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Discussion after the Speeches of Gary Hufbauer, Daniel Schwanen, and Alejandro Nadal

Discussion

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DISCUSSION AFTER THE SPEECHES OF GARY
HUFBAUER, DANIEL SCHWANEN, AND ALEJANDRO
NADAL

QUESTION, PROFESSOR KING: I had one question for Gary. He gave a very glowing report on the negative effects of NAFTA on the U.S. economy. We are upbeat today. We are creating a lot of jobs. What about the reverse? Do you think that there is potential that we could look for scapegoats and maybe attribute it to NAFTA? I am just trying to twist his reasoning another way. He had a very optimistic forecast, which I like.

ANSWER, MR. HUFBAUER: You are absolutely right. If Alan Greenspan loses his touch or the economy does not respond to his touch; if we go into a recession or even a slow-down, instead of, say, the two-and-a-half percent, three-percent growth we have experienced; if we get one-and-a-half-percent growth, we will look for scapegoats. No doubt, the NAFTA will be very high on people's minds.

We have triple deficits. We have about 170-billion-dollar merchandise trade deficits. Japan is about a third, China is about a third, and NAFTA is about a third. That is the enemy in terms of economic adversity. That is what is going to be part of the scapegoat story, if and when we go into a recession.

QUESTION, MR. SHANKER: Mr. Nadal, you paint a very unhappy story about the Mexican economy. You have our sympathy. But, would you say NAFTA is good or bad for the economy?

ANSWER, MR. NADAL: If I were a Mexican politician, I would answer that question by saying it is neither good nor bad for the economy.

COMMENT, MR. SHANKER: It is irrelevant then.

ANSWER, MR. NADAL: Yes, those are Mexican politicians for you. But I am talking about an economic model, and I think NAFTA encapsulates that economic model. I think there are things we have to change in that economic model, and the implication for that is that we are going to have to change some institutions and regulations, modifying and proving NAFTA. There is no doubt about it. But the bottom line is that NAFTA is not the re-creation of the crisis. A lot of Mexicans say this is a big crisis because of NAFTA. Well, the big crisis, the 1994

crisis, comes out of an economic model that generated the crisis. Nothing has been done to change that model.

I do not have any reasons to expect or to believe that, if we leave the model in place long enough that we will deepen reform or that we will strengthen any more of the model or that something good is going to happen. I am not sure about that. In fact, what I am trying to point out is that there are some very worrisome trends.

If you look at Mexico's external accounts, as you said, they tell a sad story. The real sad story, though, is what is happening to domestic consumption. What is happening to domestic consumption? People say we are recovering. Look at the sale of clothing in 1996, and look at the very negative trends in retail sales, for example. Then look at the sale of cars. The sales of cars picked up, sure. There was a twenty-eight-percent rate of growth in the sale of vehicles. We are importing Mercedes Benz and BMWs. I have nothing against those beautiful cars. They are great.

Look at the very serious distortions inside the Mexican economy. The Mexican economy is not recovering; it is getting more and more distorted. Forty percent of the population in 1994 were at or below the poverty level. That was before the crisis and the adjustment program. I wonder what the poverty level is today.

QUESTION, MR. ERDILEK: I just wanted to follow up on your criticism of the Mexican economic model. You started the story with NAFTA, so to speak, in 1992 and 1993. But implicit in your commentary, the criticism of the Mexican model, is that there is an alternative. Is this true?

ANSWER, MR. NADAL: Yes, sure.

QUESTION, MR. ERDILEK: I think it would be helpful for you to tell us why the older model that was tried over decades failed so badly in the early 1980s that Mexico basically decided that something else had to be tried. I think that the criticism that you are voicing about the model seems to be more social in terms of income distribution or wealth distribution issues. I think many people accept this fact, namely, that when the economy begins to open up, there are going to be social issues that will have to be tackled. But, does that mean that the state would have to come back to regulate the economy or to intervene in such a way that goes back to the import substitution policies that have gotten the Mexican economy into trouble time after time?

ANSWER, MR. NADAL: I think the answer to that is very simple. The alternative is to make Mexico an open economy in a serious way, in a responsible way. The policy package in the last five or six years under the Salinas Administration was a total disaster. It was nonselec-

tive, and it was corrupt. I say we need to go back to common sense. Why do we not do things right? It is a sad story.

