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NAFTA at 10

THE WAY most Democratic presidential hopefuls talk about it, you'd think it is easy to judge NAFTA. The North American Free Trade Agreement, which marked its 10th anniversary last week, was supposed to boost prosperity among its three members: Canada, Mexico and the United States. But Rep. Richard A. Gephardt of Missouri is running ads boasting that he was the only candidate to vote against it; Sen. John Edwards of North Carolina and Rep. Dennis J. Kucinich of Ohio hotly protest that they would've if they could've (but weren't in Congress at the time of passage); Sen. John F. Kerry of Massachusetts and former Vermont governor Howard Dean, who happily supported NAFTA 10 years ago, now sidle away from it. Only Sen. Joseph I. Lieberman of Connecticut is sticking to his original support for the treaty.

In the United States, NAFTA's alleged offense has been to destroy jobs. This is true, sort of. The rationale for trade is that it does indeed destroy jobs but that new and better ones get created. If a country excels at making bicycles and is bad at making shirts, it will be better off if it signs a trade deal that allows its workers to do what they are best at. The shirt industry may indeed lose jobs, and politicians will visit abandoned shirt factories and denounce the trade deal. But they will be pointing to only one part of the deal's consequences. It's almost like criticizing people who hand over their cash at the supermarket without noting the upside of their actions: bags of groceries to take home.

The real question is whether the groceries are worth the price. And that is where judging NAFTA gets tricky. Despite the noise and attention around the treaty -- particularly over the inclusion of a low-wage country such as Mexico -- NAFTA is too small a factor in U.S. economic performance to make its effects accurately measurable. Trade with Mexico has grown considerably thanks to NAFTA, but it still accounts for only about $250 billion in a gross domestic product of more than $10 trillion. Economists who have tried to trace a "NAFTA effect" on U.S. wages, such as Gary Hufbauer of the Institute for International Economics in Washington, find it hard.

This fuzzy finding makes it easier for demagogues to point to factories that have closed because of NAFTA and to condemn the deal. And yet, if you have to choose sides in this argument, the best bet is that NAFTA has been beneficial. Even if trade with Mexico is too small to assess, trade as a whole is easier to get a grip on, and a large literature documents its benefits. There is also research on wages in export industries, which pay considerably better than the average job. To the extent that NAFTA has behaved like most trade deals, and to the extent that it has shifted workers into export jobs, it has raised U.S. living standards. Moreover, it has raised Mexican living standards too -- relieving migration pressure which, though undoubtedly strong, would have been still stronger in the absence of NAFTA.

This last point is often disputed, because of another demagogic fallacy. The critics look at Mexican wage growth since 1994 and report that it's been negligible -- and that therefore NAFTA failed. But this skates over the devastating peso crisis of 1994-95, which caused wages to fall by about a fifth (or more, in U.S. dollar terms). It ignores China's entry into the World Trade Organization, which has put pressure on low-wage competitors such as Mexico. And it ignores the fact that Mexico's performance has actually been better than that of most other Latin American countries. Given all these obstacles, wage levels that match those existing before the peso crisis represent an achievement. ***The World Bank recently concluded that Mexico's GDP per person is 4 percent higher today than it would have been without NAFTA. That's good for the United States, too***.