The Facts About NAFTA

The United States *can* compete with cheap Mexican labor.

In 1992, the United States had a trade surplus with Mexico of more than $5 billion—despite having lower trade barriers than Mexico and wages that were about seven times higher. If low wages were the key to competing for exports, Bangladesh would be the greatest exporting nation in the world. The truth is that the United States and Germany are the world's largest exporters.

Increased trade under NAFTA will not mean lower wages in the United States.

Many people believe that the increasing volume of trade since the 1970s has led to a decline in real earnings for U.S. manufacturing workers. It's true that from 1973 to 1992, U.S. hourly wages in manufacturing dropped from $12.90 to $11.50 (both in 1992 dollars). These figures, however, do not measure *total* hourly compensation. Since 1973, manufacturing workers have taken more of their salary in the form of fringe benefits—including medical and pension benefits. When including total benefits received by employees, real manufacturing earnings have actually increased more than 6 percent.

Increased investment in Mexico under NAFTA will not come at the expense of investment in the United States.

Mexico's economy is one-twentieth the size of the U.S. economy; yet many are worried about the "devastating" effects of investments going south. In fact, total annual direct investment in Mexico—by all the countries of the world—is expected to reach no more than $7 billion to $10 billion under NAFTA over the next five years. This represents *less than 2 percent* of the annual plant and equipment investment in the United States. NAFTA will make the United States a more desirable place in which to invest. Indeed, when BMW and Mercedes Benz were looking for a place to build new factories, they chose the United States over any other location in the world.

Exports are good, *and so are imports* —and NAFTA will increase both.

We often tend to focus only on the benefits of exports, but imports allow a country to consume a greater quantity of goods at a lower cost. What NAFTA will do is provide increased availability of goods at lower prices. The true measure of a nation's economic wealth is its ability to import goods.

Free trade with Mexico means more resources to fight pollution.

Recent statistical evidence shows the single most important determinant of how a country treats its environment is the level of its income. Mexico now stands at the threshold level of income at which environmental issues begin to take center stage in public policy. The future income growth in Mexico that would come under NAFTA would only enhance the country's ability and willingness to solve its pollution problems.

Under NAFTA, Detroit will remain the car production capital of North America.

A great deal of U.S. auto production in Mexico was set up to gain access to the Mexican markets that were protected from outside competition by Mexican import tariffs and quotas. Under NAFTA, U.S. carmakers will be able to sell direct to Mexico, so they won't have to move operations to northern Mexico. Detroit will be selling a lot more cars to Mexico than Mexico will sell to the United States.

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