

The Failed Case for NAFTA

The Ten Most Common Claims for the North American Free Trade Agreement and Why They Don't Make Sense

by Jeff Faux

Introduction

In the debate over the North American Free Trade Agreement (NAFTA), serious people on both sides now agree that there will be costs to both the economy and the environment of the United States. There is disagreement over the extent of the potential damage. But even supporters admit that jobs will be lost, incomes reduced, environmental standards undercut, illegal immigration increased, and drug traffic expanded as a result of the further opening up of the border with Mexico.

Those who support NAFTA claim that the overall economic benefits to the U.S. will make these costs and risks worthwhile. Those who oppose NAFTA say they will not.

No one, of course, can predict the future. And we should always be suspicious of economists -- who cannot tell us what interest rates will be next week -- confidently predicting what the results will be years from now of a complex international deal for which there is no historic precedent. NAFTA is inherently a gamble.

For several years, the U.S. and Mexican interests lobbying for NAFTA have spent millions of dollars in research in an effort to find convincing evidence that the gamble is worth taking. They have failed. Not only have they been unable to make the case for NAFTA, much of their research supports the case *against* it.

It is now apparent that the benefits of NAFTA will go primarily to those Americans who invest in Mexico and to a small part of the U.S. labor force that is already **enjoying** high incomes. In the first few years costs will largely be borne by low- and medium-skilled people in a variety of industries, such as autos, electrical machinery, trucking, agriculture, apparel, food processing, furniture, glass and cement, toys, sporting goods and other consumer products. In the long term, the rippling effects of NAFTA will reduce the real incomes of a majority of U.S. workers.

Unfortunately, few have taken the time to examine the evidence for the extraordinary claims being made for **NAFTA**. As a result, unsupported economic predictions and appeals to abstract ideology are accepted at face value by journalists and members of Congress. The assertion that “most economists” believe that more unrestricted trade with Mexico will be good for “everyone” in an unspecified “long run,” goes unchallenged. As does its increasingly shrill implication: that those who oppose NAFTA are simply ignorant of economics or, as some would have it, somehow “against Mexico.”

Such demagoguery is designed to allow NAFTA supporters to make **NAFTA's** opponents the focus of the debate, therefore escaping their own responsibility for shouldering the burden of proof, which is always on those who are proposing a new policy. NAFTA supporters have good reason not to want to debate the proposal in any detail, as the following discussion of the ten most common claims for the proposed agreement will show.

1. NAFTA will create more jobs than it destroys.

The NAFTA debate has provided many opportunities for the misuse of statistics. The U.S. Trade Representative, for example, supports his claim that NAFTA **will** create huge numbers of jobs by referring to estimates of U.S. job gains from exports, without reference to the job losses from imports or from the diversion of investment from the U.S. (**USA Today**, May 27, 1993, p. 15A). This is like confusing gross sales with net profits. He also makes unsupported promises about job increases and then counts those jobs as lost if NAFTA does not pass -- even though those jobs were never found (Lee 1993a).

The most serious piece of evidence offered for the claim that **NAFTA** will create a net job gain for the U.S. is that after the Mexican government reduced its

trade barriers in the **mid-80s**, U.S. exports to Mexico improved, and since 1991 we have been running a trade surplus with Mexico. **NAFTA** supporters multiply this surplus by a standard jobs-per-exports factor and conclude that this “free trade” is creating hundreds of thousands of jobs, and that more free trade will create more jobs. This claim is misleading for several reasons:

- Much of the U.S. surplus with Mexico comes from the overvalued Mexican peso, which is artificially making U.S. exports cheaper and Mexican imports more expensive. After the next Mexican election in 1994 -- if not sooner -- the peso is likely to fall, and with it the U.S. trade surplus. **NAFTA** advocate Gary **Hufbauer** of the Institute for International Economics, for example, anticipates a devaluation in the ten percent to twenty percent range sometime after the Mexican election in 1994 (Journal of Commerce, March 2, 1993, p. A1). A ten percent devaluation of the peso would wipe out any prospective gain from eliminating Mexican tariffs on U.S. goods, which average about ten percent.
- The recent surplus with Mexico is primarily made up of increases in the export of capital goods (e.g., machinery and equipment), and intermediate goods (e.g., supplies and components). These are used in the production of consumer products made in Mexico and exported back to the U.S. **NAFTA** supporters claim that these new exports represent new jobs. But to a large extent the increase in these exports represents a diversion of capital and intermediate goods that were previously produced in the U.S. for domestic manufacturers and are now shipped to Mexico where they will be used to make consumer goods for the U.S. market. Since, in both nations, the market for consumer goods is much larger and tends to grow at a faster rate than the market for capital goods, the overall trade surplus is bound to shift to Mexico. In fact, in the first four months of 1993, the U.S. surplus with Mexico is only about half as large as it was during the same period in 1992.
- The predictions made for job growth by **NAFTA** supporters are based on misunderstood, fuzzy, and unrealistic assumptions. For example, the most widely quoted **pro-NAFTA** study, by economists Gary Hufbauer and Jeffrey **Schott** (1993). appears to conclude that after five years **NAFTA** will cause a net increase of about 170,000 jobs. The Office of the U.S. Trade Representative has based its claim that **NAFTA** will add another 200,000 jobs on a “rounding” of this estimate. But the **Hufbauer-Schott** estimate is not what it seems. **First**, it is an estimate of the impact of **NAFTA** plus “Mexico’s domestic economic reforms.” These reforms have already occurred, and by the authors’ own estimates, only 23,000 jobs are left to be created by **NAFTA**.

Second, in order to justify their estimates, the authors had to conclude that the U.S. surplus with Mexico will rise further and be sustained for the next two decades! They also had to assume that Mexico would enjoy massive increases in foreign investment, but that the investment diverted from the U.S. (which supplies the bulk of foreign investment in Mexico) would not cost any jobs in the U.S. In effect, they assume that closing down plants in the U.S. and opening them up in Mexico does not cause any net loss of jobs in the U.S. Neither of these assumptions are credible.

Economists who have taken the effect of investment shifts into account estimate that a half million jobs will be *lost* because of NAFTA. Billions of dollars are flowing from U.S. investors to Mexico on the expectation that it is Mexico's manufacturing exports that will boom, not the United States' (New *York Times*, April 22, 1993a, p. A1). The Salinas government is hoping to pay off its debts with the dollars earned in running a trade surplus with the U.S. In effect, supporters on both sides of the border are promising their people a trade surplus with the other country. Obviously, both countries cannot simultaneously run a trade surplus with each other.

2. Mexican **workers will take low-skill, low-wage jobs while U.S. workers will move up the ladder to higher wage, higher skilled jobs.**

NAFTA backers have said that low wages in Mexico reflect low productivity. From this they argue that firms are not moving to Mexico for low wages, but to take advantage of the Mexican consumer market. But the evidence points the other way. First, many U.S. business managers have publicly admitted that they have gone to Mexico for lower wages and Mexico openly cites its low wages in advertising for foreign investment. *Second, the* Mexican consumer market is tiny, and is largely already open to U.S. firms. *Third,* while productivity in Mexican export industries is 80 to 100 percent of that in similar U.S. industries, wages are 10 to 15 percent of U.S. levels (Gephardt 1993; Shaiken 1992; Blomstrom and Wolff 1989). Manufacturing productivity in Mexico rose 28 percent in the 1980s, while real wages fell 24 percent (Rothstein 1993). In a growing number of industries, labor productivity in Mexico is even higher than in comparable U.S. factories because the Mexican plants are newer and the workers often get more training. Where labor is cheap to hire, it is cheap to train.

The disparity between wages and labor productivity in Mexico largely results from the policies of the authoritarian Mexican government. Over the last decade, the government has been forcing wages down and keeping environmental regulation lax in order to attract more foreign capital as a way of paying its foreign debt. In the 1970s, the ratio between U.S. and Mexican wages was three to one. Today, it is seven to one, and higher in many industries. Mexico is ruled by one political party. It was recently called the “perfect dictatorship” by politically conservative writer Mario Vargas Llosa. Mexico lacks strong independent trade unions, courts, environmental groups and similar institutions that in a democracy keep a check on the government (Levinson 1993a; Reding 1993).

None of the pro-NAFTA studies has been able to provide credible support for the assertion that living standards of U.S. workers will benefit from this Agreement. The evidence clearly points the other way. For example, Professor Ed Learner of the University of California (1992), a well-known advocate of free trade, concludes from his research that one effect of NAFTA will be an average wage loss of \$1,000 per worker for the lower 70 percent of the U.S. labor force.

NAFTA will exacerbate wage competition between U.S. and Mexican workers. Lower wages in U.S. manufacturing will undercut wages in other sectors of the economy. Contrary to the popular impression, the effect will not be limited to unskilled workers. Skilled, professional, and technical workers in Mexico also earn much less than their U.S. counterparts.

It is a matter of historic fact that U.S. workers who lose jobs because of import competition do not go up the ladder to better jobs; they go down the ladder, to low paying jobs, or off the ladder to permanent unemployment (Faux and Lee 1992).

Over the long run, NAFTA will undercut the “high-skill, high-wage” economic path that holds out the only hope for rising U.S. living standards in a global economy. It will encourage U.S. manufacturers to compete in the world by attempting to reduce wages -- either by going to Mexico or threatening to go to Mexico -- rather than by upgrading workers’ skills and investing in more productive machinery and equipment. The result will not be to bring Mexican wages to U.S. levels, but to do just the reverse.

3. **The cost of labor is only one element -- maybe as low as 20 percent -- in the cost of making a product. This is too *small a factor for business to go to Mexico for labor costs.***

There are three flaws in this argument:

- a. The direct cost of labor is only one of the costs affected by a wage gap. Indirect labor costs, reflected in cheaper prices for construction and business services and lower taxes (because of cheaper and fewer government services) also reflect cheap labor.
- b. Even where the individual firm's direct labor costs may represent only 20 percent of the total price of the product, direct labor represents by far the largest share of what the employer considers controllable costs. At any given time, other than profits, the other 80 percent of the price of a product that is not labor costs is ordinarily beyond the ability of **the** management to reduce further. Unless the company is poorly managed, it is already paying the lowest feasible price for supplies, components, materials, energy, interest rates, etc. If labor costs were not important, businesses would not spend large sums lobbying against anything that might increase them -- from minimum wages to mandated health care benefits. Employers have been known to close down factories rather than pay employees another few cents an hour.
- c. The firm with 20 percent direct labor costs that shifts production to Mexico will, under NAFTA, gradually gain the added advantage of buying components and supplies from other firms in Mexico whose labor costs are also lower than they would be in the US. Thus, cheaper labor costs become "imbedded" in more than just 20 percent of the value of the product. In the U.S. economy as a whole, labor costs account for the vast majority of the value of all production.

4. **NAFTA will slow down illegal Mexican immigration.**

A similar claim was made thirty years ago when U.S. firms first began to take advantage of the *Maquiladora* arrangements with Mexico, in which U.S. tariffs on Mexican goods are reduced according to the extent to which they are made with U.S. components. Contrary to the early claims, the *Maquiladora* program actually increased immigration by drawing Mexican workers to the border areas. Once there, workers found jobs at wages too low to support a family. They soon quit (turnover in the *Maquiladora* factories is very high), climbed the fences and crossed the rivers to the U.S. With NAFTA, most of Mexico's growth will continue to occur

in the border area because of its nearness to U.S. markets, The result will be more, not less, illegal immigration to the U.S.

NAFTA will further increase illegal immigration by dislocating large numbers of poor farm families in the Mexican countryside who will not be able to compete with U.S. grain exporters. Uprooted families will flood the cities and put more pressure on the U.S. border. Even studies sponsored by NAFTA advocates have concluded that NAFTA will have no impact on immigration, or will make it worse (Levy and Van Wijnbergen 1992; Robinson, et al. 1992). Hufbauer and Schott (1993, p. 25) acknowledge that NAFTA will increase immigration from Mexico in the first five years

5. These jobs will eventually be lost anyway to low-wage countries, so it is better to lose jobs to Mexico than to Asia.

After several years of trying, NAFTA backers have come up with no real evidence on this point. No doubt there are some jobs that would go to Asia if there were no low-wage alternative in Mexico. But it is just as likely that NAFTA will divert Asian (and European) investment to Mexico that otherwise would have come into the United States and created jobs here. Mercedes-Benz, for example, is setting up facilities to produce buses and luxury cars in Mexico in anticipation of NAFTA (Automotive News, March 3, 1993, p. 8). Similarly, China is building a major textile and apparel center in Mexico in order to export to the U.S. (*Electronic News*, February 1, 1993, p. 8). Mexico's wages have been falling relative to wages in most Asian countries which has obvious locational advantages. Moreover, it is illogical to argue that because jobs are already being exported, we should export even more.

During this time of slow job growth and rising social problems, the U.S. simply cannot afford to be indifferent to the fate of entire industries. For example, the apparel and textile industry, which is widely regarded as one of those sectors at the bottom of the wage ladder and vulnerable to NAFTA, directly employs 1.7 million workers in the U.S., most of them in inner-city and poor rural areas where there are few employment alternatives. Indirect employment generated by industry suppliers, tax revenues, and employee spending totals another three million jobs (Baker and Lee 1993). The typical reply of NAFTA supporters that people who lose

their jobs in these industries will in some vague, unspecified way find new, better jobs through “retraining” cannot be taken seriously.

6. Free **trade always creates benefits for both sides and protectionism is bound to fail.**

First, the **NAFTA** debate is not about abstract questions of “free trade” and “protectionism.” This two thousand page agreement is primarily an investment agreement designed to make it safer for U.S. companies to shift investments to Mexico (U.S. Citizens’ Analysis of the *North American Free Trade Agreement* 1992; Lee 1993b, p. 12). Second, the assertion that freer trade always brings more benefits than cost is wrong. At best, history is ambivalent on this point. Under certain conditions, free trade is a sensible strategy for a nation to pursue. But in more cases than not, the major industrial nations of the world developed their economies behind walls of protection. This experience not only includes Japan, Korea, and Taiwan in our own century, but the United States of America, which for more than a century prior to the end of World War II protected its growing industries with high tariffs and other import restraints. World economic growth has taken place under a mixture of trade arrangements. **Third**, even in economic theory, unrestricted trade is successful only under certain conditions. One condition is full employment on both sides of the border. Another condition is capital immobility between the countries. It is obvious that neither of these conditions is met in the U.S.-Mexico case.

Economic theory also tells us that the benefits to freer trade show up in lower prices to the consumer. Freer trade is supposed to create larger markets, which make business more efficient because of increased economies of scale and expanded competition. Yet even if we were to accept the **NAFTA** lobbyists’ unrealistic assumptions, their own estimates of the benefits we would gain are trivial. According to **Hufbauer** and **Schott** (1993, p. 245), the total “efficiency” benefit to American consumers comes to \$2 billion out of a \$6 trillion U.S. economy. It works out to \$8 a year for the average American, or two cents per day. This benefit is so small that you literally cannot find it in the economic data: it is smaller than the statistical margin of error in calculating the Gross Domestic Product. Statistically speaking, it is *nothing*.

Thus, according to NAFTA's own supporters, two cents per day per person is the potential long-term benefit that we are told justifies the risks of unemployment, community dislocation, environmental degradation, increased social disruption in Mexico, and the expanded immigration that will inevitably result.

7. **If we do not agree to NAFTA, Mexico will make some sort of deal with the Japanese.**

The key to NAFTA is increased access to the U.S. market. The Japanese are not going to give Mexican products increased access to their market, which is tightly restricted. If the U.S., using the threat of denying Japan the opportunity to sell to the American consumer, cannot open up the Japanese market, it is absurd to claim that Mexico would force Japan to open itself up to low-wage Mexican production in exchange for the tiny, impoverished Mexican consumer sector. Indeed, the danger of Japan using Mexico as an "export platform" to ship its goods into the U.S. is much greater with NAFTA than without it because NAFTA will make access to the U.S. consumer even easier (Cohen and Tonelson 1991; Hollings 1993). The important point is for the U.S. to maintain control over access to its own markets to use as leverage for getting better treatment in international trade.

8. **We must support Salinas because he is a reformer.**

Read what the pro-free trade London *Economist* says about the current Mexican government: "The ugly truth is that Mr. Salinas and his band of bright technocrats, adored though they are by the great and good on the international conference circuit, wield power courtesy of PRI fixers and worse in the countryside." It adds that, "Mexican politics is not without its violent side," and refers to claims that 164 members of the opposition PRD party have been murdered since 1988 (*The Economist*, February 13, 1993, p. 56).

There is a mountain of evidence that Carlos Salinas' government represents simply a newer, more sophisticated generation now in control of the Mexican political apparatus. It is beyond serious dispute, for example, that wages are deliberately held down by an alliance between government controlled labor unions and government influenced business associations, which collaborate to set wages. Intimidation and harassment of independent labor unions and those who oppose

the ruling party is well known Election irregularities are commonplace, and it is widely believed in Mexico that they were crucial in helping Carlos Salinas gain his election. It is difficult to get an objective picture of the Mexican political structure. But whatever the truth, few people will deny that the government has immense power to manipulate economic life, and thus to assure that Mexico will continue to follow an economic strategy of earning foreign currency by attracting investment in unregulated workplaces.

Salinas' lobbyists in the U.S. promise that if we agree to NAFTA, the one-party Mexican dictatorship will permit democracy at some indeterminate time in the future. It is, of course, a promise they cannot fulfill. The idea that somehow we might influence democratic reforms *after* we have rewarded this authoritarian regime with permanent economic benefits flies in the face of everything we know about human nature and politics.

It is important to remember that the nations of the European Community rejected the membership applications from Spain and Portugal until those countries abolished their authoritarian regimes and established credible democratic political systems. Today, many in Mexico believe that the defeat of NAFTA is necessary to nurture democracy in Mexico. Only on that basis can an economic partnership be built that will raise living standards in all of North America (Hellman 1993: Aguilar Zinser 1993).

We cannot predict the political future for Mexico any more than we can predict the economic future. But the heavily-financed public relations campaign to convince Congress that Carlos Salinas is "our man" has chilling parallels to other episodes in recent U.S. history. The U.S. government was once persuaded to bet on similarly anointed leaders in Vietnam, the Philippines, Panama, and Iran -- to name just a few countries where such confidence was misplaced. A few years ago, Washington and the multinational business community were similarly impressed with the economic "reforms" imposed by the presidents of Brazil and Venezuela -- both of whom have now been impeached for corruption by outraged populations. Whatever the merits of these cases, history suggests that it makes little sense for the U.S. Congress to gamble the future of millions of American workers on the self-promoted reputations of one personality or one faction of Mexican politics.

9. If NAFTA is rejected Mexico will have an economic crisis.

Mexico is heading for an economic crisis with or without NAFTA (Heredia 1993). The country is running a deficit on its international current account of over \$20 billion a year. It is financing that deficit with international capital in several ways. First, by borrowing short-term money at high interest rates. *Second, with* foreign investment attracted by the government's commitment to low wages and the proximity of the U.S. market. Much of this foreign investment has also financed speculation in Mexican real estate and stocks.

The continued current account deficit will sooner or later require a devaluation of the Mexican peso. When that happens, short-term and speculative capital will **flee**. This will surely burst the speculative bubbles in real estate and finance, if they haven't burst before. The passage of **NAFTA** may delay this ultimate crisis by continuing for a while to shift investment from the U.S. to Mexico, but for all practical purposes it cannot prevent it. The only way that an economic crisis can be avoided is if Mexico suddenly begins to run a massive trade surplus with the United States. This exposes a major contradiction in the pro-NAFTA argument. If NAFTA is to prevent a crisis in Mexico, it can only do so if the U.S. runs a large persistent trade deficit with Mexico. But if NAFTA is going to create jobs in the U.S., we must run a surplus with Mexico.

When the crisis occurs, the existence of NAFTA will make it more dangerous to the U.S. For example, **NAFTA** is designed to encourage U.S. banks and other financial institutions to make large investments in the Mexican banking system, regulated by a single party government famous for its corruption. This is a formula for creating future demands that the U.S. taxpayer bail out the Mexican **banking** system in order to save the assets of major U.S. financial institutions.

What will happen if a financial crisis hits Mexico after a rejection of NAFTA? Those in the U.S. who have speculated in Mexican real estate or financial markets would lose some money. But capital investment will continue to flow to Mexico, although probably at a somewhat reduced rate, because cheap labor and access to the U.S. market will continue (*Toronto Globe and Mail* 1993, p. B2).

The major impact would be political. Carlos Salinas might not be able to **handpick** his successor and the PRI may even be unable to sustain its control over the country. But why is this such a concern for the United States? With the ending

of the cold war we certainly are not worried about communist influence in Mexico. Any president of Mexico will have to have cordial and cooperative relations with the U.S. There is no other place for Mexico to go.

Sooner or later there will be repercussions in Mexico because of the policies of Carlos Salinas and his immediate predecessors, just as the U.S. was bound to suffer financially as a result of the policies of Ronald Reagan and George Bush. But it is senseless for the U.S. government to compound its own economic problems in order to rescue Carlos Salinas and the PRI from paying a political price for their mistaken policies. As one witness at a congressional hearing said of the Salinas administration: "They have bet the rent money, the house, and the family jewels on the passage of the NAFTA. In so doing they have trapped themselves and now seek to trap you, the Congress, and the Clinton administration" (Levinson 1993b, p. 5).

10. **NAFTA can be fixed with side agreements that protect labor and environmental rights.**

Perhaps. But not with the side agreements the administration is presently negotiating.

Part of ~~fixing~~ NAFTA would require Mexico and the U.S. to provide for new, tougher and enforceable labor and environmental standards, including higher minimum wages in the Mexican export sectors to reflect the real productivity of labor there. Wages are now set by government supported business associations, not by a free labor market, and therefore wages must be made part of the agreement. Agreements on internal financial regulations and protections against sudden destructive import surges will also have to be included. The side agreements would also have to assure some permanent funding, such as Congressman Richard Gephardt's proposal for a cross-border tax on trade, to pay for the cost of trade adjustment and environmental repair. Those who benefit from NAFTA should pay for its costs.

None of these elements is in the side agreements that the U.S. government has proposed to Mexico and Canada (Inside U.S. *Trade* 1993). Inasmuch as the current governments of the latter two nations have said that they want the weakest possible side agreements (indeed, that they don't think the side agreements are necessary at all), we can assume that the U.S. proposal represents the strongest

language on labor and environmental issues that can possibly come out of the negotiations.

The U.S. proposal makes no attempt to set labor or environmental standards nor does it propose a serious process to do so. Therefore it does not deal with the heart of the economic problem -- the *huge* disparity between *the* productivity of **Mexican labor** in the tradeable goods industries and the wages that they receive.

Rather, the U.S. proposal simply calls for a tri-national commission with a cumbersome, protracted and vague process (that even then can be stopped by a vote of the representatives of any two of the countries involved) for imposing unspecified sanctions against any country that has not corrected a “persistent and unjustifiable pattern of non-enforcement” of its own labor and environmental law. The Mexican and Canadian governments want even weaker language. So the negotiating conflict will take place *on* grounds that are irrelevant to the central objection to NAFTA. Even if the U.S. negotiators win one hundred percent agreement on their position it will not appreciably alter the economic distortions which will inevitably lead to job and income loss in the U.S.

Neither does the U.S. proposal provide for secure and permanent financing of the costs of the NAFTA, e.g., the costs of worker and community dislocation, environmental cleanup, infrastructure -- including the need for increased border surveillance to prevent NAFTA from becoming a vehicle for increased drug traffic from Mexico. Such costs, in addition to the loss of tariff revenue which the administration has not accounted for in its budget, will thus have to be paid for by increased taxes, cuts in other public programs, and/or a higher deficit, or they will not be provided for. The decision not to finance the costs of the agreement by taxing its beneficiaries means that many Americans will not only lose income and perhaps their livelihood from NAFTA, but that they will be taxed to support the program that damaged them.

In addition to specific international standards, a NAFTA that truly protected labor and environmental conditions in all countries would have to have an aggressive, well supported enforcement mechanism to overcome the natural tendency of all signatories to subordinate human and environmental values to financial interests. This means a tri-national commission with power to investigate, subpoena, and employ immediate trade sanctions for violators. Vague language

that enables such a body to act only in the case of “serious and persistent” violations is an invitation to abuse.

We have to face the fact that an enforceable set of protections will inevitably require all nations that sign the pact to give up more sovereignty. Indeed, NAFTA’s existing 2,000 pages already violates Mexican and Canadian sovereignty by dictating new domestic procedures to protect the property of U.S. investors. It also violates U.S. sovereignty in a number of ways. One example is that NAFTA will prevent the U.S. government from pursuing industrial policies to support American producers in their effort to compete with advanced Asian and European countries who get help from their governments. Another is that NAFTA will require states to permit Mexican truckers to drive on U.S. highways despite the fact that they are not regulated to meet U.S. standards for health and safety.

Mexico and the US. already have a massive enforcement problem on the border. Increased illegal immigration, drug traffic, and pollution are the results. There is little doubt that NAFTA will make these problems much worse. For example, according to U.S. officials, narcotics smugglers are already buying and setting up companies in Mexico “as fronts for drug trafficking” (*New York Times*, May 24, 1993b, p. A1). We do not know exactly how much more drug traffic will increase under NAFTA, opponents of NAFTA, of course, cannot predict the future any more than supporters can. But given the seriousness of the issues, the billions of dollars already being spent, and the lives of dedicated U.S. and Mexican law enforcement officers already being risked to combat the flow of drugs, opening up the border to further drug pressure represents a clear risk. It is difficult to imagine any side agreement that could counteract the negative effects of such a policy.

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A continental economic development policy linking Mexico, Canada, and the U.S. makes sense. But its goal must be to raise the living standards of the majority of people in all countries, not to lower them. The first step toward a sensible North American economic agreement is to reject NAFTA so we can start with a clean slate.

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