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The Human Costs of NAFTA

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by Melvin Burke

"There is as much injustice in the equal treatment of unequal cases as there is in the unequal treatment of equal cases."
—Aristotle, in *Nichomachean Ethics*

The proposed North American Free Trade Agreement between the United States, Canada, and Mexico is the logical and perhaps inevitable extension of the 1989 Free Trade Agreement between the United States and Canada. Both agreements are controversial, and massive public opposition exists in all three countries—for good reasons, as we shall see.

The citizens of these three nations have never been provided with a credible explanation of the need for NAFTA. Contrary to the proclamations of NAFTA's proponents, there are no guarantees that the supposed benefits of the free-trade agreement will be realized, nor is it clear who will gain and who will lose. The potential long-term economic benefits are merely *assumed* to exceed the short-term adjustment costs, so that everybody will eventually gain (the so-called "win-win" scenario). How this will occur is a mystery, since there are no provisions in the agreement for the potential winners to compensate the potential losers. Once again, the dubious mechanism of "trickle-down" is expected to do the job. Beyond all this, it is debatable whether NAFTA will further free trade at all. In fact, a strict interpretation of the economic theory of free trade, classical or neoclassical, would indicate otherwise.

NAFTA can be viewed as yet another official reaction to a deepening global economic crisis, as well as an integral part of the emerging "new world order." Despite widespread democratic opposition, strategies like NAFTA are put on the "fast track" and hurriedly implemented with support from numerous officially sanctioned (and subsidized) reports, but with no open discussion or debate and little time for scholarly analysis or critique. Official domination of information appears to be an essential part of the brave new world order that is unfolding.

Global Economic Crisis and NAFTA

Statistics from international organizations (the United Nations, the World Bank, and the International Monetary Fund, among others) confirm that the global economy has been in a state of crisis since the mid-1970s. The average annual global rate of growth, approximately 5 percent in the years following World War II, has fallen to less than half that amount in the last two decades. Worse, zero growth has been recorded for the last several years, and only more of the same is predicted for the near future. No country or region of the world has been exempt from this phenomenon—not the United States or Europe, not Japan, not the Soviet Union, and certainly not Mexico or the rest of Latin America.

Paradoxically, while everyone admits to an interdependent global economy, each national or regional crisis is conveniently treated as unique and unrelated. In this way, the impact that the policies of the industrialized countries have upon the rest of the world are either ignored or denied. The facts, however, do not support this position. The Latin American debt crisis is a prime example: in 1979, Argentina's foreign debt was only $8 billion, Mexico's a manageable $29 billion, and Brazil's $36 billion. In October 1979, the U.S. Federal Reserve Board immoderately raised the real rate of interest (adjusted for inflation). From an average of less than one percent since 1973, the rate speedily rose to more than 10 percent in 1981 and 16 percent in the first half of 1982. Compound these high interest rates over time, factor in the global recession, and the rest is history: Mexico's foreign debt today is over $100 billion despite the Brady Plan, "debt equity swaps," rescheduling, and other measures designed to reduce it.

This monetarist policy had the intended effect of reducing inflation in the United States. For the remainder of the decade, a debt-financed recovery from the 1981–1982 recession was achieved with the help of capital flight (see glossary, p. 5) and cheaper commodity imports from Latin America. However, the cost to the United States of 1980s "prosperity" was high and has yet to be paid. Government deficits skyrocketed, a $500 billion savings-and-loan crisis resulted, and enormous trade deficits changed the United States from a global creditor to the world's largest debtor. Budget and trade deficits averaging more than $200 billion a year eventually quadrupled the U.S. national debt to $2 trillion. Meanwhile, family incomes stagnated, income inequality worsened, and unemployment and poverty increased.

In Mexico and the other nations of Latin America, these very same factors—high interest rates, capital flight, recession, and low commodity prices—combined to form a vicious cycle of debt, deficits, devaluations, and negative growth rates from which they have yet to escape. By 1982, an estimated $93 billion, much of it money controlled by multinational corporations operating in Latin America, had been moved from the region—$36 billion from Mexico alone. Since then, total capital flight has risen to more than $400 billion, $50 billion of it from Mexico. Between 1981 and 1988, total debt for the region increased by about 40 percent, and the net transfer of capital (via interest payments) reached a level of 4.1 percent of the gross domestic product per annum. By way of comparison, the punitive net transfer of capital forced upon Germany after World War I by the 1919 Treaty of Versailles was only 2.5 percent of the GDP.

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Thus, high interest rates and capital flight—not failed development policies or public (state-run) enterprises—were responsible for the Mexican debt crisis of the 1980s. History will also record that the "stabilization" and "structural-adjustment" programs imposed on Mexico by the International Monetary Fund were disastrous "solutions" to both the debt crisis and the larger dilemma of Latin American development. The social legacies of the debt and of the IMF programs that followed have been a more unequal distribution of income, increased unemployment, and greater absolute poverty. To cite just one grim example: according to a United Nations FAO report, an estimated 40 percent of the Mexican population was suffering from malnutrition by 1983.

The contemporary global crisis and the failed economic policies which contributed to it are the requisite background for a comprehension of NAFTA. This trilateral free-trade initiative is but the latest attempt to restore U.S. hegemony in the global economy and a stability in the hemisphere that is congenial to U.S. corporate interests. The overall strategy, crafted by orthodox economists and implemented by conservative administrations, has been first to test economic policies in the United States and then to impose them abroad as conditions for foreign loans. They have been able to do this by taking advantage of the new "window of opportunity" presented by the desperate economic situation prevailing in Mexico, Latin America, and elsewhere in the world (a situation, ironically, which they helped to create).

These establishment economists loudly and repeatedly proclaim that all economic problems everywhere in the world have a common cause: they are said to be the inevitable consequences of deviating from the private, free-market system which alone guarantees efficiency, stability, and growth. Therefore, these economists argue, it is imperative that existing institutions and policies be replaced with those found in their model. Private enterprise, deregulation, and free trade comprise the ideological foundation of this structure.

Although it is rarely admitted, this neoclassical theory is riddled with rhetoric and disguised politics; it is also not easily adapted to the complexities of the contemporary global economy. Consequently, this theory (and the policies which it prescribes) often produces, in practice, unexpected, paradoxical results.

The Poverty of Theory

Many of us who have studied the economic theory of international trade—classical and neoclassical—come away impressed with its logical elegance but skeptical of its practical application. In the most orthodox trade models, there is no acknowledgement at all of colonialism or imperialism, developed and underdeveloped countries, technological differences, multinational corporations, or an International Monetary Fund. In the classical Ricardian model of trade, there are numerous heroic assumptions which defy credibility. Among these are perfect competition, perfect knowledge, constant returns to scale, full employment, and the absence of capital and labor mobility in the "two-commodity, two-country" model. This abstract and exquisitely refined model logically proves that increased specialization and trade based upon *comparative advantage* will potentially benefit both nations in the model with increased efficiency, production, and income. The free movement of goods across borders compensates for the immobility of capital and labor, and only a situation of tariff-free trade is needed. Because it is assumed that nation-states enter free trade voluntarily, they will either benefit or not trade. Yet, employment and income distribution—two key determinants of social welfare—are completely ignored in this paradigm. In the later Heckscher-Ohlin neoclassical model of trade, it was initially argued that social welfare would be maximized only if the winners compensated the losers for all losses incurred. This obstacle was later surmounted with the introduction of "community-indifference curves"—a most dubious solution to the problem. Prophetically, the Heckscher-Ohlin model also allowed the free international movement of capital, but not of labor.

Serious theoretical problems arise when a more modern trade model uses realistic assumptions, such as imperfect competition and increasing returns to scale. This contemporary, dynamic, oligopolistic model of trade, which made its appearance in the late 1970s, is called the "new international economics." It demonstrates that, under the right circumstances, export subsidies and import restrictions (protectionism) can both increase trade and raise the welfare of a nation—albeit often at the expense of other countries. The "strategic trade policy" stemming from this fashionable model requires that the government actively intervene in international markets by creating, subsidizing, and protecting those national industries which have specific attributes—namely, increasing returns to scale, positive external economies, advanced technology, and a high-income elasticity of demand. Such multinational corporate products as electronics, automobiles, and petrochemicals all have these particular characteristics. In this model, therefore, protectionist strategies are utilized to *create* comparative advantage, which is not assumed to be given or "endowed" as in the orthodox version.

This "new international economics" came into vogue with the onset of the contemporary crisis and the phenomenal rise of Japan in the global economy. The die was cast much earlier, however, when orthodox economists observed that, to a disturbing degree, empirical results contradicted their theoretical expectations. And so they abandoned their defense of these unrealistic assumptions (although not the assumptions themselves), substituting in its place a new emphasis on "predictability." This evolution in orthodoxy began with the doctrine of so-called positive economics laid down in the 1930s by Nobel laureate Milton Friedman, one of the most conservative economists in the profession. In "The Methodology of Positive Economics," Friedman decreed that "theory is to be judged by its predictive power . . . {and} cannot be tested by comparing its assumptions directly with reality."

But there are two problems with Friedman's assertion: not only are all neoclassical *predictions* still based upon unrealistic *assumptions*, but economists in general (as Friedman well knows) have a dislike for empirical investigation. As Nobel laureate economist Wassily Leontief, a contemporary of Friedman, once tartly noted, "Nothing reveals the aversion of the great majority of the present-day academic economists for systematic empirical inquiry more than the methodological devices they employ to avoid or cut short the use of concrete factual information."

Orthodox trade theory, as outlined above, is a static concept unrelated to economic development and based upon unrealistic assumptions not verified by empirical studies. It was developed and used by the dominant economic powers of the time (England and the United States) and both reflected and served their global economic and political interests. However, every country in the process of industrializing has initially adopted "protectionist" export-promotion strategies. Those which completed the process earlier (England and the United States) then became advocates of neoclassical free trade, which best served their own economic interests. But those which industrialized later, such as Germany and Japan, rejected neoclassical free-trade policy because they recognized that following this course would destine them to be second-class powers forever.

GLOSSARY OF ECONOMIC TERMS

capital flight - the immediate and massive exodus of corporate and personal financial capital from a country to escape inflation, devaluation of the currency, and low profits domestically and to find security, stability, and higher profits abroad. In essence, it is the means by which corporate capital can "strike" to force policy changes upon a country.

comparative advantage - an abstract, static concept of orthodox economics which logically proves that, under the right conditions, each nation can potentially become more efficient and gain the most by specializing in and trading those goods which it produces most efficiently (or least inefficiently) relative to others, depending on its particular mix of land, labor, and capital. (This is often mistaken for *absolute advantage*, a situation in which one nation produces what another cannot.) Historically, this malleable concept has been extensively used by the dominant industrialized countries to justify exploitative trade relations with underdeveloped countries.

export-platform plants - multinational corporate production facilities located in foreign (and domestic) cities and regions that produce goods for export. These plants are highly subsidized by the government and are exempt from most taxes and regulation. The Mexican *maquiladores* are examples of such plants.

high income elasticity of demand - a characteristic of certain products such that the demand for the product changes (increases or decreases) by a greater percentage than changes in national income. Many luxury goods fall into this category.

import substitution - a national policy of development which promotes domestic production by taxing or otherwise limiting foreign imports and by subsidizing domestic output. Many new or "infant" industries are provided such protection until such time that they grow, mature, and can compete internationally.

oligopoly - the domination of an industry or market by only a few large firms which have the power to fix output and prices and which often engage in monopolistic practices. At the very least, these firms are imperfectly competitive in theory and in practice.

perfect competition - an abstract and ideal industry and market structure at the heart of neoclassical economics, which depicts production as resulting from an infinite, independent number of small firms producing homogeneous products so numerous that no one firm can fix or influence prices, which are determined only by market supply and demand. (This is Adam Smith's famous "invisible hand" which guarantees social benefit from the individual pursuit of self-interest.)

positive external economies - benefits to an economy which result from the production of an individual plant or firm. Included among these are the creation of linkages or related production, environmental improvement, and technological advances. (There are also *negative* external economies: pollution is the classic example.)

returns to scale - originally an engineering concept applied to the size of production facilities, which explains how plants—when they are increased in size—initially give rise to increased output and lower average costs, then to constant output and costs, and, finally, to diminishing output and higher costs. Recently, this technical term has been extensively (and improperly) used to justify monopolistic practices and large corporate profits.

stabilization/structural adjustment - economic policies and programs forced upon developing nations and former socialist countries as conditions for receiving loans from the industrialized countries, the World Bank, and the International Monetary Fund. They include the sale of public assets, the lowering of wages, and austerity programs, and are pivotal new agenda designed to reinstate the global economic order of yesteryear.

To comply with the dictates of free-trade policy, for example, the Japanese government was encouraged to pursue an internal laissez-faire policy, promote perfect competition, and open the country to foreign investment. Instead, Japan chose to develop its economy with national conglomerates (*zaibatsus*) which the government created, subsidized, and protected through the Ministry of International Trade and Industry. After its disastrous attempt to become an imperialistic colonial power prior to 1945, Japan pursued export-promotion strategies through which it created comparative advantages in steel, petrochemicals, automobiles, and electronics. Thus, Japan demonstrated the merits of doing precisely the *opposite* of what the Western world's leading neoclassical economists advocated. In fact, the Japanese model so resembles the "new international economics" that there can be little doubt these revisionist economists learned from the Japanese experience. In essence, the "new international economics" is a pragmatic response to Japan's challenge to U.S. hegemony in the global economy.

> ***NAFTA is actually a retreat from global free trade and is designed to protect North American markets from further European and Asian encroachment.***

NAFTA: Free Trade or Protectionism?

What does this discussion of trade theory have to do with NAFTA? The answer is: just about everything. The dominant neoclassical paradigm has provided the intellectual rationale and justification for NAFTA, as it has for all the other economic policies of the conservative governments of the United States, Canada, and Mexico. Decision-makers and technocrats in these three nations, educated and well-versed in this school of economics, all agree that free trade is always preferable to protectionism, that NAFTA is a free-trade tool, and that the agreement will improve competition, employment, and growth rates in all three countries.

These assertions are truly incredible when we are mindful of the limitations of neoclassical trade theory, as well as the aversion of orthodox economists to empirical investigation. Only with a great deal of theoretical vulgarization can NAFTA's advocates lay claim to such potential benefits. Technical terms—such as *competition, efficiency, increasing returns to scale*, and *comparative advantage*—are not rigorously defined by NAFTA advocates and are often grossly distorted by them in order to make their promising predictions. In reality, neoclassical economic rhetoric serves as a smokescreen for the passage of NAFTA. No other paradigm can do the job half as well; who, after all, can be opposed to an economic policy of freedom and free trade which, at least theoretically and a priori, guarantees such happy results?

The hidden agenda behind NAFTA is not revealed in orthodox trade theory or in official documents and proclamations but, rather, in the revisionist theory and policy objectives of the "new international economics." The theorists of this school have not discarded free trade entirely; it remains the *ideal*, although supplemented by a sophisticated interventionism with all its limitations and dangers. And when one looks at the actual situation, it is difficult to argue that free trade can be the primary objective of NAFTA, since trade between the three signatory nations has already been virtually freed of protection. Mexico, Canada, and the United States are all members of GATT (the General Agreement on Trade and Tariffs). Canada and Mexico are the United States' first- and third-largest trading partners, respectively. Mexico's average tariff is only 10 percent, while Canadian and U.S. tariffs average about 4 percent. Moreover, these averages do not include the free trade which exists between Mexico and the United States in *maquiladore* production and between Canada and the United States in automobiles. No significant barriers to foreign investment or plant transfers have existed between the three countries since Mexico entered GATT in 1986 and President Salinas revised his country's investment laws shortly after assuming office in 1988. Should these "reforms" continue, and should special agreements between the three countries remove the few remaining barriers to trade and capital movements, then we will have a *de facto* NAFTA in the absence of one *de jure*. One should therefore question the need for a free-trade agreement at all.

Nor are competitive markets an authentic goal of NAFTA. The orthodox theoretical model of price competition, engaged in by a large number of small firms which do not advertise or restrict output, is not the type of rivalry practiced by multinational corporations. Oligopolistic multinationals today dominate the economies of all three NAFTA countries. If NAFTA accomplishes anything, it will be to increase the mobility, market share, and profitability of these large firms at the expense of smaller and more competitive national ones. The expansion and strengthening of massive North American multinationals is one of the major objectives of NAFTA, and increased *intercorporate* trade is what NAFTA will most likely give rise to. As such, the agreement is designed to achieve the policy goals of the "new international economics" and not those of neoclassical free trade.

The Hidden Political and Economic Objectives of NAFTA

NAFTA is, therefore, actually a *retreat* from global free trade. It will create an American trade bloc designed to accomplish two objectives: first, protect North American continental markets from further European and Asian encroachment in the short run; and second, enhance the global competitiveness and power of American multinational corporations in the long run. NAFTA is but the latest measure taken to retore the *status quo ante* (the international order circa 1890 to 1925) and U.S. global hegemony. NAFTA joins a number of similar maneuvers in the recent past designed to further this strategy, including the elimination of international commodity agreements; the termination of the Generalized System of Tariffs; and the eradication of the Third World development model, which was founded upon import substitution, infant industry protection, and public enterprises.

Politically, NAFTA will consolidate in a single international treaty the profoundly reactionary economic achievements of the 1980s in all three countries before their conservative governments exit from power. Including Mexico in this trilateral extension of the earlier Free Trade Agreement between the United States and Canada can be viewed as a reward for the Mexican government's support of the Brady Plan, as well as compliance with the IMF's conditional-loan programs and the implementation of so-called economic reforms. Beyond this, NAFTA reflects the extraordinary power of multinational corporations (predominantly from the United States) to set national and international policy in all three countries. NAFTA also has the hidden objectives of stemming the flow of illegal immigration from Mexico to the United States and perpetuating Mexico's brutal one-party "democracy."

Economically, NAFTA is designed to enhance and protect the power of American multinationals and their exploitation of old and new markets on the continent. U.S. corporations will undoubtedly increase their domination over this expanded market once NAFTA is signed. Their franchises can be expected to expand into Canada as well as Mexico, and more manufacturing plants will be shifted from the north to the south. Export-platform plants in Asia and in Central and South America will also be moved into this free-trade zone (although not to the United States) to take advantage of, among other things, lower transportation costs.

Potential Costs and Benefits of NAFTA

These trends are already evident, even before ratification of the agreement, and they are but the first of the structural changes that will be induced by NAFTA. In 1990, for example, there were only 10 foreign franchises operating in Mexico. With changes in Mexican investment laws, the number of foreign franchises increased to 125 by 1992, with 950 outlets throughout the country. Over the last five years, U.S. manufacturers have invested $11.6 billion in Mexican plants; more than 250,000 cars assembled in Mexico (or about 85 percent) have been exported back to the United States. The number of Mexican small businesses and U.S. workers replaced by these capital movements are among the social costs which have been conveniently ignored in the typical discussions of NAFTA.

Because of the marked wage disparity betweeen Mexico, on the one hand, and the United States and Canada, on the other, corporations can realize significant cost reductions by moving their capital and plants to the south. Hourly manufacturing wages in the United States and Canada average about $15, as compared with $2 in Mexico. The multinational corporate strategy, therefore, is to increase profits through lower wage costs, fixed prices, and increased market shares—not through product innovation, technological advances, or economies of scale in production.

Those who claim that wages will be equalized or that the price of commodities traded in the region will be reduced any time soon are in for a few surprises. Such scenarios, derived from neoclassical trade models, defy credibility in the oligopolistic world in which we live and would void the coveted benefits and corporate profits of NAFTA. It is not likely that the anticipated movement of capital and jobs to Mexico will significantly increase wages due to that country's huge number of unemployed and underemployed laborers. The border *maquiladores*, which employ about 500,000 Mexican workers, already pay *less* than the average manufacturing wage in Mexico (and in Asia). These multinational corporate assembly plants currently pay money wages as low as 57 cents an hour and total wages—including benefits—of about $1.15.

If the *maquiladores* are the vanguard of what NAFTA will bring, they do not portend well for the workers of Mexico, Canada, or the United States. This transfer of manufacturing and other production facilities to Mexico will weaken labor unions in the United States and Canada and have a depressing effect upon real wages—not enough to discourage illegal immigration from Mexico to the United States but enough to increase the profits of American corporations. Moreover, the mere threat of transferring plants to Mexico has already obtained wage concessions from workers in the United States and Canada. And while the number of abysmally paid Mexican workers employed by U.S. corporations has increased, employment by these very same firms in the United States and Canada has decreased—as have real wages in both countries. Canada, for example, lost more than 300,000 jobs—13 percent of its total manufacturing employment—since the Free Trade Agreement was signed; this occurred despite the fact that U.S. corporations *doubled* their investments in Canada between 1986 and 1990, from about $50 billion to over $100 billion. The recently released International Trade Commission's report on the potential impacts of NAFTA showed job loss in the United States as "low" as 145,000 by 1995 and as high as 490,000 by the year 2000. The net increase in U.S. jobs after NAFTA (based upon rather optimistic

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growth, investment, and trade assumptions) was estimated to be as low as *0.03 percent* of the labor force, or only 35,000 jobs by 1995.

For Mexico, NAFTA is an opportunity to attract to its economy the private capital which fled the country during the 1980s; to compensate for the reduced public loans which have been diverted to Eastern European countries by the IMF; and to join an exclusive, powerful trade bloc in the hemisphere. The NAFTA-like "pro-market" reforms of the Salinas administration already have lured billions of dollars back to Mexico. Since 1989, the Mexican stock exchange has increased sevenfold; this expansion was fueled by the "privatization" (sale) of public enterprises such as TELMEX, the national telecommunications system. Mexico will pay at least part of its massive foreign debt by selling such public assets to private businesses. For example, the Mexican government sold TELMEX for $3.7 billion and exchanged that money for $7.2 billion of discounted Mexican debt. Privatized TELMEX now has a stock value of $28 billion—but the phones in the country do not operate any more efficiently, and neither real investment nor employment has been increased by this speculative activity. PEMEX, the national petroleum industry, is soon to suffer the same fate: already the retail gas stations have been privatized, and 50,000 workers—about 25 percent of PEMEX's labor force—have been laid off over the last three years.

> ***NAFTA could give rise to a trade war among the world's three emerging blocs: North America, the European Economic Community, and the Asian bloc.***

What does this tell us about investment and free-trade agreements? First, that speculative investment may be attracted by a nation without an agreement, giving rise to no increase in production or employment, as in the case of Mexico and its recent stock-market boom. Second, that real investment may be attracted and give rise to increased employment but *not* to increased real wages, again without a trade agreement, as has also occurred in Mexico. Third, that a free-trade agreement may give rise to increased investment but also to decreased employment and wages, as in Canada. Finally, that a free-trade agreement may result in *decreased* investment, employment, and wages, as in the United States.

What does this tell us about NAFTA? It is abundantly clear that NAFTA will give rise to a major redistribution of income and wealth—not so much from country to country as from one socioeconomic class to another. More specifically, NAFTA will undoubtedly redistribute income from wage and salaried workers to the propertied elite in Mexico, Canada, and the United States. We know this already from the recent experience of Mexico with its corporate *maquiladores* and investment "reforms," and from the effects of the Free Trade Agreement between the United States and Canada. This alone would constitute a success for the architects of NAFTA. In the final analysis, it is not countries or corporations but, rather, the propertied elite in all three nations who are the driving force behind this agreement—and who will be NAFTA's ultimate and perhaps only beneficiaries.

The long-term economic objective of NAFTA, also obscured, is to increase the bargaining position and strength of American multinational corporations vis-a-vis Europe (Germany) and Asia (Japan). Failures in the bilateral trade talks with Japan over the past couple of years, and the more recent collapse of GATT negotiations with the European Community in Brussels, have left the American multinationals with few other trade options. The trade-diverting effects of NAFTA will be profound and will affect not only Japan and the European Community but also the developing countries of Asia and Latin America.

In the absence of retaliation from Europe and Asia, NAFTA does have the potential for improving the profitability and global market share of North American corporations. NAFTA, however, could also give rise to a trade war among the world's three emerging blocs: North America, the European Economic Community, and the Asian bloc centered on Japan. According to Paul Krugman, one of the founders of the "new international economics," a trade war would not be the disaster that orthodox trade theorists claim:

> And let's suppose that each of these trading blocs becomes highly protectionist, imposing a tariff against goods from outside the bloc of 100 percent, which we suppose leads to a fall in imports of 50 percent. . . . A trade war that cut international trade in half, and which caused an *average* cost of wasted resources for the displaced production of, say, 50 percent, would therefore cost the world economy only 2.5 percent of its income. . . . (It is roughly the cost of a 1 percent increase in the unemployment rate.)

To avoid this unpleasant scenario, which would have negative political as well as economic repercussions and perhaps lead to a global conflict, NAFTA could first be expanded to include all nations in the hemisphere—that is, a Pan-American Free Trade Agreement. NAFTA's provisions differ from those of the European Economic Community and GATT in a number of significant ways, and the agreement could conceivably serve as a useful new model for global free trade. However, these outcomes are not immediately obtainable, and they are certainly not the objectives of the new "strategic trade policy" being pursued by the chief executive officers of the American multinationals.

The "Lose-Lose" Scenario

In conclusion, it is extremely difficult to quantitatively estimate the impact of NAFTA upon the economies of the United

States, Canada, and Mexico should it be ratified and implemented. A priori calculations of increased trade, employment, and income are little more than educated guesses founded upon questionable assumptions. Also, the negative aspects of NAFTA are grossly underestimated and often ignored. To disregard them gives only a biased and exaggerated appraisal of NAFTA's potential benefits. The unintended outcome could be *less* for everyone (the little-mentioned "lose-lose" scenario) if aggregate demand decreases, if the global crisis worsens, if a trade war erupts, or if Mexico does not develop.

Unless Mexico is granted special concessions to protect and develop its economy, another paradoxical result of NAFTA will be the "development of underdevelopment." Both the progressive economic paradigm and the "new international economics," as well as the historic example of Japan, argue against Mexico pursuing a NAFTA-type strategy of foreign investment, deregulation, and free trade. By international treaty, NAFTA will preclude Mexico from undertaking industrial planning, infant industry protection, land reform, and income redistribution, while increasing dependency and the domination of the Mexican economy by foreign multinational corporations. Cultural preservation and sustainable agriculture will also cease to be options for Mexico after NAFTA is signed. Most adversely affected will be the *ejidos* (small farms), the beneficiaries of the Mexican revolution. Agribusiness will replace them, imported corn will be substituted for domestic production, and, in the process, these small landowners will be pushed off the land and forced to become itinerant laborers—unwelcome either in Mexican cities or across the border in the United States.

The orthodox trade-theory concept of comparative advantage ignores stages of development in nations and directs underdeveloped countries to specialize in the production and export of their raw materials to industrialized nations. As such, Mexico's peripheral status in the new world order will be set in concrete by NAFTA. The U.S.-Mexican border will continue to divide an underdeveloped country from a developed one. For poor Mexican laborers, this border will still bar them from a better life, and illegal immigration to the United States will continue. For American multinational corporations and those who own them, however, even this (already minimal) obstruction to income and wealth accumulation will be eliminated.

Neither NAFTA nor neo-liberal "market reforms," nor success in future GATT negotiations, will be the panacea for the global economic crisis that their proponents claim. If success at GATT raises global income by the estimated $100 billion annually, and NAFTA by just a fraction of that amount—about $20 billion, distributed unequally among nations and socio-economic classes—the suspicion arises that NAFTA is not really concerned with furthering free trade, efficiency, or growth. NAFTA is, in fact, little more than the latest strategy of orthodox economists and conservative politicians to redistribute income and wealth from the many to the few and from the poorest to the richest countries and classes.

The rhetoric and disguised politics of orthodox neoclassical economics, a vulgarization of the theory, and an unsatisfactory, somewhat dishonest fabrication of statistics have been combined to convince the public that everyone will win with NAFTA. But if the past is any guide to the future, some will win, some will lose, and the winners will not compensate the losers. This is already the legacy of monetarist high-interest rates, privatization, deregulation, stabilization, and structural adjustment. There is every reason to expect that NAFTA will yield more of the same.

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