

# Is Free Trade really bad? The Case of NAFTA

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The most frequently voiced objections in the original trilateral North American Free Trade Agreement (NAFTA) negotiations generally concerned NAFTA's effects on local workers and investment, the environment, and arguments related to the competitiveness of exports. These discussions resurfaced since former President Clinton elaborated on former President Bush's vision of a Free Trade of the Americas (FTAA) zone at the Summit of the Americas in 1994 and, along with political leaders of Canada and Mexico, invited Chile to join NAFTA by 1996. Neither the former nor the latter objective were met as of yet, notably because the pivotal fast track authority bill needed by the President to generate an accession agreement never received congressional approval.

There exist several contending explanations for why a majority of members of Congress were in opposition to the fast-track bill. For instance, powerful labor unions and environmental groups opposing the absence of adequate labor and environmental standards in trade agreements managed to organize themselves much more effectively than business groups.

Some observed that former President Clinton did not convince enough members of his own democratic party to support the fast-track bill and that, in addition, Democratic opposition may have been intensified by the well-organized lobbying efforts of labor and environmental groups.

Once taken out of the context of political muddles in the U.S. Congress, labor and environmental interests may no be as easily dismissed. Certainly most will agree that employment and pollution concerns in relation to free trade present legitimate social concerns – if it is indeed the case that free trade exacerbates existing labor and environmental problems.

A study by the Economic Policy Institute (EPI) titled "Profits Up, Wages Down: Workers Losses Yield Big Gains for Businesses" attempts to highlight some of NAFTA's perceived failures. According to the authors, neo-liberal economists' promise of a "trickle-down" effect after NAFTA's implementation, or in other words, the compensation of "losers" by "winners" through a flow of corporate profits to workers has, as of yet, to occur in the U.S. In the last few years, profits have been rising while real

wages of a considerable percentage of the American work force have been declining – in particular for those working in traditionally lower wage sectors.

Similar to concerns about NAFTA's effects on workers and wages, there also exist significant concerns about NAFTA's effect on the environment. In general, there seems to be a consensus among NAFTA critics vis-à-vis environmental problems surrounding four recurrent themes:

1. First, the more industrialized NAFTA member countries, notably the U.S. and Canada, now have the option to exploit the more lax environmental standards of their southern counterpart Mexico through the relocation of polluting production plants.
2. Second, there has been an increasing trend to attempt to shift environmental regulations from the domestic to a supranational sphere, which, if accomplished, reduces the possibility for public participation on this issue.
3. Third, there has been a shift from sustainability toward competitiveness rhetoric. Sustainability rhetoric stresses the need to find a compromise between modern industrialization and the environment such that the latter can be preserved, particularly for future generations. Competitiveness rhetoric, on the other hand, emphasizes that the global economy has created a climate in which countries must foremost look after their ability to compete with others from an economic perspective, thereby inevitably making the environment a secondary concern.
4. Lastly, there has been a tendency to move away from the concept of environmental regulations by law to more voluntary compliance of countries.

These arguments may seem substantiated at first, but upon closer examination they emerge as only partially valid. Environmental criticism – even though it successfully highlights some important shortcomings frequently evident in multilateral trade agreements – fails to acknowledge a key factor in the NAFTA negotiations: NAFTA is the first multilateral agreement which even attempts to address environmental problems through side agreements. In this sense NAFTA represents a prototype or forerunner to future agreements by providing a forum in which the effectiveness of its environmental protection mechanisms can be tested.

To object to the arguments presented by labor groups is not to deny that the declining trend in wages and increasing trend in income inequality in the U.S. did not benefit capitalists more than workers during the 1980s and early 1990s. It does, however, challenge the assertion that NAFTA's implementation or free trade in general played a role in this. The actual

course and timing of events and the nature of the events themselves simply do not support the notions put forth by labor groups: The 1980s recession, for example, is a likely suspect for the beginning of an era of corporate downsizing and other similar restructuring movements in the U.S. These changes gained further momentum because of the increasing need of American businesses to become more competitive in the global economy as a whole and not with respect to other countries in the Western Hemisphere.

Even though the underlying causes of these changes may have presented harmful consequences to American workers, they can also serve a valuable lesson. To assign blame to foreign competition, NAFTA, or cheap Mexican labor simply is to ignore the reality workers are confronted with. To understand the plight of American workers, it is first necessary to understand the cause and effect relationship between corporate restructuring movements of recent decades and the labor market.

The corporate downsizing of recent years in the U.S. almost by definition represents an attempt to increase the competitiveness of American firms in domestic and foreign markets and, in turn, implies more efficient use of production inputs such as labor and technology. Put simply, the most significant competition workers in the U.S. face is not foreign workers but the combination of high-tech equipment and educated workers in the U.S.

To blame declining wages entirely on NAFTA, which merely represents one of several forces through which American businesses are reminded of their need to stay competitive in the global economy, therefore ignores the importance of technological changes and competitiveness present in the domestic labor market.