



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No. 674 Fall 1993

Assessing State Milk-Pricing Programs

Jerome W. Hammond

The 1990s have seen a renewed interest in state-level programs designed to increase milk prices. Minnesota is no exception. In this article, I will (1) trace the evolution of state milk-pricing programs, (2) examine the new Minnesota program, and (3) assess some of the expected consequences.

Evolution of State Milk Programs

State and federal regulation of milk and milk product prices began in the 1930s. The programs were supposed to increase producer (farmer) returns, reduce competition among milk processors and distributors, and slow the decline of farm numbers. To achieve these goals, state programs typically include one or more of the following features: required minimum prices paid to farmers, minimum resale prices, regulation of dairy trade practices, and maximum resale mark-ups.

Why did states choose to regulate milk prices, but not those for most other farm products? It was partly due to the nature of milk itself. High perishability and high transportation costs kept fluid milk markets small. Also, market size was limited by the special state production and processing quality standards that prevailed until well after World War II. Another reason was the existence of a national market for manufactured dairy products. All this meant that states could impose special

pricing within their borders, without attracting large imports of out-of-state milk at lower prices. Any excess supplies generated by high prices for fluid uses could be sold into the national manufacturing dairy product market. In particular, states were able to set higher prices for fluid milk, because it is less price responsive than manufactured dairy products.

State milk programs declined in importance following court decisions in the 1930s that limited the ability of the states to enforce pricing provisions on milk transactions that crossed state lines (see figure 1). While the courts generally held that states could impose minimum prices for milk on producers

within the state, they also held that state pricing could not be imposed on milk purchases from out of state. These decisions had their greatest impact on milk marketing areas that were located in two or more states. As a result, more and more milk sales came under regulation by the Federal Milk Marketing Order program, which used pricing schemes similar to those that had been applied by the states. The federal program controlled milk marketing across state lines as well.

By the 1950s, dramatic technical and structural changes were occurring in the dairy industry. Store milk in

(See *Milk Pricing* page 2)

What NAFTA Will Mean for Minnesota's Economy

C. Ford Runge

Overview

The North American Free Trade Agreement (NAFTA) represents a major effort to further integrate the economies of Canada, the United States, and Mexico. NAFTA can be seen as an attempt to accomplish, for North America, a process of economic integration that is already occurring in

other parts of the world. This agreement would help create a market of 360 million people with a GNP of nearly 7 trillion U.S. dollars.

With or without NAFTA, economic integration is likely to continue. Ratification of the agreement can only help bolster the ability of North

(See *NAFTA* page 5)

Jerome Hammond is a professor in the Department of Agricultural and Applied Economics, University of Minnesota.

C. Ford Runge is a professor in the Department of Agricultural and Applied Economics, University of Minnesota.

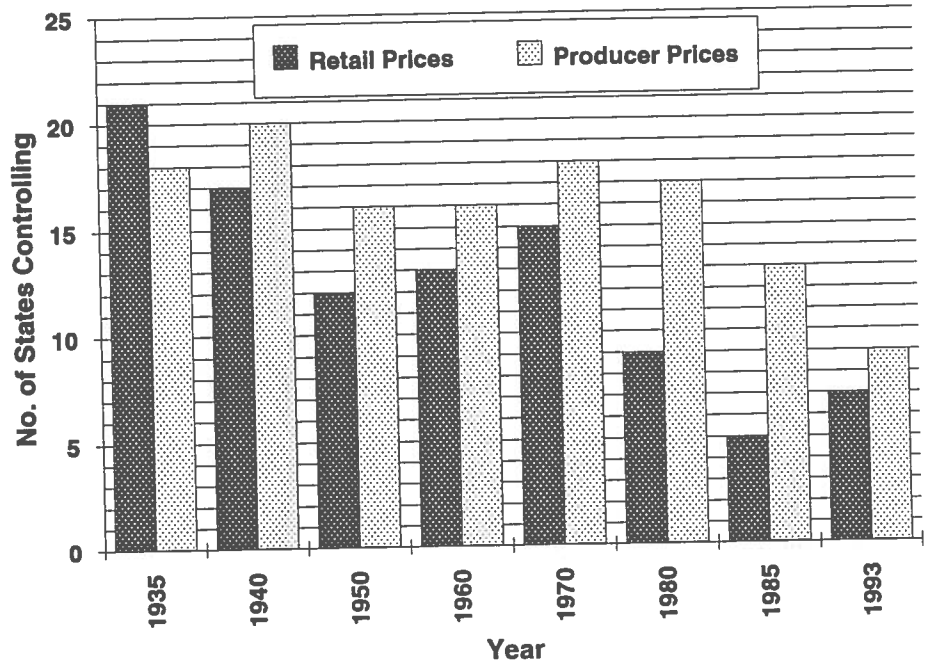
(Milk Pricing continued from page 1)

nonreturnable paper packages replaced home bottle delivery. Assembly line techniques in bottling, refrigerated trucks, larger trucks, larger per stop delivery, and improved roads tremendously expanded processing plant size and distribution areas. Small local dairies found it increasingly difficult to compete and sought government protection from what they felt were unfair practices by larger processors.

In 1957, Minnesota enacted the Dairy Unfair Trade Practices Act, intended to slow the rapid decline in small milk processors by preventing below-cost sales of fluid beverage milk, ice cream, and other "soft" (as opposed to cheese and butter) products. The act also prohibited certain trade practices: gifts, free advertising, ties to other product sales, and extension of free credit beyond normal billing periods.

By the late 1960s interest in state regulation began waning, most likely because the federal price support program increasingly generated high milk prices at the farm level. Furthermore, federal milk orders, which substantially increased Class I prices, became more attractive. Their coverage increased from 45 to 60 percent of total U.S. milk production during the 1960s, even though the number of designated markets declined from 80 to 62. This trend continues. State resale price maintenance also

Figure 1. Number of States Regulating Milk Prices, 1935-1993



Sources: Krueger, Eugene. "An Update of State Milk Control Program," *Dairy Situation and Outlook*, DS-386, USDA, September 1985, p. 25; Eugene Krueger, "Recent Changes in State Milk Control Programs," *Dairy Situation and Outlook*, DS-406, USDA, July 1986, p.7; and unpublished data provided by the USDA.

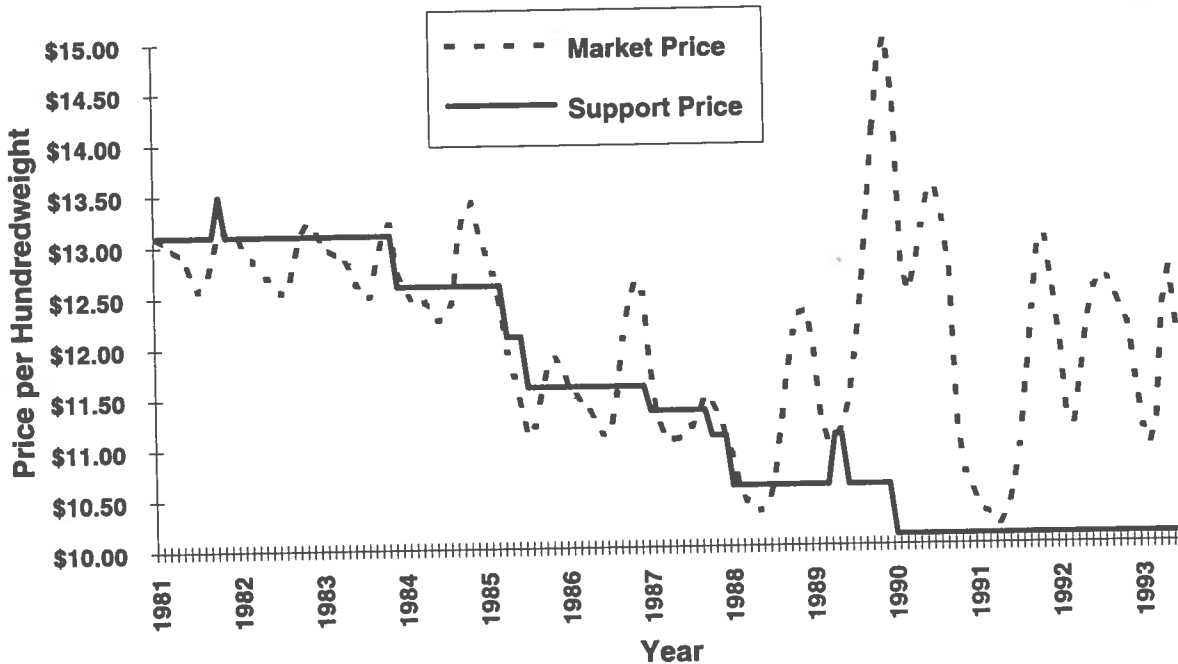
became increasingly unpopular. By 1985 only five states were still fixing milk prices: Pennsylvania, Maine, Nevada, North Dakota, and Vermont.

Renewed Interest in State Regulation

Current efforts in state-level milk pricing have been stimulated by two

developments. The first is the reluctance of the federal government to continue supporting prices at high levels since the early 1980s. The support price for milk was reduced from \$13.45 to \$10.10 per hundredweight (milk is traditionally counted in hundred-pound fluid units until it reaches the processing plant). The impact of this decline is illustrated in figure 2, which shows both federal

Figure 2. Milk Prices: Minnesota-Wisconsin Market Prices and Federal Support Prices, 1981-1993



support price and the Minnesota-Wisconsin manufacturing milk price, a commonly used indicator of "market" prices. Between 1981 and 1988, the M-W price followed the decline in support except for the normal seasonal price movements. Since 1988, the M-W price generally has been above the support prices, but it has become much more volatile.

A second reason for the new interest in state-level programs is the reduced ability of the other major federal milk-pricing program, the Federal Milk Marketing Order, to increase prices as much as many industry leaders desire. This program sets different minimum prices for milk used in different products. Midwest producers have challenged the way milk prices are set, and the USDA has been more reluctant to approve proposals for Class I price increases. (A significant exception was a mandated Class I price increase in 35 of the 44 federal order markets under the 1985 farm bill.)

Both the price support reductions and the inability to generate new price increases under the federal orders have stimulated dairy farmers and their representatives to seek price increases through state initiatives. Since 1990, 14 states have attempted to mandate minimum prices for milk above those that have been set by the federal order program or to ensure a minimum price to milk producers (see table 1). Numerous lawsuits have challenged these efforts.

Minnesota Pricing Program

In 1992, Minnesota established a program that sets a minimum processor buying price for milk used in beverage products. In those months in which the federal order Class I price drops below \$13.20, the difference was assessed

against Minnesota milk processors, with the "tax" proceeds to be distributed among Minnesota producers on the basis of their total milk deliveries. The legislature intended to impose the charge on all milk processed in Minnesota, regardless of its source. But the Federal District Court recently ruled last winter that the assessment could not be imposed on milk from producers in other states.

To counter this, the legislature revised the law in 1993, defining the tax as an assessment on sales of milk sold to retailers within the state. The assessment is now set at 2¼ cents for each one cent that the federal order Class I price falls below \$13.20. Proceeds from the state assessments are distributed to all Minnesota milk producers, both grade A and grade B.

In a related action, responding to concerns about the potential impact of the assessments on consumer prices, the legislature repealed the required minimum mark-up provisions of the 1957 Dairy Unfair Trade Practices Act. (Significantly, the new law did not repeal the requirement that stores sell milk at no less than cost. Minnesota still requires that retail milk prices be no lower than raw product costs, with some exceptions.) The change was supposed to permit retailers and wholesalers—not consumers—to absorb the assessment.

Consequences of State Milk-Pricing Programs

Producer Milk Prices

State pricing of fluid milk does increase producer milk prices, but the direct impact depends on the amount of premium on Class I milk and on the utilization (the proportion of all milk

that goes to fluid products) of milk subject to the assessments. In Minnesota, the assessment covers approximately 9 percent of total milk production. Thus, an 11 cent assessment generates only a 1 cent increase in producer prices. In May 1993, for example, a \$2.20 per hundredweight assessment on Class I milk sales resulted in a 20 cent premium paid to dairy farmers.

Retail Milk Prices

Increased raw milk costs to milk processors will probably be passed on to consumers as higher retail prices, despite legislative hopes to the contrary. For example, in response to the \$2.20 per hundredweight (19 cent per gallon) Minnesota assessment on milk processors in May of 1993, Minnesota retail stores increased milk prices by 21 cents per half gallon. (This price hike included 2 cents attributable to a Federal Milk Marketing Order price change that occurred at the same time.) When states also fix minimum resale milk prices, as does Minnesota, higher retail prices are certain. When state-imposed milk assessments (or federal minimum pricing requirements for that matter) are passed on to consumers, the impact is heaviest on low-income families.

The 1993 reduction in required retail minimum mark-up will permit retailers to use milk as a loss leader, but this is unlikely to be normal practice. Retailers achieve good returns on dairy sales, too good to jeopardize with "bargain priced" milk. Retail milk might be reduced if current prices are at above-competitive levels, however. There is some evidence that this has been the case in Minnesota. For example, Minneapolis retail milk prices for 1990 and 1991 ranked eighth and fifth highest, respectively, in 29 metropolitan milk markets throughout the United States.

Price Variability

Depending on the method employed, state milk pricing may either destabilize or stabilize producer and resale prices. Minnesota's new "vendor tax" reverses the direction of the price variations in the fluid milk market from that occurring in other milk markets. Figure 3 illustrates the size of the premium as the federal order price falls from \$14.00 per hundredweight to \$11.30 (roughly the minimum price under the current federal price-support program). When

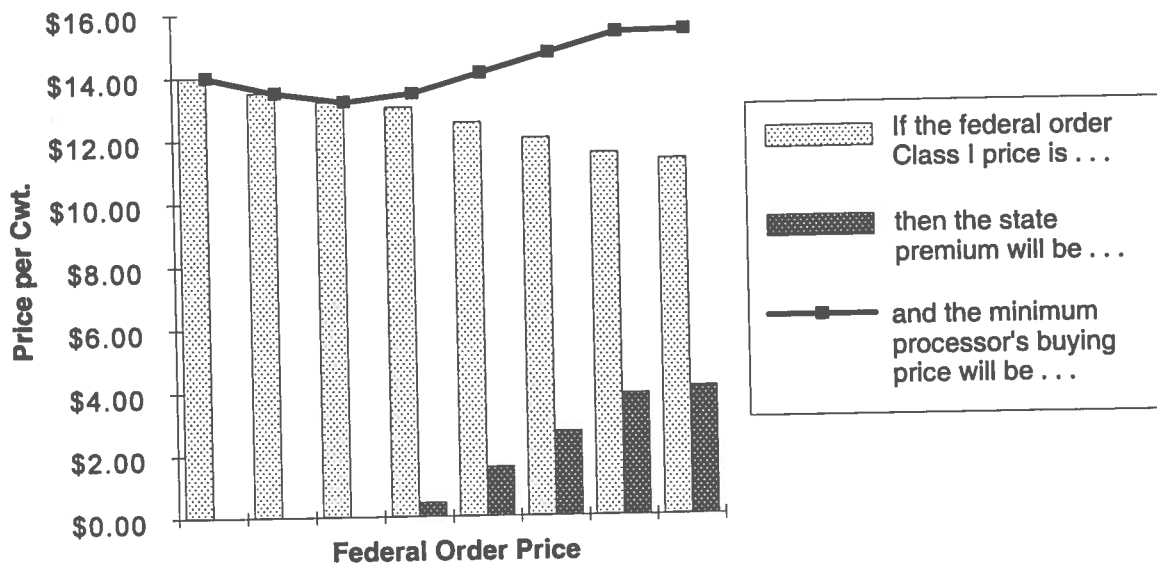
Table 1. State Milk Pricing Initiatives Since 1990

Enacted	Proposed and Pending	Proposed and Defeated in the Legislature or by Referendum	Enacted and Declared Unconstitutional
Maine Massachusetts* Minnesota*	Kansas Maryland Missouri Nebraska Ohio New England Compact	Louisiana Michigan Oregon Washington	Connecticut New York

*Court challenges pending

Source: Based on information provided by the United Dairy Foods Association, Washington, D.C.

Figure 3. The Price Effects of Minnesota's New Milk Law



prices in fluid markets of other states and in the markets for manufacturing-use milk decline (represented by the drop in Class I prices), Minnesota fluid milk prices rise. These price increases make Minnesota milk less competitive in these markets and they lead to reduced consumption.

Competitive Relationships

In general, milk processors and distributors have been opposed to state milk controls, especially for the prices they are charged for raw milk. They have expressed less opposition to prices that are fixed at the retail level. In fact, processor and distributor support for fixing raw milk prices in many states has been obtained by requiring minimum resale prices at the same time. The processors' seemingly contradictory position is rationalized by the adverse impacts of state pricing on competition in out-of-state markets. For example, the 1992 Minnesota law placed an assessment on Minnesota milk processors who sold fluid milk in other states, but the assessment was not imposed on out-of-state competitors. Thus, Minnesota milk processors who sold milk within the state could avoid the assessment by acquiring out-of-state raw milk. In the longer run, in-state processors would have had an incentive to move their processing facilities out of Minnesota. This would have been especially true in large markets near the state's border, such as the Twin Cities. (This possibility was supposedly remedied by the 1993 revisions.)

To counter such cross-border purchasing tactics, many milk control states have attempted to require evidence that a minimum price has been paid to producers or to impose a compensatory payment on out-of-state milk. This has proved difficult. Such attempts are frequently challenged and are usually declared in violation of the interstate commerce clause of the U.S. Constitution. Most recently, the Federal District Court ruled that the Minnesota premium could not be collected from processors on milk purchased in Wisconsin.

The competitiveness of Minnesota's dairy industry might be influenced more by the milk-pricing programs of other states than it is by its own. If Minnesota were the only state applying minimum pricing, average producer prices and producer revenue in the state would be increased. However, widespread adoption of minimum-pricing programs in other states might result in an overall decline in milk prices, because higher prices imposed solely on fluid-use milk results in more milk available for manufactured dairy products. The increased production would lead to a decline in the price paid for manufacturing-use milk, which provides the outlet for 90 percent of Minnesota milk.

Relative competitiveness is complicated by a recent change in federal milk order pricing. Cooperatives and milk processors have proposed to reduce the price that plants are required to pay for milk used in nonfat dry milk. This

proposal, to be voted on by milk producers or their cooperatives, will likely go into effect in the next few months. In 1993, this change would have permitted plants to buy milk at \$1.37 less than the current M-W price. This could result in a reduction in all milk prices because federal order minimum prices are pegged to the prevailing M-W price.

Consequently, those states that are charging assessments on Class I milk (fluid use milk) to improve producer milk prices would need to increase those assessments to offset reductions in the producer blend prices caused by the federal order class changes.

Conclusion

Proposals and legislation for state milk control programs have expanded in recent years, but they continue to face court challenges. Reformation of producer price enhancements into "excise taxes" is intended to avoid constitutional questions. Such an approach has been upheld in Maine, and similar laws in Minnesota and Massachusetts are still under scrutiny.

If these new state milk-pricing initiatives withstand court challenges, states will be permitted to impose the same sorts of differentials that the Upper Midwest dairy industry has challenged in recent national hearings, or that the Minnesota Milk Producers Association has challenged in a lawsuit. In both cases, the local industry argued that fixing high Class I

differentials in many federal order milk markets is inequitable and damaging to the Upper Midwest. Thus, there is an inconsistency between positions on federal order milk pricing and similar policies in Upper Midwest states' programs.

The economic consequences of state milk pricing are very significant for Minnesota producers and processors. Widespread adoption of state milk-pricing programs such as those discussed here could actually reduce

producer milk prices in Minnesota, whether or not Minnesota has state-imposed minimum milk prices.

Paradoxically, the same producer groups and their representatives that propose to increase producer prices and incomes through taxes on fluid milk sales are simultaneously supporting changes in federal milk order pricing that will reduce producer milk prices. Alas, the inconsistencies of milk pricing will never end.

Further Reading

- Baumer, D. L., R. F. Fallert and L. G. Seight. "State Milk Regulation: Extent, Economic Effects, and Legal Status." Staff Report No. AGES860404, Economic Research Service, U.S. Department of Agriculture, Washington, D.C., April 1986.
- Johnson, R. N. "Retail Price Controls in the Dairy Industry: A Political Coalition Argument," *Journal of Law and Economics* 28(1), April 1985, 55-77.
- Manchester, Alden. *The Public Role in the Dairy Economy*. The Westview Press, Boulder, Colorado, 1983.

(NAFTA continued from page 1)

American firms to compete globally, especially with the European Community, Japan, and other emerging trading blocs. Trade agreements provide rules that make the transition to a global economy smoother, helping the parties commit to new markets.

Although much of the current debate over NAFTA focuses on potential changes in trade policy, the agreement really does not signal a change of direction for the United States (or for Mexico or Canada, for that matter). Rather, it reaffirms that we intend to stay on the same course that we have been on for several years. Tariff elimination between the United States and Canada is already largely accomplished because of the Canada-U.S. Trade Agreement of 1989. Now the debate centers on the trading relationship of the United States and Mexico.

None of this is new. Trade between the two countries has been progressing in the direction of NAFTA since 1986 when Mexico joined the General Agreement on Tariffs and Trade (GATT). At that time, Mexican import tariffs were about 80 percent. (Imports were taxed an additional 80 percent over their base price.) As a membership condition, GATT required Mexico to drop these to about 50 percent. Mexico went further; its present tariffs average between 10 and 20 percent. NAFTA would simply complete what GATT began, eliminating remaining tariffs on commodities traded between the United States and Mexico over the next 15 years.

What will NAFTA mean for Minnesota? A recent study* examined available academic and policy research to determine the particular impacts of NAFTA on the state of Minnesota and its people. This article draws on that study. Will NAFTA cost Minnesota jobs? What will it mean to Minnesota industries? What will be the effects of the side agreements? What if NAFTA fails?

Will NAFTA Cost Minnesota Jobs?

Critics claim the agreement will cause U.S. jobs to migrate South, that U.S. workers will lose employment opportunities to Mexico. Often cited are the *maquiladora* industries along the U.S.-Mexican border, where foreign-owned plants import raw materials duty-free, and exports are subjected to duties only on the added value. Some critics argue that this region, in which many U.S. firms employ Mexican nationals and where serious environmental problems are evident, will characterize Mexico as a whole if NAFTA becomes a reality.

In order to estimate Minnesota employment impacts, we examined several economic studies that forecast NAFTA's impacts on various sectors of the U.S. and Mexican economies. Four

**The North American Free Trade Agreement (NAFTA): Issues and Impacts for Minnesota*, published by the Center for International Food and Agricultural Policy, Working Paper WP93-2, May 1993. Available through the Department of Agricultural and Applied Economics, Waite Library (612) 625-1705.

key areas of consensus emerged, each relevant to the Minnesota economy.

- Because the U.S. economy is very large in comparison with Mexico's (U.S. national income is roughly 25 times larger), the employment impact of tariff reductions on the United States will be positive, but small, relative to Mexico.

In Minnesota as well, NAFTA-related employment effects will be small, but they will be positive. Estimates of long-run net job creation in Minnesota range from 400 to 3,500, depending on which study one looks at. By way of comparison, job growth in Minnesota during the last three years has been roughly 35,000 per year.

- Many factors other than simple tariff reductions will affect trade relations and job creation. Of particular importance will be overall levels of growth in the three economies and the continuation of market integration forces already under way. To the extent that Mexico grows more rapidly and dynamically under NAFTA, its role as an importer of U.S. exports and generator of future U.S. jobs will grow accordingly.

In Minnesota, NAFTA will enhance the economic expansion already under way due to increasing Minnesota-Mexico trade. Minnesota exports to Mexico, for example, are up 141 percent since 1987.

- The ratification of NAFTA will put upward pressure on wage levels in Mexico while those in the United States will be only slightly (although

positively) affected. This narrowing of the wage gap would not, therefore, be accomplished at the expense of U.S. workers.

The wage impacts of NAFTA on Minnesota are likely to be consistent with those of the nation as a whole: essentially none. Because of its modest effect on employment, NAFTA will neither depress nor elevate wage levels in Minnesota.

- The fastest growing source of jobs in the U.S. economy is small business. From 1988 to 1990, about 2.7 million jobs were created in the United States on net, resulting from total losses of 1.3 million and total gains of 4.0 million jobs. The jobs gained were overwhelmingly in firms of fewer than 500 employees. Most were in firms of fewer than 20 employees.

In Minnesota, employment and trading opportunities from NAFTA-induced expanded trade with Mexico will include not only large, but many small- and medium-sized firms. In 1991, nearly four-fifths of Minnesota workers were employed in firms of fewer than 500 employees, and 51 percent were employed in firms of fewer than 100 employees.

What Will It Mean to Minnesota Businesses?

Agriculture

The agricultural sector (defined here to include forestry and fisheries) accounts for a large share of Minnesota's expected employment benefits from lowered tariffs. Mexico is the third largest agricultural trading partner of the United States, purchasing food and fiber valued at 2.5 billion dollars in 1992, up 9 percent from 1990. The growth in agricultural exports to Mexico under NAFTA will occur in products where Minnesota has strong comparative advantages.

The major beneficiaries will be Minnesota producers and exporters of the following commodities: corn, soybeans, sunflowers, wheat, pork, poultry, beef, and dairy products such as cheese and butter.

The main NAFTA impact on U.S. dairy exports will occur indirectly through overall income growth in the Mexican economy, rather than from tariffs eliminated under NAFTA itself. In the livestock sector, the United States

mainly exports livestock products and imports live animals, making our trade highly complementary. Overall, Mexico is the second largest U.S. export market (after Japan) for meat and meat products.

A major producer of sugar beets, Minnesota ranked first among the states in 1991, with 6.17 million tons. Substantial capital and employment are tied up in sugar processing in the Red River Valley and in the Renville County area, making the industry an important part of Minnesota's agricultural employment base. Minnesota is a relatively low-cost producing area, so it is expected to remain competitive compared with other U.S. producing regions, with or without NAFTA.

Manufacturing and Services

From 1987 to 1991, Minnesota's manufacturing exports to Mexico rose 55 percent, from \$3.8 million to \$5.9 million. Recent calculations by the Minnesota Trade Office show Mexico accounting for 3.5 percent of total Minnesota manufactured exports, placing it seventh overall. Our leading export industries were industrial machinery, scientific instruments, electrical equipment, transportation equipment, and food and kindred products. Of these, the most rapid growth in percentage terms occurred in scientific instruments (32.2 percent), followed by transportation equipment (23.2 percent), and electrical equipment (21.4 percent).

According to most studies, NAFTA will increase Minnesota job creation, but only slightly. The major gains would come in nonelectrical machinery and miscellaneous manufactures, with

some losses indicated in electrical machinery, transport equipment, and mining and quarrying. Impacts on the services sector are relatively small.

All Industries

When employment is broken down into occupational categories, agriculture, forestry, and fishing again account for the bulk of jobs, with the remainder distributed across other categories, especially manufacturing. Table 1 shows estimates from one authoritative study in more detail.

Where specific estimates of employment effects for Minnesota are available, such as those shown in table 1, the overall impact on manufacturing and services is small, but positive. These sectoral impacts are distributed widely, amounting to a few hundred jobs here and there, with total impacts ranging from the hundreds to several thousand. These estimates do not count any dynamic growth effects, which will undoubtedly add to these numbers.

Side Agreements

Environmental Standards

Concern over the impact of expanded trade on the environment prompted negotiation of an environmental side agreement to NAFTA in August 1993. The salience of the environmental issue is due in part to major environmental problems in the *maquiladora* region. These have been the focus of widespread criticism because of Mexico's seeming reluctance to enact and enforce environmental regulations.

Table 1. Effects of NAFTA on Minnesota Employment

Industry	1989 Employment	Estimated NAFTA Effects (Number of Jobs)
Agriculture	99,000	+498
Mining	7,000	-91
Manufacturing	499,000	+368
Utilities	17,000	-8
Construction	125,000	+24
Wholesale Trade	501,000	-48
Transportation	136,000	-1
Finance	201,000	-50
Services	668,000	-58
Total	2,253,000	+634

Source: Summarized from *A U.S.-Mexico Free Trade Agreement: Sectoral Employment Effects and Regional/Occupational Realignment in the United States*. Institute of Public Policy Studies, University of Michigan, September 2, 1992.

The environmental side agreement to the NAFTA text, as it now reads, would establish a trilateral North American Commission on Environmental Cooperation (CEC). This body would monitor the implementation of the environmental provisions of NAFTA itself, as well as compliance and enforcement of domestic environmental laws in all three countries. Its effectiveness will depend on its degree of true oversight authority, its ability to influence the flow of funds for trilateral environmental actions, and, of course, on NAFTA's passage.

NAFTA negotiations have created an opportunity for nations to address environmental problems more openly than ever before. It is noteworthy that one of the sectors in which small Minnesota companies are leading global competitors is in environmental technologies, such as wastewater treatment. To the extent that an environmental side agreement to NAFTA encourages further diffusion of these technologies, Minnesota will be a beneficiary. Ironically, if NAFTA is defeated (on environmental or other grounds), a major opportunity for environmental improvements may be lost.

While some environmental groups oppose NAFTA, the bulk of the larger organizations support it, now that the side agreement is finished. In September 1993, a coalition of national environmental interest groups, including the World Wildlife Fund, the National Wildlife Federation, the National Audubon Society, the Environmental Defense Fund, the Natural Resources Defense Council, and Conservation International, announced support.

Labor Standards

Some labor leaders maintain that NAFTA will create incentives for manufacturing to move where wages are lower. Like the environmental agreement, the labor side agreement resulted because of the NAFTA discussions. If NAFTA is defeated, it will not prevent firms from relocating to Mexico, nor will the Mexican government have the same incentives to raise labor standards.

The results of a 1991 University of Michigan study suggest that the primary impact of NAFTA will be to raise Mexican wages, perhaps by as much as 9 percent, without lowering

those in the United States. A labor side agreement, like its environmental counterpart, can help to raise Mexican occupational, health, and safety standards to U.S. levels, and compel U.S. firms to adopt similar standards in both countries. Neither process is likely without the opportunities and incentives created by NAFTA.

Import Surges

The third NAFTA side agreement permits the United States to reapply tariffs if increased import "surges" from Mexico threaten serious injury to a domestic industry. It provides for an examination of how well safeguards already contained in the NAFTA text are working and for possible reimposition of quotas and tariff-rate quotas on sensitive agricultural products. Such mechanisms are provided to safeguard domestic U.S. prices, such as those for sugar.

The U.S. sugar industry is worried that new investment in Mexican sugar production, together with imports of high-fructose corn syrup (perhaps from the United States) for use in food processing (especially soft drinks), will free up sugar for export to the United States. At present, Mexico's sugar consumption is among the highest in the world, and a large share of its sugar imports come from U.S. producers. Still, U.S. producers fear they will be inadequately protected from import surges if and when Mexico again becomes a net exporter.

However, damage to the Minnesota sugar industry from NAFTA is by no means a sure thing. The American Farm Bureau recently concluded: "Scenarios can be developed in which Mexico has sizable exports, but there are equally plausible scenarios that leave Mexico a major net importer of sugar."

What If NAFTA Fails?

Much of the debate over NAFTA focuses on the impacts if it passes. Relatively little attention has been given to the consequences if it fails. In the event NAFTA fails, four possible impacts deserve careful consideration.

- Because the fruits of NAFTA will be proportionately much greater for Mexico than for the United States and Minnesota, its failure will bear much more heavily on the Mexican economy and people. Future eco-

conomic growth and development will be retarded not only there, but in Latin America as a whole, one of the fastest growing markets for U.S. exports.

- Forgone job and income gains will contribute to greater political and economic instability in Mexico and Latin America. This will, in turn, lead to additional illegal migration of Mexican and Latin workers to U.S. markets. Half of Mexico's population is under 20 years of age; their future and NAFTA are closely linked.
- American concerns about Mexican environmental problems will decline. Even if interest persists, both the leverage and the wherewithal to confront these problems through the proposed North American Commission on Environmental Cooperation will have been lost.
- Mexican labor standards will not be addressed. Since wages in Mexico will remain depressed, the incentive to move U.S. factories to Mexico will continue and could even accelerate.

Conclusion

Will NAFTA cost jobs in Minnesota? Probably not. The magnitude of employment impacts from NAFTA may be small, but it is likely to be positive. The just-negotiated side agreements are necessary to bring environmental and labor issues to the fore. In particular, the CEC and the corresponding labor commission are steps for integrating the Mexican, U.S., and Canadian economies. Concern over import surges, especially in sugar, should not be used to sacrifice the entire NAFTA agreement because safeguards are available.

Failure to ratify NAFTA would hurt Mexico far more than it would hurt either the United States or Minnesota, but failure will mean additional and as yet uncalculated costs for all parties. Among these would be a slowdown in economic reforms and growth throughout Latin America.

The complete NAFTA "package," including the side agreements, is far more attractive than the alternative of a failed agreement.

For further reading →

Further Reading

- McKeith, Malissa H. "The Environment and Free Trade: Meeting Halfway at the Mexican Border." *Pacific Basin Law Journal* 10:1 (1991): 183-211.
- Prestowitz, Clyde. "Making the Free-Trade Agreement Work," and Harley Shaiken, "Will Manufacturing Head South?" both in *Technology Review*, April 26, 1993, pp. 23-31.
- Stern, R. M., A. V. Deardorff, and D. K. Brown. "A U.S.-Mexico-Canada Free Trade Agreement: Sectoral Employment Effects and Regional/Occupational Employment Realignment in the United States." Appendix A in U.S. Department of Labor, National Commission for Employment Policy. *The Employment Effects of the North American Free Trade Agreement: Recommendations and Background Studies*. Special Report No. 33. Washington, D.C., October 1992.
- Williams, Gary W., and C. Parr Rosson III. "Agriculture and the North American Free Trade Agreement." *Choices*, Fourth Quarter 1992: 16-19.

UNIVERSITY OF MINNESOTA
DEPT. OF AGRICULTURAL AND APPLIED ECONOMICS
232 CLASSROOM OFFICE BLDG
1994 BUFORD AVE
SAINT PAUL MN 55108-6040

Minnesota Agricultural Economist

No. 674 Fall 1993

Steven J. Taff Managing Editor

Rich Sherman ... Production Editor

Prepared by the Minnesota Extension Service and the Department of Agricultural and Applied Economics. Views expressed are those of the authors, not necessarily those of the sponsoring institutions. Address comments or suggestions to Professor Steven J. Taff, Department of Agricultural and Applied Economics, University of Minnesota, 1994 Buford Avenue, St. Paul, MN 55108-6040.

Please send all address changes for *Minnesota Agricultural Economist* to Louise Letnes, University of Minnesota, 232 Classroom Office Building, 1994 Buford Ave., St. Paul, MN 55108-6040.

Produced by the Educational Development System, Minnesota Extension Service.

The University of Minnesota, including the Minnesota Extension Service, is committed to the policy that all persons shall have equal access to its programs, facilities, and employment without regard to race, color, creed, religion, national origin, sex, age, marital status, disability, public assistance status, veteran status, or sexual orientation.

Printed on recycled paper with a minimum of 10% postconsumer waste.

NONPROFIT ORG.
U.S. POSTAGE
PAID
MINNEAPOLIS, MN
PERMIT NO. 155