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The following book review first appeared in the SAIS REVIEW, published by the Johns Hopkins University School of Advanced International Studies. Summer-Fall 1993/Volume 13, Number 2, p. 152.

### NAFTA ANALYSIS FALLS SHORT

by  
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The purpose of NAFTA: An Assessment\*, according to authors Gary C. Hufbauer and Jeffrey J. Schott, is to "provide a road map so that legislators, businessmen, labor leaders, and environmentalists can get a quick handle" on the text of the North American Free Trade Agreement (NAFTA). The no-nonsense style of the book does offer a lucid and understandable breakdown of the provisions contained in the 2,000-page NAFTA document, but the authors are so entrenched in the ideological school of free trade that their analysis fails to adequately address the full impacts of NAFTA. Hopefully, their bias is obvious enough that most of the VIP audience, for whom the book is clearly intended, will not allow Hufbauer and Schott's "road map" to steer off course their trains of thought at this critical juncture in the North American integration effort.

It is clear the authors and their employer, the conservative Institute for International Economics (IIE), have had significant influence on the NAFTA negotiations thus far. In fact, in this book, the authors are preoccupied with which of their suggestions were followed and not concerned enough about the potentially serious consequences of this trade pact. NAFTA: An Assessment can be viewed as an assessment of how many of Hufbauer and Schott's ideas for negotiating NAFTA – contained in their March 1992 book, North American Free Trade: Issues and Recommendations – can be found in the text signed by the US, Canada and Mexico on December 17, 1992. The authors even provide an appendix offering an evaluation of NAFTA based solely on whether the text for each sector "beats," "meets," or "falls

short" of their own prior suggestions. The section at least offers a glimpse into how much influence this Washington-based think-tank has had on negotiators.

Hufbauer and Schott used what they call an "historical" model to conclude that 171,000 net new US jobs will be created under NAFTA. Because all of the predictions stem from two key variables -- Mexican exports and net capital inflows into Mexico -- Thea Lee, of the Economic Policy Institute (EPI), has called this model "extremely simple." While Lee claims the model has certain advantages over econometric models, she says the authors "employ different techniques to analyze trade and employment changes for the US and Mexican economies, which leads to a scenario which is internally inconsistent in places." Thus it is hardly surprising that the authors' findings are consistently more positive than studies conducted using other models. Hufbauer and Schott reject as "based on an erroneous model of the international investment process" studies by the EPI, Economic Strategy Institute and others which conclude that increased investment flows from the US to Mexico could cost as many as 490,000 US jobs.

Yet Hufbauer and Schott's own research found that as the Mexican economy grows over time, imports and exports will roughly balance and any US jobs gained under NAFTA will eventually be lost. At a luncheon January 14, Hufbauer and Schott distributed a chart depicting job creation and job loss resulting from NAFTA which showed a small decrease in jobs over the long-term. Disturbingly, this same chart is included in the book without the long-term forecasts. In an interview in the New York Times, Schott said the long-term results were not included because they relied on complicated assumptions and that long term economic forecasts are unreliable. But why undertake a long-term forecast if they are inherently unreliable? The conclusion one must draw is that the numbers do not turn out as Hufbauer and Schott want, so they dismiss them as incorrect. It's difficult to imagine that the Institute for International Economics would have excluded the predictions of two of the country's most prominent economists had the results turned out differently. The authors also weakly claim that the book's length was a factor in leaving out the statistics. Yet at 192 pages, it does not seem an extraordinary length, especially when considering that their previous book on NAFTA was 392 pages long.

In spite of their own research findings to the contrary, Hufbauer and Schott nevertheless hold up the ideological argument of free trade as proof of long-term benefits. They claim, "Investment by US firms in Mexico is a 'good event' rather than a 'bad event' for the United States" because "foreign investment by US firms creates US jobs, both in the short run, by boosting US exports of capital goods, and in the long run, by establishing channels for the export of US intermediate components, replacement parts, and associated goods and services" (19).

The authors hope to quell concern about US companies moving to Mexico, but again their argument is inconsistent. "The fact that some US plants close, just as some Mexican plants close, should be read as evidence that the market system is working, not that it is failing. From the standpoint of the US economy as a whole, what counts is how many net jobs are created by NAFTA" (14). Ten pages later, in arguing the US will benefit from greater competition and a larger continent-wide market created by NAFTA, they claim that increased efficiency and higher output will earn approximately \$15 billion a year between Mexico and the US. "Over the long-term, this figure -- not jobs won or lost -- is the true measure of the economic gain from the NAFTA agreement," the authors contend (24). The outlook of Hufbauer and Schott is clear. If NAFTA does close US plants, it does not matter because it will not cost US jobs. But if NAFTA does cost US jobs, it still does not matter because it will benefit US corporations in the form of increased efficiency and higher output. Evidently what does matter to Hufbauer and Schott is the trickle-down theory of increasing corporate profits and ignoring the consequences. They imply that the Bush Administration's plan to address labor concerns through a new US-Mexico Labor Commission and other mechanisms would alleviate many of the negative consequences of NAFTA. They cite former US Labor Secretary Lynn Martin's September 1992 testimony to Congress in which she described mechanisms to address these concerns. What the authors fail to include in the book, however, is that, in her same testimony, Martin eventually admitted that as many as 150,000 US jobs could be lost as a result of NAFTA.

Hufbauer and Schott's specific plans are not realistic. Each seems to be based on an amazingly profound faith in the governments and corporations of the US, Canada and Mexico to act in an ethical fashion. They recommend that the US-Mexico Binational Commission not have the "power to levy fines or award money damages against particular firms or industries," but instead should act as "a roving spotlight." If businesses do not conduct themselves properly of their own accord, the authors contend, "The glare of publicity should be sufficient to promote compliance" in most cases. (30) While a great glare of publicity does have its influence, a commission report would be an unlikely source to stir up such a public outcry. Hufbauer and Schott claim to have looked at all the possible ramifications of NAFTA, but their focus on pure economics precludes a meaningful discussion of the devastating impact this trade agreement, as currently written, would have on people's ability to keep transnational corporations in check. In fact, an extreme faith in business appears to be built right into their projections.

The book breaks down the NAFTA text by sector to look at specific issues: from energy, autos and agriculture to rules of origin, intellectual property, and the environment. But given the authors' bias, it is an unreliable source of information on NAFTA's true effect on society. A coalition of groups, including the Economic Policy Institute, Greenpeace, Public Citizen and others, have put together their own analysis of how NAFTA will impact these very important issues. Not surprisingly, they came up with remarkably different results than Hufbauer and Schott. The Institute for International Economics bills itself as a "completely nonpartisan" organization, but the study detailed in NAFTA: An Assessment reveals such selective choosing of evidence and questionable assumptions that in order to get a balanced picture of NAFTA one might be better served by picking up a copy of the "US Citizens' Analysis of NAFTA." (Available from the Development GAP, 927 15th Street, NW, 4th Floor, Washington, DC 20005).

\* NAFTA: An Assessment by Gary Clyde Hufbauer and Jeffrey J. Schott. 1993. Washington: Institute for International Economics.