The Trump-driven Mexican Recovery

As strange as it may seem, Donald Trump's proposals on immigration and NAFTA can be made the foundations of a major recovery, both economic and cultural, in Mexico.

I realized this during a conversation with my daughter, who is a graduate of CBTis 116 High School in Tijuana. She is fluent and literate in Spanish, and is the translator of this note.

She reminded me that as soon as NAFTA was implemented in Mexico (January 1994), it crashed the Mexican economy, by putting "Mexico's Own" farms and industries out of business with cheap American imports. The peso tanked, and a year later a bailout was required. It took another year or two for the NAFTA industries to start coming on line: cheap-labor factories aimed at making goods for the U.S. market. (See [1], [2].)

Thus it can be seen that NAFTA was actually a conquest of Mexico, turning it into a U.S. colony. Both the arteries and the veins of Mexico's economy now simply connect to the much larger economy to the north. In addition, the bailouts (on top of earlier loans by the big banks) added the chains of debt, which removes any independence or freedom of action. The sadly inadequate responses of Mexico since then have been massive emigration plus the cash-and-carry trade of drugs.

In the context of the initiatives of Donald Trump, a new option opens: Reverse NAFTA. To those who say "you cannot turn back the clock," G. K. Chesterton long ago answered: why not? If you take a wrong turn, the obvious thing to do is to go back to that place and then take the correct turn.

That this is quite practical in the Mexican NAFTA case, I will make clear with a thought exercise, using recent U.S. dollars. In non-NAFTA Mexico, two Mexicans work an hour for $2.00 each, and their products are sold within Mexico for $4.00 each. Under NAFTA, one Mexican works an hour for $2.00, and his product is exported for $20.00. In the first case, $8.00 of Mexican GDP are generated, and rich Mexicans pocket $4.00 of it. In the second case, $20.00 of apparently Mexican GDP are generated, and rich global interests pocket $18.00 of it.

The Chestertonian solution of reversing NAFTA reduces GDP by 60% but actually improves social well-being (two paid workers instead of one). Part of the GDP reduction is only apparent, since the long NAFTA supply chain is less efficient, and some (probably most) of the $18.00 goes to foreign investors and financiers. The reduction of the rich Mexicans' share from around $9.00 to $4.00 has almost no negative social effect, since the rich Mexicans start out so far ahead of the median. A 56% reduction in Carlos Slim's income will hardly make any difference to him or his family.

Now consider practicalities. Since rebuilding "Mexico's Own" farms and businesses will take some time, Mexico's NAFTA negotiators must put Donald Trump to the test. Does he believe in fair play? After all, as the saying goes, "sauce for the goose is sauce for the gander." The re-erection of Mexico's protective tariffs will have a big result for Mexico, but relatively small for the U.S. The corresponding re-erection of U.S. tariffs and shrinkage of the maquiladoras should be delayed by two years, time to rebuild "Mexico's Own". This is justified as a helping hand to Mexico, which must re-absorb the returning illegal immigrants being expelled by Trump policy.

Can Mexico even rebuild the lost farms and industries, or are the skills permanently lost? It is believed that most but not all were destroyed, so there should be "seeds" remaining which can expand and train new people. This is like the art of icon painting in Russia, which was almost destroyed over three generations of anti-religious Soviet rule. However, a very few icon painters remained, and were able to teach a new generation. [3] If this worked after 75 years, Mexicans should be able to do it, using skills of people still alive, after less than 25 years of economic desertification.

Can the economy of Mexico as a whole tolerate the reduction of economic efficiency implied by limits on international trade? First, the reduction in efficiency is much less than appears in the reduction in GDP, as my discussion of the thought exercise shows. Efficiency of shared culture, reduction of supply chain, and near-elimination of the heavy burden of financing eliminate more than half of it. (Compare [4].)

Second, there is plenty of room even in the Mexican economy. As a rule of thumb, we can separate "needs" from "wants" in any economy by limiting needs to twice the size of agriculture. (This is generous, since agriculture was 70% of prosperous pre-Industrial Revolution economies.) Even if measured by worker count (far greater than its proportion of earnings), pre-NAFTA agriculture was only 27%, thus "needs" estimated at only 54% of the 1990 Mexican economy.[5] A Chestertonian partial trade regime post-NAFTA will do better than the 1990 status quo.

In conclusion, the specter of a "trade war" raised by free trade advocates amounts to squid ink spread in defense of an unjust and destructive system of global financialization. The ***right-sizing of trade*** described in this note will disprove this alarmism by helping both the United States and Mexico. The only loser will be the financial sectors, which according to [4] have far more wealth than they need. Gainers will include large numbers of ordinary workers, who even if they make a little less money, will have the honor of upstanding economic citizenship in their own nation. Most fathers would prefer to say "I'm a farmer" or "I'm a carpenter" to their children, rather than "I'm a drug-runner", even if that means a drop in income. And by absorbing so many of the young people south of the U.S./Mexico border, the Chestertonian solution will be a great boon to the troubled United States also.

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