

SHORT BIOGRAPHY FOR MEHRENE LARUDEE

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Mehrene Larudee, born in 1947, has a Ph.D. in Economics from the University of Massachusetts, Amherst, and now teaches courses in international political economy at DePaul University at the undergraduate and M.A. level. She has also taught economics at the University of Kansas, Smith College, Williams College and Bates College.

Her research focuses on the effect of trade and investment liberalization on income distribution and growth, especially in developing countries. Most of her published research is about the case of Mexico under NAFTA. She has authored or co-authored over 20 articles, some of which have been published in the *Cambridge Journal of Economics*, the *Journal of Economic Issues*, and in the edited volume *Globalization and Progressive Economic Policy*.

She also has an interest in theoretical economics, particularly in the critique of neoclassical economic theory and the analysis of its relationship to Marxist theory. She is a member of the Union for Radical Political Economics and other professional organizations in economics and Latin American studies.

The Political Economy of NAFTA

Mehrene Larudee

The North American Free Trade Agreement (NAFTA) is widely viewed by workers, unions and progressive economists as primarily a plan to undercut the wages and working conditions of U.S. workers by undermining both employment and union bargaining power.

While there is no doubt that NAFTA has had some effect along these lines, this paper argues that such was the main or original purpose of NAFTA. Instead, among the original central purposes of NAFTA were (1) for the U.S. to get more secure access to Mexican oil, and make other inroads on the production and distribution of energy in Mexico; and (2) to lock in the relaxed regulations on foreign investment which had been altered in 1989 by Presidential decree rather than legislative action, and therefore might be easily reversible.

In the U.S., the central issue in the NAFTA debate in 1992-93 was jobs; and after the agreement was implemented, evidence was cited that indeed the predicted shift of jobs from the U.S. to Mexico was taking place. For example, the enormous increase in employment in the maquiladora sector after NAFTA, from about 0.5 million at the beginning of 1994 to over 1.3 million in mid-2000, was widely attributed to NAFTA.

However, a careful time series analysis shows that, at least in the apparel sector, this claim is not well founded. The quadrupling of employment in the maquiladora apparel sector over that period, from 66,000 at the beginning of 1994 to about 295,000 in mid-2000 can be explained almost entirely by the boom in U.S. GDP and in U.S. apparel consumption, together with the peso devaluation of 1994-5 and partial structural breaks on several dates before 1994 when the U.S. relaxed its quotas on imports of Mexican apparel.

This is not to say that NAFTA had no effect, only that its effect appears to have been smaller, at least in apparel, than is generally thought to be true. And the widely repeated remark that NAFTA was designed to “lock in” existing policies seems to

have been literally true. While it is wise to be cautious about interpreting these results, nevertheless they do inspire a search for other strong motivations for a free trade agreement.

If NAFTA was not mainly designed to undermine U.S. workers, what was its main purpose? I argue that U.S. desire for greater control over North American oil was a major factor leading to the negotiation of both CUFTA (the Canada-U.S. Free Trade Agreement signed in 1988 and implemented in 1989) and NAFTA.

After Mexico nationalized its oil in 1938, U.S. firms had little opportunity to participate in exploiting Mexican oil, and with minor exceptions, the issue was dormant in this period. But once oil prices rose in 1973, so that existing Mexican oil deposits became profitable to exploit, and some new discoveries were made, Mexico's oil once again became of great interest to U.S. firms and the U.S. government.

This was even more true in 1979, after the Islamic revolution took Iranian oil off the market. And in 1979-80, Mexican President Lopez Portillo took a series of steps which signaled that Mexico sought increasing economic and political independence from the U.S.: he rejected GATT membership, despite a heroic effort by Henry Kissinger and David Rockefeller to urge that Mexico join the GATT; he welcomed the Nicaraguan revolution, made an oil-for-bauxite deal with Marxist leader of Jamaica Michael Manley, agreed with Cuba on a joint offshore oil exploration project; proposed a region-wide energy plan; and he established friendly relations with the PLO.

In 1980, Canada's progressive Prime Minister Trudeau scared U.S. oil firms and the government by declaring a National Energy Policy, under which the Canadian government would get a greater share of the proceeds of oil discovered on the "Canada Lands" than previously. The U.S. responded sharply and demanded that the policy be reversed.

These events, along with the election as Vice President of George Bush, a friend of the oil industry, and the appointment of oil-friendly staff in the executive branch, set in motion a series of steps which, after the election of Brian Mulroney as Prime Minister of Canada, led to the negotiation of the Canada-U.S. Free Trade Agreement

in 1988, implemented in 1989. CUFTA contained a key proportional-sharing provision which said that even in an emergency, Canada could not cut back its exports of hydrocarbons to the U.S. unless it also cut back its domestic use of oil.

After Carlos Salinas de Gortari took the office of President of Mexico in December 1988, he made a series of openings in oil and petrochemicals, leading up to the NAFTA negotiations. We also have good evidence that in the NAFTA negotiations, oil and hydrocarbons were a central issue, at least in 1991. For a variety of reasons, the whole issue was increasingly soft-pedaled through 1992-3, and after George H. W. Bush lost the 1992 Presidential election, the topic receded from public awareness. In the end, while certain inroads were made into Mexico's energy sector, much of it remained solidly in Mexican hands.

The issue, however, has continued to simmer, and may soon reach the boiling point, for a number of reasons. Ironically, a situation much like that which took place in 1979 is once again emerging: there is a group of left-leaning governments in Latin America which is seeking a path of economic and political independence from the U.S. and other advanced capitalist countries, and the U.S. is once again concerned about access to oil, including oil in the Western hemisphere. It is therefore particularly useful at this time to try to understand the crucial period from the late 1970s through the early 1990s in the relationship between the U.S. and Mexico.