

NAFTA was established in 1994 to create a free trade zone between the three major countries of North America. Ever since, protectionists fight against the trade policy, distorting how NAFTA is implemented. Businesses and lobbyists have sought to preserve or enhance their economic position. However, most importantly the role of the state is being redefined by how it responds to the unfolding trade challenges. I will use three agricultural commodities as a guide; corn, cotton, and tomatoes. Each will draw attention to various concerns that the state faces.

Theoretical support for the creation of NAFTA:

The process to pass the 2010 Health Care Bill highlights many similar procedures that were used to create NAFTA. Mayes discusses the concept of incrementalism that has worked for the benefit of health care. Just like health care, free trade advocates realized the importance of their own “incrementalism”.¹ NAFTA Legislators were aware that it was impossible to dismantle all domestic subsidies and tariffs in a short period of time. Legislators would have to prove to the American (and Canadian and Mexican) population that a more integrated trade region would mutually benefit them as consumers.

NAFTA’s incrementalism progressed quicker than universal health care. Before NAFTA, a free trade agreement had already existed between the US and Canada, establishing apparent and increasing returns. New businesses began to advocate for free trade in order to increase profits. A policy path was established, that helped hold back protectionist forces. Competing trade blocs also emerged around the world, convincing policy makers that there was a comparative need to expand regional trade. Soon enough, as George H. Bush was leaving office, a new trade agreement would appear on the desk of incoming President Bill Clinton.

¹ Mayes, Rick. 2004. *Universal Coverage: The Elusive Quest for National Health Insurance*. U. of Michigan Press. There are health care advocates who disagree about the effectiveness of “incrementalism”, like Dr. Regina Herzlinger.

The NAFTA bill was debated as George H. Bush lost his re-election campaign. Clinton's campaign supported a free trade agreement that included Mexico. However once he won the election he soon discovered that the Democratic Party's support for the bill was divided. Many Democrats wanted special provisions to go into the bill that would address issues such as labor and the environment. However, President Clinton realized that including these provisions would prevent the bill from passing. The new president sought votes from Republican legislators, leading support to Brady and Volden's theory that Congress will seek constituent preferences over party preferences.²

Since NAFTA was a majoritarian issue, Clinton's policy had to move toward the median voter. Eventually, the bill became unacceptable to many members within his own party (Brady and Volden 137). A cross-tabulation of Senate trade votes help discredit the partisan-based theory, which would have assumed that Clinton would have tried to appeal mostly to his Democratic base (139). Clinton was able to obtain a majority in support of the bill by stating that side agreements to address labor and the environment could be reached separately. Brady and Volden's study help explain when and why NAFTA was passed. Even though the study does not focus on the influence of special interests, this will be explored later within the paper.

The commodities discussed:

The most profitable exports from the United States are agricultural products. The two commodities that dominate this sector are wheat and corn.³ Both commodities have triggered reverse grievances and claims that either the United States or Canada had violated the NAFTA

² David Brady and Craig Volden. 2006. *Revolving Gridlock: Politics and Policy from Jimmy Carter to George W. Bush*, 2nd ed. Westview Press

³ Originally, I had attempted to discuss both wheat and corn agricultural sectors. However, in the interest of space, I will only be able to discuss one of these two commodities adequately. Therefore I have chosen to discuss corn.

agreement. This is said to allow the reader to realize that U.S. corn exports may have an enormous impact on its neighbors, but other commodities such as Canadian wheat exports have huge implications for U.S. producers. Corn will also be used to discuss social concerns versus economic efficiency.

Next cotton will be discussed. Cotton is an agricultural product that is primarily exported to regions *outside* of the continental trade bloc. Even though it may seem odd that it is included in this paper, the cotton sector highlights how a commodity not included under the agreement has retained many of its subsidy protections. This is not to infer that other NAFTA agricultural protections do not still exist, but to emphasize how certain sectors' subsidies have been seriously reduced in response to the trade agreement.

Lastly, the tomato agricultural sector will be analyzed. The tomato industry in Mexico has a unique relationship with the US. Tomatoes accentuate special benefits NAFTA can bring such as state specialization, but also negative externalities such as environmental pollution and water shortage. Tomatoes demonstrate an enormous success for NAFTA, but also a glaring failure if analyzed from a different perspective.

Background for corn industry between the US and Canada:

The US is a major global producer of corn and, as a result, substantially influences the global market price for this commodity. At a price established by the US, the states export large quantities of corn to other countries. Even before NAFTA, since 1989 Canada has imported 99% of its corn from the US (Schnepf CRS-3). Since then Canada has remained a net importer (Chowdbury and Allen 78).

As government payment programs have doubled from the 1990's to 2000, Canada has voiced opposition to the cascade of American corn imports (Schnepf CRS-3). Canadian producers alleged that US corn producers were using dumping techniques⁴ to increase their profits. The US suggested that other factors were creating confusion for the Canadian officials that were analyzing corn imports. US officials argued that the Canadian dollar appreciation made imports cheaper *ceteris paribus*⁵ (Schnepf CRS-5).

In 2005, the Canadian International Trade Tribunal (CITT) continued to advocate that US dumping and subsidizing of corn caused Canada domestic injury. They said that the Canadian average corn production of 8.7 TMT could not compete against the US annual production of 260 TMT. Structural changes in their economy had been placing increasing demand on corn for the livestock industry. Because the growing region for corn in Canada is restricted to the most southerly stretches of Ontario and Quebec, domestic production has been outpaced by demand, forcing the country to rely even more heavily on the United States. The US dumping was hurting the Canadian corn industry, but not enough for the CITT to continue its investigation. By 2006, the CITT had reversed its ruling (Schnepf CRS-2).

This does not ensure that Canadians will not complain in the future about US corn subsidies. The US has maintained that no other duties on US corn will be implemented and that duty revenue collected after a preliminary CBA ruling will be refunded to those adversely affected. The CITT also helped bring the US Byrd Amendment to the world's attention. Canada

⁴ The economic term "dumping" means to export a commodity at a price less than its selling price in the exporter's domestic market or generally selling commodities at unprofitable profits because the economic incentives in the domestic market allows farmers' to profit by indirect means (Schnepf RS22434).

⁵ Meaning in Latin "all other things being equal or held constant"

was joined by several countries, including Mexico, to bring pressure on the US to repeal the Byrd Amendment, leading to it being dismantled in 2007 (Schnepf CRS-2)⁶.

The “Business Dominance Model” in relation to corn:

The arguments between the US and Canada have been focused on subsidies and other “unfair” protectionist policies. Canadians’ complaints against the corn sector can also be perceived as retaliation against the suits northern US wheat producers brought against “unfairly” subsidized Canadian wheat. Overall, the use of international and regional economic commissions is helping to dismantle forms of protectionism within these countries. NAFTA commissions are used as an appropriate forum, and may even serve as a lifeguard for domestic policy makers who cannot escape the influence that big business has on their decisions.

Corn is a very profitable business within the United States and many of these profits are harvested by large corporations. Richard Lehne discusses different types of business and government that can help make sense of this disagreement on both sides of the US-Canadian border. According to the “Business Dominance Model” and Lindbolm’s complimentary analysis, business enjoys a “privileged position”.⁷ Reich states that evidence for this model exists because Americans are generally supportive of US business policy, corporations participate in the political process, and lastly because businesses will threaten to alter the economy and subsequently elections if they do not get their way (Reich 31-2).⁸ Without

⁶ In the cotton sector, Brazil won a WTO dispute against US cotton subsidies. The dismantling of some of the corn supports may have been aimed as preventative measures to avoid measures by the WTO against the US corn industry (Schnepf).

⁷ Lehne, Richard. 2005. *Government and Business: American Political Economy in Comparative Perspective*, 2nd edition. CQ Press.

⁸ Reich, Robert. 2007. *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*. Vintage Books.

international agreements and policies, businesses that transcend the scope of state controls can dictate the rules of the game.

At this juncture in time, evidence suggests that either the Lehne's "Framework" or "Promotional" State existed. Lehne's "Framework State" argues that politics and economic institutions have a complex relationship and can never be "completely divorced." This association creates the internal structure that formulates policy and economic activity (Lehne 27). Canada and the US could also be argued to have formerly been "promotional states". These are states that grant massive subsidies to agricultural development and extend sponsorship in the "new 'neomercantilist' age" (Lehne 28-9). However both of these types of "states" seem to be receding as transnational organizations and economic commissions begin to exert power on international business. Possibly this could be perceived as the emergence of the regulatory "transnational state." We will explore this more extensively when we discuss the American Farm Act of 2008.⁹

Background for corn industry between the US and Mexico:

The implementation of NAFTA in combination with severe drought and domestic policy changes in Mexico led to a massive volume expansion in the corn trade between Mexico and the US (Chowdbury and Allen 78). US exports to Mexico have increased 240% since 1992, shifting the amount of corn's aggregate production destined to Mexico from 1% in 1992 to 2.1% today (Vaughan 62).¹⁰ After Canada, Mexico is the largest importer of US corn. The two countries sought to ease the transition by eliminating tariffs over an extended time-table. After fifteen

⁹ The "regulatory state" is discussed on pages 17-19.

¹⁰ This had huge implications for water scarcity in the US, particularly in Nebraska, Kansas and Texas. It also leads to an increase of 77,000 TMT in pollution into US waterways. This is obviously significant, but will be more thoroughly discussed with the tomato analysis because according to my conclusions, tomatoes proportionately create the most pollution and water stresses on its environment.

years, most of these tariffs have been dismantled and most technical barriers for trade have completely disappeared (Chowdbury and Allen 77).

For some Mexican corn producers, it has been argued that the “scheduling out” of tariffs has occurred too quickly, exposing the Mexican economy to related price and employment shocks. There is concern that US corn will crowd out the Mexican domestic market. The percentage of Mexican commercially grown corn has decreased, but the production for “rain-fed” varieties have remained constant.¹¹ The Mexican total production of corn has actually increased from their 1990-1993 levels of 15,965 TMT annually to 18,891 TMT annually between 1999 and 2002. Yet imports have also increased from these two observed periods. Imports have risen from 1,691 TMT to 5,751 TMT annually (Vaughan 70).

Before 2001, Mexican corn imports were considered insignificant in the US aggregate production destinations (Chowdbury and Allen 80). It was soon discovered that in general corn is both cheaper and more efficiently produced in the United States.¹² However for Mexico, corn production is important on many levels. Mexico is both the birthplace of corn and a genetic hotbed for thousands of corn varieties. Historically, corn has also been Mexico’s most important crop and staple item.¹³ 40% of agricultural workers also find employment in the Mexican corn industry. In comparative terms, this accounts for 8% of the total Mexican population (Chowdbury and Allen 78).

¹¹ There may also be other factors to explain this finding. The drought in northern Mexico is where most commercially grown corn is found. Rain-fed varieties are usually seen for less frequently produced varieties of Mexican corn in the south. Rain-fed variations are grown less efficiently by small farmers from an aggregate economic standpoint, withholding consideration for the environmental costs.

¹² Schnepf claims US corn is 27% cheaper than corn grown in Mexico and Canada (CRS-1). Chowdhury also states that corn is 40% more efficiently grown in the US (79).

¹³ Corn is as much a “staple item” in Mexico as “wheat” (or bread) is in the US, Canada and Europe.

Quid pro Quid?:

As the result of NAFTA and Mexican domestic policy changes, corn has become increasingly vertically integrated with the livestock industry.¹⁴ Large industrialists have benefited enormously at the expense of “inefficient” local farmers. The commercial farms have been able to integrate more successfully into the livestock industry and usually benefited from enhanced transport links in northern Mexico (Chowdbury and Allen 79). Corn growers are primarily located in southern Mexico. These producers are being “locked out” of commercially viable markets on many fronts. They suffer from the economic negative externalities of small-scale farming, have poor transport links¹⁵¹⁶, and cannot receive bank credit. For many reasons, rural credit is disappearing and small enterprises such as Banrural and US farm loans that have aimed to help small farmers may have exasperated the problem (Vaughan 77).¹⁷

Besides structural changes, NAFTA has forced the US and Mexico to specialize in the type of corn they produce. The US primarily produces yellow corn while Mexico produces white corn. White corn is priced 25% higher in international markets, but the NAFTA agreement does not price the two differently (Nadal 12). This is to the detriment of the Mexican corn industry that could benefit enormously from higher prices yielded from white corn.¹⁸

¹⁴ Mexican domestic demand for grain-fed livestock products explains the correlating increase in corn growing efficiency and imports.

¹⁵ 80% of NAFTA trade is facilitated by truck transport (Vaughan 68).

¹⁶ Furthermore, NAFTA has disproportionately benefited northern Mexico’s export industry because these transport links are better established here [The Economist (6)].

¹⁷ For an in-depth analysis on disappearing rural credit in Mexico please consult Vaughan pages 79 and 80.

¹⁸ This does not even take into account the prices that more limited, but genetically diverse, corn varieties could yield in the world market.

The Mexican State establishes the *pareto optimum* regarding GM corn:

Furthermore, 35-40% of US corn is genetically modified (GM) (Vaughan 73). 80% of this GM corn is patented by the giant biotechnology company Monsanto. Monsanto has increased the acreage that uses their patented seed,¹⁹ effectively capturing the US market for GM corn (Kilman B-6).²⁰ In Mexico, GM crops offer several advantages for Mexican producers. However, GM corn can also actively cross-contaminate Mexican natural varieties. In 1998, Mexico had already reacted, banning the import of GM corn seed. Previously it was thought that cross-pollination contamination could not occur beyond the distance of 200 meters. Studies have proved that GM crops had indeed been contaminating other varieties in Mexico beyond this previously recommended distance, giving support to the Mexican GM corn ban (Vaughan 71).

The move to ban GM corn seed will protect domestic varieties, but will not shield small farmers from the structural changes favoring the large-scale production of white corn. The Mexican government could benefit from observing the 2008 American Farm Bill's implementation. In the 2008 bill, many changes were made to the Farm Security and Rural Investment Act (Farm Bill) of 2002. The 2008 bill encouraged species diversification and regional agricultural alliances. The Obama administration was able to accomplish this by splitting the traditional farm lobby and uniting new agricultural groups (American Farmland Trust).^{21,22} In particular, Mexican small farmers could benefit from strengthened local food groups and specialty crop producers forging regional agricultural alliances. This could

¹⁹ from 18 million acres in 2001 to 70 million acres in 2009

²⁰ As of now Monsanto controls the monopoly over GM corn seed varieties, however anti-trust investigations are pending.

²¹ Among these newly united agricultural groups are; nutrition, public health, conservation, local food groups, and specialty crop producers.

²² Reich would describe this as proof that the "Pluralist" model exists. This challenges the previously discussed "Business Dominance" model.

effectively support the emergence of a Mexican dual economy for the “locked out” small farmers. In addition, the US sought to mitigate its effects on developing countries by re-examining subsidies and aggregate production on world-wide prices (American Farmland Trust). Naturally, Mexico was a predominant consideration during this process.

Subsidies for corn across all three countries have been lowered enormously (Burfisher, Robinson, Thierfelder 740).²³ This is a reflection of NAFTA’s effective incentives and agreements to eliminate subsidies. Corn is a commodity that is widely traded and integrated within the North American economy. Therefore it is useful to compare how other agricultural commodities that are grown in just one of the three countries are subsidized. Cotton will be used for this analysis.

Cotton subsidy problems in the US:

It is not a secret that cotton is heavily subsidized in the US. Brazil highlighted this inefficiency through by bringing a complaint against US cotton to WTO arbitration (World Trade Organization). The dispute settlement was decided against the US and may have profound implications for the cotton sector. This case may help correct the economic inefficiencies that have resulted from domestic politics.

In 2001, cotton was the most subsidized crop in the US. Cotton received 13% of the total funds the US spent on agricultural subsidies. The cotton crop of 2004 received support payments of \$3.8 billion out of a total production values at \$5.7 billion. Therefore payments given to cotton producers were 64% of the total market value of that sector. In 2005, the average nominal

²³ Subsidy rates per unit of corn output between 1993 and 1997 is the following for each of the three countries: 1) US 6.11% → 0.65% , 2) Canada 0.18% → 0.09%, 3) Mexico 2.56% → 1.05%

rate of assistance for cotton was 77%. In comparison, the average protection rate for other commodities is 6.9% (Gokcekus and Fishler 739-40).

The amount of money the US pours into cotton subsidies is problematic because the US is also one of the top four cotton producers in the world. Therefore US subsidies help distort the real price of cotton globally (UNCTAD). Furthermore, we as consumers end up paying more for manufactured cotton products. It is therefore important to study why cotton subsidies were implemented in the first place.

Interests groups and lobbying v. preference-based and partisan based voting:

Gokcekus's and Fishler's examination demonstrates how domestic politics influences subsidies, using cotton as the commodity for analysis. The examination studies how actual votes, participation, and "talking" (lobbying) influence the amount of subsidies certain agricultural sectors receive. There is a positive correlation between the amount of cotton acreage in a district and how legislators from these districts vote. However, the study continues to search for a disparity between representatives and their constituents.

This disconnect is discovered by ascertaining how much money lobbyist groups provide representatives from high cotton acreage areas. Money is given to representatives during the bill discussions, but most significantly during election cycles. Representatives from cotton growing districts received an additional \$467 during the 2002 election cycle. House Committee members of Agriculture received an additional \$231 and representatives who voted favorably on the bill received an average of \$199 (Gokcekus and Rishler 307-8).²⁴

²⁴ All these differences are statistically significant at 1%.

Gokcekus and Rishler discovered that cotton subsidy advocates needed to logroll²⁵ support in order to ensure that the enormous subsidies for cotton would be included in the 2002 Farm Bill. The study continues by analyzing the actions of the 306 representatives that did not have cotton growers in their district (Gokcekus and Rishler). The 306 non-cotton representatives were placed into three categories according to how much total farmland exists in their district. These categories are low, middle, and high farmland acreage. They found that there was another positive correlation between how much farmland a representative had in their district and how they voted on both amendments to the 2002 Farm Bill. Only 11% of representatives with low farm acreage supported the bill. Representatives with medium farm acreage and high farm acreage supported the bill 27% and 47% respectively. Once again, these representatives did not have cotton growers in their districts (Gokcekus and Rishler 307).

These results support Babcock's conclusion that "corn belt", "cotton belt", and "wheat belt" legislators will support one another when subsidies are needed for their constituents. Another source indicates that the new Senate Committee Chair for Agriculture, Nutrition and Forestry has a different perspective. Senator Blanche Lincoln (D) of Arkansas is from a cotton growing state. Lincoln defends government subsidies for a crop such as cotton because she argues that it is capital intensive and is most efficiently grown in her state's climate. She continues that producers need to grow cotton on a large scale, which requires capital investment in order to be globally competitive (Hagstrom 38-9).

However, in the same breathe she remarks that the Committee is working to close loopholes for subsidies for the agricultural sector. Lincoln recommends that the Agriculture Committee beings with a "clean slate" with the goal of lowering emissions (Hagstrom 38-9).

²⁵ Logrolling is the trading of favors or *pro quid pro*

These goals will conflict with the standards of living of American farmers²⁶. The protectionist epidemic is threatening to dismantle Lincoln's efforts to re-examine subsidies. For example, representatives such as Gene Taylor (D) of Mississippi and Ron Paul (R) of Texas have been vehemently attacking NAFTA during the Global Recession (Alberts).

Lindholm discusses the negative effects of subsidies in his chapter "What Efficiency Requires" (138). According to him, subsidies can retard a country's entire economic system. When American policy makers succumb to granting cotton producers massive subsidies, these price injections have ripple effects not only in the US domestic economy, but also the global economy. Furthermore, subsidies are usually given in accordance to the amount of crop that is produced. Therefore large corporate farms receive most of the subsidies. This is a problem because usually subsidies are portrayed as alleviating the burdens of the small farmer. However, with the existence of NAFTA, some argue that Blanche Lincoln will be able to effectively dismantle subsidies in disregard to protectionist sentiments.

In contrast, Richard Lehne says that "congressional ability to resist protectionist pressures has declined" (290). Subcommittees now manage trade legislation, which once was under the authority of the House Ways and Means Committee. Therefore he argues that representatives in subcommittees are extremely susceptible to lobbyists. They might be tempted to keep or implement protectionist measures in order to increase their personal chances of receiving funds during their next election campaign.

It is uncertain how the current administration will enforce NAFTA. Although President Obama did abandon his campaign threats to "renegotiate" NAFTA, his "watering down" of Buy

²⁶ Once again, this will be analyzed extensively with the tomato category.

American provisions instead of using an outright veto creates an environment of uncertainty (The Economist [3]). Obama also failed to uplift a prohibition of Mexican trucks to enter the US, which was scheduled to be uplifted by NAFTA.

Externalities from tomato trade growth:

Agriculture has a natural and strong relationship with the physical environment. This relationship can be best analyzed by the tomato trade that occurs almost bilaterally between the US and Mexico²⁷. The three largest issues facing the US-Mexican farm trade are: biological diversity losses²⁸, nitrogen pollution²⁹, and water scarcity (Alpay, Buccola, Kerkvliet). Regardless, Mexican exports of fruits³⁰ have increased 90% since NAFTA was established. In 1990-1993, the annual average export of tomatoes was 1,173 TMT, increasing to 2,186 TMT on average between 1999 and 2002. Analyzing this trend from the opposite direction, the average annual import of tomatoes into Mexico between 1990 and 1993 was (-) 361 TMT, decreasing further to (-) 691 TMT on average between 1999 and 2002 (Vaughan 70).

The reason why this trade increase is so significant for water scarcity is because tomatoes are made of 90% water. Tomatoes are a water-intensive crop since they contain such a high percentage of water. Since 1993, 162 million gallons of freshwater have been transferred to the United States from Mexico, *from tomatoes alone*. This problem is compounded when tomatoes

²⁷ Canada is insignificant because its environment does not efficiently permit the growth of large-scale tomato farming. Furthermore its tomato growth occurs either inside or during their short summer growing season.

²⁸ Biological diversity losses were already discussed in regards to the US-Mexican corn trade.

²⁹ Will be discussed after water scarcity issues

³⁰ Tomatoes are considered fruits, not vegetables.

are grown for export. Tomatoes grown for export are typically grown 20-30% larger because they are watered more extensively.³¹

One third of Mexican cropland is irrigated, making it one of the most concentrated regions for extensive irrigation. Generally, agriculture uses 80% of the freshwater utilized in Mexico annually. In particular, the fruit/vegetable agricultural sector places the most stress on water scarcity. This is occurring in a country that is one of the worst “water-stressed” countries in the Americas. 80 out of 459 Mexican aquifers are becoming dangerously low, and Mexico currently runs a 450 billion gallon water deficit with the US for the water it has extracted from the Rio Grande (Vaughan 76).

A possible solution to this would be the renegotiation of the Rio Grande Treaty of 1944 to better reflect the new realities of northern Mexican agricultural needs. The Mexican agricultural sector now exports twice as much as it did in 1991. The value of exports has increased from \$2.5 billion to \$5.1 billion annually (Vaughan 74). Along with these profits, the situation regarding water shortages has intensified in these export-oriented regions. The US will have to reconsider how it shares water resources such as the Rio Grande for this trade to continue to be sustainable. The US will have to choose to either preserve its current level of water resources or increase levels of trade with Mexico.³²

³¹ Countries such as Canada already publicly acknowledge this situation as a legitimate environmental concern. Canadians domestically prohibit large bulk water transfers from similar exported crops (Vaughan 63).

³² There are other major issues with water resources along the US-Mexican border. Areas in California, in particular, are already experiencing water shortages because of population concentrations. As population in Texas increases, it seems likely that a similar situation could occur. However, trade between the US and Mexico has been growing increasingly close, and a reconsideration of water issues would go a long way to ensure the vibrancy of the trade relationship.

Big farms get water subsidies; big farms can survive without nitrogen subsidies:

Water irrigation subsidies also disproportionately favor export-oriented, large-scale farms.³³ Advocates for dismantling Mexican water irrigation subsidies argue that larger farms are not concerned about fairly utilizing scarce water resources.³⁴ Environmental stress signals in the region have been ignored in preference for increasing crop yields (Vaughan 75). A possible solution for how to increase yields and simultaneously use less water can be met by GM crops (The Economist [6]). However this solution might be met with resistance by the Mexican government. The government has already expressed fears of GM crops through its ban on GM corn seed, because of the potential for cross-contamination. In time, the benefits versus the costs might be reconsidered. Eventually this new *pareto optimum* will depend on what the Mexican society values most or what it considers most “efficient”.³⁵

Another environmental concern is nitrogen pollution. Nitrogen is the primary ingredient in fertilizers. The vegetable and fruit industry also uses a disproportionate amount of fertilizers and pesticides in combination with the increased irrigation (Vaughan 78). All three NAFTA states now suffer from extreme nitrogen pollution problems, easily making nitrogen pollution the most pressing environmental concern for NAFTA members (Alpay, Buccola, and Kerkvliet 898). However, warmer waters surrounding Mexico make the pollution effects of nitrogen more pronounced. Nitrogen instigates the growth of algae blooms that has devastating affects for the Mexican environment and other economic sectors.³⁶ The Mexican government has reacted by no

³³ Although the causation remains unclear, is it because these farms are water intensive or because they are primarily located in a water-stressed region?

³⁴ This concern is heightened because there is a high concentration of export-oriented farm ownership in northern Mexico.

³⁵ This will be further expanded on in the section “Supercapitalism v. Democratic Capitalism”.

³⁶ Algae Blooms caused by pollutants such as nitrogen poison the marine organisms in their environments. As a result, marine life is either killed or driven out of the infected area.

longer subsidizing fertilizers.³⁷ Therefore fertilizers are now primarily used by the farms that can afford it, which typically is purchased by the large-export led farms in the north. This has not cut down on nitrogenous fertilizer consumption, but has just benefited the US economy.³⁸

The role of regulation:

The US is discussing ways to make fertilizers³⁹ more realistically reflect their environmental costs under the leadership of Senate Committee Chair Senator Blanche Lincoln. The House Bill will decrease farmers' net incomes by 0.9% in the short term, 3.5% over the medium term, and 7.2% over the long term. The American Farm Bureau lobbies against the legislation complaining that "higher... fertilizer costs would put American farmers at a competitive disadvantage". However even the Secretary of Agriculture, Tom Vilsack former democratic governor from Iowa maintains that the bill must be maintained (The Economist [5]). The costs to the American farmer are argued to be marginal compared to the costs for the environment. Vilsack also states that in time, the American farmers who lobby against the bill will enjoy the benefits that it will provide for their industry.

Environmental concerns have been most profound concerning food safety in the US. Food poisoning outbreaks in the 2000's have increased the awareness that the US Food and Drug Administration (FDA) needs to improve its record in monitoring food for safety. The 2006 E. coli O157:H7 outbreak began to draw attention to the administration's deficiencies. In 2008, the FDA originally blamed salmonella outbreaks on US domestic tomatoes, before eventually discovering that imported peppers from Mexico were the carriers for the bacteria. As a result of

³⁷ Another sign of the transition away from example of the "promotional state".

³⁸ The Mexican fertilizer subsidy elimination has decreased Mexican production of fertilizer. Imports from the US have skyrocketed after 1997.

³⁹ and fuel

these instances, both government and agricultural producers have *advocated* for *effective* and *enhanced regulation* from the FDA. Producers want to restore consumer confidence and avoid huge losses by erroneously correlating certain products with causes of contamination (Hagstrom 45).

The House version of a bill strengthening FDA regulation included country-of-origin requirements for certain agricultural products (Hagstrom 45). Tomatoes are now labeled to indicate their country of origin in order to more easily track contaminated products. However, there are also other reasons for including country-of-origin requirements. For example Canada advocated for stricter guidelines for “domestic” products in order to preserve the position of their domestic producers (The Economist [2]).⁴⁰ These motives are more in line with protectionism in comparison to the FDA’s motives to enhance food safety.

Supercapitalism v. Democratic Capitalism:

Robert B. Reich says that the concerns we now face regarding food safety, nitrogen pollution, water scarcity and genetically modified crops are the result of choices we have made as consumers. Subsidies naturally make their way to the cutting board since their original purpose was to ensure “economic security”. “Issues of economic security, social equity, community, our shared environment, and common decency were central to democratic capitalism as we knew it in the Not Quite Golden Age” (99). Today we have entered a “Faustian bargain” which exchanges the power we once enjoyed as “citizens” for enhanced control as

⁴⁰ Small wineries in British Columbia and Ontario want stricter labeling guidelines for wines produced domestically, in order to ensure that Canadian grapes, as opposed to Chilean or Australian, are being used in the manufactured product (Terrior).

“consumers” and “investors”.⁴¹ “We can blame big corporations, but we’ve mostly made this bargain with ourselves” (99).

Today, we as consumers benefit from the implementation of NAFTA. We have decided that we prefer cheaper and safer agricultural products, regardless of the costs they impose on us as citizens. According to one estimate, if environmental damages were considered in evaluating the Mexican GNP, Mexico would run an annual \$9 billion dollar deficient (Vaughan 65). This demonstrates that investors and consumers in the Mexican export agricultural sector win, but currently the Mexican “citizen” loses. However if all agricultural distortions were dismantled in the Mexican economy, the efficiency gains would be allocated with enough benefits to compensate Mexico for terms of trade losses (Burfisher, Robinson and Theirfelder 746). This would mean losses for investors, consumers and producers.

Eventually the constituents in each NAFTA state must decide how they define “efficiency”. Through allocative efficiency, we have recently decided that outputs that benefit us as consumers deserve priority (Lindholm 125). The expansion of the “regulatory state” in combination with support from transnational organizations and agreements may be the only way that supercapitalism can be checked. Many state governments have demonstrated that some international companies have expanded beyond their control, resulting in negative externalities for their domestic populations. Attempts to force companies to behave like “corporate statesmen” will be difficult, and possibly undesirable in the end. The regulatory state and transnational controls can become the appropriate forum to address the concerns we once valued as citizens.

The next step for NAFTA?:

There are many benefits and shortcomings of the NAFTA agreement. NAFTA never specifically addressed farm subsidies on corn or wheat during its creation. If all agricultural subsidies were reduced in the United States, nitrogen pollution would decrease by 8.5%. Combined with general output taxes, nitrogen pollution could be further reduced (Khanna, Nelson, and Taheripour 715). In Mexico, greater efforts are needed to dismantle agricultural subsidies and to give some consideration for environmental costs.

NAFTA can also be commended for easing the speed that investment retreated during the Mexican Tequila Crisis. NAFTA restraints may have forced Mexican President Zedillo to remain committed to free trade and to not raise tariffs (Sweeney 3). It can also be argued that NAFTA is affecting US domestic policies today as well. When Canada pressured the US to scrap some of the “Buy American” provisions in the Stimulus Bill, it had increased leverage because of its close economic ties. NAFTA in affect is a stabilizer against protectionist forces and political cycles that occur within its member countries.

The transformation from the promotional state into the regulatory state in these three countries has been the result of a geopolitical calculation in a changing world. It has also been the result of decisions we have each made as “consumers”. Maybe the answer for the negative externalities “supercapitalism” creates could be to utilize transnational agreements such as NAFTA to address concerns we have as “regional citizens”. Agreements such as NAFTA may be able to give domestic legislators in all three countries the ability to finally overcome the “inefficiencies” agricultural subsidies create in both domestic and global markets.

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