

Looking Beyond NAFTA

A better understanding of the current economic structure of the United States illustrates the impact of NAFTA.

by Alisia Gill

Among the many tests of the new Clinton Administration will be its handling of the North American Free Trade Agreement (NAFTA). NAFTA serves as a measure of Clinton's ability to protect vital domestic interests and to forge a broader path in the new economic order. Opinions about NAFTA fall into two categories: those who support the idea of freer trade and heightened competitiveness, and those who emphasize domestic interests and the protection of the environment.

It is important to keep in mind that NAFTA is one part of a larger global trend. We hear it all the time: the world is becoming more interconnected and independent. Everywhere the talk is of free trade and enhanced competitiveness. In a sense, NAFTA represents an amalgamation of what the new economic order is supposed to embody. It is an interconnected democratic world where business is transacted in an open and fair manner. But the nature of business and industry has changed dramatically in the last thirty years. The so-called industrialized nations are deindustrializing, while developing nations like Brazil and the Asian Tigers (Singapore, Hong Kong, Korea, and Taiwan) are now heavily industrialized. Multinational corporations are becoming key political players as their investment decisions dramatically effect the economies of whole nations.

Relations between firms and labor are changing as well. As companies downsize or move abroad, production sites are increasingly typified by smaller, more informal work forces that are more difficult to incorporate into union structure. Whereas the US was once envied for its strong industrial base, the economy is now primarily service oriented.

It is in the light of these broader trends and patterns that we must consider NAFTA. NAFTA must be placed in its proper perspective, as an inevitable part of current economic relations. This article will present a short synopsis of changes in the US economy,

Alisia Gill is a first-year student at the Woodrow Wilson School of Public Policy,

then outline the outcomes we expect with the passage of the NAFTA.

BEGINNINGS IN THE US

One can trace the beginning of industrial change in the United States to the 1970s. It was at this time that Japan, having spent the previous two decades rebuilding from WWII, became a significant economic force. Money spent on research and development paid off well. Meanwhile, American firms accustomed to maintaining high profit

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margins and market share, were unprepared for the onslaught of efficiently made, cheaper products that entered the market. In response to this, US firms took a myopic, cost-cutting approach and attempted to stave off profit loss by reducing labor costs.

Bluestone and Bennet argue that a more advantageous strategy would have been to work with labor towards a long term solution. It is no secret that productivity slowed, plants were shockingly inefficient, and technology was outdated relative to competitors. A more forward-looking plan would have included investments to improve industrial operations, without devastating the labor force. One has to call into question the reason for not taking this approach. For years American firms have been criticized for their emphasis on net profit instead of on market share. In this respect, they would do well to follow the Japanese.

US INDUSTRY

The en masse layoffs of industrial workers were accompanied by growth in

employment in the service sector. In the decade, the US economic orientation shifted from one primarily based on industry to one centered around the service sector. This had several repercussions. First, in manufacturing were not all made: the service sector. A new economy < new labor makeup. It is not, as need like to argue, quick and easy for workers to reorient themselves to adapt to a new structure. People must relocate, be retrained and informed about new opportunities. This takes time and money. Among the notable features of the service industry, jobs tend to be much lower paying (Bluestone and Bennet). To illustrate this somewhat crudely, it is the difference between juggling automobiles and flipping hamburgers.

Among the cost cutting measures undertaken by US firms was the relocation of assembly plants abroad, especially to Japan and the countries known as the Asian Tigers. This allowed companies to significantly reduce labor expenditures. Programs in Mexico like the *Bracero* Program in the 1960s, later followed by the *maquiladora* program, made relocation even more attractive because assembled goods were permitted to return to the US with taxes only on value added, as opposed to total value.

From the early 1960s, the US economy, undergoing dramatic change, the effects of which seem striking now. Production has become more stratified and internationalized. The assembly line is now a very dynamic global production area. This has necessarily changed the nature of work. As capital movements abound in search of profit-maximizing locations, the relationship between firm and its workers has been altered. Abroad, cheaper less-skilled workers perform the more labor-intensive levels of production. In the US, demand is increasingly for medium- and high-skilled service sector jobs, and the wage differential between these two levels is very large. Low-skilled American workers, however, fare considerably worse in this scenario in terms of wages and unemployment levels.

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EFFECTS OF THE NAFTA

Given the state of the US economy today, what possible consequences does a free trade agreement with a less developed country have? There is a great deal of rhetoric by both the supporting and opposing sides, with the truth falling somewhere in the middle. NAFTA is very much an inevitable treaty. One can no longer ignore, the fact that in order for US industry and the national economy to grow, we must make trading and business practices more unfettered and global

No matter how we try to improve the skill level of American workers, the demand for labor is predominately at the low-skill service sector end of the job continuum.

This does not mean, however, that NAFTA represents the ideal guidelines for a trading relationship. It is true that a trilateral agreement between the US, Mexico, and Canada will add a needed boost to the US economy. NAFTA represents a codification and broadening of a relationship that already exists between the US and Mexico. (The antecedent is the maquiladora program that for the past thirty years has allowed foreign firms to set up assembly plants in Mexico without incurring duties upon export. See Fernandez-Kelly)

The Mexican benefit from the signing of this treaty is that it ensures an open relationship with the US that will last beyond the Salinas administration. It is useful to look at the effect that maquiladoras have had in Mexico to get a picture of what to expect from the NAFTA. While the maquiladora program has resulted in an increase in Mexico's GDP, effects in other areas have not been as overwhelming. Currently, the maquiladoras employ only 500,000 workers, about one-tenth of the industrial workforce (Crunwald, 44). This is not too impressive considering it has a population of roughly 90 million. Also, there has been very little technology transfer or advancement of Mexican competitiveness. This seems strong evidence against precisely those positive effects that proponents of the NAFTA argue that we should see.

In the US, one can expect to see some production flight to the other side of the border. Obviously, this is cause for concern because of the repercussions to low-skill laborers such as assembly workers. A study

conducted by the International Trade Commission predicts that job losses will occur in automobile (5%), household appliance (15%) and apparel (5%) manufacturing industries. As stated before, this is the amplification of a trend that has been going on for the past twenty years.

It is important to remember that not signing the NAFTA would not have brought US firms back or stopped other firms from leaving. Recently, labor unions, which have from the beginning taken a hardline, anti-NAFTA stance, have begun to downplay their rejection of the agreement in principle. AFL-CIO President Lane Kirkland said, "We're not in good shape without an agreement. Jobs are disappearing to Mexico." Labor is now more concerned with side agreements which will protect US workers. Mexican labor has a more positive view of the NAFTA, as the Mexican Workers Confederation is not as concerned about its effect on workers' rights.

The ITC further predicts that, as a result of the agreement, overall employment and economic output should increase, by .08% and .30%, respectively. In Texas, for example, it is estimated that employment could rise by 880,000 with the agreement as opposed to growth by 250,000 without NAFTA. Moreover, other studies show that south-of-the-border flight will not be as excessive as many fear. In a study of the electronics industry in the New York Metropolitan and Southern California areas, the researchers concluded that there are significant reasons why firms will choose not to relocate. These include the current existence of low wage workers in the form of immigrant labor and access to infrastructure and information centers.

WHY NAFTA DOESN'T MATTER

NAFTA does not matter. Clearly this is not a sentiment shared by opponents such as organized labor, Congresspeople like Richard Gephardt, and environmentalists. One should consider the framework in which we must view this document. Even if there were no NAFTA per se, one would still find himself debating the role that government should play in a climate where labor relations are becoming more informal and the domestic economy is undergoing restructuring; where business is becoming savagely competitive and cost differentials determine survival; where developing nations are calling on the developed for assistance while the developed nations are caught in economic ruts.

This is the task of Clinton's administration. It must negotiate the fundamental dilemma of the international political econo-

my: how to care for domestic interests while stimulating and promoting international growth and coordination. One of Clinton's campaign promises was to increase investment in the US work force to retrain labor for a changing business world. This would have a positive effect on employing displaced workers. This, however, does not address the problem of the substantial wage gap that exists between low-skilled workers and high-skilled professionals. No matter how one tries to improve the skill level of American workers, the demand for labor is predominately at the low-skill service sector end of the job continuum. The economy needs more waitresses than hotel managers. The reduced responsibility that firms have to their employees will place an even larger burden on the federal government to play a more beneficiary role in the life of the average worker.

President Clinton sided decisively on the free trade issue with his support for the NAFTA. With the agreement in place it remains to be seen, though, how effectively he will manage the long term trends toward deindustrialization.

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