Documenting the Evidence of the Failed NAFTA-WTO "Trade" Model

A decade of exporting away good U.S. jobs, an exploding trade deficit and flat wages

- **Over 3 million U.S. manufacturing jobs – 1 in out of every 6 manufacturing jobs – lost.** By the end of 2005, the U.S had only 14,232,000 million manufacturing jobs left – down from nearly 17 million (16,774,000)[1] before NAFTA and WTO went into effect in the early 1990s. Our disastrous trade policy has driven the loss of 2,542,000 good-paying manufacturing jobs since before NAFTA and more than three million since the most recent manufacturing peak.[2] The only good news is that this disaster is neither random nor inevitable: bad policy led to bad results. We can change our trade policy and create millions of good manufacturing jobs – and rebuild our now-dwindling ability to make the products on which our nation's very security and well-being rely.

- **One million manufacturing jobs lost directly due to NAFTA.** When the non-partisan Economic Policy Institute (EPI) plugged the actual trade flow data after 12 years of NAFTA into the methodology similar to that used by NAFTA's boosters to predict that the pact would create jobs, EPI's economists found that increased imports due to NAFTA destroyed 1,956,750 U.S. jobs while increased exports due to NAFTA only created U.S. 941,459 jobs over the 1993-2004 period. This means that, on net, the equivalent of 1,015,290 good-paying manufacturing jobs were destroyed directly by NAFTA trade.[3]

- **The U.S. job export crisis is expanding from manufacturing to high-tech and services.** While some commentators, such as Nike CEO Phil Knight, have famously argued that the decline of U.S. manufacturing is a result of "Americans simply not wanting to make shoes for a living,"[4] job loss and wage stagnation is increasingly affecting workers in those sectors where the United States is understood to have a comparative advantage, such as professional services and high technology.

  - Studies commissioned and then buried by the U.S. government show that as many as 48,417 U.S. jobs – including many in high-tech – were off-shored *in the first three months of 2004 alone*.[5]

  - Economy.com estimates that nearly 1 million U.S. jobs have been lost to off-shoring since early 2001, with 1 in 6 of those in IT, financial services and other business services.[6]

  - Goldman Sachs estimates that about half a million U.S. service jobs were off-shored from 2002 to 2005. The firm reports that 15,000 to 30,000 jobs monthly (manufacturing-services combined) are subject to off-shoring going forward.[7]

- **Projections of how many U.S. service sector jobs will be off-shored are chilling.** Corporate consulting groups eager to minimize the public and press attention to their client's export of U.S. jobs have come up with astounding projections for jobs that could be off-shored in the future.

  - McKinsey said that 11 percent of U.S. jobs (14 million) could be off-shored in the medium-term.[8]

  - The Progressive Policy Institute, a think-tank associated with the pro-WTO/pro-NAFTA faction of the Democratic Party, found that 12 million information-based U.S. jobs – 54 percent paying better than the median wage – are highly susceptible to off-shoring in the foreseeable future.[9]

  - A widely-cited 2003 University of California-Berkeley study concluded that 14 million jobs with an average annual salary of almost $40,000 are vulnerable to being sent overseas.[10]

- ➢ The Gartner Group, an IT consultancy, reports that 10 percent of U.S. technology jobs were moved offshore by 2005 and up to 25 percent of traditional IT jobs will be relocated from developed to developing nations by 2010.[11]

- ➢ A 2002 study by Forrester Research projected that 3.3 million high-end service sector jobs – including physicians, computer programmers, engineers, accountants and architects – could be off-shored in just the next eight years.[12] They recently updated the projections to 3.4 million such jobs by 2015.[13]

- ➢ Deloitte Research's survey of 100 of the largest financial services companies found that they expected to shift $356 billion worth of operations and about 2 million jobs to developing countries by 2008.[14]

- ➢ AT Kearney projects that 500,000 financial services jobs (8 percent of all U.S. jobs in banking, brokerage and insurance) will be shipped overseas by 2008.[15]

- **Independent academic studies put the number of jobs susceptible to off-shoring much higher.** Alan S. Blinder, a former Federal Reserve vice-chairman and Princeton economics professor, says that 28 to 42 million service sector jobs (or about 2 to 3 times the total number of current U.S. manufacturing jobs) could be off-shored in the foreseeable future.[16]

- **Trade deficit soars as imports boom**. Since NAFTA and the WTO went into effect in 1994 and 1995, the U.S. trade deficit has risen from under $100 billion to $717 billion or six percent of national income[17] – a figure widely agreed to be unsustainable, putting the U.S. and global economies at risk of crisis, shocks and instability.[18]

- **Real wages for U.S. workers are flat or declining; jobs now available in U.S. economy of lesser pay and few benefits.** U.S. real median wages have scarcely risen above 1970 level (about 9 percent), while productivity has soared over 80 percent over the same period,[19] resulting in declining or stagnant standards of living for the nearly 70 percent of the U.S. population that does not have a college degree.[20]

  - ➢ U.S. real median income has actually *fallen* between 2000 and 2004[21] – roughly the period following China's accession to the WTO.

  - ➢ Between 1995 and 2005, productivity grew a remarkable 33.4 percent. Had pay followed, the wages for most working people would have risen correspondingly. But instead there has been basically no wage improvement for typical workers since 2001, even though half the productivity growth from 1995 to 2005 occurred since then.[22]

  - ➢ The type and quality of jobs available for U.S. workers has dramatically shifted during the WTO-NAFTA decade, with workers losing to imports or off-shoring their higher wage manufacturing jobs (which often also provided health care and other benefits) and finding reemployment in lower wage jobs. The average worker displaced from manufacturing goes from having annual wages of $40,154 before being laid off to $32,123 after being laid off and then re-employed; for the service sector, the comparable figure is $45,479 to $39,567; and for those workers employed in the service sectors most targeted for off-shore outsourcing, the figures are from $60,535 to $52,060.[23] Labor Department data shows that such workers on average lose up to 24 percent of their earnings in such shifts.[24]

- Average U.S. salaries for application developers, database engineers and system administrators – positions identified by *Business Week* as vulnerable to off-shoring – fell by 17.5 percent, 14.7 percent and 5.4 percent between 2002 and 2004.[25] The engineering sector (also generally identified as at risk for increased off-shoring) faces unusually high levels of unemployment, with electrical engineers facing 7 percent and software engineers facing 7.5 percent unemployment in 2003.[26]

- **Real life data debunks NAFTA-WTO boosters' cynical promises:** When WTO and NAFTA were being debated before the U.S. Congress, boosters of the deals said they would lead to a decline in the U.S. trade deficit. The Institute for International Economics, a pro-NAFTA group, estimated that the U.S. trade balance with Mexico would improve by $9 billion under the trade deal, for instance.[27] President Clinton went so far as to promise that that the average American family would gain $1,700 in income annually from the WTO's adoption,[28] which would have meant that the U.S. real median family income would have been upwards of $65,000 in 2005, or a nearly 35 percent increase since 1995. These projections have been shown to be wildly off the mark. The U.S. trade balance with Mexico went from a mild deficit in 1993 to a huge deficit of $50 billion in 2005.[29] Median family income went from just under $50,000 when NAFTA and the WTO went into effect to just over $54,000 today – far short of promises made by boosters of these trade deals. Real median income has actually *fallen* between 2000 and 2004[30] – the period following China's accession to the WTO.

- **U.S. income and wage inequality have jumped:** During the NAFTA-WTO decade these trends have resulted in U.S. income and wage inequality increasing markedly. Over the 1992 to 2005 period, the median CEO saw pay rise by 186.2 percent, while the median worker saw wages rise by just 7.2 percent. Consider that in 1965, U.S. CEOs in major companies earned 24 times more than an average worker, and this ratio grew to 262 by 2005.[31] Nearly all economists agree that increased trade has contributed to this widening inequality. One study by the non-partisan Center for Economic and Policy Research found that trade liberalization has cost U.S. workers without college degrees an amount equal to 12.2 percent of their current wages. For a worker earning $25,000 a year, this loss would be slightly more than $3,000 per year.[32] William Cline, at the pro-WTO/NAFTA Institute for International Economics, estimates that about 39 percent of the actually observed increase in wage inequality is attributable to trade trends.[33] These trade policy shifts have had a direct impact on workers' ability to bargain for higher real wages. U.S. government-commissioned studies show that as many as 62 percent of U.S. union drives face employer threats to relocate abroad, with the factory shut-down rate following successful union certifications tripling in the post NAFTA-WTO period.[34]

- **Department of Labor certified upwards of 1.5 million specific U.S. workers as victims of our trade policy under just one narrow government program!** An estimated 1,113,538 manufacturing workers were certified for the Trade Adjustment Assistance (TAA) program to get extended unemployment benefits between 1994 (when NAFTA/WTO started) and the end of 2002 when the program changed. 483,841 more workers were certified under a revised TAA program between 2003 and August 2006.[35] To be certified under TAA is very difficult – only workers employed in direct manufacturing are covered (the mechanics at a car plant cannot be covered if the plant closes and moves overseas, only the line workers and not even the line workers at a plant making parts for relocated plant can qualify.) Thus, the TAA number is a very conservative estimate of job displacement due to trade.

For more information or to get involved in demanding fair trade policies, contact Public Citizen's Global Trade Watch at www.tradewatch.org and 202-454-5106.

ENDNOTES

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