

The Campaign Against NAFTA: An Irrational Attack on Free Trade

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Spring 2009
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This essay was written for Professor Ed Tower's Economics 165, an introductory course in international economics.

“ This debate about NAFTA is a debate about whether we will embrace change and create the jobs of tomorrow, or try to resist those changes, hoping we can preserve the economic structure of yesterday” - President Bill Clinton

Abstract: In the 1990s the United States entered into negotiations for the North American Free Trade Agreement. This treaty promised to enable free trade across a continent of 360 million people with a combined economic output exceeding 6 trillion dollars. However, powerful forces came together to fight against this groundbreaking measure. Fears regarding job loss, a fall in wages, a loss of American sovereignty, and an increase in pollution nearly defeated the bill. However, basic economic analysis of these claims proves their faulty foundation. Models and basic rationality show NAFTA offered America enormous benefits that only free trade can bring.

Introduction

In 1990 Mexican President Carlos Salinas de Gortari approached the United States about the possibility of a mutually beneficial free trade treaty. This effort eventually evolved into a proposal for the North American Free Trade Agreement, a 15 year long plan to eliminate tariffs, duties and general trade barriers between Canada, the US and Mexico. If enacted, NAFTA would enable the free trade of goods across a continent of 360 million people that produced a combined yearly economic output exceeding 6 trillion dollars. As news of NAFTA reached the US general public, a long line of opposition formed ready to fight the proposal to the bitter end. With a presidential election approaching and a new president's reputation on the line, the stage was set for an intense debate. An impressively diverse coalition came together to fight the treaty. These opponents included but were not limited to: Organized labor, the Citizens Trade Campaign, Pat Buchanan and the Republican Right, environmental advocacy groups and Ross Perot (CQpress).

History

In 1990 Mexican President Carlos Salinas de Gortari proposed the idea behind NAFTA to President George Bush. After consideration, Canadian and US leaders decided to enter into trade negotiations with Salinas de Gortari. On August 12th 1992 the leaders finished hashing out their demands and finalized the original version of NAFTA. The agreement accomplished many of the

intended goals and proved more far reaching than anyone expected. The several thousand pages included pledges by all three countries to open investment in most sectors of the economy and to remove the majority of trade barriers (CQpress). Despite the impressive cooperation between the three presidents, NAFTA had yet to face its toughest obstacles.

Before the agreements began, President Bush fought for Fast Track status on the bill and won. Fast track rules gave Bush the power to negotiate and sign the agreement without congressional interference. According to Fast Track procedures, congress has 90 days after the presidential agreement to accept or reject the measure. However, despite the Fast Track status, the late date of the agreement left only two months left in the 102nd congressional session. The timing therefore made it impossible for congress to consider the bill during the current session (Mayer 67-93).

This fact that NAFTA would carry over to the next session and administration made it a key issue in the 1992 Presidential election. Naturally, Bush supported the agreement he had worked so hard to formulate. Ross Perot, a third party candidate seeking attention, argued very strongly against the issue as did Pat Buchanan (Mayer 172-174). Meanwhile, Bill Clinton found himself forced to conditionally support NAFTA to appease his diverse electorate (CQpress).

When the dust settled, incumbent George Bush had lost the 1992 election and therefore lost the ability to guide NAFTA through Congress. NAFTA then fell into the hands of a new administration under President Bill Clinton. Clinton began as a moderate supporter of the agreement. However, over the next year a fierce public debate ensued, forcing Clinton to put all of his resources and the prestige of his presidency on the line to fight NAFTA's opponents. (CQpress)

The Argument Against NAFTA

The opponents of NAFTA knew a successful defeat of the treaty would require support both inside and outside of Washington. Senators and Representatives needed to believe the treaty would hurt their constituents and home states. Further, voters needed to believe NAFTA posed a direct threat to their individual livelihood. Opponents therefore needed to guide public opinion against NAFTA so voters would pressure their representatives to vote 'no'. To accomplish these goals, a wide variety of individuals and groups publicly came out against NAFTA, creating a fierce public policy battle. The main arguments against the treaty are outlined below.

1. Organized labor argument:

Organized labor, an expected enemy of free trade legislation, predictably came out against NAFTA from the start. The AFL-CIO (American Federation of Labor and Congress of Industrial Organizations), the largest federation of unions in the country worked particularly hard against the treaty. It argued that NAFTA would cause a major loss of jobs and drop in wages for ordinary Americans. At the 1993 annual meeting the executive council stated, “[NAFTA] should be rejected and renegotiated to advance the overall public interest. As drafted, NAFTA is an agreement based solely on exploitation. It would destroy jobs and depress wages in the U.S.” (Mayer 223-224). The United Auto Workers followed this argument stating the same opinion itself. In its magazine *Solidarity* it published an article stating NAFTA would lead to, “ the destruction of dreams, the expectations that each of us that our children will have a better life...those at the top are pushing the ones at the bottom right off the ladder” (Blecher 1993).

2. Pat Buchanan and the Republican Right argument:

Pat Buchanan sought the Republican nomination for president in 1992. He ran on an “America first” platform which included strong opposition to NAFTA. He proclaimed

that signing NAFTA would symbolize a loss America's independence and core values . He stated, “NAFTA is about America's sovereignty, liberty and destiny. It is about whether we hand down to the next generation the same free and independent country handed down to us; or whether 21st century America becomes a subsidiary of the New International Economic Order”(Mayer 246). Even more direct, he claimed “ NAFTA appears as a fetching little vessel, flying a proud pennant of ' free trade'. But it is a ship that carriers in its cargo the virus of globalism, the bacillus of statism...sink NAFTA and save the old republic”(Washington Times 1993). Pat Buchanan even objected on the grounds that the standard of living has fallen in the last 20 years and “ Why not look at free trade for a reason?” (Crossfire 1993)

3. Ross Perot argument:

Ross Perot appeared on the radio, on national television and in congressional hearings to voice his disagreement with NAFTA. His most famous argument, made during the 1992 presidential campaign, claimed that NAFTA would cause a huge outflow of jobs out of the country. In the third presidential debate Perot asserted, “You implement that NAFTA- the Mexican trade agreement where they pay people \$1 an hour, have no healthcare, no pollution controls... and you are going to hear a giant sucking sound of jobs being pulled out of this country.” He followed up this argument in Congress by presenting a series of Ads in a congressional hearing led by Senator Donald W. Riegle, the most outspoken critic in the Senate. In the hearing, Perot used an advertisement from *World Trade Magazine*. The ad told American investors they were wrong if they thought they could not find cheap, reliable labor willing to accept a low standard of living. The ad claimed, “ Yes you can, in Yucatan”. This became a famous illustration of Perot's claim that Mexico would steal our jobs and hurt our workers. Perot

also argued that free trade with Mexico would cause our standard of living to fall to theirs. He stated, “ The typical worker in Mexico lives in a one room shack with no plumbing or electricity.” He attempted to convince the public that if we passed NAFTA this is the life American workers would then face (Mayer 218-228).

Perot even went so far as to write a book entitled *Save our Jobs, Save our Country: Why NAFTA must be stopped- Now*. The book maintained the general thesis that NAFTA represented a conspiracy by big business to profit at the expense of ordinary Americans. Under this Perot included many far reaching arguments including the idea that NAFTA would: encourage illegal immigration, help investors and hurt workers, take away from manufacturing thereby making national defense impossible, devastate the economy and remove good jobs while replacing them with lower paying jobs (Mayer 246-247).

4. Environmental argument:

Many environmental groups also joined in to argue that NAFTA would cause irreparable harm to our environment. They asserted that Mexico would provide a way for US producers to escape EPA laws and cause severe pollution. Groups like the Friends of the Earth, Sierra Club and Earth Island Group came out and made public claims against NAFTA. One such stance was an ad published in the NY times that gave 8 major problems with NAFTA. Three of them involved the environment. First, they argued that NAFTA would kill environmental laws as free trade ideals took precedence. Second, NAFTA could devastate the resources of all three NAFTA countries as corporations removed resources wherever they could find them. Third, they argued that NAFTA would create toxic hell as corporations would freely dump their toxic waste without the intervention of the EPA (Mayer 276).

5. The Citizens Trade Campaign Argument:

The CTC was a coalition of grassroots opposition to NAFTA. The coalition brought together diverse groups including consumer, labor, environmental, family farm, religious and civic organizations. Their argument included the fact that NAFTA, “ would serve the interests of multinational corporations and not average citizens” and would, “ result in a lower standard of living, disruption of our communities and irreparable harm to our environment” (CTC 1993). This group went so far as to stage a “National Week of Action for Fair Trade” against the measure. This week included more than 30 nationwide events (Mayer 225).

Why None of These Arguments Hold Water

NAFTA involved major changes for the trade relationship between the US, Canada and Mexico. Such radical changes scared people and spurred advocacy groups to fight for the status quo. Politicians and Presidential candidates in turn capitalized on this fear and proclaimed their disagreement with NAFTA all over the major media outlets. However, an objective look at the real effects of NAFTA clearly dispels these arguments. Below follows a breakdown of each major category of argument and an analysis of its faulty basis.

1. NAFTA, and in particular trade with Mexico, will lower wages and depress the standard of living in America:

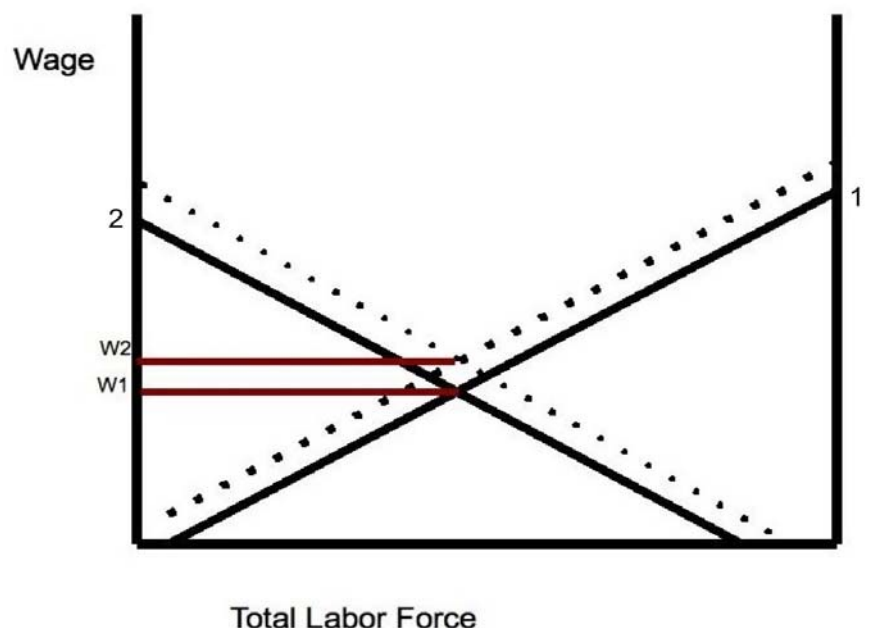
Free international trade actually has the opposite effect. Both wages and the standard of living in a nation positively correlate to its productivity level. Trade directly raises productivity and therefore raises wages and the standard of living as well. Free trade increases productivity in two main ways. First, it facilitates the importation of foreign technologies that enhance productivity. Second, it increases competition which works to remove the least productive producers and forces those that remain to adopt the most productive processes available. The acknowledgment of this trend goes all the way back to 19th century economist John Stuart Mill

who spoke of, “ the tendency of every extension of the market to improve the processes of production. A country which produces for a larger market than its own can introduce a more extended division of labour, can make greater use of machinery, and is more likely to make inventions and improvements in the processes of production”(Mill 351).

Douglas Irwin connects all of these theories in *Free Trade Under Fire* by clearly explaining, “ Free trade contributes to a process by which a country can adopt better technology and exposes domestic industries to new competition that forces them to improve their productivity. As a consequence, trade helps raise per capita income and economic well being more generally” (Irwin 45).

Both direct evidence and economic models support these intuitive claims. The specific factors model provides an economic standard to use to analyze the situation. The model graphs the relationship between the labor force, productivity, prices and wages. By holding prices and the labor force constant the interplay between productivity and wages comes into focus. This done, an increase in productivity clearly results in an increase in the wage.

The Graph to the right represents this model. The two black solid lines numbered one and two represent value of the marginal product of labor curves. Each curve corresponds to the value of the marginal product of



labor in the two different industries Mexico is assumed to have. They are derived by multiplying the price times the marginal product of labor. The two dotted lines represent the same lines but with an increase in the marginal product of labor, or in other words an increase in productivity. This increase shifts both curves up, raising the equilibrium wage. This graph then clearly illustrates how the increase in productivity from international trade increases, not decreases, the wage as the wage moves from W1 to W2.

Direct US statistical evidence also supports this relationship. The Graph below uses real US data from the 2004 report of the Council of Economic Advisors. This data illustrates how productivity and compensation have closely tracked each-other from 1960 to 2003. Therefore, it is possible to claim with certainty that the rise in productivity associated with free trade will raise wages, not lower them.

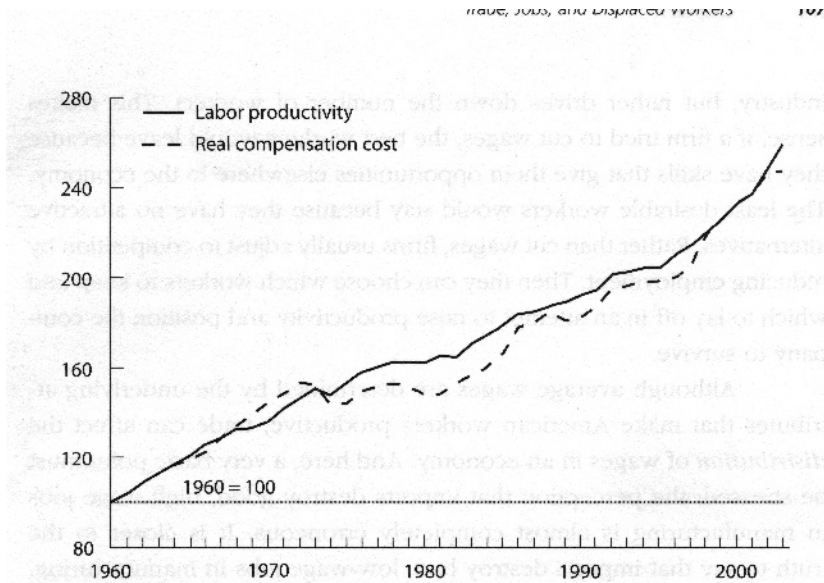


Figure 4.5
 Labor Productivity and Labor Compensation Costs, 1960–2003
 Source: Council of Economic Advisers 2004, table B-49. Productivity is output per hour of all persons in the business sector. Real compensation is compensation per hour divided by producer price index of total finished goods from table B-65.

Source: Irwin, *Free Trade Under Fire* p. 107

2. NAFTA would result in irreparable damage to our environment:

Many opponents of NAFTA argued that the treaty would cause irreparable damage to our environment. However, this argument has no basis. Data shows no correlation between open trade policies and environmental damage. Environmental problems stem from a lack of property rights and abuse of the commons. Environmental policies, not trade policies should address these issues.

Trade does increase industrial production which leads to more industrial pollution. However, it also increases productivity and prosperity. Clean air is a luxury that poor nations find themselves unable to afford. The best way to stimulate demand for cleaner air and a cleaner environment remains increasing national wealth. A trade agreement such as NAFTA has the ability to raise prosperity, helping Mexico to find resources to improve their environmental standards. In this way, if NAFTA has any environmental effect it is to create stricter environmental regulations in Mexico.

In *Free Trade Under Fire*, Irwin analyzes the environmental argument directly in the context of the NAFTA debate. He claims that the argument that industries will race to Mexico to take advantage of lax environmental standards completely lacks empirical basis. He explains, “There is no ‘race to the bottom’ in environmental standards because the costs of abating pollution are not a significant determinant of industries location, and consequently not a significant determinant of trade flows.” Further, before NAFTA, Mexico enjoyed a comparative advantage in unskilled-labor intensive goods. Therefore, free trade could in fact force dirtier, capital-intensive industries to contract in the face of US and Canadian competition (Irwin, 58).

3. NAFTA will cause a “giant sucking sound” of jobs being pulled out of the country:

Ross Perot, unions and advocacy groups all claimed the treaty would cause massive US job loss. This represents a very common misconception about free trade. Free trade increases

competition and forces some industries out of business, leading to some job loss. However, free trade also allows new industries to form and others to expand their production. This process of expansion and formation creates jobs. Notably then, free trade both cuts and creates employment opportunities. Further, the trend with free trade is the loss of low wage jobs and the expansion of higher wage employment.

Despite this balance of loss and creation, this argument proves largely irrelevant. Trade policy alone does not determine the net number of jobs. The total net jobs in the economy depends on much bigger factors such as the business cycle, number of workers and labor market policies. The most important effect of trade remains the creation of more productive employment that in turn raises the standard of living and prosperity of workers. Empirical evidence proves this negligible effect of trade on unemployment rates. Data from the Council of Economic Advisors shows that from 1950 to 2000 higher ratios of imports of goods and services (increased trade) as a percentage of GDP do not correlate to higher unemployment rates. If anything, since the 1980s unemployment fell as imports rose (Irwin 96). The graph below illustrates the relative data from the Council and gives a visual representation of this evidence.

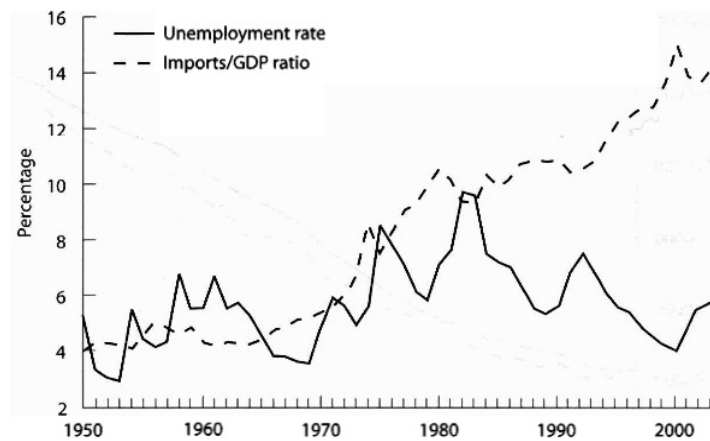


Figure 4.2
 Unemployment and Import Penetration in the United States, 1950–2003
 Source: Council of Economic Advisers 2004, tables B-42, B-103, B-1.

Source: *Irwin, Free Trade Under Fire p. 96*

Unemployment figures also aid in the evaluation of this claim. Between 1994, (when NAFTA went into effect) and 2000, unemployment fell from over 6 percent to 4 percent (Us Department of Labor). Arguably, the direct effect of this fall in unemployment remains ambiguous. However, the data does show the giant sucking sound of jobs loss never occurred. In fact, millions of people were brought out of unemployment.

4. NAFTA will cause us to lose our Sovereignty:

Pat Buchanan and the Republic Right made a variety of arguments claiming that NAFTA would lead to a loss of American freedom. Buchanan directly stated that it would keep the US from handing down a free, independent nation to the next generation. This claim is very possibly the most ludicrous of them all. Free trade does nothing to impair a countries sovereignty. If anything, free trade makes a country wealthier and more competitive. These qualities lead to stronger, more powerful nations. Further, if Pat Buchanan remains so concerned about the America handed down to the next generation he needs to re-examine the effects of trade. Trade allows for the creation of new, higher paying jobs. The next generation will not thank him for restricting their employment options.

Buchanan also claimed that NAFTA would destroy the manufacturing sector making National defense impossible. If this were true, his claims about a loss of sovereignty could have merit. However, in the 1990s alone manufacturing output rose by 40 percent and since has declined only slightly as a share of GDP (Irwin 101). Although manufacturing employment often falls with free trade, productivity rises. Therefore, fewer workers produce more goods, leaving extra workers available for other industries.

5. NAFTA will increase illegal immigration:

Many opponents of NAFTA also argued that the trade agreement would increase the flow

of goods, adding to border confusion. The more open trade policies and increased volume of trade would then have the effect of increasing illegal immigration. However, these opponents miss a crucial point. Open trade increases the standard of living in both countries. As the standard of living in a country rises the desire to leave that country declines. Further, any border control issues remain separate from trade policy issues. Government should use border control legislation to fix those problems not protectionist trade policies.

6. NAFTA will only help big business. The agreement represents a secret conspiracy to exploit ordinary Americans:

A wide variety of advocacy groups claimed that NAFTA represented the advancement of corporate interests at the expense of ordinary Americans. The five arguments above all refute this statement. In reality, free trade raises per capita wages as well as the overall standard of living. It also allows Americans access to a wider market that offers diversity in goods and lower prices. Free trade helps the nation as a whole, not just powerful companies.

Conclusion:

Thomas Macauley, a 19th century English historian, stated, “Free Trade, one of the greatest blessings a government can confer on a people, is in almost every country unpopular.” This quote directly relates to the debate over the passage of NAFTA. Once spelled out, the benefits of NAFTA prove very clear. However, fear and ignorance drove politicians and advocacy groups to make wild claims about the disadvantages of NAFTA. They proclaimed that NAFTA's free trade policies would cause: a fall in wages and the standard of living, a giant sucking sound of lost jobs, a loss of American sovereignty, a rise in environmental damage and more. Looking at the clear cut benefits behind NAFTA makes this opposition hard to understand.

In the end, reason won out and the treaty passed in both the House and Senate. Passage,

however, did not come easily. It required serious effort by President Clinton to pressure wavering senators and representatives with personal contact and even side deals. Most importantly, the treaty ended up passing and NAFTA worked to remove trade and investment barriers all over North America.

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