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Obama's State of the Union Dilemma: Pushing to Fast Track Controversial Trade Deal Would Undermine His Pledge to Battle Income Inequality

In his upcoming State of the Union speech, President Barack Obama is expected to prioritize what is emerging as his legacy issue: combatting America's growing wealth inequality. To do this, Obama must promote policies to create new middle-class jobs, especially in manufacturing, and counter the erosion of wages now undermining workers economy-wide.

But in the speech, scheduled for next Tuesday, Obama is also expected to highlight several major trade initiatives, including his priority Trans-Pacific Partnership (TPP) deal, a massive pact with 11 Asian and Latin American nations that Obama hopes to sign quickly. The business lobby is at full tilt pushing Obama to use the speech to call on Congress to pass Fast Track trade authority for the TPP in the face of growing opposition.

The problem is that economists of all stripes agree that [U.S. trade policy](#) has been one of the major *contributors* to growing U.S. income inequality. There really is no disagreement about that – the only debate is about the degree of the effect. A study published by the Peterson Institute for International Economics – an early supporter of the NAFTA on which TPP is modeled – estimated that as much as 39 percent of the observed growth in U.S. wage inequality is attributable to trade trends. Other studies have posited greater and lesser contributions. And, the TPP would replicate and expand to additional countries the trade agreement model established in the North American Free Trade Agreement (NAFTA).

Twenty years of evidence of NAFTA's contribution to U.S. income inequality has become a major problem for Obama's push to get Congress to provide Fast Track authority for the massive TPP deal, described as NAFTA-on-steroids. Throughout the week of January 20, a series of anti-Fast Track events and actions are being held across the country, from a New York city rally against Fast Track this past Tuesday featuring members of the House of Representative, to protests around the country designed to reach undecided policymakers while they are back home during this week's congressional recess.

[Two group letters](#) by [Republican House members](#) have been sent to Obama voicing opposition to Fast Track. Last week, a group of Senate Democrats made their feelings known [in a letter](#) to Majority Leader Harry Reid (D-Nev.). And last month, 151 House Democrats [signed a letter](#) saying they oppose granting Fast Track authority to Obama for approval of the TPP, arguing that lawmakers have been cut out of negotiations. "We want transparency. We want to see what's

going on there,” House Minority Leader Nancy Pelosi (D-Calif.) told reporters. “We have a problem with that.”

Some of the most vocal critics of granting Fast Track authority include U.S. Sen. Sherrod Brown (D-Ohio) and U.S. Reps. George Miller (D-Calif.), Rosa DeLauro (D-Conn.), Mike Michaud (D-Maine), Keith Ellison (D-Minn.), and Marcy Kaptur (D-Ohio) and Republicans such as Walter Jones of North Carolina and David McKinley of West Virginia. The deal also is strongly opposed by numerous labor unions, consumer and faith organizations, and environmental and family farm groups.

Congressional opposition to more-of-the-same trade deals has intensified as Obama’s past State of the Union trade promises have fallen flat. In contrast to Obama’s 2011 SOTU promise that his only major past trade deal, the U.S.-Korea Free Trade Agreement, would boost exports, in the agreement’s first year, U.S. exports to Korea fell 10 percent, imports from Korea rose and the U.S. trade deficit with Korea exploded by 37 percent. This equates to a net loss of approximately 40,000 U.S. jobs.

The drop in exports to Korea added to last year’s sluggish overall two percent U.S. export growth rate. Given current trends, the U.S. will not achieve the president’s export-doubling plan until 2032 – 18 years behind the 2014 deadline Obama set in his 2010 State of the Union speech.

This follows on the recent 20th anniversary of NAFTA, which fueled an explosion of the U.S. trade deficit with Mexico and Canada to \$181 billion by 2012, resulting in a net American loss of one million jobs. (The net job loss figure is derived from the U.S. government methodology employed to calculate the employment effects of trade flows.) But the full effect of NAFTA on U.S. workers, and the contribution to growing income inequality, resulted from broader factors:

- While many focus on the *number* of U.S. jobs lost from NAFTA and similar pacts, the most significant effect has been a fundamental alternation in the *composition* of jobs available to the 63 percent of American workers without a college degree. And this has had a direct impact on income inequality.
- Trade pact investment rules remove many of the risks otherwise associated with sending jobs offshore to where labor costs are drastically cheaper. The United States has lost millions of manufacturing jobs during the 20 years of NAFTA and decade-plus since Congress approved China’s entry to the World Trade Organization. As a result, the wages most U.S. workers can earn have been severely degraded even as overall unemployment has been largely stable (excluding the Great Recession) as new low-paying service sector jobs have been created.
- According to the U.S. Bureau of Labor Statistics, two of every three displaced manufacturing workers who were rehired in 2012 experienced a wage reduction, most of them more than 20 percent. The list compiled by the Department of Labor’s Trade Adjustment Assistance program of more than 845,000 specific American jobs lost to NAFTA and similar pacts reads like the funeral program for the middle class.

- The implications for growing income inequality are broad. It is not only those American workers who lost a job to NAFTA or China trade who face downward wage pressure; as increasing numbers of workers displaced from manufacturing jobs joined the glut of workers competing for non-offshorable, low-skill jobs in sectors such as food service and retail, real wages have fallen in these growing sectors as well.
- The U.S. government data is striking: The shift in employment from high-paying manufacturing jobs to low-paying service jobs has contributed to overall wage stagnation. The average U.S. wage has grown less than one percent annually in real terms since NAFTA was enacted even as worker productivity has risen more than three times. Since the January 1, 1994, implementation of NAFTA, the share of national income collected by the richest 10 percent has risen by 24 percent, while the top 1 percent's share has shot up by 58 percent.
- Offshoring of American jobs is rapidly moving up the skills ladder, expanding the income inequality effect. Alan S. Blinder, a former Federal Reserve vice chair, Princeton economist and NAFTA supporter, says that one out of every four American jobs could be offshored in the foreseeable future. A study he co-authored found that the most offshorable industry is finance and insurance, not manufacturing. According to Binder's study, American workers with a four-year college degree and an annual salary above \$75,000 are among those most vulnerable to having their jobs offshored.
- The grandfather of modern free trade economics, Paul Samuelson, published a startling 2004 academic paper in the *Journal of Economic Perspectives* which shows mathematically how the offshoring of higher-paid jobs to low-wage countries can cause U.S. workers to lose more from reduced wages than they gain from cheaper imported goods. Trade theory states that while those specific workers who lose their jobs due to imports may suffer, the vast majority of us gain from trade "liberalization" because we can buy cheaper imported goods. Except, as job offshoring has moved up the wage level, this is no longer necessarily true.
- When the non-partisan Center for Economic and Policy Research applied the actual data to the trade theory, they discovered that when one compares the lower prices of cheaper goods to the income lost from low-wage competition under our current policy, the trade-related losses in wages hitting the vast majority of American workers outweigh the gains in cheaper priced goods from trade. U.S. workers without college degrees (the vast majority) lost an amount equal to 12.2 percent of their wages, so for a worker earning \$25,000 a year, the loss would be more than \$3,000 per year.

The dynamic created by our current trade policy has dramatically rearranged the work force, triggering a collapse of the middle class and hampered upward mobility for the working class while expanding the ranks of the working poor.

"The 20-year record of NAFTA shows that deals like the Trans-Pacific Partnership would contribute to income inequality as more middle-class jobs are lost," said Lori Wallach, director of Public Citizen's Global Trade Watch. "Either Obama can prioritize a battle against income inequality or he can push more NAFTA-style trade agreements and the trade authority to railroad them through Congress, but he cannot do both."

Regardless of the facts, expect the president to stick to the positive spin: Trade creates jobs. Using the trick of counting only exports, but never balancing out growing imports, Obama undoubtedly will repeat his usual claims about how many American jobs have been created from trade deals. But when both sides of the equation are included, the massive U.S. trade deficit has resulted in severe job loss, with higher-wage manufacturing jobs replaced by lower-wage service sector jobs.

For instance, U.S. government data show that the average annual growth of our trade deficit has been 45 percent higher with Mexico and Canada than with countries that are not party to a NAFTA-style pact. U.S. manufacturing exports have grown at *less than half the rate* to Mexico and Canada since NAFTA than in the years before it. Before NAFTA, the U.S. had a small trade surplus with Mexico and a modest deficit with Canada. Twenty years into NAFTA, the 2012 NAFTA trade deficit was \$181 billion.

Meanwhile, [polls show](#) that the majority of Americans, who have lived with NAFTA long enough to see its results, think it has had a “mainly negative” impact on the U.S. economy and want the U.S. to exit the pact. (Democratic, GOP and Independent voters alike hate NAFTA, while generic questions about “trade expansion” and “economic integration” obtain support.)

More information is available at <http://www.citizen.org/trade>.

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