PolicyPennings by Dr. Daryll E. Ray

Did NAFTA lift millions out of poverty or feed the flood of illegals into the US

One of the certainties of policy work, whether it be public or private, agricultural or industrial, is the law of unintended consequences. Policies that are developed to solve one set of problems often create another set of problems—the unintended consequences.

We recently read an article that drove that point home. The January 7, 2006 article in the Washington Post written by Peter S. Goodman was titled, "In Mexico, 'People Do Really Want to Stay." In that article Goodman made a connection between Mexican immigration into the US and globalization, especially in the agricultural sector.

The North American Free Trade Agreement (NAFTA) was supposed to stimulate the Mexican economy, raise wages, increase job creation, and reduce the incentive for people to leave Mexico for the US. Of the "6.2 million Mexicans now living in the US illegally…two-thirds arrived after NAFTA," Goodman wrote.

NAFTA of course is not the only factor at play in the migration of job seekers from Mexico into the US. In recent decades, the Mexican population has been booming, overwhelming the creation of new jobs in the Mexican economy. Mexico also experienced a financial crisis in the late 1990s that reduced the competitiveness of the Mexican economy just as NAFTA policies came into effect.

But prospective demographic changes and possibility of often-experienced currency valuation problems should not be used as excuses. That "state of affairs" was well known (or should have been known as lawyers are fond of saying) as the set of conditions under which NAFTA would be implemented. The crucial question is how did NAFTA perform under those given conditions.

It was expected that with lower cost labor Mexican exports of foodstuffs into the US would increase, and that increase occurred. Mexican exports to the US increased "from $2.7 billion in 1993 to $6.3 billion in 2003," Goodman reported. Much of that increase came from the export of fresh vegetables like artichokes, peppers, and tomatoes.

At the same time, it is estimated that Mexico lost 2 million jobs in agriculture. The problem is that most Mexican farmers have small operations geared to the production of corn. By way of contrast, the fresh vegetables that are exported to the US are produced on large farms, many of which are owned by US investors. The wages these farms pay are far less than workers can earn by crossing the border into the US.

Even Mexican producers of fresh vegetables have been unable to compete with larger, better financed operations who dump produce that does not meet export standards onto the local markets, driving down prices and forcing local producers out of business. Goodman quotes Reuben Riviera, a grower who used to grow tomatoes and onions on his seven acre farm, as saying "For people who can grow huge scale for export, NAFTA has been good. For people like us, it's been a bloodbath."

When it comes to the corn that has constituted the traditional production of Mexican farmers, the LDPs that allow US corn to be sold into the Mexican market at well below the cost-of-production has devastated these farmers. One mayor estimated that "one-third of all agricultural jobs have been wiped out over the last five years."

As the final phase of the implementation of NAFTA policies begins there is fear and trepidation among those in the Mexican poultry industry. They expect a flood of cheap dark meat (leg quarters) into the Mexican market as the US poultry industry focuses on marketing the white meat to US consumers and jettisoning much of the dark meat at extremely low prices. The US poultry industry has also benefited from access to large quantities of corn priced at levels that are below the cost-of-production.

Goodman quotes Mexican farm worker Pedro Martin as saying, "If a lot of chicken comes in from the US, we're not going to be able to maintain our farms. What's going to happen? People are going to get fired. People are going to go north."

As we look ahead to the ongoing World Trade Organization (WTO) discussions, we wonder if what we have seen in Mexico will be also true for farmers in the less developed countries of the world under globalized trade rules. In those countries, the population movement may not be to the US, but rather from rural areas to massive urban slums.

Population growth and financial stability issues are part of the "state of affairs" or conditions under which increased globalization would take place in most developing countries. Those are the conditions with or without WTO. Another given is that developing countries do not have either the wherewithal or the institutional framework to compensate those who are disadvantaged by the WTO even if a country's total national income increases. To imply otherwise seems disingenuous.

Though many are optimistic about the ability of increased globalization to lift millions in less developed countries out of poverty, we wonder about the law of unintended consequences.

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