

WHAT'S THE MATTER WITH NAFTA

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I would like to explore four points in this critical look at the North American Free Trade Agreement. First, what is the NAFTA? Second, why should we be concerned about this trade agreement? Third, how will it work? And finally, is there an alternative, and what would it look like?

NAFTA is a so-called "free trade agreement" between the US, Canada and Mexico which is modeled on the existing Canada-U.S. Free Trade Agreement (FTA). The Canada-U.S. deal consists of approximately 300 pages of text, indexes, schedules and appendices and the NAFTA which will supersede it is over 1,000 pages. To be perfectly accurate, neither agreement is a "free trade" agreement -- but rather a combination of new corporate protections, tariff reductions and new complex trade reregulation. I prefer to refer to it as a "so-called" free trade agreement because the term "free trade" is, of course, an ideologically loaded term. How can anybody be against "free trade" -- in theory at least? How can anyone be against increasing economic cooperation and trade among nations? How could we be against countries working out an international division of labor based on their respective "comparative advantages" -- with each choosing to specialize in what they do best with what their environment and resources equip them for?

What is termed "free trade" in the context of the FTA and NAFTA agreements is actually **deregulating international commerce**. In other words, they are **free investment pacts**. There are and will continue to be rules of trade, regardless of what happens with NAFTA. But, NAFTA locks-in on a continental scale the **reregulation** of these rules in a very adverse way for most workers and citizens in all three countries. NAFTA increases the influence and safeguards the interests of multinational corporations in this essentially **free investment pact**.

To understand what is meant by "free trade" in the context of NAFTA, it is necessary to ask who is freed from what? NAFTA frees corporations from government regulation which would constitute a barrier to trade. It permits relatively unrestricted movement of money, capital, goods and services, while at the same time providing investors and corporations with **extensive protection** of their property rights. It even extends corporate property rights through the so called "intellectual properties" provisions. Intellectual property as defined by trade agreements is not about the creative powers of intellectuals. Rather, it is about protecting corporate ownership and monopoly over the patenting of plants, processes, seed varieties, drugs, and software. The intellectual property provisions are just one example of how there is extensive protectionism in this so-called "free trade" agreement. However, this protection applies only to corporations, not to workers, consumers or small farmers.

The "free trade" aspect of NAFTA can be found in the serious restrictions that the agreement places on a government's ability to regulate. It explicitly requires, for example, that governments treat social institutions -- such as education or health care -- as service commodities open to the competitive pressures and the dictates of the marketplace. Such trade liberalization has important domestic implications. A social program of one country might appear to another to be either a non-tariff barrier to trade or a hidden government subsidy to industry. NAFTA is not primarily about

tariffs. It is really about the "non-tariff" barriers to trade and these regulations and programs are much more complicated and difficult to judge than traditional tariffs.

INTERPRETING "NAFTAASE"

The agreement is a lengthy, complex and confusing document written in a language which makes it inaccessible to the uninitiated. There are also constant cross-references between chapters, so that often one needs to read three or more chapters and appendices before the full meaning of provision is understood. Even then, the interpretation could be suspect.

Here's an example from the investment chapter of NAFTA, Chapter 11. Section 4 of Article 1101 on Scope states "**Nothing** in this Chapter shall be construed to **prevent** a Party from providing a service or performing a function, such as law enforcement, correctional services, income security or insurance, social security or insurance, social welfare, public education, public training, health and child care, in a manner that is **not inconsistent** with this Chapter."

This utterly confusing statement is a standard paragraph found in many of the chapters of NAFTA. Double negatives such as "not inconsistent" are common language in many trade agreements. They are a trade lawyer's version of a positive assertion. That is, they allow the drafters to avoid a clear assertion that something is permitted. Instead, activities are cryptically permitted as "not inconsistent." Double, indeed quadruple negatives are positive assertions. Imagine for a moment how the drafters of NAFTA would have phrased the famous quote "Yes, Virginia there is a Santa Claus" into "NAFTAese." It would probably have read, "Yes, Virginia, nothing should be construed to prevent you from believing that the existence of Santa Claus is not inconsistent with reality."

But what of the substance of this clause and of similarly written clauses? Here's the real problem. Essentially, it says that the services listed in the paragraph, from corrections to childcare, from public education to social security are to be open to the various investment (and services) provisions of NAFTA. This includes giving companies the rights of national treatment, the right of establishment, and exposing these services to tri-national harmonization. Terrific! This illustrates some of the problems with both the language but also the substance of what is being proposed in this agreement.

But why NAFTA, and why now? On the one hand, there is a larger economic story about globalization and the increased mobility of capital, increasing international competition, deregulation, privatization and the business quest for lower wages and higher profits. However, the specific drive behind NAFTA is a business fear that growing public demands for control, called re-regulation, over the excesses of capital and business in the last decades could lead to restrictive legislation. Business fears the possibility of a change in government in all three countries, and it realizes that it could face a change in policy. With NAFTA, business has locked in the policies of Bush, Salinas, Mulroney.

NAFTA was also meant to be a stalking horse by the Bush administration for the stalled General Agreement on Tariffs and Trade (GATT) negotiations. Essentially, NAFTA incorporates the services provision and new rights for transnational corporations that the administration has been trying to push through in GATT, but which is being blocked by unions, social groups, farm groups, consumers and poorer countries. US business interests thought that if they signed a continental agreement, first with Canada, later with Mexico, (and through the accession clause of NAFTA eventually with all of Latin America and the Caribbean) they could form a hemispheric trading block based on rules and regulation to meet the interests of transnational corporations. So much for the argument that this is "free trade" versus "protectionism."

One of the most succinct summaries of NAFTA was made by Michael Walker, chief economist with the Fraser Institute in Canada, a right-wing economic think tank. Walker said, "**a trade agreement simply limits the extent to which the U.S. or other signatory governments may respond to pressure from their citizens.**" Responding to pressure from citizens is what we called "democracy." With the free trade agreement, the policies of Bush and Reagan, Salinas and Mulroney, which have been so very favorable to big business and so disastrous to working people, will be locked in, not just nationally, but internationally.

That is the general outline of NAFTA and some of the motivation behind this agreement. I would now like to look at six major points of concern: job loss, low wage pressure, sovereignty, the impact on the environment, winners and losers, and fast track.

JOB LOSS AND THE NUMBERS GAME

The issue which has received the most attention to date is that of job loss. In many ways, the focus on this issue has tended to mute the discussion on all other issues, and that has been a problem.

Mexico currently has some of the lowest labor costs, wage and benefits of any country in the developing world. It is lower than Korea, Hong Kong, and Singapore, for example. Mexico is a poor country and does not have the resources, and frankly, its elites do not have the political will to enforce its environmental and labor standards. This does not mean that Mexico does not have a labor movement. In fact, in some cases it has more progressive labor laws and employment standards than the US. Unfortunately, with little enforcement, rights don't mean much. We are told that all of this will change with the NAFTA. We are told that Mexico will start to enforce its labor laws and work standards. But cheap labor and poor enforcement of environmental standards and labor rights have been part of Mexico's "comparative advantage" and there is no reason to assume that this will change with NAFTA.

On the specifics of the numbers game of how many jobs will be lost with the NAFTA -- I frankly don't know. And neither does anyone else. Most studies to date have used computable general equilibrium models (CGE models) to calculate the overall economic impact. However, any form of modeling, economic, computer, or others, always starts from a simplified version of the

phenomenon under study. In the case of CGE models, there are some very problematic assumptions. For example, CGE models commonly assume full employment. Many CGE models also assume that we have smoothly adjusting labor markets so that a displaced auto worker in Detroit can easily move to a job in some other part of the country (courtesy of Labor Secretary Reich's generous retraining program, no doubt). Since neither of these assumptions are true, most of the predictions are rather questionable.

By assuming a closed environment with no loss in investment in the US, the gain of new investment in Mexico, smoothly functioning labor markets and full employment, the CGE "free trade" scenario is a classic example of mutual gains -- a win/win proposition. Sure, some jobs will be eliminated in the US, but this job loss will be low paying, low skill jobs that will shift to Mexico. The new work in Mexico will increase the income of Mexican workers, and they in turn will purchase more US goods and services stimulating demand and growth in the US. The US jobs will of course be higher skilled, and higher wage.

Even the experts cited by the Bush administration, Gary Hufbauer and Jeffrey Schott, conclude that any net increase in jobs gained would evaporate over fifteen to twenty years. It is amazing arrogance when economists think they can predict precise employment gains fifteen years from now. Hufbauer and Schott estimate that NAFTA would generate 175,000 new jobs by 1995. It appears that the Clinton administration has rounded this figure of to 200,000 for good measure. As Thea Lee at the Economic Policy Institute pointed out, Hufbauer and Schott conveniently forgot to mention in their analysis data that by the year 2010 these jobs will be gone, a convenient omission from their much heralded book.

A second part of the "numbers game" though, is to play expert against expert, focusing on models, economic projections, and relegating the majority of citizens to passive spectators in this important area of public policy. Whose hired experts are we to believe? Who has the better CGE model? Ultimately, the "numbers" debate marginalizes most people and leads to the exaggeration and hyperbole.

LOW WAGE PRESSURE

Ignored in many econometric models is the low wage pressure on jobs in the U.S. Manufacturers and companies that do not move to Mexico can use the threat -- or more accurately extortion -- of low wage competition with Mexico to force concessions out of American workers. Unlike capital, labor cannot simply pick up and move at will. And with the exception of business professionals, the NAFTA does not deal with immigration and the movements of people. NAFTA enhances the mobility of capital, but provides no counter-incentives, penalties and checks to inhibit the massive transfer and flight of investment and production to Mexico.

But if investment is going to Mexico, surely then, at least for workers in Mexico, we could make the case that this agreement might improve their lot. The new investment could raise their wages and standards of living. Yet, we already have some evidence about how this type of

deregulation of commerce and whipsawing by investors has adversely affected Mexican workers. Mexico has had a free trade and investment zone along the US/Mexico border, courtesy of the Maquila program. This has resulted in the maquiladoras -- the approximately 2,000 foreign owned assembly plants employing about 500,000 workers in labor-intensive manufacturing for export. Significantly, manufacturing wages in the maquiladora plants are lower than manufacturing wages in the rest of Mexico. And wages throughout Mexico have been dropping. According to the U.S. Bureau of Labor Statistics, overall hourly compensation costs in manufacturing as a percentage of U.S. costs in Mexico in 1980 were at about thirty percent of the U.S. wage. Today, they're down to 12 percent. So beyond the direct threat of job loss, there is a downward pressure on wages and working conditions in all three countries.

A concern most often expressed by Canadian opponents to NAFTA is the sovereignty issue. This trade deal makes it possible for companies to challenge the standards and regulations adopted by federal, state, provincial and local governments to protect human, animal or plant life, health, safety, the environment or consumers. If a standard in one country is higher than the standard in another countriesl, such legislation and regulation could be challenged as "technical" or "non-tariff" barriers to trade. Once challenged, the onus is on the defending country to prove that its regulation is "based on scientific principles" and "risk assessment." The final determination of whether or not standards are science-based or simply a non-tariff barrier to trade will be made by an arbitral panel established by the agreement. These panels of experts, unelected and unaccountable, would have the power to overturn legislation and regulation adopted by elected bodies. Think of what this could mean for food safety laws, for example. Article 20 of the NAFTA sets up a powerful, permanent free trade commission with extensive powers to penalize parties (that is countries) which violate their rulings. That means, for example, that EPA standards could be overturned, not by elected representatives, or by lobbying and public hearings and legislation, but through the back door by NAFTA.

We've already seen how this works with the Canada-U.S. Free Trade Agreement (FTA) which has been in effect for over four years. Canadian mining interests have challenged the U.S. asbestos regulation, arguing that the strict standards achieved by U.S. environmentalists and unions through years of lobbying and campaigning to limit the use of this dangerous substance are not scientifically based and are "technical barriers to trade" since they are higher than internationally accepted standards.

This is not a Canada versus US debate. It works both ways. U.S. corporations are looking at Canadian institutions and pointing out that the Canadian government run health care insurance system works as a de facto government subsidy to industry -- and therefore could be viewed as a violation of the trade agreement. Lee Iacocca has stated that he saves \$700 per car by producing in Canada because of the free (for him) Canadian health care system. He does not have to bargain with the Canadian auto workers over rising health care costs -- because Canadians have chosen to rationalize the payment of health insurance through their tax system and have created a universal, single payer national health care system. So for Iacocca it's like getting a \$700 government subsidy

per car. One country's social programs can be another country's government subsidy. This is why we describe the dynamic of NAFTA as a downward harmonization.

By this same logic, Canada's slightly more generous unemployment insurance can be viewed as a government subsidy. While there was some fear that the UI system might be challenged, it now appears that such a challenge will not be made. The pro-NAFTA Canadian Progressive Conservative government recently amended the Canadian unemployment insurance scheme to remove the federal government subsidy and to bring it in line with the less generous US system. Once again, downward harmonization was wrought in anticipation of NAFTA.

Needless to say, Canadians worry about this type of challenge to sovereignty. This is not the narrowly defined national, government sovereignty but the sovereignty of a democratic community to make its own laws and set its own standards. NAFTA is a challenge to peoples' sovereignty in creating laws, regulation and in setting community standards. It undermines the control and limits that a community can impose on corporations and commercial power. What we see with NAFTA is the emergence of the concept of the sovereign corporation. Legislation that moves in the direction of social justice and equality is increasingly coming under attack as restrictive trading practices, technical barriers to trade, or unfair trading practices. Canada, with its more generous welfare programs than either the U.S. or Mexico is being pressured to downward harmonize with U.S. programs.

But overall we can expect NAFTA to increase downward harmonization. That is the clear experience of the Canada-U.S. Free Trade Agreement to date. Frankly, having read both agreements many times, in many instances the NAFTA has taken the bad aspects of the Canada-U.S. free trade deal and made them worse.

THE ENVIRONMENT: REGULATING PRODUCT, NOT PROCESS

Where the environment is concerned NAFTA accepts international standards and rules that in many cases are weaker than U.S., Canadian and even Mexican law and regulation. For example, the international food safety standard in the NAFTA is *Codex Alimentarius*, which allows residues on food of substances banned in the U.S. or Canada, such as DDT. Weak environmental standards and enforcement becomes a part of the "competitive advantage" in this race to the bottom.

The environmental issue is also linked to the sovereignty issue. The trend in regulation that NAFTA promotes is to regulate **product** not **process**. Why is regulating product versus process a problem? Here's an example. Regulating product means that if you grow a tomato and use DDT or other chemicals that are banned in this country, we cannot prohibit the import of that tomato. We can simply inspect it at the border to assure that any DDT residue is within legal limits, but we cannot regulate process, that is, how it is grown. Ultimately, this undermines our domestic regulation. It becomes very difficult for us to force our own producers to use methods and processes which are safer and more environmentally sound when they are forced to compete against imports with no such restrictions. More likely, growers will simply move production across the border to avoid regulation.

With labor and environmental standards, what we normally regulate is process. It's been an important acquisition of the labor, consumer and environmental movements in recent years to move beyond the simple regulation of end product and regulate process -- how things are made. It is in the very production methods that we can improve safety, eliminate hazards and develop cleaner processes. This progress will be set back with the seemingly obscure move in international regulation to permit regulation only of product.

Yet, an important way to promote upward harmonization, and create a pressure for improving international standards is through the regulation of process. That is, we say to countries that we recognize your sovereignty and your right to do things within your own borders as you wish. However, if you want access to our market, we demand that you raise your standards, e.g. you cannot use DDT on products imported into our market. We already prohibit products produced by forced prison labor. This type of regulation says that we are not just interested in the end product, we are also interested in the conditions under which it was produced. It is in the regulation of the process of production that our standards as a society will rise or fall. This is a very important principle that went right out the door with NAFTA. It is, in fact, what the corporations have been trying to force through with the latest round of GATT (General Agreement on Tariffs and Trade) negotiations. It's a real step backward.

We are told that there will be winners and losers. This sounds rather like cost-benefits analysis and the key to any cost-benefits analysis is not to ask simply **what** the costs and the benefits are but to ask **who** will pay the costs, and **who** will gain the benefits? If a trade deal is to be mutually beneficial, then the winners (those who will gain from the agreement) should be obliged to pay some of the costs of the dislocation and losses to the losers. This has been at least partially incorporated into the European Community integration through the principle of compensatory financing. That is, there is a recognition that there will be winners and losers, both between nations as well as within nations between different regions and sectors of the economy. Rather than taking a "trickle down trade economics" approach -- as is found in the NAFTA -- the European nations have agreed to compensate poorer regions (and countries) in order to minimize the dislocation.

In North America, we've already had a fair amount of experience over the last dozen years with business-driven reregulation and privatization and the record to date is not very inspiring. Reregulation has meant that one group of people pay the costs while another group of people reap the benefits. The majority of us were losers, and only a tiny minority were winners. So when we are told that with "free trade" there will be winners and losers, I think we should be clear about what this means. There is not going to be a national story here. Working people, small farmers and peasants, in Canada, the U.S. and Mexico, will be the losers. They will experience further downward pressure on their wages and living conditions. But who will be the winners? The transnational corporations, which have just written themselves a ticket to go around the world and search out the lowest possible standards.

NAFTA will affect the overall social and political context in which public policy decisions are made and it will impose a range of new rules for the development of future policies. The main thrust

of NAFTA is to reduce and redirect the role of government, while enhancing the role of the market. This will increase the pressure on the public sector, public enterprise and public programs.

In Canada there is a real fear that NAFTA will undermine the tradition of cross-subsidization of services and a non-commercial approach to social services. In Canada there is a tradition of activist government with government which seeks to provide equality of outcome as well as opportunity through redistributive programs where richer regions subsidize services and institutions in poor regions. NAFTA demands that we replace democratic and community values with market principles. Most Canadians believe, for instance, that education, health care and a number of other social services are not simply economic commodities to be shaped primarily and exclusively by the market. Yet, chapter after chapter of the NAFTA asserts the primacy of market and commercial considerations.

The service chapter, for example, opens a wide variety of government services to companies from the U.S., Canada and Mexico and guarantees them the right of national treatment and the right of establishment. The right of national treatment means that companies from the other signatory countries must be given treatment "no less favorable" than local companies. The right of establishment means that companies from signatory countries cannot be required to set up a branch plant or local office in your country, state, or area as a performance requirement. NAFTA bans most performance requirements designed to socialize some of the benefits of increased investment or trade. Restricted performance requirements include: export requirements, minimum domestic content requirements, preferences for domestic sourcing, buy locally provisions, trade balancing, technology transfer, and product mandating. In fact, almost every mechanism which we have associated with fair or managed trade. This restrictive environment is the framework within which governments in the future will deal with service transactions and social services, even in the public sector. Commercially, with profit maximization as the bottom line, rather than the approach of the public sector as non-commercial sector, operating according to a different set of values and aimed at providing a public good.

NAFTA also puts serious restrictions on the establishment of new public services, although because of the agreement's confusing and contradictory language this may not be readily apparent. In establishing new public programs or enterprises, NAFTA requires that governments consult with the other parties. This in and of itself should not be an arduous task. But the NAFTA also includes provisions which require that companies be compensated financially when government action results in actions "tantamount to expropriation." Although NAFTA permits "state monopolies," in other words, the provisions of services such as fire services, or in the case of Canada, health insurance, through a monopoly government entity, recent experience with the Canada-US Free Trade Agreement raises some grave concerns about the future viability of these provisions.

A CAUTIONARY TALE

Here is what happened in Ontario. In 1990 the people of Ontario, which is the most populous province and the industrial heartland of Canada, elected a social democratic New Democratic Party government in this province for the first time. A part of their election platform, included the proposed setting up a government run, universal, single payer, no-fault auto insurance plan. Although this might sound like a major reform in the US, this is no big deal in Canadian public policy. It's a modest and popular reform which the NDP has already introduced in British Columbia, Saskatchewan, and Manitoba, prior to the passage of the "free trade agreement." But early in its proposed reform, the provincial government was stopped in its tracks. The provincial auto insurance companies claimed that according to the Canada-U.S. Free Trade Agreement, (Article 2010 Monopolies) the action would create a government monopoly. This in turn would have an "adverse affect" on US insurance companies operating in the province and would constitute an action "tantamount to an expropriation" (Article 1605 Expropriation). Under the FTA, such action required "effective compensation at fair market value." The insurance companies demanded billions of dollars in compensation if the government went ahead with its election promise of a provincial auto insurance scheme. The provincial government of the largest and most powerful province in Canada, shamefully, backed off and walked away from its proposal.

Could the government of Ontario challenge this interpretation of the NAFTA? Yes, unquestionably. But sometimes governments find it convenient to say their hands are tied through an international agreement. Let's look at what happened in Ontario and ask what this might mean here in the US. The President in his recent health care reform proposals has rejected a national single payer health care scheme, but has said that he would leave the door open to states moving in this direction. Many people who are supporting the President's proposals, including the labor movement, are doing so in the belief that his "managed competition" model represents a reform which could eventually lead to a single-payer system. I think they are wrong, but that's a very lengthy discussion and a different speech. However, if we apply what has already happened in Canada with the blocking of a provincial auto insurance scheme -- isn't it likely that a move to single payer health insurance could similarly be precluded here in the US? That is, couldn't a state-run single-payer health care system be interpreted as a monopoly "tantamount to an expropriation?" The compensation bill for this action would certainly be a lot higher than the few billion that deterred the Ontario government!

The effect of the NAFTA will be to harmonize standards and conditions downward. Governments will be able to privatize, but not extend public enterprise outside of a very narrow market and profit maximization framework. The NAFTA is quite explicit in this dynamic. Article 1206 states that amendments could be made to existing programs under NAFTA only if "the amendment does not decrease the conformity." A double negative once again, but the meaning is clear. Governments can and indeed must open more and more services to the private sector and market forces. Once a government permits a process to be privatized, they can't then reverse the action without extensive costs. The monopoly provisions will kick in.

IS THERE AN ALTERNATIVE?

I believe NAFTA should have been rejected. But despite its acceptance, we need to continue the discussion and education on globalization, economic integration, and trade liberalization. Also, we need to continue to strengthen the tri-national links among worker and community groups that has developed in opposition to NAFTA. Within the US labor movement, in particular, overwhelming opposition to NAFTA by both the leadership and rank and file is a rare instance of organized labor rejecting a major US foreign policy initiative. While there have been some elements of national chauvanism and protectionism to this opposition -- for the most part there is a recognition by labor that the anti-NAFTA campaign requires both tri-national links, solidarity and community coalition building. The anti-NAFTA campaign has afforded progressives a rare opportunity to discuss international solidarity within the labor movement and to discuss union and labor issues with community groups.

Of course, the problems of globalization and the resulting weakening of labor and the increasing vulnerability of our communities do not originate with the agreement and cannot be halted merely by voting down NAFTA. But stopping NAFTA would, nevertheless, constitute an important victory for working people by sending a powerful message to government and business leaders. The underlying assumption of NAFTA that we can separate investment, trade and, indeed, the economy from social issues and growing income disparities is fundamentally flawed. NAFTA represents a corporate vision of the integration of North America -- and the continent -- assuming that all activities must be subordinate to the dictates of commerce and the market.

Yet, opposition to NAFTA does not imply isolationism, protectionism, or the rejection of greater economic cooperation. NAFTA represents one model of economic integration, a neo-liberal business model which removes barriers to the movement of capital, but leaves workers and governments paying the bill for the dislocation and adjustment costs. It's a way of socializing the costs and privatizing the benefits of globalization. This is not the only way. There are other models of economic cooperation and development.

Here's a brief outline some of the elements of a very different type of international agreement, one which would move in the direction of fair trade and sustainable development. Such a deal would not be secretly negotiated by government representatives with no input from labor and community groups. US trade law actually requires a labor advisory committee to be consulted during trade negotiations. This was ignored by the US trade representative for the negotiations of NAFTA by the Bush administration. A fair trade and sustainable development treaty would actively seek public involvement, not only through the labor advisory committee, but through the creation of other advisory committees for the environment and consumer concerns. Rather than seeing these committees as a hindrance, a more open process could assure that labor, environment, consumer and community concerns would be taken into consideration during the negotiations. A more open and inclusive process would make it much more difficult to pretend that such agreements are simply about trade and investment and have nothing to do with communities and civil social.

A fair agreement would need to include a program of debt relief for Mexico. As the second largest debtor nation in the developing world, debt service payments are a major drain on the

country's resources. Under the International Monetary Fund and World Bank austerity programs the Mexico government has been pushed to keep wages down, invest in an export-oriented growth strategy and privatize public resources. This has resulted in growing income disparities. Working people and small farmers incomes need to rise in Mexico if trade is to be mutually beneficial. One way of assisting in this is by assuring that debt reduction payments are reinvested in Mexico through a development fund administered by nongovernmental organizations.

The whole framework of NAFTA fails to recognize the tremendous disparities between Mexico and the US/Canada. The European Community, by comparison, with much less income disparity between rich and poor nations in their community, nevertheless, took steps to mitigate economic and social differences and to assist the poorer nations through compensatory financing and structural adjustment funds. Compensatory financing could be carried out through a wide variety of programs and schemes including infrastructure investment, training, and expansion of social programs. These programs are designed to ameliorate the predictable increase in income disparities as a result of the change in the economy brought on by economic integration. It's a way of transfer resources from "winner" to "losers." Upward harmonization is impossible without some form of compensatory financing. Otherwise, the system works to assure that rich get richer, and the poor pay the adjustment costs.

Of course, compensatory financing means activist government, recognizing that it is the job of government to intervene in the economy -- and not simply to pick up the pieces after the marketplace has picked winners and losers. Rather, we need to support certain socially beneficial industries and activities. That is what other successful economies do, and it is called an industrial policy -- though I would argue that today rather than an industrial policy we need a broader concept of a sustainable development policy.

It is a myth that in the US we have not had an industrial policy in the past. Since World War Two we have called it the military industrial complex. We've even managed to build international trading rules around this policy. For example, one of the only government expenditures excluded from being judged a "subsidy" in trade agreements is expenditures for national defense and security. Consider how this skews economic decision-making and social choices. A social program, such as government financed unemployment insurance, or a national health care system can be deemed a subsidy to business, yet massive direct and indirect subsidies to business through defense purchases are exempt from such charges.

Another initiative taken by the European Community which is worth looking at in an alternative agreement is the adoption of a social charter to encourage an upward harmonization of labor, environmental and consumer standards. Although there are a number of weaknesses in the European social charter, the very existence of such a document and the recognition of the social dimension to trade and economic integration is an improvement over the North American laissez faire approach. One could easily imagine a North American social charter with the labor provisions of the UN Universal Declaration on Human Rights and the ILO conventions as an appropriate starting point.

But standards and rights are only as good as the enforcement mechanism. Here again, we need to assert more openness. We need a dispute resolution mechanism, which would be a process open to more than just governments and businesses but also to citizens, unions and community groups.

Finally, one of the most controversial topics, and one not dealt with by the NAFTA is the issue of labor mobility. Capital, goods and services have more guaranteed freedoms than workers in the new trade environment. In fairness, the NAFTA is not completely silent on labor, there are provisions for temporary entry visas for financiers, consultants and business people. An alternative agreement would look at the question of immigration and the free movement of all people, not just professionals. The migration North by Mexican labor has been going on for well over a century and increased economic contact and integration will increase, not decrease this phenomenon. Again, the EC example might be instructive. The EC approach was to legitimate this mobility, rather than arming the borders and criminalizing migrants. While this issue will continue to be highly contentious in North America, forcing it "off the table" as happened in the NAFTA negotiations is not a useful way of approaching the issue.

With the 1992 US elections and the recent Canadian federal elections, two out of three of the leaders who originally negotiated NAFTA have suffered stunning election defeats. By next year, President Salinas of Mexico will also be gone as the Mexican constitution only permits a president two terms. It remains to be seen if his party will be able to hold on to power. But while the Bush administration has been rebuked by the US voters, unfortunately his policies live on in the Clinton administration's support of Bush's "free trade" deal. The Clinton administration is preaching the gospel of training and a "high wage and high skilled" economy, but through NAFTA offering business a low wage, sweated labor alternative.

While many progressives are reticent to challenge the first Democratic administration in a dozen years, what's the use of changing government if there's no change in policy. It is important to recognize that NAFTA is more than just another trade agreement, it is a blueprint for economic restructuring -- domestically and international. Organized labor, progressives and community groups needs to mobilize their membership and supporters to create pressure on the administration and the Congress from the left. The administration needs pressure from the majority (working people) to take on the special interests of the minority (big business). And we need to remember that no group gives up its privileges easily. Reform is not just a matter of winning over one or two votes in the Senate. Major reform in the US has never been achieved simply by electing a sympathetic government. It requires a grassroots movement, organizing, mobilizing and demanding its rights. The momentum for change must come from us.