NAFTA: Winners & losers

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For a small-scale corn farmer driven out of business in Mexico by the North American Free Trade Agreement (NAFTA), the fancy economic theories about the benefits of "free trade" might not seem too believable.

As the theory of comparative advantage goes, we're all richer when we concentrate on what we do best and then trade. After all, it's the world's richest populations that operate with a high level of specialization and trade, while the world's poorest people are the most self-sufficient, growing their own food, making their own soap and clothes.

As Adam Smith maintained in "The Wealth of Nations," what works best to expand overall output in an economy is a division of labor, i.e., specialization.

We're better off in both Florida and Pittsburgh, for instance, if Florida produces the oranges and we make the steel, and then trade. For us, it's cheaper to get oranges through trade than producing our own in local greenhouses, especially in January.

That worked fine until it became cheaper to get steel from Brazil and Russia, and more recently from China's heavily-subsidized factories (steel imports from China in the U.S. reached 5.4 million tons last year, more than double the 2.1 million tons imported from China in 2005), cutting the population in Pittsburgh and our subsequent demand for oranges.

Compared to the '50s -- back when American steel was booming and the Chinese were specializing in those little paper fans that Kennywood gave away when you pulled the right duck out of the water -- the population of Pittsburgh in the city proper has been cut in half, so we're not exactly a growth market for Tropicana.

Still, it'll all work out if the Chinese can be convinced to eat more American oranges, or so long as they continue to finance our federal debt at rates we can afford, lending us back the money we spent for steel and at Wal-Mart for all those blinking Chinese reindeer at Christmas.

With Mexico, the tariff-cutting provisions of NAFTA were supposed to make Mexicans richer and us richer. We'd get cheaper products and lose some jobs, but with cheaper imports we'd have more money left in our pockets to spend and create more jobs. There'd just have to be some labor mobility, some flexibility and retraining.

NAFTA's strategy for labor mobility in Mexico called for the nation's unemployed and underemployed masses to migrate for work in the maquila factories along the U.S.-Mexican border, assembling, for instance, duty-free imported parts and materials from the U.S. and then exporting the assembled products back to the U.S., tariff-free.

As a bonus, the predicted increase in jobs and prosperity in Mexico under NAFTA was expected to reduce illegal immigration. In 1994, the year NAFTA was put into effect, Attorney General Janet Reno predicted that illegal immigration would fall by two-thirds within six years. "NAFTA is our best hope for reducing illegal immigration in the long haul," she declared. "If it fails, effective immigration control will become impossible."

Initially, things worked fine. Mexican employment, as planned, expanded in the low-wage maquila industries, the country's export platforms -- until the jobs began leaving for China, where factory wages were only one-fourth as high as Mexico's.

Today, after 13 years of "free trade" under NAFTA, real wages in Mexico's manufacturing sector are lower than before the agreement and more than a third of Mexico's farm jobs have disappeared, sending millions of rural laborers and bankrupt small-scale farmers into Mexico's cities and across the border into the United States.

Just as cheap labor costs in China undermined the competitiveness of Mexico's manufacturing sector, the export to Mexico of low-priced and government-subsidized U.S. farm products has wiped out large segments of Mexican agriculture. Small-scale Mexican corn farmers simply can't compete with highly subsidized corn from the U.S. that's being dumped in their markets under "free trade" policies at artificially low prices.

"Because of NAFTA, U.S. farms are flooding the Mexican market with cheap varieties of corn," reports NPR correspondent Lourdes Garcia-Navarro. "U.S. farmers, benefiting from government subsidies, make it almost impossible for Mexican farmers to compete."

Still, we're getting better-than-ever bargains on those white-wire reindeer at Wal-Mart, except it's China that is getting the money. And the Chinese just conducted a satellite-killing missile test, successfully, on Jan. 12. In theory, it's all okay, i.e., economically efficient, unless they nuke us.

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