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Notes of NAFTA: “The Masters of Man”

Noam Chomsky

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Throughout history, Adam Smith observed, we find the workings of “the vile maxim of the masters of mankind”: “All for ourselves, and nothing for other People.” He had few illusions about the consequences. The invisible hand, he wrote, will destroy the possibility of a decent human existence “unless government takes pains to prevent” this outcome, as must be assured in “every improved and civilized society.” It will destroy community, the environment and human values generally — and even the masters themselves, which is why the business classes have regularly called for state intervention to protect them from market forces.

The masters of mankind in Smith’s day were the “merchants and manufacturers,” who were the “principal architects” of state policy, using their power to bring “dreadful misfortunes” to the vast realms they subjugated and to harm the people of England as well, though their own interests were “most peculiarly attended to.” In our day the masters are, increasingly, the supranational corporations and financial institutions that dominate the world economy, including international trade —

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a dubious term for a system in which some 40 percent of U.S. trade takes place within companies, centrally managed by the same highly visible hands that control planning, production and investment.

The World Bank reports that protectionist measures of the industrialized countries reduce national income in the South by about twice the amount of official aid to the region — aid that is itself largely export promotion, most of it directed to richer sectors (less needy, but better consumers). In the past decade, most of the rich countries have increased protectionism, with the Reaganites often leading the way in the crusade against economic liberalism. These practices, along with the programs dictated by the International Monetary Fund and World Bank, have helped double the gap between rich and poor countries since 1960. Resource transfers from the poor to the rich amounted to more than \$400 billion from 1982 to 1990, “the equivalent in today’s dollars of some six Marshall Plans provided by the South to the North,” observes Susan George of the Transnational Institute in Amsterdam; she notes also that commercial banks were protected by transfer of their bad debts to the public sector. As in the case of the S&Ls, and advanced industry generally, “free-market capitalism” is to be risk free for the masters, as fully as can be achieved.

The international class war is reflected in the United States, where real wages have fallen to the level of the mid-1960s. Wage stagnation, extending to the college-educated, changed to sharp decline in the mid-1980s, in part a consequence of the decline in “defense spending,” our euphemism for the state industrial policy that allows “private enterprise” to feed at the public trough. More than 17 million workers were unemployed or underemployed by mid-1992, Economic Policy Institute economists Lawrence Mishel and Jared Bernstein report — a rise of 8 million during the Bush years. Some 75 percent of that is permanent loss of jobs. Of the limited gain in total wealth in the eighties, “70% accrued to the top 1% of

income earners, while the bottom lost absolutely,” according to M.I.T. economist Rudiger Dornbusch.

Structures of governance have tended to coalesce around economic power. The process continues. In the London Financial Times, James Morgan describes the “de facto world government” that is taking shape in the “new imperial age”: the I.M.F., World Bank, Group of 7 industrialized nations, General Agreement on Tariffs and Trade (GATT) and other institutions designed to serve the interests of transnational corporations, banks and investment firms.

One valuable feature of these institutions is their immunity from popular influence. Elite hostility to democracy is deep-rooted, understandably, but there has been a spectrum of opinion. At the “progressive” end, Walter Lippmann argued that “the public must be put in its place,” so that the “responsible men” may rule without interference from “ignorant and meddling outsiders” whose “function” is to be only “interested spectators of action,” periodically selecting members of the leadership class in elections, then returning to their private concerns. The statist reactionaries called “conservatives” typically take a harsher line, rejecting even the spectator role. Hence the appeal to the Reaganites of clandestine operations, censorship and other measures to insure that a powerful and interventionist state will not be troubled by the rabble. The “new imperial age” marks a shift toward the reactionary end of the antidemocratic spectrum.

It is within this framework that the North American Free Trade Agreement (NAFTA) and GATT should be understood. Note first that such agreements have only a limited relation to free trade. One primary U.S. objective is increased protection for “intellectual property,” including software, patents for seeds and drugs, and so on. The U.S. International Trade Commission estimates that American companies stand to gain \$61 billion a year from the Third World if U.S. protectionist demands are satisfied at GATT (as they are in NAFTA), at a cost to the

South that will dwarf the current huge flow of debt-service capital from South to North. Such measures are designed to insure that U.S.-based corporations control the technology of the future, including biotechnology, which, it is hoped, will allow protected private enterprise to control health, agriculture and the means of life generally, locking the poor majority into dependence and hopelessness. The same methods are being employed to undermine Canada's annoyingly efficient health services by imposing barriers to the use of generic drugs, thus sharply raising costs — and profits to state-subsidized U.S. corporations. NAFTA also includes intricate "rules of origin" requirements designed to keep foreign competitors out. Two hundred pages are devoted to rules to insure a high percentage of value added in North America (protectionist measures that should be increased, some U.S. opponents of NAFTA argue). Furthermore, the agreements go far beyond trade (itself not really trade but in large part intracompany transfers, as noted). A prime U.S. objective is liberalization of services, which would allow supranational banks to displace domestic competitors and thus eliminate any threat of national economic planning and independent development. The agreements impose a mixture of liberalization and protection, designed to keep wealth and power firmly in the hands of the masters of the "new imperial age."

NAFTA is an executive agreement, reached on August 12, 1992, just in time to become a major issue in the U.S. presidential campaign. It was mentioned, but barely. To give just one example of how debate was precluded, take the case of the Labor Advisory Committee (L.A.C.), established by the Trade Act of 1974 to advise the executive branch on any trade agreement. The L.A.C., which is based in the unions, was informed that its report on NAFTA was due on September 9. The text of this intricate treaty was provided to it one day before. In its report, the L.A.C. notes, "the Administration refused to permit any outside advice on the development of this document

ily positive," untroubled by stolen elections, death squads, endemic torture, scandalous treatment of workers and peasants, and so on, but which saw one cloud on the horizon: "a 'democracy opening' in Mexico could test the special relationship by bringing into office a government more interested in challenging the U.S. on economic and nationalistic grounds." As always, the basic threat is functioning democracy.

The trade agreements override the rights of workers, consumers, and the future generations who cannot "vote" in the market on environmental issues. They help keep the public "in its place." These are not necessary features of such agreements, but they are natural consequences of the great successes of the past years in reducing democracy to empty forms, so that the vile maxim of the masters can be pursued without undue interference.

The same factors provide the masters with new weapons against the rabble at home. Europe must “hammer away at high wages and corporate taxes, short working hours, labor immobility, and luxurious social programs,” Business Week warns. It must learn the lesson of Britain, which finally “is doing something well,” the Economist observes approvingly, with “trade unions shackled by law and subdued,” “unemployment high” and the Maastricht social chapter rejected so that employers are protected “from over-regulation and under-flexibility of labour.” American workers must absorb the same lessons.

The basic goals were lucidly described by the C.E.O. of United Technologies, Harry Gray, quoted in a valuable study of NAFTA by William McGaughey of the Minnesota Fair Trade Coalition: “a worldwide business environment that’s unfettered by government interference” (for example, “package and labelling requirements” and “inspection procedures” to protect consumers). This is the predominant human value, to which all else must be subordinated. Gray does not, of course, object to “government interference” of the kind that allows his corporation, an offshoot of the Pentagon system, to exist. Neoliberal rhetoric is to be selectively employed as a weapon against the poor; the wealthy and powerful will continue to rely on state power.

These processes will continue independently of NAFTA. But, as explained by Eastman Kodak chairman Kay Whitmore, the treaty may “lock in the opening of Mexico’s economy so that it can’t return to its protectionist ways.” It should enable Mexico “to solidify its remarkable economic reforms,” comments Michael Aho, director of Economic Studies at the Council on Foreign Relations, referring to the “economic miracle” for the rich that has devastated the poor majority. It may fend off the danger noted by a Latin America Strategy Development Workshop at the Pentagon in September 1990, which found current relations with the Mexican dictatorship to be “extraordinar-

and refused to make a draft available for comment.” The situation in Canada and Mexico was similar. The facts are not even reported. In such ways, we approach the long-sought ideal: formal democratic procedures that are devoid of meaning, as citizens not only do not intrude into the public arena but scarcely have an idea of the policies that will shape their lives.

One can readily understand the need to keep the public “in its place.” Though the scanty press coverage is overwhelmingly favorable to NAFTA in its present form, the public opposes it by nearly 2 to 1 (of the 60 percent who have an opinion). Apart from some meager rhetoric and a few interventions by Ross Perot, that fact was irrelevant to the presidential campaign, as were health reform and a host of other issues on which public opinion remains largely off the spectrum of options considered by the “responsible men.”

The Labor Advisory Committee concluded that the executive treaty would be a bonanza for investors but would harm U.S. workers and probably Mexicans as well. One likely consequence is an acceleration of migration from rural to urban areas as Mexican corn producers are wiped out by U.S. agribusiness, depressing still further wages that have already dropped sharply in recent years and are likely to remain low, thanks to the harsh repression that is a crucial element of the highly touted Mexican “economic miracle.” Labor’s share of personal income in Mexico declined from 36 percent in the mid-1970s to 23 percent by 1992, reports economist David Barkin, while fewer than 8,000 accounts (including 1,500 owned by foreigners) control more than 94 percent of stock shares in public hands.

Property rights are well protected by NAFTA, the L.A.C. analysts and others note, while workers’ rights are ignored. The treaty is also likely to have harmful environmental effects, encouraging a shift of production to regions where enforcement is lax. NAFTA “will have the effect of prohibiting democratically elected bodies at [all] levels of government from enact-

ing measures deemed inconsistent with the provisions of the agreement,” the L.A.C. report continues, including those on the environment, workers’ rights, and health and safety, all open to challenge as “unfair restraint of trade.”

Such developments are already under way in the framework of the U.S.-Canada “free trade” agreement. Included are efforts to require Canada to abandon measures to protect the Pacific salmon, to bring pesticide and emissions regulations in line with laxer U.S. standards, to end subsidies for replanting after logging and to bar a single-payer auto insurance plan in Ontario that would cost U.S. insurance companies hundreds of millions of dollars in profits. Meanwhile Canada has charged the United States with violating “fair trade” by imposing E.P.A. standards on asbestos use and requiring recycled fiber in newsprint. Under both NAFTA and GATT, there are endless options for undermining popular efforts to protect conditions of life.

In general, the L.A.C. report concludes, “U.S. corporations, and the owners and managers of these corporations, stand to reap enormous profits. The United States as a whole, however, stands to lose and particular groups stand to lose an enormous amount.” The report calls for renegotiation, offering a series of constructive proposals. That remains a possibility if the coalition of labor, environmental and other popular groups that has been calling for such changes gains sufficient popular support [see Amy Lowrey and David Corn, “Mexican Trade Bill: Fast Track to Unemployment,” *The Nation*, June 3, 1991].

An October 1992 report from the Congressional Office of Technology Assessment reached similar conclusions. A “bare” NAFTA of the form now on the table would ratify “the mismanagement of economic integration” and could “lock the United States into a low-wage, low-productivity future.” Radically altered to incorporate “domestic and continental social policy measures and parallel understandings with Mexico on environmental and labor issues,” NAFTA could have beneficial conse-

quences for the country. But the country is only of secondary concern to the masters, who are playing a different game. Its rules are revealed by what *The New York Times* called “Paradox of ‘92: Weak Economy, Strong Profits.” As a geographical entity, “the country” may decline. But the interests of the “principal architects” of policy will be “most peculiarly attended to.”

One consequence of the globalization of the economy is the rise of new governing institutions to serve the interests of private transnational economic power. Another is the spread of the Third World social model, with islands of enormous privilege in a sea of misery and despair. A walk through any American city gives human form to the statistics on quality of life, distribution of wealth, poverty and employment, and other elements of the “Paradox of ‘92.” Increasingly, production can be shifted to high-repression, low-wage areas and directed to privileged sectors in the global economy. Large parts of the population thus become superfluous for production and perhaps even as a market, unlike the days when Henry Ford realized that he could not sell cars unless his workers were paid enough to buy cars themselves.

Particular cases fill out the picture. G.M. is planning to close almost two dozen plants in the United States and Canada, but it has become the largest private employer in Mexico. It has also opened a \$690 million assembly plant in eastern Germany, where employees are willing to “work longer hours than their pampered colleagues in western Germany,” at 40 percent of the wage and with few benefits, as the *Financial Times* cheerily explains. Capital can readily move; people cannot, or are not permitted to by those who selectively applaud Adam Smith’s doctrines, which crucially include “free circulation of labor.” The return of much of Eastern Europe to its traditional service role offers new opportunities for corporations to reduce costs, thanks to “rising unemployment and pauperisation of large sections of the industrial working class” in the East as capitalist reforms proceed, according to the *Financial Times*.