

Senate Democratic Policy Committee Hearing

“Are We Exporting American Jobs?”

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Thank you Mr. Chairman for inviting me to talk about so-called "free trade" and its impact on U.S. manufacturing, employment and wages. I always make a point of saying so-called, because what we have in NAFTA, and the euphemistically named agreement called Permanent Normal Trade Relations with China, actually has very little to do with free trade theory as conceived by its originators and promoters, principally the 19th Century British economist David Ricardo and Richard Cobden of Manchester manufacturing and political fame.

Now, I could have a lot of fun today by ridiculing Ricardo's fantasy scenario -- the perfectly balanced economic Nirvana that he called "comparative advantage" -- and I could also have a lot of fun by ridiculing some of Ricardo's and Cobden's modern-day disciples, Thomas Friedman and Paul Krugman of the New York Times, Fred Hiatt of the Washington Post and Robert Bartley of the Wall Street Journal. And along those lines, I do feel obliged to mention, at least, my idea that the quasi-religious devotion to so-called free trade found on the editorial pages of the nation's most important newspapers closely resembles in tone that of the most fervent adherents of Marxist theory. It is no secret among reliable economic historians that Karl Marx was heavily influenced by Ricardo, particularly in his analysis of class conflict. Perhaps you will ask me to elaborate later.

But a far more important task, which isn't any fun at all, is to give you some sense of what NAFTA and PNTR really constitute in the workplace, as opposed to the classroom or on the op-ed pages. And I think the best way of looking at these two agreements -- and to some extent this theoretical regulating mechanism known as the General Agreement on Tariffs and Trade and the World Trade Organization -- is through the very understandable and untheoretical vantage point of U.S. labor law and U.S. criminal law.

NAFTA and PNTR, it is true, have been called investment agreements -- that is, agreements to promote American investment in Mexico and China. In NAFTA this takes very specific form in Part 5, Chapter 11, Section A, Articles 1105 and 1110 of expropriation insurance designed to protect the American or Canadian investor against expropriation by the Mexican government. This was felt to be necessary at the time of the negotiations in part because of Mexican political instability and in part because of the Mexican expropriation of U.S. oil assets in 1938. In the case of PNTR with China, the expropriation insurance is unspecific, but real nevertheless. PNTR was said to be a prerequisite for China joining the WTO and membership in the WTO would obviously discourage China from ever again expropriating foreign assets, as it did in 1949.

But the notion of NAFTA and PNTR as investment insurance doesn't nearly do justice to the hard technical and political work done during the first Bush and Clinton administrations to get these agreements approved by Congress. The other, more interesting way to look at NAFTA and PNTR, is as labor racketeering agreements designed to fix the price of labor at a very low level.

In the classic labor racketeering scheme, a mafia-controlled union conspires with management to keep wages at a level acceptably low to management and to keep rival unions -- that might bargain more aggressively for its members -- from attempting to organize the company. Management rewards the union leadership with kickbacks -- the union leadership rewards management with labor peace.

In NAFTA and PNTR, the equation changes somewhat, with governments conspiring with unions and management to fix the labor market. With NAFTA, the Mexican government, in collusion with the U.S. government, guarantees a wage level -- still about one dollar an hour -- low enough to satisfy Delphi or Xerox or Eastman Kodak. The union involved is the CTM, Mexico's biggest national labor union, and historically a government subsidiary. The CTM was for many years essentially owned by the Institutional Revolutionary Party, the PRI, and since the ascension of Vicente Fox and the PAN, it has simply shifted its political alliance to accommodate the realities of power. In the plants they pretend to represent, the CTM bosses are paid off in cash and political patronage, either by the government or the company or both. In the rare instance where a rival union -- meaning a disgruntled group of politically weak and poorly financed employees -- challenges the CTM, heads are broken by CTM thugs and government cops. If the maquiladora worker is unhappy, ambitious and desperate enough, he may attempt to jump the border to work illegally for three dollars an hour in the U.S. But at the border he will find the law enforcement representatives of the other party in the labor racketeering scheme -- the U.S. border patrol. Their job is to hurl the Mexican factory worker back into the Mexican labor market, where he or she can work for a dollar an hour and belong to the CTM, or not.

In China, just substitute the labor section of the local Communist Party for the union and you once again have a very clear form of labor price fixing. Strikes are rare in Mexico, but they are essentially non-existent in China, as is collective bargaining. No small irony then, and no coincidence, that the maquiladora boom in Mexico ended with the passage of PNTR. I urge all of you to get a copy of CIEMEX-WEFA's latest issue of "Maquiladora Industry Outlook" in which the excellent John Christman explains just how bad things have gotten along the border since the passage of PNTR -- massive layoffs, plant closings and downward pressure on wages. Many of those shut down plants have simply moved to China. If an American company wants to choose between labor racketeers, China is clearly the place to go because the labor is even cheaper than Mexico -- anywhere from free to fifty cents an hour -- and the house union, that is, the communist party, is even tougher and meaner -- shall we say more totalitarian -- than the CTM or the federales. Except in the occasional instance of a high tech company that prefers NAFTA's very strong intellectual property protections to China's wide open knock-off culture, choosing China is a no-brainer.

What does this do to the American worker and American labor unions? It crushes them. They can't compete against dollar an hour and less. They can't or won't attempt cross-border

organizing. They can't unionize factories in the U.S. because management will move the plant. They can't invoke the Wagner Act because it doesn't apply outside this country.

It's a bitter irony that the terribly exploited Mexican workers, who I know very well from up-close reporting, are now suffering the same intimidation that American workers have been suffering since the passage of NAFTA. Before PNTR I would have said that Mexico was becoming essentially a labor colony of the United States, where workers are essentially trapped into industrial servitude. With PNTR -- meaning direct competition from China -- Mexico is becoming an economic basket case with very few alternatives besides exporting their poor people to the United States. I don't know where it will end, but I can tell you that both the liberal David Ricardo, and the radical Karl Marx, would probably have predicted a very alienated working class.