Institute for Agriculture and Trade Policy

NAFTA, Mexican Agriculture Policy, and U.S. Employment

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I am honored to have the opportunity to speak to you to today about the impact of Mexican agricultural reforms and NAFTA on Mexican farmers and the consequent effects on U.S. labor markets. Having lived in Mexico, I would like to share not only my analysis of the changes in North American trade and agriculture policy, but my concern for the farmers of Mexico, with whom I have worked and for whom I have great respect. I will focus my remarks on four basic points: the displacement of Mexican farmers by NAFTA and associated Mexican agricultural reforms, the potential for the absorption of displaced farmers by other agricultural sectors and Mexican industry, the efficacy of recently announced adjustment assistance programs for Mexican farmers, and NAFTA's impact on the supply and demand of farm labor in the United States.

One year ago I gave a speech to the Association of Farmworker Opportunity Programs outlining die crop by crop potential impacts of NAFTA on U.S. farmworkers. At that time I surprised them by saying that the crop that would most affect farm labor markets in the U.S. wasn't citrus, nor tomatoes, but corn: Mexican corn. That analysis holds. Farm labor markets in the U.S. will be at least if not more heavily impacted on the supply side by the increased migration of displaced Mexican corn farmers than it will by reduction in fresh vegetable exports.

Although it is virtually impossible to determine how many Mexican citizens have crossed the border into the U.S., analysts estimate that over the last decade, more than three million immigrants have come to the U.S. from Mexico. This is an average of 300,000 per year, 20% of Mexico's net population growth. Those researchers who assure us that NAFTA will halt migration after 10-15 years must also be assuming that the Mexican economy will be able to make itself attractive enough to employ 20% more of its population than is currently the case. I have a hard time believing that, but I am in agreement with those proponents of NAFTA like the Institute for International Economics when they predict significant migration out of Mexican agriculture over the next five to ten years.

Let's begin with the Mexican government. Luis Tellez, Mexican Undersecretary of Agriculture, predicts an average annual exit of one million farmers each year for ten years from Mexican agriculture. That's ten million people. Levy and van Wijnbergen in a study for the World bank

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predicted that 700,000 will be displaced in nine years, while University of California economists projected that 800,000 farmers would be displaced over the next six years, 600,000 of whom would come to the U.S. All of these projections attribute migration to NAFTA and associated Mexican agricultural reforms. The most conservative estimate still implies that approximately one third again as many migrants win enter the U.S. each year during the next decade as are currently arriving.

Despite the size of these numbers, there is evidence that they could be still higher. David Runsten of the University of California, Davis, believes that all of the macro-economic model predictions are low because they assume that the sow's ear of Mexican agriculture policy reform can be turned into a silk purse. They assume that irrigated land currently producing corn in Mexico can be freely converted to vegetable production. In calculating the amount of labor employed in rainfed agriculture, they underestimate by nearly half. Finally, they assume relatively high fruit and vegetable employment generation. None of these assumptions reflects the realities of the Mexican countryside.

The key question is whether or not those who stop producing corn can produce something else or get other work in Mexican industry. The sheer importance of corn to Mexican farmers makes that a daunting proposition.

Almost half of Mexican land under cultivation is dedicated to corn. Corn represented 20% in terms of value of total agricultural production during the last three years. Whereas corn in the U.S. is produced exclusively for the market or to feed animals on a diversified family farm, corn in Mexico is produced almost exclusively for human consumption, and much of it never reaches the market, being consumed instead by the families of Mexico's poorest farmers. The poor produce corn to eat. Better off farmers produce it to sell. Dry land peasant farmers produce 60% of all corn in Mexico and 40% of the corn sold in the marketplace. Another 30% is produced by small and medium scale ejido-based peasants, many of whom have irrigation. The remaining 30% of the corn that reaches the market is produced by larger farmers.

Despite its importance to Mexican farmers and consumers, Mexican corn cannot compete with U.S. corn. There are several important factors. First, U.S. corn through the deficiency payment and Export Enhancement programs is artificially low priced, something which concerns U.S. as well as Mexican farmers. Comparisons are difficult, but conservatively Mexican production costs are 30% higher than U.S. costs, and average yields are only slightly over 30 bushels per acre, while the U.S. average is 134. There are two harvests a year, which boosts output, but the annual costs are also doubled. Ninety percent of the 2.5 million farmers who planted corn last spring planted it on plots of land of less than eleven acres, and 40% on less than two acres.

The Mexican support price for corn, which is approximately double the U.S. target price, is the only thing that levels the playing field for Mexican farmers in the global marketplace. When the price of corn is reduced to the world price, Mexican farmers will be a long way from covering their cost of production and will not be able to compete with cheaper imports. Nor is there any pretense on the part of government officials or farmers alike, that they will make the attempt. The only game in town is conversion, and charity in the form of decoupled payments which function as welfare payments to the farmers who produce corn for their own consumption.

In fact, opening Mexican agriculture to competition on the world market is like opening up a greenhouse in January in Minnesota (if a greenhouse would even survive January in Minnesota.) The greenhouse is actually a good metaphor for Mexico's former agricultural policy. It was requisitioned by the revolution and built by the agrarian reform with the dual purpose of feeding a developing country and delivering on the promise of land and livelihood to the large majority of the nation's peasant farmers. Its chief products were a stable food supply and rural employment. The Congressional Budget Office Report on Agriculture in the North American Free Trade Agreement is right on the mark when it notes that Mexico's corn program was a "de facto rural employment and anti-poverty program."

Mexican agriculture policy created a controlled environment that favored Mexican producers and worked, at times, toward a systemic approach to the food system. The government controlled the agricultural economy, providing subsidies for the entire productive apparatus including water, fertilizer, credit, seeds, irrigation, crop insurance. It guaranteed prices for key staples both to producers and consumers. It did so through a system of government food processing and marketing organizations that transformed raw commodities into flour, cooking oils, corn meal and milk powder and subsequently promoted their distribution through a network of retail stores that were very important, especially in rural areas. The government controlled the market by requiring import licenses, imposing tariffs and purchasing commodities itself to distribute in the local economy. Import licenses were important to Mexican producers because they were granted after Mexico's domestic producers had produced what they could to meet national demand.

Now the gardener has decided to rip the glass panels off and let the plants inside fend for themselves in the elements. The entire structure is being dismantled. Beginning in 1989, the government eliminated support prices on all grains except the key staples, corn and edible beans. As a result many farmers converted to corn and bean production. From 1985 to 1990 the number of products requiring import licenses fell from 317 to 57. In 1988 after joining the GATT, tariffs were dropped to a maximum of 20%.

The most dramatic change was the dismantling of the ejido system which since the 1930's had provided land for the use of Mexico's peasant farmers. Half of Mexico's surface area is currently held by ejidos. Legally, the members of the ejidos, known as ejidatarios, could use the land, pass it on to their children, but not sell it or rent it. In fact, much land was clandestinely rented, especially in tourist development zones, at the edges of expanding urban areas, and in cases where the land was of especially good quality. With the change to the constitution approved in the winter of 1991-1992 by the Mexican government, the plots in the ejido became the private property of the farmers who formerly worked them.

The problem is that the privatization of the ejido will advance the conditions that the Mexican revolution was fought to eradicate: the concentration of land in the hands of the few. Privatization makes ejido land vulnerable to foreclosure as peasant farmers, many of whom have not had access to credit for three years, use their land as collateral for production loans. The farmers who left agriculture in my state during the 80's can sympathize all too well.

Moreover, the privatization of the ejido will accomplish one of the reform's primary goals, to open the land to private investment. In the past, investors were reluctant to invest in Mexico because no one had clear tide to the land. Farm leaders fear that farmers desperate for cash will not have the bargaining power to make advantageous business arrangements with foreign and domestic capital, which will have the effect of reducing the number of farmers on the land.

The privatization of the ejido has tremendous cultural as well as economic repercussions in the Mexican countryside. Many farmers who participated in the agrarian reform and the creation of the ejido are still alive, as is the near-worship of agrarian revolutionary leader Emiliano Zapata. Migration is not merely the dislocation of people, but the destruction of culture, and the culture that has nurtured the nearly 30% of the Mexican population that lives in the countryside is seriously threatened.

Hard on the heels of the ejido reform is the dismantling of the government support programs including fertilizers, credit and marketing. The federal fertilizer distribution system, Fertimex was sold. The banks are being privatized. CONASUPO, the umbrella organization for the buying, processing and distribution of basic commodities, is being privatized, eliminating the marketing system most commonly used by Mexican farmers.

The last to go is the support price for corn which will be phased out over the next 10 years. Recognizing that these changes could wreak havoc on Mexican society, the Mexican government on October 4 of this year announced the creation of a new subsidy program, Procampo, that is touted as the adjustment assistance necessary to enable farmers to convert from grain and cotton production to more lucrative crops without suffering undue hardship. Other sectors in crisis such as coffee and wood products producers will not receive any benefits. Farmers who formerly produced grain and cotton will be paid a flat per acre payment of approximately $43 per acre to produce anything they wish for ten years, with the payments lessening over the next five to the end of the NAFTA transition period. At the same time, the support price for corn will be reduced.

Will this program stop the hemorrhaging from the countryside? It will not. For the 2.2 million farmers, primarily from southern Mexico, who raise corn almost exclusively for their own consumption, the subsidy payments on their average holdings of 10 acres amount to a payment of $430 per year which, though an important addition to their small incomes, is not enough to live on if crop conversions are unsuccessful. There is no technical assistance for alternative production or marketing. This is a general assistance welfare payment that redistributes wealth, but doesn't create it. These farmers have the most to gain in the short run, but will be ill-equipped to continue in agriculture after the payments stop.

Hardest hit are the very farmers who are producing the most corn for domestic consumption and who, in U.S. terms, would be considered most efficient. Those who produce 1-3 tons of corn per acre will have an advantage in the first two years, the per acre payment compensating for the reduction in the corn price. Those who produce more however, will experience an immediate loss. Ironically, many of these farmers converted to corn production from other grains when it was one of only two crops left with a support price. They hire seasonal workers to help with their crops. When they are no longer able to compete, they themselves may become seasonal workers for the few who are able to survive. We are witnessing the rapid transformation of a nation of farmers into a nation of farmworkers.

Beyond the concerns with the program's effects are the concerns that it will even be implemented. The budget is in place for the next two years, but after that must be approved annually. There is no legal structure to carry it out and farmers worry about corruption of the process.

In sum, those that can adapt to the new conditions outside the greenhouse will thrive, while those that don't, won't. But here the metaphor ends. People aren't like hothouse plants. They don't just disappear if they don't fall on fertile soil. They seek out opportunity where they can find it. They will find it, not only in the industrializing cities in northern Mexico, but in the U.S.

The Mexican government has promoted the idea that farmers who stop producing corn can begin producing something else. In fact, the entire Mexican strategy is based on the assumption that changes are necessary in agriculture policy to allow Mexico to pursue its comparative advantage in fruit and vegetable production. This would lead us to assume that there is a great deal of room for expansion in this sector. Ironically, this is not the case.

David Runsten, an agricultural economist at the University of California, Davis, has conducted research on Mexican vegetable production that concludes that even under die best conditions, the expansion of fruit and vegetable production in Mexico will yield only 67,000 new jobs. This is hardly adequate to absorb the hundreds of thousands that will be displaced by NAFRA and agriculture policy reforms, and less than one-fifth the 400,000 jobs in the sector projected by Levy and van Wijnbergen through macro-economic modeling.

There are several primary limitations to Mexico's fruit and vegetable production capacity. First are the limitations of the land itself. Sixty-three percent of Mexico's surface area is arid, thirty- one percent semi-arid, and only 6% receives adequate rainfall. Problems with access to water and increasing salinization of soils from deep-well irrigation plague the primary fruit and vegetable production regions of Sinaloa and Baja California, many of which, without irrigation, would revert to desert.

Second, despite the popular belief that lower wages in Mexico automatically translat.e into lower-priced products, in agriculture this is not true. Only a handful of crops are truly competitive with U.S. produce, and some of these are marketed counterseasonally in the U.S. Despite a 7:1 wage ratio between U.S. and Mexican field labor costs, exports of fruits and vegetables from Mexico by and large are not increasing. Mexican field labor is less efficient than that in the U.S., primarily due to management practices. Exports to the U.S. are likely to continue, even expand for historical crops, but a boom in the production of new crops is unlikely, thus limiting the real demand for new farm labor in Mexico.

Third, the Mexican government is providing neither technical assistance nor credit to peasant farmers who want to become vegetable producers, and given that this sector is the most highly capital intensive in Mexican agriculture, they will find it impossible to compete. Ironically, the majority of Mexicans are not accustomed to eating large quantities of fresh vegetables, thus the alternative most accessible to peasant farmers, the establishment of local markets, is unlikely to bear fruit. The fantasy that corn farmers will become vegetable farmers will come true only in those regions such as the Bajio in the state of Guanajuato where multinational companies contract with farmers to produce vegetables to be processed locally for export.

Having determined that fruit and vegetable production will not absorb displaced corn farmers, it is unfortunately equally problematic that they find employment in Mexican industry. Contrary to popular wisdom, increased investment does not automatically correlate with increased employment, especially in countries with aging plant infrastructure and labor intensive manufacturing. In the larger industries, retooling often results in layoffs. In an economy like Mexico's where 43% of the population is employed in businesses with five employees or less, the arrival of newer leaner businesses with lower production costs or an influx of competitive imports can also result in the closing of many small businesses. 'Mus, Mexican agriculture and industry will be restructuring simultaneously, creating instability for both the rural and urban work force.

The real tragedy is that this radical change in corn production has no real benefits for anyone. The USDA predicts that in 15 years the U.S. will have increased its total exports by only 3% from sales to Mexico. The price to farmers is predicted to rise only 6 cents per bushel by the end of the 15 year transition period. The use of these numbers in the NAFTA debate is questionable, given that the benefits of a 3% rise in total exports can be eradicated by a change in the rate of exchange and given that prices routinely fluctuate more widely than a 6 cent range. The U.S. today, through the use of its discretionary authority in the 1990 Farm Bill, could raise prices more than 6 cents per bushel for corn by raising the loan rate.

Nor will the U.S. experience much short term gain. In fact, farmers could lose sales in the short term. In her analysis of NAFTA, North Dakota Commissioner of Agriculture Sarah Vogel pointed out that in some commodities, the U.S. may actually have more difficulty getting access to the Mexican market than previously. Currently, the U.S. is paying a duty of 2 cents per kilo on corn and has exported an average of 2,884, 931 metric tons from 1989-1991. If NAFTA is approved, the U.S. will be allowed to export 1.5 million metric tons tariff free, and after that, a tariff rate quota of $205 per metric ton, but not less than 215% will be imposed for gradual reduction over fifteen years. Commissioner Vogel questioned where Mexico will go for quantifies over the tariff free quota. To the U.S. where 215% could be added to the price? Or to other suppliers like Argentina or Thailand?

Yet suddenly we find that the Administration using increased feed grain sales to Mexico as one of four options to pay for NAFTA, pinning its hopes on a projected rise in price of 3-4 cents which in theory would save the government $182 million by 1998. "More of farmers" income will come from the marketplace and less from Federal subsidies, as U.S. prices rise in response to increased export demand to Mexico," said Leon Panetta in a letter to Senator Moynihan yesterday. This reasoning doesn't reflect the reality of commodity markets, nor of the NAFTA corn provisions.

Conclusion:

NAFTA has been flawed from the beginning because the negotiators threw their hands over their eyes, ears and mouths and refused to put perhaps the most critical issue in U.S.Mexican relations, migration, on the negotiating table where it could be more rigorously examined. Instead, they simply promised that NAFTA would eliminate the necessity to talk about migration because "jobs, jobs, jobs" would be created south of the border.

Farmworkers in the United States who are already competing for too few jobs will see downward pressure on already low wages and increasing difficulty in finding employment. Tragic as well is the destruction of social life brought about by an agriculture and trade policy bent on eliminating "excess resources" from the Mexican countryside.

NAFTA will put the lock on the agricultural policy reforms the Salinas administration put in place to grease the skids for a North American free trade zone. Even if a new political party came into power as a result of democratic elections in Mexico, which have hitherto not been achieved, the new President would be unable to put forth an agriculture policy that would reverse the flow of farmers from the land.