics, (2) manipulating statistics, and (3) evoking excuses like "shocks" and the "long run."

Illusion of market and trade expansion

Assertions that NAFTA would expand markets and increase trade are not supported by either economic theory or the facts. NAFTA-induced capital movements across borders unquestionably altered the economies of the three nations, but the outcome is still largely indeterminate. The final outcome will depend upon the net effect of many economic changes. Nobody seriously disputes that NAFTA will radically alter the composition and patterns of trade as multinational corporations restructure and rationalize their production/distribution systems, and exercise their augmented power in Canada, Mexico, and the US. Throughout the world, existing trade and markets will continue to be changed by NAFTA.

Rather than creating new markets and increasing trade, NAFTA actually redistributed trade, production, and income and structurally altered markets—domestically, regionally, and globally. The more complex reality of NAFTA is better understood visually. In Figure 2, the market area where all three economies converged prior to the Agreement represents the integrated North American common market. The other two areas (FTA and MEX-USA) represent the integrated markets of only two countries. Combined, they represent what I call NAFTA *de facto*. The remaining areas of the three circles depict the national, domestic sectors of

those economies that are not integrated with the other two countries. These market areas are not drawn to scale, nor do their boundary lines imply complete separation or isolation. The Mexican economy, for example, is less than 5% the size of the US economy.

Figure 2: NAFTA de facto Integration

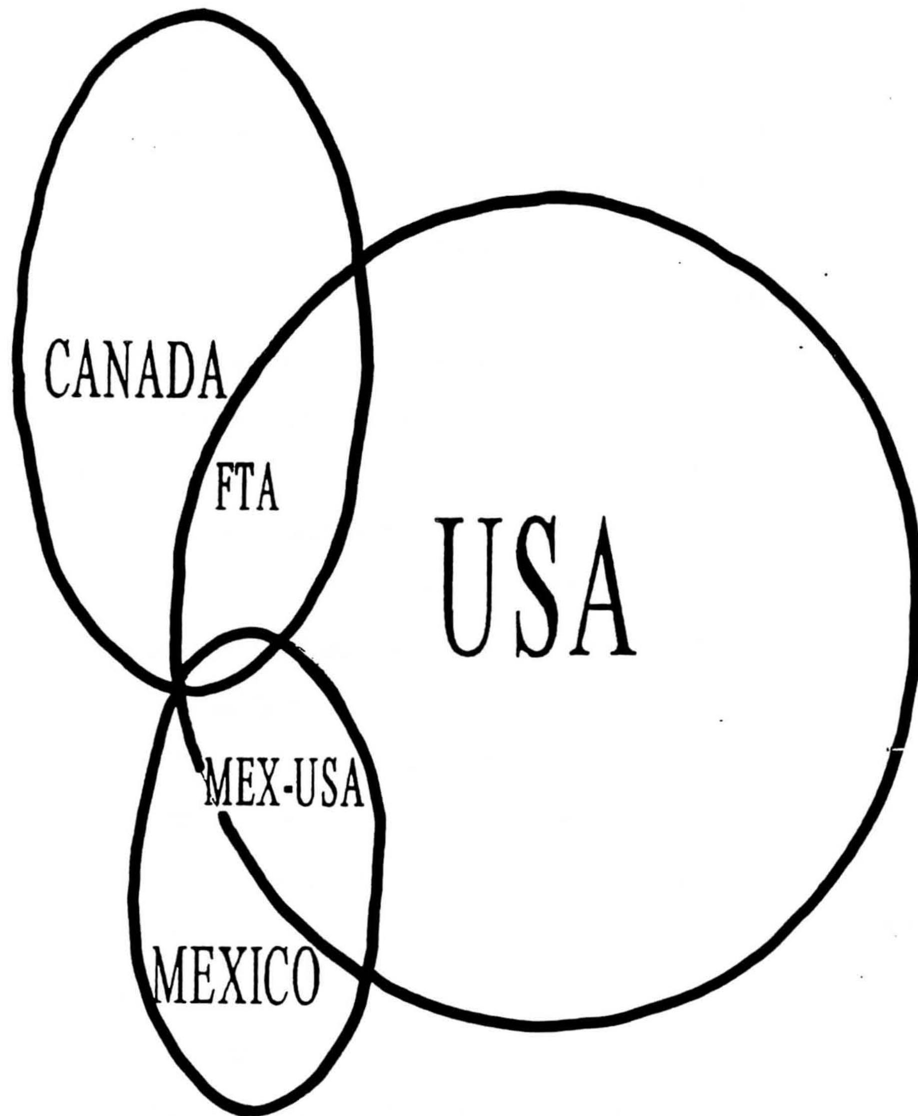
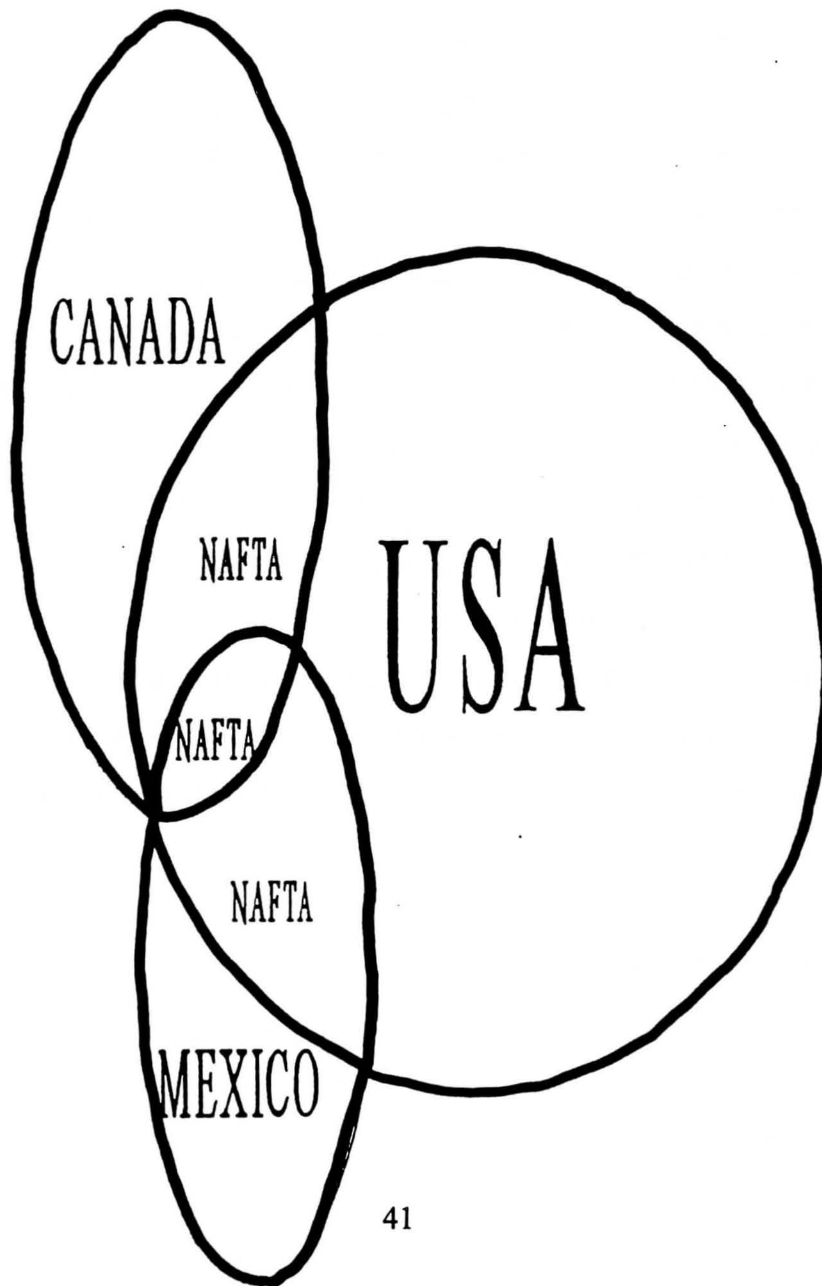


Figure 3 shows that after NAFTA became law, the North American common market expanded, displaced, and absorbed additional domestic markets on the continent. The agreement gave rise to a convergence and expansion of the integrated markets in all three countries. Conversely, the domestic and non-integrated sectors of the three countries decreased in size after NAFTA. The aggregate North American markets and economy did not expand or contract, however, but remained the same.

Figure 3: NAFTA de jure Integration



Viewed from a slightly different perspective, NAFTA expanded the multinational corporate sectors in North America while the domestic sectors were absorbed or displaced. In the process, foreign investment was substituted for domestic investment, foreign production for domestic output, and foreign trade for domestic trade. Because open and free competition among unequals always benefits the largest and the strongest, this redistribution favored the most powerful country (the United States), the largest business entities (the multinational corporations), and the most privileged individuals (the wealthy). "There is as much injustice in the equal treatment of unequal cases as there is in the unequal treatment of equal cases," said Aristotle.[29] In this instance, the diagrams help to visualize NAFTA for what it really is, a redistribution and protectionist trilateral agreement.

We do not see this reality because it is not in the interest of those who benefit from the agreement that we do. For example, the corporate-owned and controlled press[30] today often refers to the integrated North American economy as the "domestic economy," or even as the US economy. When there is an overall increase in automobile production or corporate profits, skillful use of economic semantics makes it difficult to see that there are corresponding decreases in national output, income, or employment in one or more of the three countries to the Agreement. In such scenarios, only the aggregate, positive economic figures are reported in the media and official statistics. For example, news reports such as "US Gains in Vehicle Output"[31] obscure the fact that the US lead in vehicle production is due to Japanese multinationals increasing their production in America, that much of the increased output is from Canada and Mexico, and that no vehicle is completely produced in any one country in today's global economy. Conversely, when the integrated North American economy performs poorly and only one of the three national economies performs well, it is that country's economy alone which

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[29] Aristotle, *Ethica Nicomachaea*. See also, Robert E. Prasch, "Towards a 'general theory' of market exchange," *Journal of Economic Issues*, Sept., 1995.

[30] Chomsky, Noam. 1994. "The role of the media in manufacturing consent," Institute of Policy Alternatives of Montreal, videocassette, Black Rose Books.

[31] *The New York Times*, Dec. 29, 1994, p. C2.

makes the news and NAFTA is given credit. Finally, when all three national economies experience problems such as increased unemployment, increased poverty, or negative growth, external "shocks," not NAFTA, are the designated culprits. Typical shocks include currency devaluations, interest rate increases, and recessions. None of them is related or attributed to free trade. Canada's present economic difficulties are officially the result of recession, not FTA or NAFTA. And Mexico's current financial crisis is the result of imprudent government devaluation of the peso.

In this New World Order crafted by multinational corporations, NAFTA is never held accountable for economic problems, anywhere. In a like manner, when a Senora automobile plant in Mexico imports parts and equipment from the USA and then re-exports the assembled cars and trucks back to the United States, these transactions are registered as net increases in trade with no accounting taken of the decrease in domestic automobile trade between Michigan and the other forty-nine states. The impression given, therefore, is that international trade always augments domestic trade and that exports create employment regardless of imports. Nothing could be further from the truth.

Unproductive finance

Finance, capital, and investment are difficult concepts. There are many different types and numerous definitions. These include the monetary, the abstract, and the real; private and public; domestic and foreign; productive and unproductive. Needless to say, this complexity leads to confusion and opens the door to analytical abuse. Nowhere is it more apparent than in the case of NAFTA. This is not the place for a lengthy discussion of this subject, but we can make sense of it all.

NAFTA, having little to do with free trade, is a trilateral agreement primarily designed to promote the movement of capital across borders. As such, it is basically a treaty to promote private investment, capital gains, and profits for multinational corporations and those who own them. Much of the foreign investment flow occurred during the NAFTA *de facto* years (1988-1993) and has been increasing in recent years. United States corporations doubled their investments in Canada between 1986 and 1990, from about $50 billion to more than $100 billion. Investment Canada reported a record 1,403 corporate takeovers of Canadian-owned

companies during 1988 and 1989 for a total of $30.5 Billion.[32] Uncounted billions of dollars were also invested in the Mexican stock market after privatization. From 1989 to 1994, stock values increased seven-fold fueled by the privatization of TELMEX, which alone accounts for about 40% of the market. TELMEX was sold for $3.7 billion dollars and today has an estimated stock value of $30 billion. Additional billions were invested in *maquiladoras* on the US border and in retail chain franchises throughout Mexico. Franchises increased from ten in 1990 to 125 (with 950 outlets) in 1992 and 160 in 1994.[33] *Maquiladoras* increased from just a few hundred to 2,300 in 1995 and employ more than 600,000 workers. US automobile manufacturers also invested $11.6 billion in Mexican plants from 1988 to 1992.[34]

All this private investment does not include other significant capital flows into Mexico during the period in addition to public loans, debt swaps, and debt rescheduling. It is probably not an overstatement to say that without the "Brady Plan" there would have been no NAFTA. This plan, proposed by Nicholas Brady, former U.S. Secretary of the Treasury, asked creditor banks individually to choose between three alternative deals concerning $48.5 billion of Mexico's external debt: (1) swap old debt for new, (2) cut the face value of loans, (3) cut the rate of interest on loans to Mexico.[35] Thanks to this plan, Mexico's debt was reduced by $6.9 billion and, more importantly, annual net payments to its creditors were reduced by $4 billion a year

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[32] Bruce Campbell, "Beggar thy neighbor," reprinted in *Trading Freedom*, p. 38.

[33] Among these franchises are WalMart, J C Penney, and Taco Bell. No statistics are available on the number of Mexican workers displaced as a result of the small business bankruptcies these franchises generated.

[34] "Detroit south: Mexico's auto boom, who wins, who loses," *Business Week*, March 16, 1992, pp. 98-103; "A revolution already in progress," *The Washington Post National Weekly Edition*, June 1-7, 1992, pp. 6-9.

[35] Despite these debt reduction measures, Mexico has always been defined as a "severely indebted country" by the International Monetary Fund because the present value of its debt service to GNP has exceeded 50% and the present value of debt service to exports has exceeded 150% since 1982.

between 1989 and 1994.[36] This massive inflow of financial capital, combined with more than $30 billion of treasury bonds (*tesobonos*), enabled President Salinas to maintain an overvalued peso, disguise (repress) inflation, quadruple imports from the US, finance large trade deficits, and sell NAFTA to Americans both north and south of the border. After all, the argument went, Mexican trade deficits create jobs in the export sectors of the US economy. Was this game plan sustainable and was the finance productive; i.e., did it create new productive capacity, generate employment, and increase output in Mexico? The answer is a resounding "no."

The reason is more-or-less self-explanatory. Virtually all of these investments were predominately for privatization, financial speculation, corporate mergers (joint ventures), and the purchase of imports. A significant portion of these imports were used to buy capital goods and intermediate goods for re-exportation. For example, in 1994 *Business Week* reported that Mexico had received $81 billion in new capital inflows since 1991, but only $15 billion was direct foreign investment.[37] Multinational corporations entered into joint ventures, merged, and divided the markets, rather than compete with one another and create new markets. They entered into competition only with small domestic businesses.[38] International corporate mergers and monopolization, not competition, is what NAFTA encouraged.[39] Multinational franchises displaced more competitive, more labor intensive, independent businesses in all three countries. The illusion given was that all investment, regardless of type, is socially beneficial and creates

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[36] Christophe Gevisier, "Towards a North American free-trade area," unpublished masters thesis, University of Fribourg, Switzerland, July, 1992, pp. 71-72.

[37] Geri Smith, Elizabeth Weiner, and Elisabeth Malkin, "Mexico: How the election will reshape the economy," *Business Week*, August 22, 1994, p. 47.

[38] In Mexico, US-based Anheuser-Busch Cos. Inc., recently purchased 17.7% of Cerveceria Modelo, and Canada's John Labatt Ltd., brewery acquired 22% of Femsa Cerveza, parent company of Cerveceria Cuauhtemoc Monctezuma. Femsa also owns the Coca-Cola franchise in Mexico. "Competition coming to a head," *Dallas Morning News*, July 22, 1994, p. 10.

[39] Global competition also was reduced by the 60% component requirement (rule of origin provision). This excludes other foreign corporations from the benefits of tariff-free NAFTA trade unless they produce on the continent.

capacity, output, and employment which furthers competition and generates growth. The data and facts reveal otherwise.

Manipulation of biased statistics is another tactic to disguise the impact of NAFTA. Again, as with trade and markets, gross net changes in investment were officially recorded and made public. For example, when the automobile plant moved from Michigan to Senora the increased real investment in Mexico was recorded at full value and heralded as yet another example of NAFTA success. In the United States, much of the decrease in investment was recorded as tax write-offs on plants and equipment and reported in the news as structural downsizing deemed necessary and inevitable by international competition. Likewise, disinvestment in the Mexican public sector through privatization and the innumerable small businesses displaced by multinational corporations were ignored. Finally, estimates of economic growth use data that is market-biased because it is not discounted for inflation or population increases, or both. No comparable, unambiguous statistics of economic growth are available in this the age of information. Such imaginative uses of economic semantics and biased statistics give the illusion of NAFTA "win, win" growth when the reality is "lose, lose" redistribution.

Were NAFTA economic semantics not distorted and if a proper accounting of dis-savings, dis-investment, and unproductive financial speculation in Mexico accurately reported, the recent devaluation of the peso and financial crisis would not have been surprises. Economists, above all others, should have known and informed the public that (1) Mexico's privatization and foreign trade deficits were dis-investments, (2) as little as $1 for every $100 traded on the stock and bond market resulted in productive investment,[40] and (3) financing trade deficits with speculative financial capital from abroad was not sustainable. What they have yet to grasp is that private capital flows of this type can hurt poor countries and de-stabilize global finance.[41]

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[40] Dean Baker, Robert Pollin, and Marc Schaberg, "Taxing the big casino," *The Nation*, May 9, 1994, pp. 622-624.

[41] "Private-capital flows can hurt poor nations," *The Wall Street Journal*, January 30, 1995, p. A1.

Real, open and disguised unemployment

Not only was the public misinformed about the financial realities of the agreement, a massive propaganda campaign sought to convince us that NAFTA was a jobs program, one that would create more employment in all three countries. The US International Trade Commission concluded that Mexico would be the big winner with a gain of 1,782,000 new jobs, a 6.6% increase. Estimated benefits for the United States ranged from 35,000 new jobs by 1995 to 700,000 by the year 2000. Job displacements for the US ranged from a low of 145,000 by 1995 to a high of 490,000 by 2000. Even Canada was expected to increase its employment because of NAFTA, although by only a modest 0.6%.[42] These forecasts were based upon abstract econometric models using unrealistic assumptions to predict increased growth and expanded markets. Indeed, most of the models made no predictions at all with regard to the level of employment, but simply assumed full employment and its continuance in all three countries.[43]

During the jobs debate that preceded signing of the Agreement in Fall 1993, virtually no reference was made to the prior experience of Canada, the USA, and Mexico with *de facto* NAFTA — that is, the 1988-1993 Free Trade Agreement and President Salinas' economic reforms. During these years, *maquiladora* and automobile industrialization in Mexico was but the flip side of corporate downsizing, re-engineering, and de-industrialization in Canada and the United States.[44] Labor union activists recognize this as nothing more than old-fashioned run-away shops and speed-up on the assembly line. US multinational corporations created nearly as many new manufacturing jobs in Mexico under the *maquiladora* program between 1986 and

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[42] *Potential Impact on U.S. Economy and Selected Industries of the North American Free Trade Agreement*, US International Trade Commission, Publication 2596, Washington, DC, January, 1993.

[43] 0. Stanford, "Continental economic integration: modeling on the impact on labor," *Annals of The American Academy of Political and Social Science*, March, 1993, pp. 92-110, Table 1.

[44] Michael Bernstein (ed.), *Understanding American Economic Decline,* Cambridge University Press, 1994.

1990 as they created in the United States.[45] Canada's loss of nearly a half million manufacturing jobs after FTA and NAFTA is attributed to its current recession and corporate downsizing. Corporate restructuring in the newly integrated American markets dictates that costs be reduced by eliminating excess capacity, duplicating facilities, and by substituting inexpensive labor for high-wage labor. Because corporations and capital were made more internationally mobile by NAFTA, but not labor or labor unions, the transnational corporations have moved their facilities, first from higher wage Canada to lower wage United States and then from both to the subsistence wage environment of Mexico. Canadian manufacturing wages are estimated to be between 15-30% higher than those in the United States. The US/Canadian wage of $14 to $24 per hour is nearly ten times the Mexican manufacturing wage of $2 to $3 per hour. Approximately 40% of Canadian and 15% of US workers are unionized, but Mexico has virtually no independent unions.

None of this implies that the Mexicans were big job winners or that employment and wages increased in Mexico since NAFTA. Increased employment in the *maquiladoras* and automobile production was more than offset by jobs lost through privatization, trade deficits, and labor-displacing technology. An exact accounting of these job losses is not possible, partly for reasons explained below. Nevertheless, Mexicans cannot take much comfort from the realization that their exports to the United States are crude petroleum and manufactures assembled from import components in foreign-owned plants. These factories have few domestic business linkages and use appropriate labor-displacing technology. Nearly all *maquiladora* production and approximately 50% of automobile production is exported.[46] International franchise expansion in Mexico was more than matched by the shrinkage of domestic small businesses. In 1993 alone,

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[45] *Save Your Job: Save Your Country*, p. 50.

[46] "Altogether, more than half of the US 'exports' to Mexico never entered Mexico's domestic market. More than 30% of the US exports to Mexico were tools and machines used to build more Mexican factories, mostly US-owned and mostly *maquiladoras*. Finally, less than $8 billion of the $40.6 billion of US exports to Mexico in 1992 actually entered Mexico's consumer market." *Save Your Job: Save Your Country*, op. cit.

more than half a million manufacturing workers in Mexico reportedly lost jobs[47] and real wages decreased 60% from 1986 to 1992.[48] For those who expected multinational corporations to increase Mexican wages, it should be noted that the *maquiladoras* pay lower average wages than they did fifteen years ago and only half the average for all Mexican manufacturing.[49]

Why was all this unemployment not obvious or a major political issue in the United States, Canada, and Mexico during the NAFTA debates? The answer is complex, but not incomprehensible. Large corporations have the mystique of being engines of growth and generators of jobs. Biased official statistics count only the jobs that corporations generate while disguising the unemployment they cause. Disguised unemployment has become an art form in the New World Order. In Canada and the United States, many displaced workers become part of the growing contingent (part time) labor force, become self-employed, or become discouraged workers and drop out of the labor force altogether. As a result, they are not included in the standard unemployment statistics. In Mexico, displaced workers and bankrupt small businessmen disappeared into the black hole of the informal sector of the economy, where they are obliged to earn their daily tortillas as street vendors, beggars, and servants. All increases in multinational corporate employment, on the other hand, are recorded in government statistics and heralded loudly in the press.

A blatant example of official deception occurred when the US government reported on jobs created during the first six months of NAFTA.[50] The U.S. Department of Commerce "Summary of Trade Trends Under NAFTA: January - June, 1994" released August 19, reported that "approximately 1.7 million more Americans were employed in June of 1994 than December

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[47] "More than half a million workers lost manufacturing jobs in 1993," Interpress Service/Spanish Peacenet, March 10, 1994.

[48] Ecumenical Coalition for Economic Justice, "Free trade won't help Mexico's poor," *Trading Freedom*, pp. 55-57.

[49] "Towards a North American free trade area," p. 78.

[50] This case study was previously reported in Melvin Burke, Kraig A. Schwartz, and William G. Steele, "NAFTA numbers don't add up," *The Humanist*, March/April, 1995, pp. 5 and 36.

of 1993, with exports to Mexico and Canada contributing up to an estimated 100,000 of these jobs." Job dislocations associated with the agreement were estimated at 4,820.

These are called "NAFTA Facts."[51] From the garbled data presented it is unclear how this conclusion was arrived at. Exports of autos from the United States and Canada were cited, but no figure was provided for automobile imports from Mexico. The positive $1.1 billion US balance of trade surplus with Mexico[52] was applauded, while the negative US balance of trade deficit of $5.8 with Canada was ignored. Combined, this trade data revealed that the United States imported $4.8 billion more from its NAFTA partners than it exported to them during the first six months of 1994. International trade theory tells us that while increases in exports create employment for a country, increases in imports generate unemployment.[53] Only in the new calculus of NAFTA do both exports and imports generate employment and nowhere do imports substitute for domestic production or increase unemployment. Such reporting is designed to support Commerce Secretary Ronald H. Brown's press statements that NAFTA is living up to its promise as a win-win-win situation. The press then repeats these "NAFTA facts."

A more accurate analysis of the US Commerce Department data reveals a net loss of employment in the United States as a result of the first six months of NAFTA. The US exported an additional $8.4 billion to Canada and Mexico during this time and imported $9.5 billion more, for a net increase in imports of $1.1 billion. Using the Hufbauer and Schott calculation of 19,600 job losses per $1 billion increase in imports, the United States experienced a 21,560 job loss

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[51] "Summary of trade trends under NAFTA: January-June, 1994," US Department of Commerce, *NAFTA Facts*, August 19, 1994.

[52] Mexico does not include US imports into the *maquiladora* sector in its trade balance, even though they approximate 20% of its total imports from the United States. Mexico therefore also recorded an official trade surplus with the US during the first six months of NAFTA.

[53] Gary Hufbauer and Jeffrey Schott, "North American free trade: issues and recommendations," Washington, Institute for International Economics, 1992, cited in *The Employment Effects of the North American Free Trade Agreement*, National Commission for Employment Policy, Special Report No. 33, Washington, DC, US Department of Labor, October, 1992, Appendix C, p. 7.

from NAFTA during the first half-year of its implementation.[54] The press headlines should have read "Initial NAFTA Results Show Jobs Losses for Americans." Three months later, the US Department of Commerce reported more of the same: "We estimate that there would have been 130,000 fewer US jobs in the third quarter had we not had the surge in US exports to Mexico this year.".[55]

All this occurred before the Mexican devaluation of the peso and the subsequent Mexican financial default. Today only the experts still believe NAFTA will generate employment in this country, Mexico, or Canada. All the projections now are estimates of NAFTA unemployment and negative growth. By March 1995, Mexico had registered a trade surplus with the United States and Federal Reserve Board economists projected a one-half percent decrease in the US growth rate and job loss estimates of 380,000 to 500,000 over the next couple of years.[56] Mexican small businesses, which employ an estimated 90% of the country's workforce, are falling into bankruptcy in record numbers and unemployment is skyrocketing. Only three months after the peso devaluation, Mexican job losses were estimated at between 240,000 and 500,000 for the first quarter of 1995. For 1995, Mexico's GDP was expected to decrease by 2%, official unemployment to be between one and three million, and the future of the economy to be negative.[57]

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[54] *The Wall Street Journal* published a 12-page review of NAFTA on October 28, 1994. In one of the articles, Gary Hufbauer said nothing about the number of jobs created. On April 17, 1995, (p. A1), however—after the Mexican devaluation of the peso—the *Journal* reported him as saying, "The best figure for the jobs effect of NAFTA is approximately zero .... The lesson for me is to stay away from job forecasting."

[55] "NAFTA: the first nine months," US Department of Commerce, *NAFTA Facts*, Document No. 4006.

[56] "Mexican crisis to hurt US economy with substantial loss of jobs, exports," *The Wall Street Journal*, Feb. 24, 1995, p. A1; "Peso's plunge may cost thousands of US jobs," *New York Times*, Jan. 30, 1995, p. C3.

[57] "Industries devastated by plummeting sales," *InterPress Service* (PeaceNet), April 5, 1995; "Manufacturers announce the impossibility of generating employment," *InterPress Service* Spanish (PeaceNet), March 8, 1995; "Mexican jobless rate at 8-year high," *Dallas Morning News*, March 23, 1995, p. D1.

It must be noted that approximately one-half of the Mexican labor force is in the informal sector and is not counted as employed or unemployed. Of those in the formal sector, only 3.7% are officially listed as unemployed.[58] Although tariffs were reduced by 10%, the Mexican VAT (sales) tax was increased by 50%, and inflation is expected to increase by more than 40%. So much for the price reductions and consumer benefits of NAFTA. Manufacturing wages in the *maquiladoras* and auto plants also have decreased by 40%, but profits are up. The government announced more privatization, budget cuts, and other IMF austerity measures which will worsen the unemployment situation in the months and years ahead.

Now that the financiers have reaped their profits, thanks in large part to the Clinton bail out, the industrialists will have their turn. The true "giant sucking sound" of NAFTA is not US jobs going South to Mexico, as Ross Perot predicted, but profit income flowing North while Mexican workers struggle to survive. Mexico's minimum wage, after a 12% increase in April 1995, is $2.70, an estimated one third of what it was in 1976 when discounted for inflation. The increase in unemployment and poverty in Mexico, as in the US,[59] has given rise to more crime and drug smuggling.[60] Mexicans can look forward to expanding employment opportunities in welfare, drug abuse treatment, law enforcement, and other service industries. Yet the NAFTA legacy of financial losses, decreased growth, and rising unemployment is probably underestimated, if the past is any guide to the future. *The Wall Street Journal* nevertheless reported that US Trade Representative Mickey Kantor "argues gamely that NAFTA didn't cause

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[58] "Business fact sheet: Mexico," US Department of Commerce, *NAFTA Facts*, Document No. 8101.

[59] Mary Merva and Richard Fowles, "Effects of diminished economic opportunities on social stress: heart attacks, strokes, and crime," Report from the *Economic Policy Institute*, Washington, DC.

[60] "Mexico City crime soars as economic crisis worsens," *Houston Chronicle*, April 2, 1995, p. A28; "Mexican cartels expanding role in trafficking," *Washington Post*, March 12, 1995, p. A1; "Mexicans ask how far social fabric can stretch," *New York Times*, March 12, 1995, p. A1.

Mexico's problems but can help solve them."[61]

Conclusion

NAFTA did not begin on January 1, 1994, but rather, many years earlier in 1988 with the Canadian/USA Free Trade Agreement and with President Carlos Salinas de Gortari's economic reforms. The latest Mexican crisis is but the historic continuation of its 1982 debt crisis. Both are part of the larger global stagnation crisis which began in the 1970s and continues today. NAFTA is not a free trade agreement, but rather the creation of a North American trade block, designed and implemented by American multinational corporations to obtain a greater share of a stagnant global output. It is not a "win, win" bargain of benefits for all, but rather a "lose, lose" deal which redistributes wealth and income from the mass of the American peoples to a few wealthy international property owners. This reality is obscured, distorted, and denied by conservative politicians and the corporate-dominated press, a deception which continues despite mounting evidence to the contrary in all three countries.

History will record that NAFTA was a mechanism which encouraged unproductive financial capital movements across borders and in turn created greater unemployment and poverty in Canada, the US, and Mexico. Public relations terms like modernization, international competition, free trade, and bail-out are used to disguise the reality of NAFTA. To grasp the truth of NAFTA, one must recognize the rhetoric and disguised politics inherent in each of these buzz words. But no amount of rhetoric, disguised politics and public relations can conceal the fact that NAFTA is an instrument designed to produce winners and losers, with no mechanism for the former to compensate the latter.

Beyond this, the NAFTA ordeal should teach us all that we would be better informed if we listened to ordinary people like the Chiapa peasants and workers. It appears that the Mexican authorities are once again, as in the past, turning a deaf ear to the workers. They canceled the May Day parade in 1995 to prevent a recurrence of the 1984 May Day incident when angry

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[61] "Free trade is headed for more hot debate," *The Wall Street Journal*, April 17, 1995, p. A1.

workers threw Molotov cocktails at the president.[62]

Incredibly, in view of the failures of NAFTA, the three governments to the agreement are now integrating Chile into the North American trade block. This action, and the failure of the anti-NAFTA coalition to regroup, demonstrate the extraordinary power of the multinational corporations to set national and international economic policy. Instead of renegotiating or terminating NAFTA, current political initiatives are to encourage multinational corporations voluntarily to adopt basic labor standards abroad,[63] to seek G-7 approval of measures to increase transparency, and to increase IMF surveillance of developing countries' economies.[64] The New World Order looks increasingly like the old one.

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[62] "Amid crisis, Mexico cancels May Day parade," *Houston Chronicle*, April 10, 1995, p. A8.

[63] Among them are a ban on child labor, a minimum wage, workplace safety law and the right of workers to organize. "Multinationals can aid some foreign workers," *The Wall Street Journal*, April 24, 1995, p. A1.

[64] "Trying to cool the 'hot money' game," *The Washington Post National Weekly Edition,* April 24-30, 1995, pp. 20-21.

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