

NAFTA's Legacy: Lost Jobs, Lower Wages, Increased Inequality

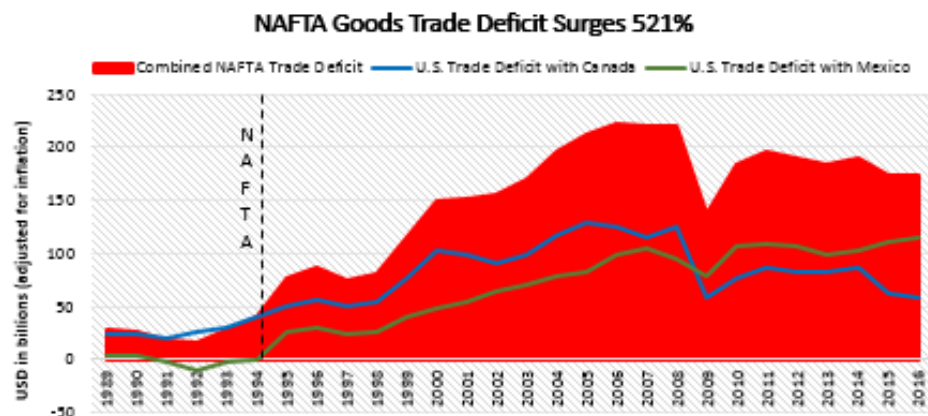
The North American Free Trade Agreement (NAFTA) was sold to the U.S. public in 1993 with grand promises. The deal would create hundreds of thousands of good jobs here – 170,000 jobs within the pact's first two years, according to projections from the Peterson Institute for International Economics (PIIE).¹ That projection was based on a study that modeled how NAFTA's elimination of Mexican and Canadian tariffs would result in growth of U.S. exports that would outpace growth in imports from the other NAFTA countries. By expanding our pre-NAFTA trade surplus with Mexico and improving the U.S. trade balance with Canada (with which the U.S. had a small pre-NAFTA deficit), NAFTA would create numerous U.S. jobs.

But instead of an improved trade balance with Canada and Mexico, NAFTA resulted in an explosion of imports from Mexico and Canada that led to a huge new U.S. NAFTA trade deficit.

This was the outcome about which NAFTA opponents had warned. At the heart of NAFTA are special protections that make it cheaper and safer for corporations to offshore U.S. jobs to low-wage countries. These investor protections provide special benefits to firms that relocate and eliminate many of the usual risks that make corporations think twice about moving production to another country.

With Mexican manufacturing workers paid a fraction of U.S. workers, some U.S. companies had begun to relocate production to Mexico before NAFTA. Many of these jobs were in industries, such as apparel, that did not require major investments to open a factory. But NAFTA's investor protections made it safe for U.S. firms to relocate high-end manufacturing jobs. And because Mexico did not have independent unions, the U.S. corporations could rely on wages staying low.

U.S. auto, electronics, appliance, heavy equipment and other manufacturers built high-tech multi-million dollar plants in Mexico. There Mexican workers making less per day than their U.S. counterparts had made per hour toiled to make products that were then sent back to the U.S. for sale. The Mexican workers were not paid enough to buy the cars, tele-



Source: U.S. International Trade Commission DataWeb, 2017.

visions, computers and other goods they produced. And in the United States, many of the workers who used to make these goods – many in union factories – could only find new jobs that paid much less. The companies' profits exploded, but, for workers, this meant lost jobs, lower wages and increasing income inequality.

Huge New NAFTA Trade Deficit Emerges

The U.S. goods trade deficit with Canada of \$30.4 billion and the \$2.6 billion surplus with Mexico in 1993 (the year before NAFTA took effect) turned into a combined NAFTA goods trade deficit of \$173 billion by 2016, as indicated in the graph above.² This represents a 521 percent increase in the U.S. goods trade deficit with NAFTA countries. These are inflation-adjusted numbers, meaning the difference is not due to inflation, but an increase in the deficit in real terms.

The U.S. goods trade deficit with NAFTA partners Mexico and Canada has worsened considerably more

than the U.S. goods trade deficit with countries with which we have not signed NAFTA-style deals. Since NAFTA, the annual growth of the U.S. goods trade deficit has been 47 percent higher with Mexico and Canada than with countries that are not party to a NAFTA-style trade pact.³

If you include the relatively small U.S. service sector trade surpluses with Mexico and Canada, the combined U.S. goods and services U.S. trade deficit with Mexico and Canada rose (in inflation-adjusted terms) from \$9.9 billion before the NAFTA in 1993 to \$134.3 billion in 2015 (the latest year of available services data).

Canada NAFTA deficit: The U.S. goods and services trade balance with Canada in 1993 before NAFTA went into effect was a \$17.2 billion deficit. That consisted of a \$30 billion goods trade deficit and a \$12.9 billion services surplus. In 2015, the last year for which full annual data is now available, the U.S. goods and services trade balance with Canada was a \$34.6 billion deficit. That consisted of a \$62 billion goods trade deficit and a \$27.4 billion services surplus.

Mexico NAFTA deficit: In 1993, the U.S. goods and services trade balance with Mexico was a \$7.3 billion surplus. That consisted of a \$2.6 billion goods trade surplus and a \$4.7 services surplus. In 2015, the U.S. goods and services trade balance with Mexico was a \$99.7 billion deficit. That consisted of a \$109.3 billion goods trade deficit and a \$9.6 billion services surplus.

Defenders of NAFTA argue that the NAFTA deficit is really only due to fossil fuel (oil, coal, and gas) imports. For instance, in 2016 the USTR website noted: “The largest factor affecting the trade balance with NAFTA countries is the importation of fossil fuels and their byproducts. If those products are excluded, there is no deficit. In fact, the United States has a large and growing trade surplus in goods...” That is simply false: even if one removes all of the fossil fuel categories from the NAFTA trade balance, the remaining 2016 NAFTA goods trade deficit was \$145.1 billion. Moreover, the share of the U.S. NAFTA goods trade deficit that is comprised of fossil fuels has declined under NAFTA (from 82 percent in 1993 to 16 percent in 2016) as we have faced a surge of imported manufactured and agricultural goods.⁴ As a result, minus fossil fuels our NAFTA goods *and services* deficit in 2015 was \$90 billion, which represents a large U.S. deficit with Mexico and Canada in manufactured and agriculture goods.

U.S. manufacturing and services exports in particular grew slower after NAFTA took effect. Since NAFTA’s enactment, annual growth in U.S. manufacturing exports to Canada and Mexico has fallen 69.5 percent below the annual rate seen in the years before NAFTA.⁵ Even growth in services exports, which were supposed to do especially well under NAFTA given a presumed U.S. comparative advantage in services, dropped precipitously after NAFTA’s implementation. Annual growth of U.S. services exports to Mexico and Canada since NAFTA has fallen to less than half the pre-NAFTA rate.⁶

Massive U.S. Jobs Losses due to NAFTA

The Economic Policy Institute (EPI) estimated that the rising U.S. trade deficit with Mexico and Canada under NAFTA had already eliminated about one million net jobs in the United States by 2004.⁷ EPI estimates that about one third of the jobs lost due to the rising trade deficit under NAFTA’s first decade were in non-manufacturing sectors of the economy, including service sector jobs, which suffered as closed factories no longer demanded services.⁸ EPI further calculated that the ballooning trade deficit *with Mexico alone* destroyed about 850,000 net U.S. jobs between NAFTA’s implementation and 2013.⁹ This toll has likely grown since 2013, as the non-fossil fuel U.S. trade deficit with Mexico has risen further.¹⁰

Moreover, data from the U.S. Bureau of Labor Statistics reveals that nearly 4.5 million U.S. manufacturing jobs have been lost overall since NAFTA took effect.¹¹ Obviously, not all of these lost U.S. manufacturing jobs – one out of every four of our manufacturing jobs – are due to NAFTA. The United States entered the World Trade Organization (WTO) in 1995, China joined the WTO in 2000 and the U.S. trade deficit with China soared thereafter, contributing to the manufacturing job loss.¹² To see a state-by-state breakdown of

manufacturing job losses since enactment of NAFTA and the WTO, visit Public Citizen's job loss map at <http://www.citizen.org/job-loss-map>.

While EPI's estimates of the job losses resulting from NAFTA summarize the overall effect of the growing NAFTA trade deficit, the government itself tracks some of the layoffs known to have specifically occurred due to imports or offshoring, through a government program called Trade Adjustment Assistance (TAA). The TAA program is quite narrow, only covering a subset of the jobs lost at manufacturing facilities. For years, it also excluded a portion of the jobs that were directly relocated to Mexico or Canada. The original NAFTA TAA program was also difficult to qualify for, which led some unions to direct workers to other assistance programs. Thus, the NAFTA TAA numbers significantly undercount NAFTA job loss. Still, by December 2016, more than 900,000 workers have been certified as having lost their jobs due to imports from Canada and Mexico or the relocation of factories to those countries.¹³ To see the full set of TAA-certified job losses – searchable by company, product, congressional district and city – visit Public Citizen's TAA database at <http://www.citizen.org/taadatabase>.

Wages Decline Due to NAFTA

Trade affects the *composition* of jobs available in an economy. The aggregate *number* of jobs available can be better explained by fiscal and monetary policy, the impacts of recessions and other macroeconomic realities. The United States lost millions of manufacturing jobs during the NAFTA era, but overall unemployment has been largely stable (excluding the fallout of the Great Recession) as new low-paying service sector jobs have been created. Proponents of NAFTA raise the *quantity* of jobs to claim that NAFTA has not hurt U.S. workers. But what they do not mention is that the *quality* of jobs available, and the wages most U.S. workers can earn, have been degraded.

According to the U.S. Bureau of Labor Statistics, two out of every five displaced manufacturing workers who were rehired in 2016 experienced a wage reduction. One out of every four displaced manufacturing workers took a pay cut of greater than 20 percent.¹⁴ For the average manufacturing worker earning more than \$38,000 per year, this meant an annual loss of at least \$7,700.¹⁵

Such displacement not only spells wage reductions for former manufacturing workers, but also for existing service sector workers. As increasing numbers of workers displaced from manufacturing jobs have joined the glut of workers competing for non-offshorable, low-skill jobs in sectors such as hospitality and food service, real wages have also fallen in these sectors under NAFTA.¹⁶

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 at more than two times that pace.¹⁷

U.S. Economic Inequality Reaches New Extremes

There is abroad academic consensus that trade flows have contributed to rising U.S. income inequality. The only debate is *the extent* of trade's role in creating a situation in which the richest 10 percent of Americans are now taking more than half of the economic pie, while the top 1 percent is taking more than one fifth. Since NAFTA's implementation, 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.¹⁸

NAFTA has placed downward pressure on wages for the middle and lower economic classes by forcing decently-paid U.S. manufacturing workers to compete with imports made by poorly-paid workers abroad. The resulting displacement of those decently-paid U.S. workers has further depressed middle class wages by adding to the surplus of workers seeking lower-paying service sector jobs.

NAFTA also contributes to rising inequality by enabling employers to threaten to move their companies overseas during wage bargaining with workers. For instance, a Cornell University study commissioned by the NAFTA Labor Commission found that, after the 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.¹⁹

NAFTA-style deals also dampen middle class wages by waiving the government procurement rules in place since the New Deal that required the government to reinvest tax dollars into purchasing American-made goods. The agreement also forbids federal and state governments from requiring that only U.S. workers perform the jobs created by the outsourcing of government work. Under NAFTA, Mexican and Canadian firms – and goods from those countries – must be treated as if they were American. Waiving Buy American procurement policies means our tax dollars are offshored rather than reinvested to create jobs here. And, NAFTA's limits on permissible procurement policy also subject prevailing wage laws (designed to ensure good wages for construction work) and other conditions for receiving government contracts to challenge in NAFTA tribunals as violations of the agreement.

Even proponents of NAFTA admit that trade pressures have likely contributed to today's historic degree of inequality. The pro-NAFTA PIIE has estimated that 39 percent of observed growth in U.S. wage inequality is attributable to trade trends.²⁰

Wage Losses Outweigh Cheaper Consumer Prices under NAFTA-style Trade

Many proponents of NAFTA-style trade pacts acknowledge that they will cause the loss of some U.S. jobs, but argue that U.S. workers still win overall by being able to purchase cheaper goods imported from abroad. First, this promise has failed to materialize for many critical consumer items, such as food. Despite a 203 percent rise in food imports from Canada and Mexico under NAFTA,²¹ the average nominal price of food in the United States has jumped 73 percent since the deal went into effect.²²

Second, even those reductions in consumer goods prices that have materialized have not been sufficient to offset the losses in wages under NAFTA. The Center for Economic and Policy Research has discovered that when comparing the lower prices of cheaper goods to the income lost from low-wage competition under current trade policy, the trade-related losses in wages outweigh the gains in cheaper goods for the vast majority of U.S. workers. U.S. workers without college degrees (58 percent of the workforce) have likely lost an amount equal to 12.2 percent of their wages under NAFTA-style trade even after accounting for the benefits of cheaper goods. That means a net loss of more than \$3,300 per year for a worker earning the median annual wage of \$27,500.²³

ENDNOTES

¹ Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment*, (Washington, D.C.: Institute for International Economics, 1993), at 14.

² For this paragraph and the accompanying graph: U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 3, 2017. Available at: <http://dataweb.usitc.gov>. Exports are domestic exports and imports are imports for consumption. Figures are adjusted to 2015 dollars using the CPI-U-RS from the Congressional Budget Office.

³ U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 3, 2017. Available at: <http://dataweb.usitc.gov>. Exports are domestic exports and imports are imports for consumption, adjusted for inflation. Data is a comparison of the compound annual growth rates of the combined balance of the respective countries from 1993 through 2015.

⁴ Trade in fossil fuels is defined as HS 27.

⁵ U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed March 3, 2017. Available at: <http://dataweb.usitc.gov>. Manufacturing exports are defined as NAIC 31, 32, and 33 from 1997-2016, and as SIC 2 and 3 from 1989-

1996. (Pre-1989 data is not available.) The statistic is a comparison of the pre- and post-NAFTA compound annual growth rates of inflation-adjusted manufacturing exports to Mexico and Canada.

⁶ U.S. Bureau of Economic Analysis, “International Transactions, International Services, and International Investment Position Tables,” accessed May 20, 2015. Available at: <http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&i-suri=1>. The statistic is a comparison of the pre- and post-NAFTA compound annual growth rates of inflation-adjusted services exports to Mexico and Canada (from 1986 – the earliest year of data availability – through 1993 and from 1993 through 2015).

⁷ Robert E. Scott, Carlos Salas, and Bruce Campbell, “Revisiting NAFTA: Still Not Working for North America’s Workers,” Economic Policy Institute, Briefing Paper 173, Sept. 28, 2006. Available at: <http://s2.epi.org/files/page/-old/briefingpapers/173/bp173.pdf>.

⁸ Robert E. Scott, Carlos Salas, and Bruce Campbell, “Revisiting NAFTA: Still Not Working for North America’s Workers,” Economic Policy Institute, Briefing Paper 173, Sept. 28, 2006, at 20. Available at: <http://s2.epi.org/files/page/-old/briefingpapers/173/bp173.pdf>.

⁹ Robert E. Scott, Economic Policy Institute, “The effects of NAFTA on US trade, jobs, and investment,” <https://ideas.repec.org/a/elg/rokejn/v2y2014i4p429-441.html>.

¹⁰ U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” Dec. 23, 2016. Available at: <http://dataweb.usitc.gov>. Exports are domestic exports and imports are imports for consumption. Trade in fossil fuels is defined as HS 27.

¹¹ U.S. Bureau of Labor Statistics, Current Employment Statistics survey, series ID CES3000000001, manufacturing industry, U.S. Department of Labor, extracted Dec. 23, 2016. Available at: <http://www.bls.gov/ces/>.

¹² Robert Scott, “The China Toll: Growing U.S. Trade Deficit with China Cost More than 2.7 Million Jobs between 2001 and 2011, with Job Losses in Every State,” Economic Policy Institute, Briefing Paper 345, Aug. 23, 2012. Available at: <http://s4.epi.org/files/2012/bp345-china-growing-trade-deficit-cost.pdf>.

¹³ Public Citizen, Trade Adjustment Assistance Database, 2017, accessed March 3, 2017. Available at: <http://www.citizen.org/taadatabase>.

¹⁴ U.S. Bureau of Labor Statistics, “Displaced Workers Summary,” Table 7, U.S. Department of Labor, Aug. 25, 2016. Available at: http://www.bls.gov/news.release/disp_nr0.htm.

¹⁵ U.S. Bureau of Labor Statistics, “May 2012 National Industry-Specific Occupational Employment and Wage Estimates: Sectors 31, 32, and 33 – Manufacturing,” Occupational Employment Statistics, U.S. Department of Labor, accessed Dec. 23, 2016. Available at: http://www.bls.gov/oes/current/naics2_31-33.htm#00-0000.

¹⁶ U.S. Bureau of Labor Statistics, Current Employment Statistics survey, series ID CEU7072000003, accommodation and food services industry, U.S. Department of Labor, extracted Dec. 23, 2016. Available at: <http://www.bls.gov/ces/>.

¹⁷ Average wage data for 1993-2016 from Bureau of Labor Statistics’ Current Employment Statistics survey, series CEU0500000008, U.S. Department of Labor, extracted Dec. 23, 2016. Available at: <http://www.bls.gov/ces/>. Productivity data from Bureau of Labor Statistics’ Major Sector Productivity and Costs index, series ID PRS88003093, U.S. Department of Labor, extracted Dec. 23, 2016. Available at: <http://www.bls.gov/lpc/>. The statistic is a comparison of the compound annual growth rates for inflation-adjusted average hourly earnings and labor productivity from 1993 through 2016.

¹⁸ Thomas Piketty and Emmanuel Saez, “The Evolution of Top Incomes: A Historical and International Perspective,” National Bureau of Economic Research, Paper 11955, Jan. 2006, numbers updated through 2015 in a Sept. 2016 extract. Available at: <http://www.econ.berkeley.edu/~saez/>.

¹⁹ Kate Bronfenbrenner, “The Effects of Plant Closing or Threat of Plant Closing on the Right of Workers to Organize,” North American Commission for Labor Cooperation Report, 1997.

²⁰ William Cline, *Trade and Income Distribution*, (Washington, D.C.: Peterson Institute for International Economics, 1997). For analysis of this and other studies on trade and income inequality, see <http://www.citizen.org/documents/trade-and-income-inequality.pdf>.

²¹ Foreign Agricultural Service, “Global Agricultural Trade System,” U.S. Department of Agriculture, accessed March 3, 2017. Available at: <http://apps.fas.usda.gov/gats/default.aspx>. “Food” includes the following HTS 2-digit codes: meat/poultry, fish/seafood, dairy, vegetables, fruits/nuts, coffee/tea/spices, milling products, meat/fish preparations, animal/vegetable fats, sugars/confectionary, cocoa products, cereal/flour preparations, vegetable/fruit/nut preparations, miscellaneous edible preparations and beverages.

²² Bureau of Labor Statistics, “Consumer Price Index Database,” CPI for food at home for all urban consumers, Series ID CUUS0000SAF11, U.S. Department of Labor, extracted Dec. 20, 2016. Available at: <http://www.bls.gov/cpi/>.

²³ Dean Baker and Mark Weisbrot, “Will New Trade Gains Make Us Rich?” Center for Economic and Policy Research (CEPR) Paper, Oct. 2001. Available at: http://www.cepr.net/documents/publications/trade_2001_10_03.pdf. The share of workforce without a college degree comes from U.S. Census Bureau, “Educational Attainment in the United States: Table 2. Educational Attainment of the Population 25 Years and Over, by Selected Characteristics: 2015,” Dec. 2016. Available at: <http://www.census.gov/>

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