



THE TEN YEAR TRACK RECORD OF THE NORTH AMERICAN FREE TRADE AGREEMENT U.S. WORKERS' JOBS, WAGES AND ECONOMIC SECURITY

January 1, 2004 marks the tenth anniversary of the North American Free Trade Agreement's implementation. NAFTA promoters — including many of the world's largest corporations — promised it would create hundreds of thousands of new high-wage U.S. jobs, raise living standards in the U.S., Mexico and Canada, improve environmental conditions and transform Mexico from a poor developing country into a booming new market for U.S. exports. NAFTA opponents — including labor, environmental, consumer and religious groups — argued that NAFTA would launch a race-to-the-bottom in wages, destroy hundreds of thousands of good U.S. jobs, undermine democratic control of domestic policy-making and threaten health, environmental and food safety standards.

Why such divergent views? NAFTA was a radical experiment — never before had a merger of three nations with such different levels of development been attempted. Plus, until NAFTA, "trade" agreements only dealt with cutting tariffs and lifting quotas setting terms of trade in goods between countries. But NAFTA contained 900 pages of one-size-fits-all rules to which each nation was required to conform all of its *domestic laws* — regardless of whether voters and their democratically-elected representatives had previously rejected the very same policies in Congress, state legislatures or city councils. NAFTA required limits on the safety and inspection of meat sold in grocery stores; new patent rules that raised medicine prices; constraints on local government's ability to zone against sprawl or toxic industries; and elimination of preferences for spending your tax dollars on U.S.-made products or locally-grown food. Calling NAFTA a "trade" agreement is misleading, NAFTA is really an investment agreement. Its core provisions grant foreign investors a remarkable set of new rights and privileges that promote relocation abroad of factories and jobs and the privatization and deregulation of essential services, such as water, energy and health care.

Remarkably, many of NAFTA's most passionate boosters in Congress and among economists never read the agreement. They made their pie-in-the-sky promises of NAFTA benefits based on trade theory and ideological prejudice for anything with the term "free trade" attached to it. Now, ten years later, the time for conjecture and promises is over: the data are in and they clearly show the damage NAFTA has wrought for millions of people in the U.S., Mexico and Canada. Thankfully, the failed NAFTA model — a watered down version of which is also contained in the World Trade Organization (WTO) — is merely one among many options. Throughout the world, people suffering with the consequences of this disastrous experiment are organizing to demand the better world we know is possible. But, we face a race against time. The same interests who got us into NAFTA are now pushing to expand it and lock in 31 more countries in Latin American and the Caribbean through the proposed Free Trade Area of the Americas (FTAA) and five Central American countries through a Central American Free Trade Agreement (CAFTA).

Ten years of economic data belie the promises of broad economic benefits that NAFTA's promoters used to sell the pact to a skeptical U.S. public. We were promised that NAFTA would result in a growing U.S. trade surplus with Mexico that would create new U.S. jobs. Instead NAFTA has turned a modest U.S. trade surplus with Mexico into a huge new NAFTA trade deficit and the U.S. trade deficit with Canada has increased fivefold. We were promised 170,000 new U.S. jobs would be created annually by NAFTA. When unprecedented U.S. economic growth in the 1990s created jobs at a fairly rapid rate, the hundreds of thousands of full-time, high-wage, benefit-paying manufacturing jobs that were being lost to NAFTA were masked. But the U.S. lost three million manufacturing jobs — 1 in 6 jobs in that sector — during NAFTA and some 525,000 U.S. workers have been specifically certified as NAFTA job-loss victims under just one narrow government retraining program.

NAFTA's rules provided new incentives to relocate production: "foreign investors" — meaning U.S. companies relocating to Mexico — received both special investor protections and preferential access for finished products shipped back to the U.S. Meanwhile, many workers who have lost high-wage, benefits-paying manufacturing jobs have only found new work in service sector positions that typically pay 23-77 percent less than their previous wages and offer few or no benefits. NAFTA's transformation of the kinds of jobs available to the 75 percent of Americans who do not have a college degree has contributed to stagnant wage levels that have destroyed the economic security of millions of American families. From 1946-73, there was an 80% gain in median wages. Yet from 1973-2000, U.S. median wages have been almost flat, even though trade now represents two times the share of U.S. economic activity than it did thirty years ago.¹

And, after ten years of NAFTA the prediction of trade theory — that increased trade liberalization will increase income inequality — has become reality, with stark empirical data revealing disparities not seen since the Robber Baron age. As economic growth slowed in recent years, NAFTA's full wreckage has emerged. In every region of the country, towns have been devastated by serial plant closings, mass layoffs, the slow death of main street businesses once patronized by the suddenly unemployed, and the consequent crash in tax revenues that once supported local schools, hospitals and other essential services. The outrage of millions of Americans hurt by our failed trade policy has catapulted the issue to the top of the Democratic presidential primary debate.

NAFTA HAS INCREASED U.S. TRADE DEFICITS WITH CANADA AND MEXICO

The NAFTA decade has featured greatly accelerated U.S. trade imbalances with both Mexico and Canada. Large trade imbalances have serious implications for jobs and economic growth because large deficits mean that consumers are buying far more goods produced by foreign workers than goods made domestically.² This in turn leads to high job losses and low levels of job creation. In 2002, the total U.S. trade deficit was a staggering \$436 billion. Even U.S. Federal Reserve Chairman Alan Greenspan — a free trade cheerleader — refers to this huge trade deficit as an “unsustainable” drag on U.S. economic growth.³ By 2002 combined U.S. trade deficits with both NAFTA partners accounted for almost 20 percent of this total trade deficit — \$85 billion!

In 1993, pro-NAFTA economists confidently predicted that implementation of NAFTA would result in a \$9 billion U.S. trade surplus with Mexico within two years. Two years later, the U.S. had a \$15 billion trade *deficit* with Mexico. The annual deficit has only grown through the decade — with the U.S. exporting \$37 billion less to Mexico than it imported from there in 2002.

NAFTA supporters tried to explain away the new deficit as being caused by a major devaluation of the Mexican currency in 1995 — which they also claimed had nothing to do with NAFTA. First, the unfortunate truth is that the peso had been intentionally and artificially overvalued as part of the campaign to sell NAFTA. The overvalued peso kept Mexican labor costs higher, made Mexican imports more expensive and thus helped create the \$1.3 billion trade surplus the U.S. had with Mexico the year NAFTA passed. This surplus helped win support for NAFTA in the U.S. Congress by creating the illusion that NAFTA might be a net job creator instead of a job loser for American workers.⁴ Second, a review of non-NAFTA countries' trade balances with Mexico proves that the growing U.S. trade deficit with Mexico is about NAFTA, not Mexico's currency problems. The European Union and China, which enjoyed trade surpluses with Mexico in the

early 1990s, maintained those surpluses throughout the decade—unaffected by the peso crash.

Meanwhile, under NAFTA, the U.S. trade deficit with Canada has increased almost fivefold to \$48 billion in 2002.⁵ U.S. exports to Canada rose 63 percent between 1993 and 2001, but these were outpaced by imports which grew by 96 percent across the same period.⁶

According to the Congressional Research Service, U.S. imports from Mexico increased 229 percent between 1993 and 2001 — while U.S. exports to Mexico rose only 144 percent over this period. As grim as these numbers are, they only tell half the story: a large proportion of what is counted as U.S. “exports” to Mexico have been parts and components that are shipped to Mexico for assembly, never enter the Mexican domestic economy, but rather are returned to the U.S. for sale as finished goods. By 1999, these “industrial tourist” exports accounted for more than 60 percent of all U.S. exports to Mexico.⁷

When corporate and government NAFTA boosters try to defend NAFTA now, they not only count these industrial tourists as exports, but they *only* focus on the increase in U.S. exports to Mexico and Canada under NAFTA — and never mention the much bigger increase in imports. Yet, we all know what happens if you only count the deposits but not the withdrawals to your checking account!

It is also important to look closely at the types of goods that the U.S. is importing from Mexico and Canada under NAFTA. Back in the early 1990s, the pro-NAFTA lobby told us that under NAFTA, Mexico would sell the U.S. mostly low-end basic goods, such as T-shirts, and we would sell Mexico expensive value-added products, such as computers. In fact, the new NAFTA trade deficit has been driven by rapid increases in Mexican exports of high tech and high quality manufactured goods from foreign-owned factories — particularly computer equipment (1077 percent), automotive parts and vehicles (294 percent), and chemicals and allied products (154 percent).⁸ Most of the U.S. NAFTA deficit with Canada also is attributable to increased imports of high-end manufactured goods ranging from transportation equipment, motor vehicles equipment and parts, to electrical and electronic machinery, equipment and supplies.⁹

MILLIONS OF HIGH-QUALITY JOBS LOST

Promises that NAFTA would create hundreds of thousands of new high-quality U.S. jobs were central to the pro-NAFTA campaign. Using a formula that estimated 13,000 new jobs for each \$1 billion in trade surplus, one pro-NAFTA economist famously predicted that NAFTA would create 170,000 new U.S. jobs within its first two years — with job creation from NAFTA growing from then on.¹⁰

But, NAFTA did not result in the promised increases in U.S. trade surpluses with Canada and Mexico. If you plug the *actual* trade deficit numbers into the formula used to generate the infamous 170,000 job gain number endlessly repeated by NAFTA boosters, the result is a loss of nearly

nine million U.S. jobs in 2002 alone! Some economists have designed more careful, accurate formulas to measure NAFTA's job effects. For instance, three years ago the Economic Policy Institute concluded that by 2000 NAFTA already had cost the United States 766,000 jobs and job opportunities (jobs that would have existed without NAFTA's incentives to relocate factories.)¹¹ Since then, the rate of manufacturing job loss has accelerated greatly.

Data on applications to one government program reveal some of the specific U.S. jobs lost to NAFTA. The NAFTA-TAA (Trade Adjustment Assistance) program — which was terminated in 2002 — provided income support and job search and training allowances to workers who lost their jobs as a direct result of cheaper Canadian or Mexican imports, or when their plant was relocated to one of those countries. Between 1994 and the end of 2002, 525,094 specific U.S. workers were certified for assistance under this government program. NAFTA-TAA has since been merged into a general TAA program¹² — making it harder to track the specific NAFTA job casualties.

But, even when NAFTA-TAA existed, many workers who lost jobs or significant income as a result of NAFTA did not even apply. There was no required posting of information regarding the program in workplaces or public government agency offices. Plus, many affected workers were not covered — for instance when an auto assembly plant relocated to Mexico, its workers could qualify for NAFTA-TAA, but workers in a plant next door which provided parts for the relocated plant were excluded as were all service workers from truckers delivering the cars to local restaurants and stores the workers had patronized. Plus, many unions directed workers towards other assistance programs with less onerous filing requirements — meaning that the NAFTA-TAA number is a significant undercount of NAFTA job loss although it does provide us with important information about some of the lost jobs, including what sorts of jobs were lost and where.

WAGES STAGNANT FOR MILLIONS OF U.S. WORKERS

NAFTA has had serious implications for the wages and benefits of workers in the besieged manufacturing sector. In November 1993, the National Association of Manufacturers released *NAFTA We Need It*, a collection of anecdotes from more than 250 companies describing how their businesses would grow and they would create U.S. jobs if NAFTA was passed. Not only have most of these promises remained unmet, but many of the companies that promised to create jobs are prominently listed in the NAFTA-TAA database as having laid off workers and moved their production facilities to Mexico or Canada.¹³

While many supporters argued in 1993 that NAFTA could help close the wages gap between Mexican and American workers, this gap has only increased since NAFTA came into effect. In 1993, Mexican hourly compensation costs for production workers in manufacturing were 14.5 percent of those for their

counterparts in the United States; by 2001, they had fallen to 11.5 percent of U.S. costs.¹⁴

Many factors have contributed to the lack of wage growth in the U.S. After NAFTA's investor protections and preferential market access rules made it easier and less risky for companies to relocate their production facilities to Mexico, management also has become more likely to threaten relocation as a means of countering worker demands for wage or benefit improvements increases — especially when workers seek to organize a union to demand their rights. A Cornell University study reviewed over 400 union certification campaigns and found that threats to close plants were made in 68 percent of campaigns in mobile industries (such as manufacturing, communications and wholesale/distribution). Where threats to close were made, 18 percent of the employers directly threatened to move to another country, typically Mexico, if the union succeeded. The study also found an increase in such threats of relocation made after NAFTA came into effect relative to before NAFTA, and that unions had lower success rates in campaigns where threats to close were used (38 percent), than in campaigns where no such threats were made (51 percent).

Union representation is a powerful tool for workers to demand better wages. Yet, the unionized percentage of the manufacturing workforce has suffered the steepest decline of any sector (47 percent) from 1983-2000. By comparison, unionization rates in the construction industry fell by 33.5 percent over the same period, even though it started at an almost identical level as in the manufacturing sector. Although other factors have also hurt unionization efforts in the manufacturing industry, it is reasonable to believe that import competition and increased incentives to relocate production facilities have weakened workers' bargaining power and exerted downward pressure on wages since NAFTA's implementation.¹⁵

The flawed and largely symbolic labor side agreement (that was supposed to prevent each country from gaining a competitive advantage in trade by failing to enforce labor laws) has failed to live up to its very limited potential. Workers and unions have tried to bring cases in instances when egregious labor violations have occurred, but none have been able to move beyond the apparently terminal “ministerial consultations” stage of the process.

COMPOSITION OF THE U.S. WORKFORCE HAS SHIFTED AWAY FROM MANUFACTURING

NAFTA's shrinking league of defenders typically insist that while trade liberalization leads to job losses in certain “inefficient” industries, “export” jobs will pay higher than average wages and thus more than offset any losses that occur. The assumptions underlying this claim actually prove the opposite point. The reason “export” jobs pay more than the national average is because they are manufacturing jobs. Yet, the greatest jobs losses due to NAFTA have been

precisely these very manufacturing jobs. Thus, it is not surprising that a government study commissioned by NAFTA and WTO supporter Representative Donald Manzullo (R-Ill.) found that jobs lost to imports —again primarily jobs in the manufacturing sector—paid higher than average U.S. wages.¹⁶ Other investigations by the New York Times and the Economic Policy Institute found similar patterns of high-wage manufacturing jobs being replaced with low-wage services jobs that often do not include benefits.

The nation's largest employer is now Wal-Mart which, according to a recent study by *Forbes* magazine, pays its employees an average wage of \$7.50/ hour (\$18,000 a year).¹⁷ Government projections indicate that outside of computing-related positions (which are among the 3 million high tech and professional jobs that are forecast to be “outsourced” to cheaper labor overseas in the next ten years in the latest round of corporate cost-cutting), the greatest U.S. job growth is expected to be in such occupations as food preparation and service, customer service representatives, security guards, medical assistants and personal and home care aides.¹⁸

INCREASED INCOME INEQUALITY

Nearly all economists agree that trade liberalization has been one of the key factors that has contributed to increased income inequality in the U.S. in the last two decades. Both economic theory and the results of recent

trade liberalization suggest that its effect is to increase corporate profits and the income of highly educated workers at the expense of less educated workers. Even without taking into account the impact of the union-busting effects described above on the wages of less educated workers, trade liberalization is estimated to account for between 10 and 39 percent of recent increases in income inequality.¹⁹

Using estimates made by pro-NAFTA economists of the impact of trade on income inequality and adding to it the indirect impact of trade on workers' wages via de-unionization and other factors, economists from the Center for Economic Policy Research estimate that trade liberalization has cost the 75 percent of 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!

NAFTA has aggravated the problem of deindustrialization and helped perpetuate the stagnation of real wages for millions of hard-working Americans and their families. Real wages in the U.S. for workers with a high school education have fallen steadily over the past three decades. In 1973, the real hourly wage for high-school graduates peaked at \$13.36, a level to which they had still not returned by 2001—even after the sustained economic boom of the late 1990s.²⁰ In contrast, U.S. corporate profits rose by 88 percent in the 1990s alone and CEO pay rose by 463 percent.

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¹ Wesibrot, Mark. 2000. “Globalization for Dummies.” Harpers (May), p. 15.

² For a more detailed explanation of these relationships and their mechanics, please see the Economic Policy Institute's studies, “NAFTA's Casualties” (1997) and “Fast Track to Lost Jobs” (2001).

³ Hill, Patrice. 2003. “Strong Dollar Loses Its Grip: Challenge Awaits Treasury Chief.” *Washington Times*, January 27.

⁴ See Blecker, Robert. 1997. “NAFTA and the Peso Collapse: Not Just a Coincidence.” Economic Policy Institute report, May 1997.

⁵ US Census Bureau. Foreign Trade Statistics, “Trade Balance by Country” <http://www.census.gov/foreign-trade/balance/index.html>, September 11, 2003.

⁶ Villareal, M. Angeles. 2003. “Industry Trade Effects Related to NAFTA.” *Congressional Research Service Report RL31386*, Updated February 3.

⁷ Shaiken 2001, p. 245. Based on Mexican government data.

⁸ Villareal, 2003.

⁹ Scott, Robert E. 2001. “Distorting the Record: NAFTA's promoters play fast and loose with the facts.” *EPI Issue Brief*, July 13. www.epinet.org; and Census Bureau data, 2001-02

¹⁰ Hufbauer, Gary, and Jeffrey J. Scott. NAFTA: An Assessment. Institute for International Economics.

¹¹ Scott, Robert E. 2001. “Nafta's Hidden Costs”, in the Economic Policy Institute report, *NAFTA at Seven*.

¹² A regularly-updated, searchable database of NAFTA-TAA and TAA certifications is maintained by Public Citizen's Global Trade Watch at <http://www.citizen.org/trade/>

¹³ See Public Citizen's 1997 report, *NAFTA's Broken Promises: Failure to Create U.S. Jobs*.

¹⁴ 1993 figures from AFL-CIO report “NAFTA's Seven-year Itch” (2001), 2001 figure from US Department of Labor, Bureau of Labor Statistics, “International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 2001.” Table 2. These costs include pay for overtime worked, other direct pay (including holiday and vacation pay, bonuses, other direct payments, and the cost of pay in kind), employer expenditures for legally required insurance programs and contractual and private benefit plans, and, for some countries, labor taxes.

¹⁵ Wallach, Lori, and Patrick Woodall. 2004. *Whose Trade Organization? The Comprehensive Guide to the WTO*. The New Press.

¹⁶ “Trade in the Americas: Beyond the Santiago Summit.” Hearing before the Subcommittee on International Economic Policy and Trade of the U.S. House Committee on International Relations. April 29, 1998. On file with Public Citizen.

¹⁷ Cited in Meyerson, Harold. 2003. “In Wal-Mart's America.” *The Washington Post*, August 27.

¹⁸ U.S. Department of Labor, Bureau of Labor Statistics. “Occupational employment projections to 2010” at Table 4, published in the November 2001 Monthly Labor Review.

¹⁹ Paul Krugman (10 percent); William Cline (39 percent/ 1973-93), p. 153 WTO book; US Trade Deficit Review Commission, 2000.

²⁰ Mishel, Lawrence, Jared Bernstein and Heather Boushy/ Economic Policy Institute. 2002. *The State of Working America 2002-03*. Ithaca, N.Y.: Cornell University Press.