



# Book The Selling of Free Trade

## Nafta, Washington, and the Subversion of American Democracy

John R. MacArthur Jr.  
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### Recommendation

John MacArthur, editor of Harper's Magazine, is a persistent, resourceful and thorough reporter with an unapologetic opinion about the North American Free Trade Agreement (NAFTA). MacArthur makes no attempt to disguise his disdain for the trade pact, which he describes as a measure designed to institutionalize US exploitation of Mexican workers, or for the politicians, businessmen and lobbyists who supported it. In researching this book, MacArthur interviewed many of the key national and international players who helped create NAFTA and found rare interviews with others. He illustrates the debate by presenting an analysis of NAFTA's impact on workers at a US factory and on the Mexicans who replace them. Ironically, he paints such an effective portrait of the inner workings of the Mexican maquiladoras factories that US business leaders reading this book might be further enticed to relocate. The finest features of the book are its exhaustive treatment of the law-making process and its lucid judgment of the Washington establishment. *BooksInShort* recommends this book to students of politics or international trade, business leaders interested in gaining insight into the antiglobalization movement, and anyone seeking to pass a bill in Congress.

### Take-Aways

- NAFTA, the North American Free Trade Agreement, was not a true trade agreement but an investment agreement designed to reassure American manufacturers that it was safe to locate in Mexico.
- NAFTA exists to entice American manufacturers to exploit Mexico's cheap labor, weak liability laws and lax environmental enforcement.
- NAFTA was never intended to create jobs in the United States.
- Mexican president Carlos Salinas initiated NAFTA because his "reforms" had exhausted the Mexican economy, and Mexico needed foreign investment.
- *El pacto*, Mexico's minimum wage law, set more of a ceiling on wages than a floor.
- NAFTA's labor and environmental "side agreements" were deliberately weak.
- Bill Clinton's support for NAFTA was part of a historic Democratic Party shift away from organized labor and toward big business.

- NAFTA boosters used many distortions, half-truths and outright lies.
- Billionaire presidential candidate Ross Perot blew his NAFTA debate with his main rival, Al Gore.
- NAFTA has cost the United States many thousands of manufacturing jobs.

## Summary

### NAFTA: A Story of Staples

The North American Free Trade Agreement (NAFTA) of 1993 was presented to the public in almost messianic terms. In rhetoric like that of the old Soviet Marxists, leaders and industrialists proclaimed that “economic forces” and “free trade” were creating unprecedented prosperity that was transforming the world. During debate on NAFTA, politicians and economist informed the public that there might be pain for a few in the short term, but in the long run, the US economy would gain more than it would lose from trade with Mexico. Everyone would get richer.

“NAFTA was an investment agreement designed to protect American corporations in Mexico, lock in the low wage rate and raise cash for a nervous political oligarchy.”

However, let’s look at one American business: the Swingline factory in Long Island City, New York. It manufactured staples and staplers. This iconic company’s giant sign, across the East River from Manhattan, was a landmark for decades. Yet the plant closed in November 1998. Its jobs moved to Nogales in Sonora, Mexico.

“To pretend that Mexico had any genuine leverage, or that the United States and Canada had a compelling need to get Mexico to lower its tariffs, is to believe in fairies and goblins.”

Jack Linsky started Swingline in 1925. Linsky became rich enough to endow a pavilion at a New York hospital. In 1970, he sold the company to American Brands for \$210 million, equivalent to \$882 million in 1998 dollars. Linsky had never been very labor-friendly, but labor relations deteriorated further under American Brands.

“Job creation was never the real point of NAFTA. Most of America’s so-called ‘exports’ to Mexico were chasing cheap labor, not consumers.”

Most of Swingline’s Long Island City employees were immigrants who were working their way up from poverty into the middle class. The company had a long, cozy relationship with an “in-house” union, which did more to keep labor peace than to protect the workers. Nevertheless, longtime workers earned enough to buy modest homes and perhaps to send their children to college.

“The whole point of NAFTA was to make it even easier for US factories to take advantage of cheap labor and weak regulation, and to lock the two countries into a low- or no-tariff deal that neither could easily escape.”

In 1977, Teamsters Local 808, under John Mahoney Jr., set out to organize the Swingline workers. The plant became the site of an old-fashioned labor war, with two unions and management all battling for control of the workforce. Mahoney and the Teamsters won the right to represent the Swingline workers and then entered bitter negotiations with American Brands. At one point during the negotiations, management threatened to move the plant to Mexico. Mahoney challenged them to do it, something no labor negotiator would dare to do today. Since 1965, many maquiladora plants have sprung up along the border, where underpaid Mexican workers assemble goods for the US market in sweatshop conditions.

“The only rational reason for an American company to decline Mexico’s standing invitation to exploit its low-cost labor environment (and easily polluted natural environment) was the concern that angry Mexicans, weary of being pushed around, would rise up and seize American assets a la 1938.”

Mexican law drops all duties on such goods, as long as they are exported. Meanwhile, the United States reduces tariffs if the goods are only assembled in Mexico and no other “improvements” are added. Maquiladoras are very cheap for American companies.

Teamster Local 808 struck Swingline in 1981 and won major concessions from management. After that, Swingline began to automate the plant and gradually reduced the workforce. American Brands opened a maquiladora plant in Mexico in 1985. The company's leadership watched the NAFTA debate closely, and in 1997, announced "tentative plans" to "phase down" the Long Island City plant. Nothing about it was tentative. The Swingline shutdown became a national symbol of job loss due to NAFTA, but American Brands did not back down. In November 1998, the plant closed. All its jobs moved to Mexico.

## **The End of Protectionism**

The United States began as a highly protectionist nation, struggling to gain economic and political independence. But after World War II, the United States was so rich that its upper classes could embrace the free trade theories popular in England during the British Empire. English reformer Richard Cobden had claimed that free trade would help lower grain prices and feed the poor, and that peace, free trade, commerce and education would spread freedom. Today's free traders are more likely to cite Adam Smith and David Ricardo than Cobden, but Smith and Ricardo never imagined a global economy where jobs could relocate so easily.

"Salinas' drive to 'modernize' Mexico into an exporting dynamo had created a great distortion in its national economy, suggesting health where there was really sickness."

In Mexico, former president Carlos Salinas was once hailed as a great reformer, the country's economic savior. In fact, Salinas's reforms did more harm than good. During his tenure, poverty rates soared and, under NAFTA, manufacturing shifted to goods for export, instead of goods Mexicans could afford. In 1993, Salinas held off devaluing the peso to prevent an economic embarrassment that probably would have killed NAFTA. He did the same again to prop up his regime. Salinas publicly opposed a free-trade agreement with the United States as late as 1989, but he initiated NAFTA in 1990 because Mexico needed foreign money.

"The question really is: How poor does Mexico have to get before the de la Madrid and Salinas policy is declared a failure?"

America's Republican Party had traditionally been the high-tariff party, but President Ronald Reagan was a low-tariff man. Perhaps because of Reagan's influence, George Bush, Reagan's successor, took NAFTA to Congress. For months the country was distracted by the buildup to the Gulf War, but eventually the public relations and political campaign for NAFTA dwarfed that of the war. In the House of Representatives, Democrat Richard Gephardt, the majority leader, was an expert on American tariffs and trade issues. Gephardt had run for president in 1988, and he still harbored presidential ambitions. Bush needed Gephardt's cooperation to get "fast-track" authority, allowing the White House to negotiate a treaty and limit Congress to an up-or-down vote on the treaty as a whole. This was essential to getting the agreement through Congress.

"The Washington establishment - some call it the permanent government - was firmly behind free trade, and its voice was heard loud and clear before the vote."

Gephardt politely responded to Bush's March 1991 request for fast-track authority, beginning with a qualified endorsement of NAFTA. He asked for a slow phase-in of the agreement, environmental safeguards and guarantees of Mexicans' labor rights. The Bush administration answered Gephardt's letter with a 90-page reply full of unsupportable claims, generalities and outright lies, suggesting Gephardt's concerns were misplaced. In reality, NAFTA was entirely conceived to help American businesses exploit Mexico's weak liability laws, cheap labor and lax environmental enforcement.

"Kantor, Emanuel and Daley could be ignored or disrespected only at the risk of losing what lobbyists cherish above all else - access to the President himself."

Gephardt was asking the impossible. He may have been naive, or he may have been courting business with an eye toward another presidential run. However, Bush split the NAFTA opposition, even co-opting some environmental groups by suggesting that NAFTA would advance environmental safeguards in Mexico. In May, Gephardt endorsed fast track. Congress soon voted for it.

"From August 13, the day Kantor completed negotiations on the NAFTA side agreements, to November 17, 1993, the day the House voted on NAFTA, Clinton behaved in many ways like the leader of the opposition Republican Party."

No reliable account of the next 14 months of NAFTA negotiations exists. The key is to understand that the United States, Canada

and Mexico were far from equal partners. Mexico, with its tiny economy, had no leverage at the table, but it did have a vast supply of cheap labor. American business only feared that Mexicans might rise up and seize American assets, as they had in 1938. So NAFTA includes clauses ensuring that American investors in Mexico will be compensated promptly, in dollars, for any losses arising from political or social unrest. Far less stringent language was included for Canada.

## **NAFTA and the Presidential Campaign**

Bush needed a finished NAFTA so he could claim credit for it at the August 1992, Republican convention, and he got one. Republican support for the probusiness NAFTA was no shock. The support of Bill Clinton, the Democratic presidential nominee and eventual president, was more surprising. At first, Clinton wavered between a “no, but” strategy on NAFTA – that is, opposing it but proposing a better version – and a “yes, and” strategy – that is, supporting NAFTA with side agreements to address its shortcomings.

“Say what you will about Ross Perot and his great wealth, he didn’t have to hire telemarketing and political subcontractors to gather support for his position on NAFTA.”

During the campaign, Clinton settled on “yes, and,” but the toothless side agreements proved merely cosmetic. However, by aligning himself with Bush, Clinton removed NAFTA from the electoral debate. Clinton was also moving the Democratic Party away from labor and toward big business in a historic fashion. And by supporting NAFTA, he curried favor with business.

“In contrast with the raw, pressure-packed political atmosphere on Capitol Hill, 1600 Pennsylvania Avenue resembled nothing so much as Sotheby’s auction house.”

In 1993, a rare meeting brought the top Washington lobbyists together with White House trade representative Mickey Kantor, Clinton aide Rahm Emanuel and “NAFTA czar” William Daley. The Clinton delegation mustered the full weight of the business community and its lobbyists in support of NAFTA. But the White House had new problems. Its Democratic core constituencies had no enthusiasm for NAFTA. The House Republican leadership, though in favor of NAFTA, did not want to do the bidding of a Democratic president. At another meeting with Clinton’s team, Republican whip Newt Gingrich excoriated Clinton’s team for its laxity on NAFTA’s organization and launched a serious effort to round up Congressional votes.

“The concept of eight hours’ pay for eight hours’ work does not, as a practical matter, exist in Mexico.”

Unexpectedly, billionaire presidential candidate Ross Perot became the focus of opposition to NAFTA. When the Clinton administration realized Perot would have to be destroyed, it enlisted Lee Iacocca to serve as its NAFTA salesman. Iacocca, like Clinton, was a consummate salesman. While much of the content of his commercials was nonsense, the public liked him.

USA\*NAFTA, the pro-NAFTA lobbying organization, organized a phony grassroots campaign in favor of NAFTA, making sure Congressmen received pro-NAFTA letters and mailgrams from their districts. The White House lawn became the site of a pro-NAFTA trade show, touting the benefits of the agreement.

Many pro-NAFTA spokesmen, including Bill Bradley, appeared in public spouting half-truths about Mexico. For example, they discussed Mexico’s new environmental laws, but they ignored Mexico’s notoriously weak enforcement. Or they discussed Mexico’s minimum wage laws without explaining that *el pacto* did not cover most maquiladora workers, or that it really set more of a ceiling on wages than a floor. They did not explain that inflation-adjusted Mexican wages were actually shrinking fast.

Vice President Al Gore was eventually chosen to debate with Perot on NAFTA. In the debate, Gore offered some “facts” and examples that were lies or distortions. Perot blew the debate, Gore carried the day, and NAFTA’s opponents were crippled. Still, Clinton and the White House lobbyists had to bargain frantically in the House for votes.

In the horse-trading that followed, Clinton appealed to the narrowest special interests to buy votes. One pro-NRA Republican even agreed to vote for NAFTA if the president would go duck hunting with him, providing a good pro-gun photo opportunity. Clinton agreed. In the end, NAFTA passed the House with 16 votes to spare. Pro-NAFTA boosters had warned of trouble in Mexico if the bill failed: unrest, a financial collapse and a recession. All those event unfolded regardless.

## **The Passage of NAFTA**

The American jobs NAFTA promised never materialized. The Labor Department estimates that 212,000 US jobs were lost as a result of NAFTA through the end of 1998. By mid-1999, manufacturing jobs in the United States had fallen for 10 straight months, despite the booming economy.

Meanwhile American companies get plenty of encouragement to relocate south of the border. They are promised cheap labor and no environmental hassles. NAFTA was supposed to ease pressures on the border. In fact, NAFTA may be boosting illegal immigration. Arguably, increased border patrols are an effort to imprison Mexicans inside a low-paying economy where the minimum wage never rises.

At the new Swingline plant in Nogales, young illiterate workers get no vacations or sick days. Management took away the chairs, so assembly line workers must stand for the entirety of their shifts. Labor is so cheap that Swingline is de-automating parts of the manufacturing floor.

Back in Long Island City, no new manufacturer has moved in to replace Swingline. New immigrants to the United States who look for a job to help them out of poverty and into the middle class apparently have nowhere to turn. Even the giant Swingline sign is gone.

## About the Author

**John R. MacArthur** is an award-winning journalist and author. He has been president and publisher of *Harper's Magazine* since 1983.

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