

# Beverage World

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## NAFTA: boon or disaster?

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**T**he debate over the North American Free Trade Agreement (NAFTA) has focused attention on the question of whether Washington's policy makers understand or practice long-term, economic, strategic planning. Business and labor have hotly debated whether NAFTA will create high-paying, stable jobs or whether industry will flee to our NAFTA partners.

This debate has centered mainly on issues like whether Mexico can be forced to adopt our minimum wage. But trying to predict whether industry will flee the United States based on Mexico's adoption of our minimum wage is like doing brain surgery with a butcher knife.

It is self-evident that the US will be more prosperous if we remain the world's dominant economic and manufacturing leader. What economic forces must be nurtured by governmental policies to preserve our economic leadership, however, is a complex, multifaceted question.

There are many economic trends which should be examined with the potential long-run impact of NAFTA in mind. Economists tell us that US manufacturing is at its lowest level since 1965, and that we are not only experiencing a continued, substantial loss of manufacturing jobs, but also are seeing a major slowdown in the creation of service jobs. Only one out of every five workers who has been displaced by foreign trade has found re-employment at 80 percent or more of his or her previous salary.

### Historical perspective

History provides some examples that bear consideration in judging NAFTA. In the late 1800s, people believed child labor was injurious and should be stopped. When individual states tried to outlaw child labor, industry moved to other states that had no such laws. This was because the industrial revolution was labor intensive, and child labor was the cheapest. The solution was not for individual states to ban child labor, but for the federal government to enact a nationwide prohibition.

The national prohibition spread the cost increase to all manufacturers throughout the US. This worked because, at the time, the cost of transporting most manufactured products from the Far East or Europe was far greater than any savings that employing child labor could give distant manufacturers.

Transportation costs no longer insulate us, and it is a mistake to focus solely on issues like minimum wage in judging what effect NAFTA will have on employment. Differences in basic wage rates alone are but a very minor part of the cost advantage that Mexico or Canada have over us in a tariff-free environment.

Over the past 50 years, the US government has adopted numerous measures to improve the conditions

under which Americans work and live. In addition to extensive civil rights laws and environmental regulations, we have enacted various family-leave, workers' compensation, unemployment and other insurance laws as well as occupational health and safety laws—to name just a few.

The administrative record-keeping, reporting and cost of carrying out America's basic fair treatment laws is enormous. No one would reasonably suggest that we should repeal these important measures to compete in a global economy. Today, the US is the most important market in the world. Every nation wants to sell to us and—even before NAFTA—American companies sought ways to produce abroad to avoid the high cost of manufacturing here.



We have to reexamine the entire international question.

### Protecting our own

Without some form of protection, American manufacturers cannot hope to compete in the long run. The basic principles of long-term economics dictate that, under NAFTA, Mexico—without the cost of America's basic fair treatment laws—would enjoy an enormous cost advantage over American industry.

In the short run, it may be true that Mexico could not duplicate our production and assembly facilities. But in the long run, with American capital and know-how, Mexico could duplicate or surpass us. What this means is not that the US should have high tariffs or trade barriers, but it must begin to think in strategic terms.

Be it Japan or Mexico, any country seeking access to US markets should meet certain responsibilities. A means must be found to foster reciprocity with respect to basic fair treatment laws. NAFTA demonstrates that we have to reexamine the entire international trade question using modern, economic, long-term, strategic analysis. International competition should be based on real local advantages, not artificially imposed costs.

Access to US markets should be geared to whether a nation has laws comparable to the basic fair treatment laws we have. It would not help the US to have the best protected people in the world if they do not have jobs. Economists predict that in 20 years, more than 50 percent of the work force will only have part-time jobs and no benefits.

NAFTA may not result in beverages meant for US consumption being manufactured outside the country, but if our people don't have real jobs, they won't buy a lot of beverages.

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