

Deseret News

NAFTA's success shows importance of free trade

Deseret News editorial

Published: Wednesday, Aug. 15 2012 12:00 a.m. MDT

A couple of myths regarding free trade agreements seem to persist. One is that they cost jobs here in the United States. The other is that trade deficits are necessarily always bad.

Both are worth considering this year as the United States, Canada and Mexico mark the 20th anniversary of the signing of the North American Free Trade Agreement, which took effect two years later, in 1994. The evidence is clear that NAFTA has been good for all three countries, but that's not the story some people like to spread.

Has it cost jobs? In some sectors of the U.S. economy, yes. But the premise behind free trade is that each nation can provide some items more cheaply, and with better quality, than the others. The result is cheaper goods for all, freeing up more money for investment in other sectors of the economy.

When it comes to understanding the benefits of global trade, clothing provides a perfect example. Americans of modest means today can afford many more outfits than their ancestors of even 50 years ago, and with much better quality. And yet, few of the clothes they wear were manufactured in this country. NAFTA provides similar benefits on a tighter geographic scale.

In a similar way, trade deficits can bring an influx of foreign capital and investment to the United States that helps create jobs. Daniel Griswold of the Cato Institute — "a think tank dedicated to the principles of individual liberty, limited government, free markets and peace," according to its website — wrote in an essay last year that an examination of the evidence has "found that civilian employment in the past 30 years has actually grown quite a bit faster during periods of rising trade deficits compared to periods of declining deficits."

Griswold found that during the first five years of NAFTA, "the U.S. economy added a net 15 million new jobs, including 700,000 manufacturing jobs." Using 2010 figures, he found that, despite recessions, the U.S. economy employed 20 million more workers than it did before NAFTA.

NAFTA has helped the economies of all three nations. Trade among them tripled during the first 14 years, according to the Office of the U.S. Trade Representative. Contrary to frequent criticisms, the three partners have negotiated agreements that provide for effective domestic labor laws and working conditions. They also have cooperated on environmental rules. And the manufacturing base has expanded in all three nations.

NAFTA does have shortcomings, but these involve ways in which it has yet to be fully implemented. Harold L. Sirkin, senior partner of The Boston Consulting Group, wrote recently that the three countries have failed to fully integrate their economies and become more cooperative in areas where they don't need to be quite as competitive. Canada's strengths include natural resources and energy, the United States is a leader in technology and higher education, and Mexico has an abundant supply of inexpensive labor and natural resources of its own.

Free trade doesn't solve all ills. Mexico's political turmoil and its perpetual problem with corruption in official institutions continues to stifle employment and living standards. Its problems with organized crime and the drug trade have brought tourism nearly to an end while making it virtually impossible in some regions to conduct commerce. Those are serious problems keeping the Mexican people from enjoying the full fruits of their labors, as are various American efforts to punish cross-border immigration.

But NAFTA's nearly two-decade record is one of overall success, signaling hope for the future.