



Prosperity Undermined

Economic Outcomes During the Era of Fast Tracked NAFTA and WTO Model Trade Agreements

Fast Track was a U.S. procedure established in the 1970s for negotiating trade agreements. It delegated to the executive branch Congress' exclusive constitutional authority to "regulate Commerce with foreign nations."¹ In particular, Fast Track allowed the executive branch to select countries for, set the substance of, and then negotiate and sign trade agreements — all before Congress had a vote on the matter. Under Fast Track, normal congressional committee processes were circumvented and the executive branch was empowered to write lengthy implementing legislation for each pact on its own. These executive-authored bills altered wide swaths of U.S. law to conform domestic policy to each agreement's requirements. Moreover, Fast Track was unique in that it empowered the executive branch to force a congressional vote on such implementing legislation and the related agreement within a set amount of time. Sixty legislative days after the president submitted whatever agreement he signed and whatever legislation he wrote, the House of Representatives was required to vote on the package. A Senate floor vote was required no more than 30 days later. Under Fast-Tracked votes, normal congressional floor procedures also were waived with no amendments allowed, and debate limited to 20 hours — even in the Senate.²

Yet while Congress was largely excluded from the negotiating process, Fast Track set up private-sector advisory committees that entitled hundreds of business interests to have special access to negotiators and confidential U.S. negotiating documents not available to the legislative branch or the public. In short, the Nixon-conceived Fast Track process³ undermined essential checks and balances between the branches of government that the Founding Fathers wisely built into the U.S. Constitution.

When Fast Track was first established, trade agreements were focused mainly on cutting tariffs and lifting quotas. In contrast, today's "trade" agreements typically include hundreds of pages of expansive rules to which all signatory countries must conform their domestic non-trade policies. These non-trade provisions limit Congress and state

legislators' *domestic* policy space regarding product and food safety and the regulation of services such as health care and energy. The agreements also include extensions of monopoly patent terms for medicines and limits on how American tax dollars may be spent through government procurement. Some of the agreements even allow foreign investors to use World Bank and United Nations tribunals to demand U.S. taxpayer compensation for domestic environmental, health and other policies that undermine foreign investors' expected future profits. Fast Track enabled the negotiation and expedited passage of 13 agreements, including the 1994 North American Free Trade Agreement (NAFTA), the 1995 World Trade Organization (WTO), and various expansions of the NAFTA model (including the Central America Free Trade Agreement, which passed in 2005 by a one-vote margin). The last grant of Fast Track expired in June 2007, but Fast Track's extraordinary procedures nonetheless apply to agreements signed under the previous authority that Congress has not considered.

Many scholars and policymakers believe that Fast Track is an inappropriate mechanism for today's complex international commercial agreements, which directly affect a vast array of people and policies beyond the scope of the simple 1970s tariff-cutting agreements.⁴ Given the current scope of today's agreements, concerns have grown in Congress about how Fast Track undermines the balance between the branches, empowering the executive branch with enormous power in areas in which the Constitution provides Congress with exclusive authority.

These concerns came to a head in April 2008 when President Bush triggered a Fast Track vote on the Colombia Free Trade Agreement over the objections of congressional leaders. The House of Representatives responded by voting to amend Fast Track to remove the mandatory 60-day vote requirement regarding the Colombia pact.⁵ A more comprehensive rethink of Fast Track is likely to occur after the 2008 presidential election if a new president seeks some form of trade authority.

In considering how Fast Track might be best replaced by a new mechanism that restores a more robust role for Congress and provides for participation by a greater number and diversity of affected parties, it is important to review the economic outcomes of the Fast Track-enabled trade model. Polling shows that increasing numbers of Americans

are turning against *any* expansion of international trade.⁶ If a more inclusive process helped ensure that new trade agreements provided gains that outweighed the losses for most American families, U.S. public support for trade agreements might increase.

U.S. Wages Stagnate, Despite Doubled Worker Productivity

>> **U.S. wages barely increased in real terms since 1973, the year Fast Track was first passed, even as worker productivity doubled.** In 1973, the median hourly wage for American workers in today's dollars was \$17.26, while in 2007 it was up less than 1 percent to \$17.42. Over the same period, U.S. workers' productivity nearly doubled.⁷ Increasingly, even economists who defend status-quo trade policies are attributing a significant share of this unprecedented disconnect between American workers' productivity and their real wages to a form of "labor arbitrage."⁸

>> **Increasing divergence between corporate and public interest.** In the past, trade competition came from imports of products made by foreign companies operating in their home countries. But today's "trade" agreements contain various investor privileges that reduce many of the risks and costs previously associated with relocating production from developed countries to low-wage developing countries. Thus, many imports now entering the United States come from companies originally located in the United States and other wealthy countries that have moved production to low-wage countries. For instance, 60 percent of U.S. imports from China are produced by multinational, not Chinese, firms.⁹ Underlying this trend is what the Horizon Project called the "growing divergence between the national interests of the United States and the interests of many U.S. multinational corporations which, if given their druthers, seem tempted to offshore almost everything but consumption."¹⁰ American workers effectively are now competing in a globalized labor market where some poor nations' workers earn less than 40 cents per hour.¹¹ Trade agreements that require companies to respect workers' rights to organize a union would empower workers in developing countries to fight for higher wages. However, as the century-long U.S. struggle to form a social contract shows, this a long-term proposition.¹²

>> **Powerful sectors obtained protection in NAFTA, WTO-style pacts, raising consumer prices.** A benefit of trade is that consumers can save money from access to cheaper imports. However, the net impact of trade — how much we can purchase for how much we can earn from our job — is what matters. While our trade policy contributes to downward pressure on American wages, agreements like NAFTA and the WTO also include terms that directly increase prices of key consumer products, further reducing many Americans' buying power. For instance, special protections for pharmaceutical companies included in the WTO require signatory governments to provide them longer monopoly patent protections for medicines. The University of Minnesota found that extending U.S. monopoly patent terms by three years as required by the WTO increased the prices paid by Americans for medicine by over \$8.3 billion in today's dollars. That figure only covers medicines that were under patent in 1994 (when WTO membership was approved by Congress), so the total cost to us today is much higher.¹³

>> **Bargaining power of American workers eroded.** In the past, American workers represented by unions were able to bargain for their fair share of economic gains generated by productivity increases.¹⁴ But the corporate protections in today's trade agreements facilitate offshoring of production, thereby altering the power dynamic between workers and their employers. For instance, a study for the North American Commission on Labor Cooperation — the body established in the NAFTA labor side agreement — showed that after passage of NAFTA, as many as 62 percent of U.S. union drives faced employer threats to relocate abroad, and the factory shut-down rate following successful union certifications tripled.¹⁵

Increased Income Inequality in America

>> **Trade policy holds back wages even of jobs that can't be offshored.** Economists have known for over 60 years that all workers with similar skill levels — not just manufacturing workers — will face downward wage pressure when U.S. trade policy creates a selective form of “free trade” in goods that non-professional workers produce.¹⁶ When workers in manufacturing are displaced and seek new jobs, they add to the supply of U.S. workers available for non-offshorable, non-professional jobs in hospitality, retail, health care and more.¹⁷ Thus, proposals to retool U.S. trade adjustment assistance programs, while welcome, do not address the most serious impact of America's trade policies, which is not just on those workers who actually lose jobs, but on the majority of American workers who see their wages stagnate.

>> **The inequality between rich and poor in American has jumped to levels not seen since the Robber Baron era.** The richest 10 percent of Americans are taking nearly half of the economic pie, while the top 1 percent is taking over a sixth. Wealthy individuals' share of national income was stable for the first several decades after World War II, but shot up 50 percent for the richest 10 percent and 150 percent for the richest 1 percent between 1973 and 2006 — the Fast Track era.¹⁸ Is there a connection to trade policy?

>> **Longstanding economic theory predicts that trade will increase income inequality in developed countries.** A decade ago, the Institute for International Economics (IIE) sought to quantify the effect of trade policy on U.S. income inequality, and found that nearly 40 percent of the increase in inequality was attributable to U.S. trade policy.¹⁹ When the Economic Policy Institute (EPI) updated the IIE figures,

it found that the average American family lost \$2,000 a year from the burden of rising inequality due to trade. All of these calculations take into account the consumer savings from cheaper imports, meaning net wage losses from trade now exceed the median American household's income tax burden by hundreds of dollars. EPI projects that, if current trade policies and trends continue, all wage gains made since 1979 by workers without a four-year college degree (70 percent of Americans) could be erased.²⁰

>> **Changes in technology or education levels do not fully account for American wage pressures.** Some have argued that advances in computer technology explain why less technologically literate American workers have been left behind, asserting that more education — rather than a different trade policy — is how America will prosper in the future.²¹ While more education and skills are desirable for many reasons, these alone will not solve the problems of growing inequality. First, as documented in a Federal Reserve Bank paper, inequality started rising as systematic U.S. trade deficits emerged, in the early Fast Track period, far before most workers reported using computers on the job.²² Second, college-educated workers have seen their wage growth stagnate, even in technologically sophisticated fields like engineering.²³ Finally, a National Academies study found that employers will continue to demand mostly lower-skilled labor for the foreseeable future, projecting that occupations like hospitality and restaurants will have the greatest labor demand in the coming decades.²⁴ Thus, addressing trade policy, not only better educating American workers, will be an essential part of tackling rising income inequality.

Trade Deficits Soar, Good American Jobs Destroyed

>> **Prior to the establishment of Fast Track and the trade agreements it enabled, the United States had balanced trade; since then, the U.S. trade deficit has exploded.** The pre-Fast Track period was one of balanced U.S. trade and rising living standards for most Americans. In fact, in 1973, the United States had a slight trade surplus, as it did in nearly every year between World War II and 1975. But in every

year since Fast Track was first implemented in 1975, the United States has run a trade deficit. And since establishment of NAFTA and the WTO, the U.S. trade deficit jumped exponentially from under \$100 billion to over \$700 billion — over 5 percent of national income.²⁵ The establishment of the extraordinary Fast Track trade procedure coincided with President Nixon's decision to abandon managed exchange

rates — the so-called gold standard — which had helped ensure balanced trade over time. In the new economy that would emerge from these policy shifts, companies that produce abroad (or produce nothing at all, in the case of finance) would replace domestic employment and rising wages as the driving force of economic policy.²⁶ From Federal Reserve officials to Nobel Laureates, there is nearly unanimous agreement among economists that this huge trade deficit is unsustainable: unless the United States implements policies to shrink it, the U.S. and global economies are exposed to risk of crisis, shock and instability.²⁷

>> Food imports into the United States are soaring, posing unchecked safety risks. American farmers were told by NAFTA and WTO supporters that the pacts would increase exports and thus provide a new path for struggling farmers to succeed economically.²⁸ U.S. agriculture exports have increased, but food imports have skyrocketed, causing a decline in the U.S. food trade balance. Before WTO and NAFTA went into effect, the United States had a \$23 billion food trade surplus with the world. By 2007, this had declined to \$13 billion — and the United States was a net food importer in 2005, the only instance since 1959 — as food imports grew 112 percent over the 1993-2007 period while exports only grew 49 percent.

The story is worse with U.S. Free Trade Agreement (FTA) partner countries: a \$968 million food trade surplus with current U.S. FTA partner countries in 1993 became a \$1.2 billion food trade deficit by 2007.²⁹ Nearly 300,000 U.S. family farms have gone under since NAFTA and the WTO went into effect³⁰ and net farm income (minus government payments) declined 13 percent for family farmers.³¹ Current food trade trends also pose serious risks to food safety, as our current trade agreements both increase imports and set limits on the safety standards and inspection rates for imported foods.³² These food trade shifts impact the environment as well. The United States is now importing massive amounts of the grains and foods it also exports, with tons of redundant trade being shipped in and out of the United States simultaneously.³³ A recently leaked United Nations study found that carbon emissions from merchant shipping are nearly three times greater than previously estimated, or an estimated 4.5 per cent of global carbon emissions.³⁴

>> Nearly 5 million American manufacturing jobs — over 1 out of 4 — lost during the Fast Track era. The U.S. manufacturing sector has long been a source of innovation, productivity, growth and good jobs.³⁵ By 2007, the United

States had less than 14 million manufacturing jobs left — over 4.7 million fewer than in 1973 before Fast Track was first established,³⁶ with less than 10 percent of the American workforce in manufacturing for the first time in modern history.³⁷ The U.S. Department of Labor lists millions of workers as losing jobs to trade since NAFTA and WTO were passed — and that is under just one narrow program that excludes many whose job loss is trade-related.³⁸ Further, studies show that the U.S. economy could have supported an estimated 7 million *more* manufacturing jobs if not for the massive trade deficit that has accrued under current U.S. trade policy.³⁹ Some analysts say that technology-related efficiency improvements account for U.S. manufacturing job loss, not trade policy. But both factors play a role, and Congress actually has say over trade policy. Many analysts and policymakers of diverse political stripes believe that the rebuilding of the manufacturing sector is important to America's security and economic well-being.⁴⁰

>> Trade policy affects the quality of American jobs available, not the overall number of jobs. Total employment and unemployment rates are largely determined by monetary and fiscal policy — for instance the Federal Reserve Bank's interest rate policies. Trade affects the composition of jobs available in an economy. The United States lost millions of manufacturing jobs during the NAFTA-WTO era, but overall unemployment has been stable as new service-sector jobs were created. Proponents of the NAFTA-WTO status quo raise the *quantity* of jobs in the U.S. economy to claim that recent trade policies have not hurt American workers. But what they do not mention is that the quality of jobs available to the majority — and the wages most American workers can earn — have been degraded. For instance, according to the Brookings Institution, the average worker displaced from manufacturing went from earning \$40,154 to \$32,123 when re-employed.⁴¹

>> Offshoring of American jobs is moving rapidly up the income and skills ladder. Alan S. Blinder, a former Federal Reserve vice chairman, Princeton economics professor, and NAFTA-WTO supporter, says that 29 to 38 million American jobs could be offshored in the foreseeable future.⁴² The majority of the jobs Blinder identified are not in manufacturing.⁴³ Indeed, according to Blinder's data, American workers with at least a four-year college degree are those most vulnerable to having their jobs offshored. As well, the jobs that Blinder considered most subject to offshoring pay better (by \$8,000 or 14 percent) than those that are not, meaning America could see its very best jobs

moving offshore.⁴⁴ Offshoring of consumers' medical and financial information — subject to privacy protections under U.S. law — also raises an array of concerns about identity theft, private medical information being released, and consumer redress for such violations. If the United States were to implement policies to forbid the offshoring of certain types of jobs to countries that do not provide adequate privacy protections for such confidential health and financial data, the nation might also decrease certain job offshoring. Europe already has such an offshore consumer-data privacy-protection policy in place, showing it is a workable option.⁴⁵

>> Devastation of American manufacturing is eroding the tax base that supports U.S. schools and hospitals. The erosion of manufacturing employment means there are fewer firms and well-paid workers to contribute to local tax bases. Research shows that a broader manufacturing base contributes to a wider local tax base and offering of social services.⁴⁶ With the loss of manufacturing, tax revenue that could have expanded social services has declined,⁴⁷ while workers turn to welfare programs that are ever-shrinking.⁴⁸

Rising Inequality, Low Growth, Poverty and Hunger in Poor Countries

>> The worldwide gulf between rich and poor has also widened since Fast Track was first established. In the early 1990s, proponents of the WTO and NAFTA touted these pacts as keys to poverty reduction in developing nations and a more equitable global economic system. That same argument is being raised again today to promote the Doha Round WTO expansion. As noted, long-standing economic theory predicts that trade increases inequality in *developed* countries, but not in *developing* countries.

However, during the era when the corporate globalization policies enabled by Fast Track were implemented worldwide, income inequality between developed and developing nations, *and* between rich and poor *within* developing nations, has increased. Research by 2007 Nobel Laureate Eric Maskin recently confirmed this trend.⁵² In 1960, the 20 richest nations earned per capita incomes 16 times greater than non-oil-producing, less-developed nations. And by 1999, this gap had more than doubled.⁵³ The richest 1 percent of the world's population is 2,000 times richer than the poorest 50 percent.⁵⁴ One United Nations study concluded that, "in almost all developing countries that have

Simultaneously, Fast Track-enabled trade agreements could also undermine Americans' access to essential services because they contain provisions that limit the policies federal and state governments can employ to regulate service sectors.⁴⁹ For instance, certain existing U.S. WTO commitments could pose conflicts with urgently needed U.S. health care policy reforms.⁵⁰

>> Meanwhile, WTO, NAFTA and NAFTA-expansion agreements forbid federal and many state governments from requiring that U.S. workers perform the jobs created by the outsourcing of government work. "Anti-offshoring" and Buy America requirements are forbidden under the Fast Track-enabled trade agreements' procurement rules, which require that all firms operating in certain trade-pact partner countries be treated as domestic firms when bidding on U.S. government work.⁵¹ These agreements' limits on domestic procurement policy could also subject prevailing wage laws — ensuring fair wages for non-offshorable construction work — to challenge in foreign tribunals.

undertaken rapid trade liberalization, wage inequality has increased, most often in the context of declining industrial employment of unskilled workers and large absolute falls in their real wages, on the order of 20-30 percent in Latin American countries."⁵⁵ World Bank projections show that the WTO Doha Round could make matter even worse, with only a few large developing countries likely to gain, while many countries and regions would be likely to suffer net losses.⁵⁶

>> Progress on growth and social development in poor countries slowed during the Fast Track era. Increasing economic growth rates mean a faster expanding economic pie. With more pie to go around, the middle class and poor have an opportunity to gain without having to "take" from the rich — often a violent and disruptive process. But the growth rates of developing nations slowed dramatically in the Fast Track period. For low- and middle-income nations, per capita growth between 1980 and 2000 fell to half that experienced between 1960 and 1980. The slowdown in Latin America was particularly extreme. There, income per person grew by 75 percent in the 1960-80 period, before the International

Monetary Fund (IMF) and World Bank began imposing a package of deregulation, investment, and trade policies similar to that found in NAFTA and the WTO. Since adopting these policies, per capita income growth in Latin America plunged to 6 percent in the 1980-2000 period. Even when considering the longer 1980-2005 period, there is no single 25-year window in the modern history of the continent that was worse in terms of rate of income gains. In other world regions, growth also slowed dramatically. In Sub-Saharan Africa, income per person actually shrank 15 percent, due to implementation of the neoliberal policy package as well as a variety of other factors.⁵⁷ Improvement measured by human indicators — in particular, life expectancy, child mortality and schooling outcomes — also slowed for nearly all countries in the Fast Track period as compared with 1960-80.⁵⁸ Pro-FTA analysts consider these outcomes to have been a significant factor in the numerous Latin American elections where critics of current globalization policies prevailed.⁵⁹

>> Poverty, hunger and displacement on the rise during the neoliberal period. The share of people living on less than \$2 a day rose in Latin America & the Caribbean, the Middle East & North Africa, Sub-Saharan Africa and Eastern Europe over the 1993-2001 period, while the share living on less than \$1 a day (the World Bank's definition of extreme poverty) grew in Sub-Saharan Africa and the Middle East & North Africa.⁶⁰ According to the Food & Agriculture Organization, in 1996 "world leaders committed themselves to what was considered an ambitious but attainable intermediate target: to halve by 2015 the number of undernourished people in the world from the 1990 level. Ten years later, we are confronted with the sad reality that *virtually no progress* has been made towards that objective. Compared with 1990-92, the number of undernourished people in the developing countries has declined by a meager 3 million — a number

within the bounds of statistical error."⁶¹ During the Fast Track era, as nations have begun adopting NAFTA-WTO style policies, the displaced rural poor have had little choice but to immigrate to wealthy countries or join swelling urban workforces. As a recent exposé put it: "as cheap American foodstuffs flooded Mexico's markets and as U.S. agribusiness moved in, 1.1 million small farmers — and 1.4 million other Mexicans dependent upon the farm sector — were driven out of work between 1993 and 2005. Wages dropped so precipitously that today the income of a farm laborer is one-third that of what it was before NAFTA. As jobs disappeared and wages sank, many of these rural Mexicans emigrated, swelling the ranks of the 12 million illegal immigrants living incognito and competing for low-wage jobs in the United States."⁶² Indeed, a review of Mexican income growth rates, inequality, and manufacturing value-added shows that Mexico fared better before the introduction of neoliberalism relative to outcomes post-neoliberalism and post-NAFTA.⁶³

>> Developing countries that did not adopt the neoliberal policy package fared better. In sharp contrast, nations that chose their own economic mechanisms and policies through which to integrate into the world economy had more economic success. For instance, China, India, Malaysia, Vietnam, and Chile (and Argentina since 2002) have had some of the highest growth rates in the developing world over the past two decades — despite largely ignoring the directives of the WTO, IMF and World Bank.⁶⁴ It remains to be seen what will occur if these countries implement the corporate globalization policy package. It is often claimed that the successful growth record of countries like Chile was based on the pursuit of NAFTA-WTO-like policies. But nothing could be farther from the truth: Chile's sustained rapid economic growth was based on the liberal use of export promotion policies and subsidies that are now considered WTO-illegal.⁶⁵

Notes

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