

NAFTATHOUGHTS

A Newsletter on the North American Free Trade Agreement

Vol. 2, No. 4

October 1992

A.I.D. LOW-WAGE PROGRAMS STIR CONTROVERSY

Programs promoted by the U.S. Agency for International Development (AID) in Honduras and El Salvador encouraging U.S. firms to relocate to those countries have stimulated intense debate in Congress and in the presidential race. Commenting on the "60 Minutes" story that exposed this practice, Bill Clinton said, "At a time when companies are having a hard time getting loans to expand factories in middle America, Mr. Bush's administration is offering loans at low cost in Central America. It doesn't serve the interests of workers in the United States or Central America when employers close their factories...that provide workers with a decent standard of living and open up sweatshops to pay starvation wages in another country."

Congressman George Brown (D-CA), whose office worked with the "60 Minutes" team, formally requested a far-reaching General Accounting Office (GAO) investigation of the roles of AID and other taxpayer-supported agencies and programs in developing foreign export processing zones (EPZs) and targeting U.S. firms to shift U.S. manufacturing operations and jobs to those zones. Rep. Lee Hamilton (D-IN), likely the next Chair of the House Foreign Affairs Committee, Sen. Patrick Leahy (D-VT), and Sen. Tom Harkin (D-IA) joined Rep. Brown in requesting the GAO investigation.

In a final surge of activity on the foreign assistance appropriations bill, members of both houses of Congress succeeded in amending the bill to prohibit foreign aid funds from being used as incentives to U.S. businesses to relocate overseas or to support projects or businesses that violate labor rights. Sen. Paul Wellstone (D-MN) declared his support for the amendment, adding, "It is important to point out that the recently negotiated North American Free Trade Agreement (NAFTA), if put into effect, would encourage the same tendencies -- low wages, poor

(Continued on page 2)

NAFTA COMPLETED, CRITICISMS GROW

On 12 August, after more than a year of intense and secretive negotiations, Presidents Bush and Salinas and Prime Minister Mulroney announced the completion of the North American Free Trade Agreement. This announcement followed on the heels of two ministerial-level meetings, held in Mexico City and at the Watergate Hotel in Washington, DC.

Citizens' groups from the three countries released trilateral declarations at those meetings, deploring the secrecy of the negotiations and the rush to conclude the Agreement in time for the Republican National Convention. The negotiators later admitted, in fact, that the announcement was triggered by a leak from anxious White House aides, when several negotiating points actually still remained to be resolved.

Indeed, the full text of the NAFTA was not released to the public until nearly a month later, when Congressional hearings on the Agreement began. Democrats in both houses of Congress criticized both the substance of the Agreement and President Bush's attacks on presidential candidate Bill Clinton for not immediately endorsing it. Sen. Lloyd Bentsen and Rep. Dan Rostenkowski, chairs of the Senate Finance and House Ways and Means Committees, respectively, said that these attacks threatened the bipartisan consensus in support of the Agreement and jeopardized its prospects for eventual passage.

Clinton subsequently gave his qualified support for the NAFTA on 4 October, while stating that, as President, he would not sign it in its current form. He called for supplemental agreements and legislation that would address problems related to workers, farmers and the environment left unaddressed by the recently published accord.

(Continued on page 2)

NAFTA CRITICISMS GROW (from page 1)

In so doing, Clinton stopped considerably short of the position taken on 9 September by House Majority Leader Richard Gephardt, who declared that the labor and environmental provisions in the NAFTA were so badly flawed that the agreement should be renegotiated. Speaking at a conference co-sponsored by the AFL-CIO, Friends of the Earth, Public Citizen and other citizens' groups, Gephardt called on the Bush Administration to "cease further efforts to win Congressional approval of the current North America Free Trade Agreement, and to renegotiate it, or leave it for the next Administration to be written right."

Controversy over the NAFTA deepened when Labor Secretary Lynn Martin acknowledged that the NAFTA could lead to up to 150,000 job losses in the United States over the next decade. In testimony before the Senate Finance Committee she argued that these losses would be offset by the Administration's proposed \$10 billion worker retraining program. Senate Democrats criticized the Administration's failure to specify how this program would be funded.

While the New York Times reported on 15 September that the National Wildlife Federation and perhaps the World Wildlife Fund would support NAFTA, many other environmental groups, including the Natural Resources Defense Council, the Sierra Club and Greenpeace, have announced their opposition to the Agreement. They have been joined in their opposition by another 50 organizations, which called for either basic changes in, or the rejection of, the accord (see article, p. 3).

In addition, the Labor Advisory Committee for Trade Negotiations and Trade Policy, one of 40 advisory committees set up by the Administration to review the NAFTA, concluded that the NAFTA would "worsen the serious economic and social problems facing this country." The public seems to agree: a recent USA Today/CNN/Gallup poll showed that 57 percent of Americans oppose free trade with Mexico.

Sources: "President and Congress Square Off On North American Trade Accord," by Keith Bradsher, New York Times, 9 September 1992; "Trade Pact Could Cost Up to 150,000 U.S. Jobs," by Keith Bradsher, New York Times 11 September 1992; "Remarks of Congressman Richard Gephardt, Address before the 21st Century Conference," (from Econet, trade.library); "New York Times Says NWF and WWF Will Support NAFTA," by Kai Mander, Trade News Bulletin, 16 September 1992; "Poll: Clinton's economic focus is on target," by Richard Benedetto, USA Today, 21 September 1992; "Summary Report of the Labor Advisory Committee for Trade Negotiations on the NAFTA," 16 September 1992.

A.I.D. STIRS CONTROVERSY (from page 1)

working conditions, deregulation and the export of jobs. I don't believe the agreement in its current form promotes true economic development in either the United States or Mexico."

Despite his strong condemnation of the job-exporting, wage-depressing programs of AID, Gov. Clinton did not make a connection between them and the NAFTA and other, prospective trade agreements that could have a similar impact. Indeed, Clinton made it clear that he was not against the free movement of capital, but only against the use of U.S. taxpayers' money to subsidize it.

Sources: "Clinton Speech", New York Times, 30 September 1992, p. A11; Congressional Record -- Senate, 30 September 1992, p. S15778 and S15791; 2 September 1992 letter from Reps. Brown and Hamilton and Sens. Leahy and Harkin to Mr. Charles A. Bowsher, GAO; Congressional Record -- House, 4 October 1992, p. H11332.

NAFTATHOUGHTS

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NAFTATHOUGHTS provides information and perspectives on developments in Canada, the United States and Mexico related to the proposed North American Free Trade Agreement. Views expressed in NAFTATHOUGHTS are those of the writers and do not necessarily represent those of the affiliated organizations. Contributions are welcomed.

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MEXICO: FOR SALE

This video presents a non-official Mexican perspective on the NAFTA. Shot in Mexico, the film documents the viewpoints of Mexican intellectuals and political leaders, including Jorge Castañeda, Ifigenia Martínez and Cuauhtémoc Cárdenas.

Available in Spanish and English for \$39.95 plus \$2.50 postage and handling from Mexico Libre Productions, P.O. Box 20018, Altadena, CA 91001, (818) 798-7749. The producers, Dermot Begley and Carla Fountain, would also like to communicate with anyone interested in helping to arrange a broadcast of the film.

Editor's note: the following letter was delivered to Members of Congress and the press on 7 October 1992.

**U.S. CITIZEN GROUPS CALL FOR RECASTING OF NORTH AMERICAN
AGREEMENT IN BROADER, MORE DEMOCRATIC TALKS**
October 6, 1992

We, the undersigned organizations, urge the American people and their representatives in government to recast substantially or reject the North American Free Trade Agreement (NAFTA) made public on September 8. To this end, we call on the Members of Congress either to revoke the "fast-track" rule and subject this agreement to basic changes, or to reject the agreement altogether. Following this, we call for a more democratic process to ensue whereby the people of the United States, Canada and Mexico can engage with their governments and each other to cope with the problems of human rights violations, environmental degradation, lowering of labor rights and standards, job and wage losses, massive migration, rural community distortions and other problems related to the economic integration that is underway.

Our rejection of the text released on September 8 is based on careful preliminary review of the text by citizen groups in all three countries. We highlight the following consequences of the agreement which render it harmful to the vast majority of the people of the continent:

a. A Race to the Bottom in Standards: Free trade fosters an equalization of labor, environmental and other social standards among member nations. The European Community has addressed this issue by pulling up the poorer countries of Europe through aid and by insisting on respect for relatively high social standards by all member nations. NAFTA includes neither and hence would accelerate the collapse of U.S. and Canadian wages and standards toward the lowest levels in Mexico, Canada and the U.S. NAFTA also fails -- by omitting any provisions to guarantee respect for internationally recognized labor rights -- to give workers the tools they need to defend themselves against a tri-national collapse in their living and working standards. The European Community also conditioned membership on respect for democracy; Mexican citizen organizations highlight "the lack of guarantees for respect of the popular vote in Mexico" as a problem in NAFTA.

b. Environmental Ruin: The agreement includes no provision to stop the movement of U.S. firms into Mexico to exploit that country's lax enforcement of environmental regulations and further the environmental nightmare that extends along the U.S.-Mexico border. The new "Integrated Environmental Plan for the U.S.-Mexico Border" is severely underfunded. Finally, NAFTA's dispute resolution process will facilitate attacks on U.S. environmental, health and safety standards and undermine gains in U.S. food, drug, air, water automobile and industrial safety.

c. Fewer and Worse Jobs: NAFTA would accelerate the loss of jobs and undermine U.S. and Canadian wages and working conditions by pitting U.S. and Canadian workers against Mexican workers in a contest in which all sides would lose. In the United States, job loss and the bargaining down of wages will hit workers at all levels, from highly-skilled technicians to unskilled labor. But recovery from job displacement and scaled-down wages will be disproportionately difficult for poor, poorly educated, minority, migrant and women workers.

The administration's announcement of a new worker adjustment program to help those displaced by NAFTA is little more than a cruel joke since it comes with no plan for how to pay for it and at a time when the social safety net is already frayed.

d. Destruction of Family Farms: NAFTA will promote widespread displacement of family farmers and farmworkers in all three countries. According to the Administration's own studies, millions of Mexican farm families may be displaced in the next few years, adding to the flow of urban unemployed and migrants to the U.S. and Mexican cities. U.S. dairy, beef, sugar, peanut and fruit and vegetable farmers will be severely affected by changes in farm programs that will result from NAFTA.

e. Other Substantive Problems: NAFTA fails completely to address the growing number of bilateral immigration issues or problems of human rights violations on both sides of the border with Mexico. The agreement also includes a clause that would ease the accession of other Latin American nations into free trade agreements with the United States with the same lack of democratic consultation or concern for broader social issues.

f. Lack of Public Participation and Access: The NAFTA is the result of what one member of Congress called "fifteen months of the most secretive trade negotiations I've ever monitored." Many citizen groups offered suggestions to government negotiators over the past year; almost none ended up in the text. Further, the NAFTA mechanism for resolving conflicts that arise under the agreement is totally inaccessible to affected citizens. It threatens to undermine sovereignty in all three nations and replace it with the dominance of unelected, unaccountable corporate-dominated tribunals.

A broad spectrum of citizen groups in Canada and Mexico join us in these and other concerns about NAFTA and urge its substantial recasting or rejection. Together, we are fashioning a more detailed tri-national analysis of NAFTA based on the concept of socially responsible trade. We recognize the growing ties among our nations and are committed to democratic and inclusive forums to build a continental initiative for North American development that will benefit the large majority of our peoples.

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EPI PAPER CHALLENGES NAFTA ASSUMPTIONS

"The issue before us now," write Jeff Faux and Thea Lee of the Economic Policy Institute in their recently published study, *The Effect of George Bush's NAFTA on American Workers: Ladder Up or Ladder Down?*, "is not whether the United States should trade with Mexico and Canada or whether investment should be allowed to move freely within North America." These processes are already ongoing. "The question is how increasing trade and investment should take place." The authors contrast the low-wage, low-productivity model inherent in the NAFTA with a high-wage, high-productivity strategy which would involve upgrading skills and standards throughout the continent.

The Bush Administration often points to studies showing that NAFTA will create more and better U.S. jobs as a result of increased exports and investment. Faux and Lee examine these studies and critique them and their underlying assumptions. These assumptions include the idea that labor markets are smoothly functioning, i.e., that prices will adjust so that supply always exactly equals demand. Another common assumption is that NAFTA will attract new investment rather than divert existing investment from the United States to Mexico. All of the pro-NAFTA studies assume that consumers have strong preferences for goods produced in their own country. Faux and Lee contend that all of these studies reflect the bias of the modelers. "The models are constructed to prove the theory on which they are based," they write, "No one should be under the impression that this is a scientific inquiry."

In contrast with economic studies based on unrealistically optimistic scenarios, the experience of the past decade demonstrates, according to Faux and Lee, that "U.S. workers displaced by trade are more likely to move down the job ladder, to lower-paying jobs, to move off the ladder to permanent unemployment, not up the ladder to better jobs than they started with." Faux and Lee cite a Bureau of Labor Statistics study of displaced workers between 1979 and 1990 that found that workers who did manage to find new jobs took large pay cuts and were subjected to long periods of unemployment.

Canada's experience under the U.S.-Canada FTA provides further reason to question the Administration's optimism: since June 1989, Canada has lost approximately one-half million manufacturing jobs, nearly a quarter of its manufacturing workforce. In many cases, these job losses were caused by firms relocating production to the United States, which has slightly lower wages, taxes and real estate prices than does Canada.

NAFTA's impact on wages and income distribution, Faux and Lee contend, could be at least as significant as the job loss it generates. Economist Edward Leamer explains that, as trade and investment barriers have been lowered, there has been an increase in the relocation of investment to low-wage countries and in the world supply of labor-intensive goods. This has led, in turn, to declining prices for these goods and further downward pressure on wages. "Indeed," he writes, "if the reason for the expansion of international commerce is increased access to low-wage unskilled foreign labor, it is virtually certain that our low-skilled workers will have their earnings reduced. Earning reductions on the order of \$1,000 per year...seem very plausible." This category of "low-skilled workers" includes all workers who are not professional, technical or managerial -- or over 70 percent of the U.S. workforce.

Faux and Lee assert that the NAFTA contains incentives to U.S. companies to take a low-wage, low-productivity approach to global competition. This strategy means competing on the basis of continually cutting labor costs, not raising standards or developing innovative technologies. Faux and Lee advocate instead that the United States pursue a strategy similar to that of the European Community in its economic integration. This would include provisions to ensure enforcement of labor and environmental laws throughout the continent, as well as funding for infrastructure investment and training similar to that provided by the EC's Structural Funds.

(Continued on page 9)

ABUSES CONTINUE UNCHECKED IN MEXICO AS NAFTA IS INITIALLED

Political unrest resulting from the hotly contested 12 July elections in the Mexican state of Michoacán continued into October. Many opposition party members and independent election observers had protested irregularities in the voting procedures, as well as massive spending by the ruling Institutional Revolutionary Party (PRI) just prior to the elections. Subsequently, thousands of demonstrators protested at the state capital and refused to allow the new governor to enter his office.

As a result of this popular reaction, and despite the PRI's insistence that it had obtained a clear victory in the election, President Salinas ordered incoming governor Eduardo Villaseñor to take a one-year "leave of absence". Salinas took this action just one day before leaving for San Antonio, Texas to witness, along with President Bush and Prime Minister Mulroney, the initialing of the NAFTA by their trade ministers.

While the opposition Party of the Democratic Revolution (PRD) recognized the removal of Villaseñor as a positive step, other political and human rights concerns remain. The PRD has charged that, since 1990, 32 party members have been assassinated and many others threatened by the PRI. In addition, the Mexican National Network of Civic Human Rights Organizations issued an urgent action alert on 23 September in protest of the detention and torture of election observer Morelos Marx Madrigal. According to that alert, Marx was detained on 13 September by two armed individuals in police caps who refused his repeated requests that they identify themselves. He was taken to an unknown location where these men were joined by two others who reportedly beat and interrogated him for three days. He was released on 16 September.

The Mexican Commission for the Defense and Promotion of Human Rights lodged a formal protest of this violation of Morelos Marx Madrigal's civil and human rights on 21 September. The Convergence of Civic Organizations for Democracy and the National Network declared that, because of the nature of the questions during the interrogation, "we believe that

behind this process exists an attempt to continue intimidating and pressuring persons who participate in social organizations, so that they desist in their struggle for the respect of civil, political, social, economic and cultural rights. Therefore, we consider the government responsible for any act of intimidation or repression against any member of the organizations that participated in the electoral observations, especially those who were mentioned during the interrogation."

In an earlier incident, U.S. citizen and Peace Corps employee William Yost was found dead in a Mexico City jail on 15 August, a day after being detained for failure to register his vehicle with Mexican Customs. Mr. Yost, who left Washington, DC on 8 August to meet a friend at the Mexican border with Guatemala, paid a \$1,400 fine and had been detained overnight in Oaxaca. He was then transferred to Mexico City pending deportation and was found dead shortly thereafter.

Mexican officials claim that Mr. Yost died of a self-inflicted gunshot wound, but his family is unconvinced. They were persuaded initially by U.S. embassy officials to refrain from reporting the incident to the press. "We were told to direct everything to the Peace Corps press agency," said Susan Yost, William Yost's sister. "They said there was a recent trade agreement and they didn't want any adverse publicity, and because there was a Republican convention going on...I'm at the point where I figure we have nothing left to lose," she told the *Washington Post* on 28 August. The Yost family decided to go public with their concerns after many of their questions remained unanswered by the Mexican and U.S. governments.

Sources: "Mexican Steps Aside in Election Row," by Tod Robberson, *Washington Post*, 7 October 1992. Urgent Action letter from the Red Nacional de Organismos Civiles de Derechos Humanos "Todos los Derechos para Todos", 23 September 1992; "D.C. Man's Family Disputes His Alleged Suicide in Mexican Custody," by Tod Robberson, *Washington Post*, 29 August 1992.

CLINTON ANNOUNCES POSITION ON NAFTA

In a speech on 4 October at North Carolina State University, Governor Bill Clinton announced his qualified support for the NAFTA negotiated by the Bush Administration, claiming that it could only be a success as part of a larger economic strategy that created conditions in the United States that would help retain or attract investment. Clinton added that, as president, he would address the deficiencies in the agreement through supplemental agreements. "I will not sign legislation implementing the North American Free Trade Agreement," he maintained, "until we have reached additional agreements to protect America's vital interests...I think that we don't have to reopen the agreement, but we do have to insist that protection for our workers, for the environment proceed on parallel tracks. We should do it all at once."

Clinton proposed five unilateral steps: comprehensive trade adjustment assistance; environmental clean up and infrastructure investments in the United States; strict application of American pesticide requirements to imported food and transition assistance for agriculture; mechanisms to ensure public participation in dispute resolution and standing for citizen challenges of environmental practices; and actions to ensure that provisions allowing foreign workers to enter the U.S. are properly implemented, so that foreign workers are not brought into the U.S. as strike breakers.

He also proposed three supplemental accords that he would negotiate with Canada and Mexico: one to establish an environmental protection commission with substantial powers and resources to prevent and clean up water pollution; a second to create a commission with similar powers to enforce worker and safety standards; and a third agreement which would require each country to enforce its own environmental and worker standards, including provisions to "permit citizens of each country to bring suit in their own courts when they believe their domestic environmental protections and worker standards aren't being enforced." In promoting this last proposal, Clinton emphasized that "...the agreement negotiated by the Bush team goes a long

(Continued on page 9)

CLINTON'S NAFTA STRATEGY CRITIQUED

Democratic presidential candidate Bill Clinton's opposition to renegotiating the NAFTA won applause from corporate leaders and the Mexican government but raised concerns in the U.S. Congress and among citizens' groups.

On 3 October, 105 Members of the House of Representatives wrote Governor Clinton to express their concern about his intention to accept the NAFTA and to urge him not to endorse it, "because of the adverse consequences for U.S. working people, consumers and family farmers, and the serious exploitation of low-wage workers in Mexico." In so doing, they pointed to the outflow of jobs to the maquiladora program in Mexico where, they charged, U.S. companies have done little to improve living conditions.

The same week, the steering committee of MODTLE also questioned the Governor's strategy. It emphasized that U.S. firms would continue to violate environmental standards and workers' rights in Mexico to gain an unfair advantage in the U.S. market unless trade sanctions were incorporated in the NAFTA text itself, rather than in parallel agreements, as proposed by Clinton.

Like the Congressional critics, the MODTLE committee stressed that the similarities in economic and social conditions among countries that made the European integration successful do not yet exist in North America. It challenged Clinton's view of Mexico as a democracy with an expanding market for U.S. consumer goods, when already declining poverty-level wages would, it claimed, be depressed even further by the low-wage strategy embodied in NAFTA and evidenced by USAID policy in Central America.

Under the present circumstances in Mexico, concluded the Congressional letter, "it makes no sense to rush into an agreement that would negatively impact the living standards of the entire continent." Led by House Majority Whip David Bonior and the head of the Fair Trade Caucus, Marcy Kaptur, the signatories called on Clinton to table the accord and

(Continued on page 9)

CLINTON ANNOUNCES POSITION (from page 8)

way to [enforce laws] protecting intellectual property rights and the right to invest in Mexico, but it is silent with respect to labor laws and the environment."

"If we can make this agreement work with Canada and Mexico," he added, "then we can reach down into the other market-oriented economies of Central and South America to expand even further...It will provide more jobs through exports...It will certainly help Mexico to develop, but still, that is also in our interest: A wealthier Mexico will buy more American products; as incomes rise there, that will reduce pressure for immigration across the border into the United States which depresses wages here."

"We have to have the courage to change," Clinton said in closing, "and a part of that change should involve a closer relationship with Mexico now under better leadership than ever in my lifetime."

Source: "Expanding Trade and Creating American Jobs, Remarks by Governor Bill Clinton, North Carolina University, Raleigh, NC, October 4, 1992."

CLINTON CRITIQUED (from page 8)

renegotiate the provisions on labor rights, the environment, and health and safety standards.

Sources: 3 October 1992 letter to Governor Clinton from 105 Members of Congress; "Citizen Network Challenges Clinton to Go Further in Fixing a Flawed NAFTA," MODTLE steering committee, 6 October 1992.

EPI PAPER (from page 6)

If the United States were to employ this high-wage, high-productivity competitive strategy, they conclude, it must begin a "permanent and continuous upgrading of its labor force in conjunction with trade and industrial policies that provide support for high-wage job creation. Only if such policies become conscious national goals is there any realistic chance to build the ladder that will make the difference between displaced U.S. workers sliding downwards toward higher unemployment and lower-paying jobs or climbing up to the next rung."

Copies of "The Effect of George Bush's NAFTA on American Workers: Ladder Up or Ladder Down?", 34 pp., are available for \$5 each from Public Interest Publications at 1-800-537-9359 or 703-243-2252.

"NAFTA TAPES" EMBARRASS CANADIAN GOVERNMENT

The Canadian government's plans to list and track opponents of the NAFTA and squelch their objections through quick rebuttals were revealed in transcripts of a taped conference call on 26 August among top Canadian government officials. According to the transcripts, published by Maclean's magazine, James Ramsey, chief of staff to Canadian Trade Minister Michael Wilson, referred to NAFTA opponents as "that old left-wing, cryptocommunist, anti-free trade, NDP liberal con group." His remarks related to the New Democratic Party, which has opposed both the NAFTA and the 1989 U.S.-Canada FTA, and the Liberal Party, which might favor renegotiating NAFTA.

Opposition leaders expressed outrage at Ramsey's comments and at the trade officials' repeated references to the public as "empty heads to fill" with the government's pro-NAFTA message, and they called for his removal from office. Wilson refused and called the transcript a "stolen document." Philip Resnick, a political scientist at the University of British Columbia, commented, "I don't think the tapes are going to make or break the deal, but they will weaken the government's ability to sell the deal between October and next spring."

Source: "Canada's 'NAFTA Tapes' Bolster Critics of Trade Pact," by Mark Clayton, Christian Science Monitor, 18 September 1992.

Waxman-Gephardt Resolution Wins Unanimous House Support

After an extensive campaign by the Fair Trade Campaign and Citizens Trade Watch Campaign, House Concurrent Resolution 246 was approved by the House of Representatives on 6 August by a vote of 376 to 0. The resolution, which declares that Congress will not approve legislation to implement any trade agreement that jeopardizes U.S. health, safety, labor or environmental laws, in the end won the support of the Bush Administration, as well. Although the resolution is non-binding, it served as a vehicle for educating Members of Congress about their constituents' NAFTA- and GATT-related concerns and put Members on record against trade agreements that do not meet these vital social standards.