Free trade will soon mean no trade for the U.S.

by Carol White

Unless it is stopped within the month, the fast-track legislation giving President Bush a free hand to negotiate both a North American Free Trade Agreement (NAFTA) and a new General Agreement on Tariffs and Trade (GATT) agreement, will automatically be extended. Despite some opposition from Sen. Ernest Hollings (D-S.C.), right now both houses of Congress are making deals with Bush left and right.

The deal-making is typified by Sen. Don Riegle (D-Mich.) who, on April 22, announced that he would introduce an "insurance policy" resolution to change the negotiating authority for NAFTA. He proposes to modify the "no-amendment" rules of the fast-track process, allowing members of Congress to introduce amendments in five specific areas of the agreement, including labor and environmental standards. It would also eliminate the 20-hour limit on floor debate on NAFTA, but retains the requirement that it come to a final vote no later than 15 days after it is taken up on the floor. The fast-track would still be on, in only a slightly modified form.

Fast track speeds economic collapse

Fast-track procedures to facilitate quick passage of a free trade agreement with Mexico and a similar GATT treaty, merely accelerate the economic collapse. A case in point is the ailing automobile industry. General Motors has lost $5 billion over the last nine months, and this is paradigmatic for the industry in the U.S. It is predicted that losses for the Big Three—Chrysler, GM, and Ford—will be as high as $2.4 billion in the first quarter.

The U.S. automobile industry already employs 42,000 Mexican assembly workers in slave labor shops known as *maquiladoras*. These operate on the U.S.-Mexican border as so-called free-enterprise zones, regions in which tax and customs regulations of both countries are suspended, and wages and living conditions are scandalously low. The pact will facilitate this process of employing Mexican labor at substandard wages, and simultaneously drive down U.S. wages to meet the competitive pressure. The pact will also have broader financial ramifications which we shall deal with below.

The agreement with Mexico and Canada exists within the broader framework of the GATT treaty presently being negotiated with Europe. While one of its ugliest features is the destruction of European farming, by trying to force farmers to produce at below the cost of production, its supporters in the United States are careful not to point out that the American automobile industry is presently protected by "voluntary" quotas which the Japanese have adopted, which limit their exports to the U.S.; textiles and steel are protected by actual quotas.

The areas which would be affected by such runaway shops are known. Top on the list is the automobile industry, second is the textile and apparel industry, third, what comes under the heading of electronics and household appliances, and fourth, in a slightly different twist, the internal U.S. construction industry.

The auto industry is the national pace-setter, absorbing a large portion of what still exists of the productive work force. GM has announced that it is being *pressured* by the banks, in view of its large losses, to reopen its new three-year contract with the United Auto Workers union. This would be a move to cut wages, but it would also aim to reduce health benefits, particularly to pensioners, and to pare down severance pay as well.

Move to reopen labor contracts

GM president Lloyd Reuss alluded to this in a press conference April 15 in Detroit, when in response to press prompting, he let slip that GM may reopen its contract with the

UAW. GM spokesmen off the record are less bashful. With $5 billion in losses over the last nine months, the company cannot, it is said, afford the more than $4 billion per annum job security and health package it settled on. They point out that GM production line wages run at $31.30 per hour. After the government and insurance companies take their cut, the workers are left with $16.50 per hour. GM's Mexican workers in the *maquiladoras* average $1.10 per hour. As their spokesmen say: "The discrepancies are huge. Even with this subsidy from Mexico, if auto sales in the U.S. keep collapsing, we will not be able to produce cars in the United States."

Under the existing program, GM guarantees laid-off workers 95% of their job income for three years. The banks want that program shut down, and also want GM to drastically slash the $9.6 billion it will spend for worker health insurance over the life of the three-year contract. Chrysler is perhaps in worse financial shape. Now the company is under pressure from the government's Pension Benefit Guaranty Corp. Chrysler has $3.62 billion in unfunded pension liabilities, which are due, but cannot be paid. Chrysler, like GM, is beginning the process of reopening its contract.

The textile industry, for its part, fears, that with the elimination of remaining import tariffs on certain classes of goods produced in Mexico, the industry in the U.S. will be wiped out, perhaps in its entirety.

Where does this leave the United States?

Among the buffers to the mounting unemployment are the guaranteed annual wage and pension plans. If these go, not only will the standard of living of those directly affected be sharply lowered, but the unemployment and welfare tab will grow for states already staggering under huge budget deficits and diminishing tax revenues.

There is a precedent for this. In 1981 and 1982, at the height of Federal Reserve Chairman Paul Volcker's interest rate hike, the automobile industry reopened contracts to cheapen its labor costs. With the fragile state of the U.S. economy, such a move today will reverberate throughout the economy.

Free trade pact bails out the banks

While the AFL-CIO and Democratic Party opponents point to the slave labor aspects of the pact, little has been said about the fact that the pact will be a bailout of the big New York banks—at the expense of both Mexicans and Americans. Behind it are banks such as Morgan Guaranty and Citibank, which have huge loans to bankrupt U.S. industries as well as to Mexico and other poor nations. "The fast track for a North American Free Trade Agreement isn't a trade agreement, it's an *investment agreement,*" one Senate source said. "The agreement is really *protectionism for the banks,* banks who have loans to Mexico," a United Auto Workers spokesman explained.

The key to this is that U.S. investment capital which flows into Mexico, and out of American plants, will then flow right back into U.S. banks in the form of debt service. It is estimated that at least $10 billion a year can be realized in this manner to defray Mexico's $100 billion debt to Citibank and Morgan.

While there are no indications that industry is lined up in opposition to the pact, it is the case that Wall Street banks are actively promoting the Bush administration's fast track negotiations with Mexico. GM is blaming the banks, who are insisting that the auto manufacturer shut down more major U.S. plants and move them to Mexico, or gets huge wage cuts from U.S. workers reducing them to Mexican levels, otherwise they'll make no more loans to GM.

Instead of blaming Bush's depression and the total collapse of U.S. auto sales, the banks are blaming the auto workers for GM's record losses. Losses are snowballing, from $1 billion in the third quarter of 1990 to $2 billion in the fourth quarter, and GM is expected to post hefty losses for the first quarter of 1991 when its quarterly figures are released in late April.

Wiping out investment barriers

As far as Mexico is concerned, the NAFTA fast track "is not a trade agreement. It's a banker's investment agreement," an aide to Senator Hollings told *EIR*. This goes for the entire current Uruguay Round of global GATT negotiations, too, he said. "Why else do you think [Citibank president] John Reed is pushing this so hard? Our theory all along has been that it's a bailout for the banks." He explained that there are already virtually no trade barriers, per se, between the U.S. and Mexico, whereas, despite "flea market" rhetoric, Mexican President Carlos Salinas de Gortari has thus far failed to rip up Mexican investment restrictions.

It is these foreign investment restrictions, embedded in the Mexican Constitution and the 1973 protective investment laws, which are the targets of NAFTA. "The Mexican Constitution has to be completely changed," as one banker put it. "Then Mexico can get all the capital it needs to pay its debts." Said an irate AFL-CIO official, "The federal government is making an explicit policy choice here, to favor the interests of one economic group over the other. They are supporting the financial interests of Citicorp, Manufacturer's Hanover, and so on, to ensure that Mexico gets that foreign exchange to pay their debts."

Some of those who are moving to modify the pact are actually proposing to eliminate Mexico's sovereign rights as a nation. For example, Andrew Redding, a so-called expert on Mexican affairs, advised that the U.S. Congress demand provisions to force Mexico to allow international observers to monitor its elections *as part of the free trade agreement.* Rep. Ron Wyden (D-Ore.) suggested that Congress require environmental standards as part of the free trade accord, and also include a "monitoring mechanism" to make sure the environmental laws are enforced. In the meantime, the Mexican government has opened up oil drilling to U.S. companies, without national participation.