
NAFTA and American Organizational Behavior

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I. Abstract

This is a conceptual article based on secondary data sources on the North American Free Trade Agreement (NAFTA), a trilateral free trade agreement enacted in 1994 between the countries of Canada, Mexico, and the United States, that has had a profound effect on American organizational behavior. Surging trade deficits and the government certified loss of good paying jobs have been the economic downfall. In addition, attitudes and

assumptions that American managers are making in deciding to ship jobs south are analyzed in light of organizational behavior. Pulling upon notable organizational behaviorist and their historical studies, we can determine that certain organizational assumptions about worker needs as remaining at a low level. The flaws inherent in these organizational systems are a lack of communication, and management's overall assumptions about the needs and motivations of its workforce. This shortsightedness does not consider the panoply of options available to take advantage of new markets, while embracing the American workforce. My recommended alternative is for a paradigm shift towards a more inclusive management style, with a long-term focus on the internal state of the organization through communication and ownership.

II. DESCRIPTION OF THE ISSUE

A. Source and Background

The North American Free Trade Agreement (NAFTA) is an agreement between the United States, Mexico and Canada, with the purpose of increasing trade and foreign investment through a reduction in tariffs and other barriers to business between the three countries. Enacted on January 1, 1994, NAFTA now has a five-year plus track record to be scrutinized and studied. Anticipated to benefit all three nations, NAFTA has had a downward spiraling impact on labor and trade in the United States. While trade deficits have surged, and good paying American jobs have disappeared, behind the scenes, NAFTA and free trade in general is changing how organizations behave. Far from the days of the 1940's and '50's, when union membership reached a high of 35.5 percent of the nonagricultural workforce, and labor and management worked together to build growing companies, NAFTA has become another tool in the war chest of management.^[1] But aside from the effects NAFTA has had on jobs and trade in our industry, NAFTA is changing the way our organizations behave. If workers want to be represented by a union, or have a common issue to raise, NAFTA is used as a threat to move jobs south to Mexico. The thought of employee empowerment or self-actualizing is replaced with the picture of workers simply wanting to satisfy only their physiological and safety needs.^[2] In addition, competitors are shifting labor south to reduce production costs, and sending the finished goods back into the United States to be sold, thus attempting to sell their product at a lower price than an American made product to the consumer. These are a few of the issues facing an American company in this era of free trade.

Throughout this project, we will examine these issues in light of how they affect how an organization behaves and reacts to a public policy issue. Currently, NAFTA could be used as a double-edged sword of eliminating American jobs and slashing prices, but on the other hand, could be used in a less harmful manner. A product can reach the foreign markets of Canada and Mexico, without being produced there. And one can compete in the American market without exploiting cheap Mexican labor. By empowering and educating the work force, along with providing clear lines of communication and modern equipment, one can remain an American company and competitive. The following pages provide an analysis of this issue, along with my recommendations.

B. Major Stakeholders Involved

The major stakeholders involved in this issue exist on two different levels. On one level, the industries that have been most affected by NAFTA are manufacturing, textiles and farming.^[3] In fact, 70 percent of jobs lost due to NAFTA were in manufacturing jobs.^[4] On another level, most American citizens are affected in one way or another due to NAFTA. Let's address the former first. Manufacturing, textiles and the agriculture industries have been the hardest hit industries under NAFTA. With Mexico's minimum wage at \$3.40 a day, American companies are moving production facilities to Mexico to take advantage of a cheap pool of labor.^[5] While America's minimum wage is currently at \$5.25 per hour, workers in these industries are having a difficult time competing with cheap foreign labor. Moreover, American managers and business owners are shifting jobs south, with the assumption that workers only have a need to fulfill basic human needs. In fact, under one narrowly defined program, the U.S. Department of Labor has certified that over 232,000 Americans have been laid off due to NAFTA.^[6] This is a conservative count because it does not include those who are ineligible for assistance, or do not know of government assistance for those laid off due to NAFTA. Lastly, American agriculture has suffered under NAFTA as well. Since NAFTA's inception, the number of small U.S. farmers has declined nine percent, while the agriculture imports have increased from Mexico.^[7] Tomato imports have increased 63 percent, while brussels sprouts imports have increased 49 percent; American consumers are paying more for these products than pre-Nafta.^[8]

The second level of stakeholders involved is the American citizen. NAFTA has had a negative impact on American environment, public health and broken promises of consumer price reductions.^[9] Moreover, air quality standards are below average in several U.S., Mexican border states.^[10] In addition, environmental inspections are down under NAFTA.^[11] With regard to public health, food safety standards are down under NAFTA as well. The amount of agricultural imports has increased 57 percent under NAFTA, while the inspection of imported food has declined to less than 2 percent of imports, a 75 percent decline since 1993.^[12] As a result, American citizens have been exposed to contaminated parsley, poisonous “NAFTA-Berries”, and contamination of the Rio Grande River.^[13] Lastly, American citizens have been affected by NAFTA through unfilled promises of reduced costs for products. For example, U.S. consumer prices for tomatoes have increased by 16 percent, and the price of pork in real terms has increased 6 percent since 1993.^[14] As one can see, a decrease in cost has not reached the consumer in all cases where cheap labor is exploited. In closing, each American consumer, either directly or indirectly, is a major stakeholder in the NAFTA agreement. In addition, American workers and businesses, and how they behave in response to the NAFTA, are major stakeholders as well.

C. Delimitations of Scope and Focus

This conceptual paper focuses on the pathologies of NAFTA towards American organizational behavior in general. Although the paper focuses on organizations in general, the affects on individuals are acknowledged, as organizations are groups of individuals that come together to meet common goals. Moreover, although the paper is broad in scope, the author recognizes the particular industries most affected by NAFTA are manufacturing, textiles and farming.

D. The Development and Affects of NAFTA

Growing out of the free trade dogma, the NAFTA was enacted on January 1, 1994. The idea of NAFTA is to create a trade zone between the countries of the United States, Canada and Mexico, with the phasing out of a 4 percent U.S. tariff on Mexican goods, and the phasing out of a 15 percent Mexican tariff on U.S. goods.^[15] Under this arrangement, companies are free to move production facilities to areas that possess a cheaper pool of labor, and then ship finished goods throughout North America free of tariffs. Under this

arrangement, American workers are placed at a disadvantage by being forced to compete with third world labor rates of Mexico. In fact, a recent opinion poll suggests that 66 percent of Americans believe that free trade agreements cost the U.S. jobs and that NAFTA has helped large corporations.^[16] It is these large transnational companies, and their elite, who have helped get NAFTA passed, not the American public. Companies like General Motors, Volkswagen and Mattel have all shifted production facilities to Mexico, only to have their finished goods shipped back into the United States.^[17]

What has been the affect on the American worker? Between 1972 and 1994, real wages have fallen 19 percent, yet productivity has increased by 24 percent.^[18] In addition, union membership has gone from a high of 35.5 percent of the nonagricultural labor force in 1945, to fewer than 12 percent today.^[19] Excluding public workers, union membership has dipped to fewer than 7 percent in the private workforce; the lowest percentage when compared to other economically developed capitalist countries.^[20] In addition to falling behind economically, Americans feel that their work is no longer respected, appreciated or rewarded. This paradigm shift away from the American worker, with an eye only on the “bottom line”, and a blind eye to communication, development and teamwork, has been costly to the American worker. It is the purpose of this paper to show the effects of NAFTA on organizational behavior, and derive recommendations on how to work within the framework of NAFTA, and restore faith and commitment to American workers.

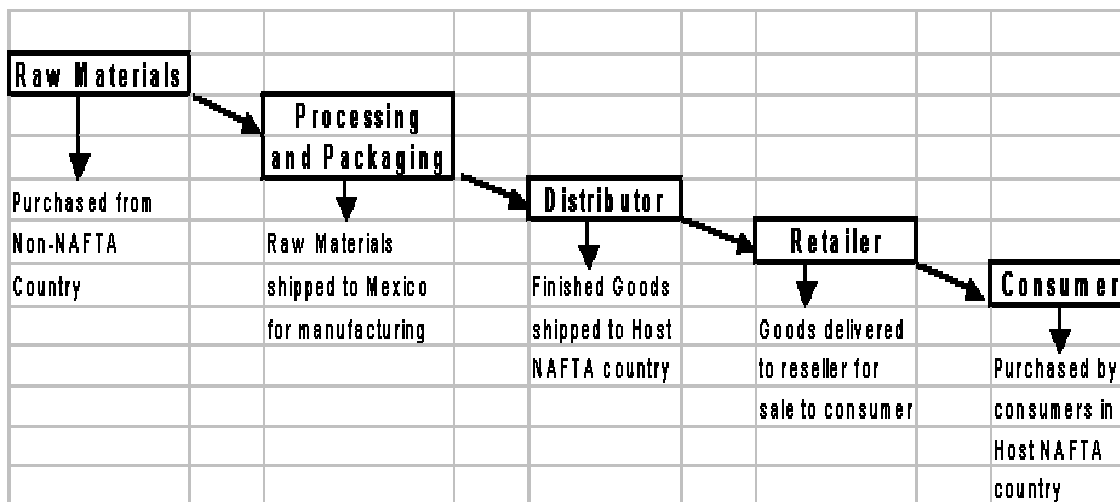
It is important to note as well that free trade, a larger ideology of which NAFTA is part of, is a foreign concept, not one upon which our country was built. During America’s protectionist era, American workers and companies prospered. Between 1869 and 1900, the gross national product quadrupled and real wages increased 53 percent.^[21] Conversely, with NAFTA now law, we need to look within our organization to discover the root of this issue of organizational behavior, to correct flaws and limitations, and to discover a new paradigm for remaining competitive in a global economy.

III. LINKAGE OF NAFTA TO SCHOLARLY THEORIES

A. Theories and Concepts

Under NAFTA, the product structure for many labor-intensive goods such as textiles, or assembled manufactured goods, is altered to include the

NAFTA market. For example, raw materials would be purchased from a country with the lowest price, processing and manufacturing may occur in the country with the lowest per unit labor costs, and the finished goods are shipped to all three NAFTA countries for sale to the consumer. It is important to understand the product structure when management elects to shift labor to a country with cheaper labor rates since management is making certain assumptions about the needs and wants of its employees. A typical NAFTA product structure is as follows:



By shipping repetitive tasks, which are usually found in manufacturing and packaging, to Mexico or any other country with cheaper rates of labor, management is, by implication, focusing on the needs of the organization and less on the needs of the employee. Frederick Winslow Taylor, in the early 1900's, devised time-and-motion studies to analyze work tasks to improve performance within organizations.^[22] Taylor led to the conclusion that the best way to increase output was to improve the techniques used by the workers. Under Taylor, or the classical theory as it is called, people are considered instruments or machines to be manipulated by managers. Workers are simply extensions of their machines, and the focus of the manager is on the organizational goals and not the needs or wants of the individual.^[23] With the shifting of labor under NAFTA to foreign markets, Taylor's nearly one-hundred-year-old theory is still relevant and an underlying motive to behavior in NAFTA organizations today.

Noted psychologist Kurt Lewin's equation of human behavior will help us to understand why NAFTA organizations behave in a certain way. His equation of human behavior is as follows:^[24]

$$B = f\{P, S\}$$

Where B represents organizational behavior, *f* means "a function of", or "is caused by", P is the person, and S is the situation. Utilizing Lewin's equation of human behavior, one can determine that the person involved, as well as the current situation cause behavior. Under this model, our "S" or situation is NAFTA. In addition, the situation may be for the organization to reduce costs and to increase the bottom line. If, for example, the behavior of an organization is to move production facilities to Mexico, and the situation calls for a reduction of costs utilizing NAFTA, the organization must be making certain assumptions about the person, or employee in this case. Similar to an algebra problem, the transnational company knows two of the three variables, they are simply "solving" for the third variable, which is "P" or person. Since the behavior of people is partly driven by wants and needs, the company is making some underlying assumption of these wants and needs. The company's assumption is that workers have a simple need of satisfying only their basic needs. The thought of workers self-actualizing is replaced with Frederick Taylor's idea of employee's simply being an extension of their machine and serving only the needs of the organization.

With behavior and needs having a high correlation, one would need to look at specific needs of individuals to help explain certain types of behavior. Abraham Maslow developed a framework to help in explaining the strength of five general needs.^[25] According to Abraham Maslow, the five general needs are physiological, safety, social, esteem and self-actualizing. These needs align themselves in a hierarchy depending on the specific need of the individual. NAFTA companies, by shifting production from one country to another, seem to not be recognizing the self-actualization, esteem or social needs of its workforce. The implication is that these workers are looking only to satisfy physiological or safety needs. A paycheck, food, shelter and general safety is the mindset of the workforce in these disposable positions. With an eye on the bottom line, and a workforce whose only needs tend to be physiological, the behavior of the transnational companies is to move these positions into another area of the NAFTA market. In Mexico, costs could be reduced and the positions staffed by the host nationals with similar needs. To look at this two-dimensionally, Abraham Maslow's Hierarchy of Needs is ranked in order of

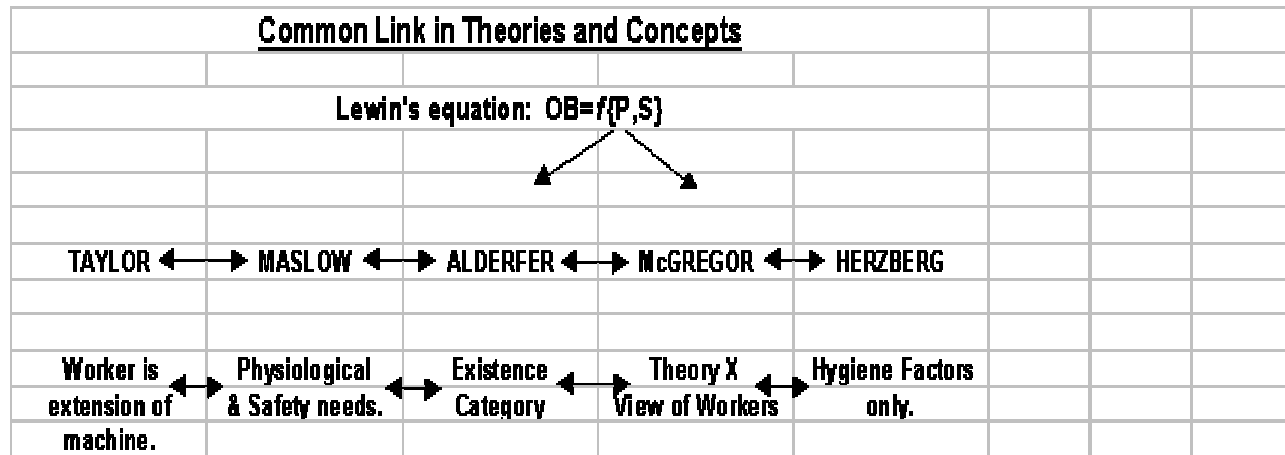
<u>Abraham Maslow's Hierarchy of Needs</u>					
<u>NAFTA Management Model</u>					
	Physiological				
		Safety (Security)			
			Social (Affiliation)		
				Esteem (Recognition)	
					Self-Actualization

**NAFTA Mngt. Assumptions
about needs of workers**

In addition to making basic assumptions about worker needs, NAFTA transnational companies could be making assumptions about worker motivation as well. Thinking back to Kurt Lewin's equation on organizational behavior, $OB = f\{P, S\}$, these companies are making basic assumptions about the worker, or "P", in this equation. The "P" for our purpose is the group of workers about which the managers must make a decision. With worker needs assumed to be at a low level, and the workers treated simply as an extension of their machines, these managers are inherently making assumptions about the motivators of these employees as well. The motivators inherently assumed are that people are not ambitious, motivation occurs at the physiological level, and that work is inherently distasteful.

To help us understand human nature and human motivation better, Douglas McGregor published in 1957 his Theory X-Theory Y model.^[27] Inherent in his Theory X is that people prefer direction, put their physiological and safety needs above all, and that people have little desire for responsibility. On the other hand, his Theory-Y model attitudes are that work is natural, people can be self-directed, and that motivation occurs at all levels. The attitudes and assumptions of managers who make decisions about moving jobs south are operating on their Theory-X assumptions. Workers from Mexico will work for barely livable wages, only have their basic needs meet, will need high supervision and are not motivated, these are the assumptions of these decision makers.

Building upon the above theories was Frederick Herzberg, who developed his motivation-hygiene theory that was published in 1966.^[28] Herzberg concluded that people have two independent categories of needs – hygiene factors and motivators. Essentially, when people are dissatisfied with their job, they are concerned about the environment. When people feel good, this was in relation to their work. Similar to the safety and physiological needs in Maslow's model, and the existence category in Alderfer's model, Herzberg's hygiene factors consist primarily of physiological, safety and social needs. The NAFTA transnational companies, in putting profit and markets ahead of workers and country, are again assuming that workers operate primarily within Herzberg's hygiene factors. The parallel in the Maslow, Alderfer and Herzberg theories to management's assumptions of workers under the NAFTA model, are towards the needs of workers with only existence or hygiene factors to be satisfied. The common link in these theories and concepts is shown below:



B. Organizational Effectiveness

The above-mentioned theories help us to understand the underlying assumptions that management is making regarding employee attitudes and motivators, but not to understand organizational effectiveness. NAFTA managers may be making short-term type decisions focusing only on production, costs and sales, but this is not the entire picture. Managers need to be evaluated on other variables as well, from leadership skills, employee development, and finally, output. Rensis Likert identified three variables that are helpful in discussing effectiveness over time.^[29] The variables are causal variables, intervening variables and end result variables. Causal variables are factors that influence the course of developments within an organization. Management can alter these independent variables. Intervening variables are representative of the internal environment of the organization. Finally, output variables are the dependent variables that reflect achievements of the organization.

The effect NAFTA has had on organizations has been to judge organizational effectiveness solely on output variables alone. With the clear focus on driving down production costs to increase the bottom line via cheap labor, management is leapfrogging the intervening variables, for a straight shot to the output variables. This phenomenon is active in many organizations, not simply just NAFTA organizations. Managers' bonuses or promotions based solely on sales, production or net earnings are benchmarks found in Likert's output variables. The idea of sharing the output variables with intervening variables such as employee development, improving the quality of goods, and

communication to help shore up long-term goals is forgotten. The focus is clearly on short-term profits, a chance to drive upward the stock price or get promoted. With the usual delay between declining intervening variables and output, the decline in intervening variables may be hard to see because of either employee turnover or the manager being promoted, or moving on to a new organization. Low morale, motivation and commitment to an organization can immediately lead to a slowdown in production. Shown below in column format are the causal, intervening and output variables for a NAFTA company moving labor southward.

Likert's Causal, Intervening, and Output Variables Related to NAFTA							
Causal Variables		Intervening Variables		Output Variables			
Theory X Mngt. Style		Collapsing Morale and Motivation of Employees		Lower Cost Through Cheap Foreign Labor			
Election to Move Labor South to Mexico		Employee feels that work is not rewarded or respected		Increased Earnings - Rise in Stock Price			
Focus on Short-Term Profits	→		→				
Authority-Obedience Management		Communication Breakdown Between Employees and Management		Strained Employee - Management Relations			
Top-down Decision Making - Low Employee Involvement				Possible High Turn- over, Inexperienced Employees			

C. S.W.O.T. Analysis

SWOT is an acronym for strengths, weaknesses, opportunities and threats.^[30] This overview consists of looking at the core inner strengths and weaknesses, and the outer opportunities and threats of NAFTA. If a company is going to turn NAFTA into an opportunity or part of a larger strategy, one must identify the company's internal capabilities with the external situation, NAFTA. Listed below in bullet format is an overview of a potential SWOT analysis for NAFTA relating to American companies. Note that most bulleted items are in the opportunities and threats category. This is because NAFTA is an external situation of which it could provide an opportunity or become a threat.

Potential Strengths

Mandated reduction of tariffs by federal governments of all three nations allowing easier access to new markets.

Lower labor costs in foreign countries.

Adequate financial resources to take advantage of the NAFTA.

Potential Weaknesses

Company already possesses a weak distribution network.

Unable to finance needed changes in strategy to implement NAFTA.

Lack of managerial depth and talent.

Potential Opportunities

Expansion of Markets...Falling trade barriers

Lower labor costs in foreign countries.

Potential for higher rates of return on investment.

Potential Threats

Lower skill levels of workers in underdeveloped countries.

Difficulties in maintaining communication and coordination with home office.

Rapid change in political systems

Higher possibility of loss of assets by war, or other disturbances.

Fluctuating foreign exchange rates, possibly lower profits.

NAFTA does have an exit strategy for nations involved, six months written noticed required.^[31]

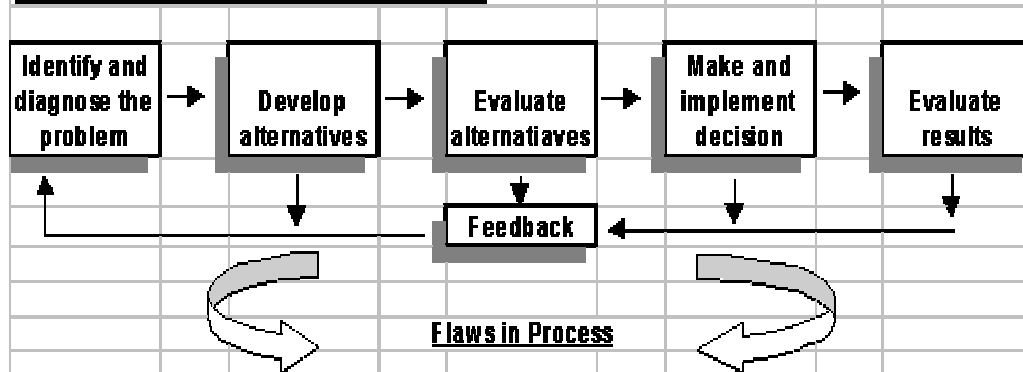
IV. ANALYSIS OF THE ISSUE**A. Flaws in Organizational System**

The flaws in organizational systems related to NAFTA are in the relationships and communication with the workforce, and management's overall assumptions about the needs and motivations of its workforce. When American companies move labor south to Mexico, it is to take advantage of cheap foreign labor, or because other companies in their industry have moved south and they need to follow suit to stay competitive. NAFTA, as a public policy issue, affects virtually all American consumers and a large portion of American manufacturers. By its very nature, NAFTA places American workers at a disadvantage by being forced to compete against third world labor. With this in mind, managers' attitudes and relationships about its workforce play into the economic decision NAFTA forces upon these companies.

In a case between Caterpillar, Inc., and the United Autoworkers (UAW), Donald Fites, Caterpillar's CEO, cited the need for cost containment in order to compete in the global economy. This led to an eventual strike by the UAW over job security and strained management-labor relations at the company.^[32] In this particular case, we see a breakdown of communication, which led to strained relations and eventual negative conflict management strategies by both sides. Yes, global competition will cause the need for cost containment, as the American worker has been the hardest hit in the global economy, but without clear communication and meaningful relationships, a "meeting of the minds" will be difficult to achieve.

The second flaw is management's perceived attitudes about worker needs and motivators. As argued earlier, management appears to be akin to Taylorism and McGregor's Theory X view of its workers. Placed in an immature setting, the workers are treated simply as assets on the balance sheet, and are not involved in decision-making. With this setting, the decision to move production south is made without worker input, or without the thought to potential alternatives. Take the decision-making process for an example. Through the entire process, the workers are not involved in the process, probably are not aware of the severity of their jobs being lost, and are not adding constructive feedback to this all important business decision which involves their livelihood. Placing NAFTA on the table, and discussing how to remain competitive together, as an American company, would be a more reasonable, mature process. The following is a model for a decision-making process, with several flaws listed that are lacking to make the process whole.

The Decision-Making Process



1. Theory X view of employees
2. Little employee involvement
3. Creates a communication breakdown and distrust

My prescription calls for a renewed interest in our American workforce, a paradigm shift towards a more inclusive management style, with a particular interest toward better communication. My recommendation is to address the NAFTA issue with our workforce, recognizing the opportunity of a new market, and the potential loss of jobs through foreign labor. Through a shift to a more Theory Y management style, our work force can become more empowered to be self-directed and creative. In addition, through horizontal and vertical job expansion, our employees will feel more responsible and an integral part of the organization through this job enrichment. Moreover, by having our workforce adopting more managerial type responsibilities, this will free up our managers to focus more on strategy and hunting for new customers.

Case in point is the experiment that Chris Argyris led for one-year at a manufacturing facility. Empowering the line workers with decision making and ownership of their product by signing their name to it, cost due to errors and waste decreased 94 percent, and letters of complaint dropped 96 percent.^[33] Moreover, production increased to an all-time high. As one can see, this shift in management style will allow us to take advantage of comparative advantage in the open market. With raising production and decreasing costs, our per unit cost will decrease thus making our labor rates per unit competitive versus other NAFTA countries. Below in columnar format, are my proposed management changes to remain competitive and to take advantage of NAFTA.

<u>Current Philosophy</u>		<u>Proposed Change</u>
* "Taylorism" - Low employee involvement in decision making.		* Get employees involved; address NAFTA issue as a management/ employee team effort
* Theory X view of workers	→	* Theory Y view of workers
* Attitude that workers only have a need to fulfill physiological and safety needs	→	* Empower workers - give them responsibilities & ownership through job enrichment
* Weak communication channel; focus on short term.		* Strengthen communication channel; focus on long-term, and intervening variables
* Structural Frame		* Human Resource Frame

C. Limitations and Constraints to Solution

Two potential limitations to my solution are the effects of significant change to an organization and the time involved implementing meaningful change. Moving from a Theory X to Theory Y attitude towards employees, coupled with the paradigm shift to a human resource frame, is significant change that employees may resist. Telling an employee who is comfortable with structure, and monotonous tasks that he is empowered with decision-making and additional tasks that may have belonged to his manager may get hit with resistance. Feeling that he or she is being “dumped on”, not empowered, this level of change may be enough to push an employee over the edge. Moreover, with a collective bargaining agreement in place, a violation of the agreement may be perceived and a strike or shutdown may occur. Moreover, change at the group level is the most complicated. At this level, management is attempting to change behavior that has been molded by years of behavior, along with traditions, mores and attitudes.

Secondly, change made at the group level is the timeliest and has the highest degree of difficulty.^[34] In addition, managers may be struggling with the change as well, still attempting to change their own attitudes and individual behavior through training. Moreover, as in Likert’s model, we are going to make a shift to focusing on intervening variables, as well as the output variables. Intervening variables are concerned with building and developing employees and the organization, and tend to be long-term in nature. Unfortunately, lost time and slower production on the front end of our change may be a hazardous combination while competitors take advantage of cheaper labor. Group change coupled with a positive change to intervening variables may take years, thus successful monitoring strategies must be in place to insure that the new paradigm is successful.

D. Monitoring Strategies for Solution

To ensure that a new strategy is working properly and to guide new principles to success, one would need to properly monitor progress more closely than ever before. This will call for more coaching and communication from managers, and more frequent evaluations of performance. Unlike before, managers will need to become better coaches through better communication and even-handed evaluations. Adopted from Robert Lorber’s PRICE system, which

is an acronym for Pinpoint, Record, Involve, Coach and Evaluate, we will now be looking at the consequences of our decisions.^[35] While coaching, managers will be providing consistent, specific feedback on performance, while praise and recognition are given to employees for their efforts. Employees need to hear that they are doing a good job and that their efforts are acknowledged and appreciated, especially during this critical period of change. In addition, during frequent evaluations, employees and managers have a chance to review performance and to compare performance against agreed upon goals. During this phase, alternatives can be discussed if performance is not measuring up to goals, and frequent feedback can be aired to adjust our strategy if necessary. In summary, while pinpointing, recording and involving will be our activators through a new strategy of empowerment and teamwork, frequent coaching and evaluating will help to ensure that specific goals are being met and all is judging the new strategy involved.

V. APPENDIX

The state of Pennsylvania has lost 17,978 jobs due to NAFTA according to the federal governments NAFTA-Transitional Adjustment Assistance unemployment program. Pennsylvania ranks third highest for number of documented jobs lost due to NAFTA. Below is a sampling of Pennsylvania companies where jobs have been lost under NAFTA.

<u>Company Name</u>	<u>Jobs Lost</u>
Dana Corporation	850
Garden State Tanning	200
General Electric	1,163
Haddon Craftsmen	400
Motor Coils Manufacturing	25
Reidbord Bros.	150
Scotty's Fashions	610
Strick, Inc.	815
The Budd Company	868
Trinity Industries	1,000

Source: Public Citizen Global Trade Watch Interned Website:
<http://www.citizen.org/pctrade/nafta/naftapg.html>

VI. END-NOTES

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