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Debunking USTR Claims in Defense of NAFTA: The Real NAFTA Score 2008

NAFTA is a hot-button issue in the 2008 races. Given polling shows that the vast majority of Americans think NAFTA was a damaging mistake, the George W. Bush administration and other defenders of the NAFTA status quo have been put on the defensive. In response, administration officials and pro-NAFTA pundits have gone into spin mode, recycling discredited claims about the pact, or suggesting that the facts are too complicated to make an assessment. Bush's U.S. Trade Representative (USTR) recently put out a set of talking points in this vein.[1] But the USTR's claims are misleading, as the facts below show.

Bush Claim 1: "From 1993 to 2007, trade among the NAFTA nations more than tripled, from $297 billion to $930 billion."

Fact: Increased trade flows can benefit an economy, as long as they do not lead to unsustainable deficits. The administration fails to note that much of the increased volume of trade under NAFTA was a massive surge in imports into the United States – resulting in a 691 percent increase in the U.S. NAFTA trade deficit, which puts the U.S. and North American economies at risk.

A small pre-NAFTA U.S. trade surplus with Mexico in 1993 reversed into a $91 billion deficit in 2007, while a pre-NAFTA deficit with Canada grew exponentially. NAFTA foreign investor protections, which remove most of the risks otherwise associated with offshore production – coupled with the high dollar policies of the Clinton administration – acted as a subsidy to the offshoring of U.S. jobs. The result? A 691 percent increase in the United States' combined trade deficit with Canada and Mexico, from $24 billion in 1993 to $190 billion in 2007.[2] This artificially induced, distorted composition of trade flows – shaped by specific rules in NAFTA – puts the entire region at risk.[3]

Bush Claim 2: "U.S. employment rose from 110.8 million people in 1993 to 137.6 million in 2007, an increase of 24 percent. The average unemployment rate was 5.1 percent in the period 1994-2007, compared to 7.1 percent during the period 1980-1993."

Fact: Trade affects the composition of jobs, not the total number. 3 million net U.S. manufacturing jobs were lost during NAFTA.

This Bush claim is particularly sly, as the administration's economists know that total employment numbers and unemployment rates are not typically affected by trade policy, but by central bankers who set interest rates. In fact, labor force growth is simply income growth minus productivity growth. Thus, if income growth were 2 percent and productivity growth were 1 percent, this would imply a labor force growth rate of 1 percent, or roughly 1.4 million jobs – irrespective of trade flows.

What trade policy affects is the *composition* of jobs in the economy, in particular tradable sectors like manufacturing. In fact, the original claim by NAFTA boosters in 1993 that the pact would lead to 170,000 annual U.S. job gains was premised on the projection that the United States would run a growing trade surplus with Mexico.[4] The opposite proved true, but the boosters' methodology makes clear that groups on both sides of the NAFTA debate originally agreed that the pact's effect on U.S. workers should be measured through the trade balance. Once NAFTA critics' projection of an increase in trade deficits proved true, pro-NAFTA analysts have tried to change the metrics away from the pact's damaging effect on U.S. workers and on to focus on the combined import-export volume of trade flows or on overall U.S. employment rates.

Here are the more relevant numbers: U.S. manufacturing employment declined from 16.8 million people in 1993 to 13.9 million people in 2007, a decrease of nearly 3 million manufacturing jobs, and nearly 20 percent of the total.[5] Moreover, the $190 billion U.S. trade deficit with NAFTA countries – as a simple accounting matter – corresponds to manufacturing jobs that could have been here. The Economic Policy Institute estimates that the United States could have had over one million additional manufacturing jobs had there been trade balance between NAFTA countries alone. *This figure subtracts from the NAFTA trade deficit our oil and gas trade deficit,*[6] *which has always been significant, although it has shrunk 40 percent as a share of our total deficit since the deal went into effect.*[7]

Bush Claim 3: "U.S. manufacturing output rose by 58 percent between 1993 and 2006, as compared to 42 percent between 1980 and 1993. Manufacturing exports in 2007 reached an all time high with a value of $982 billion."

Fact: The proper measure is U.S. manufacturing value-added – and that increased at the same rate before and after NAFTA. The misleading figure used by the Bush administration – manufacturing output – is large because it does not measure only U.S. manufacturing value-added, but includes the value of imported parts and inputs that contribute to the trade deficit.

The manufacturing output measure used by the Bush administration fails to subtract the value of imported auto parts and other imported inputs to U.S. production. U.S. manufacturing value-added, a more appropriate measure, increased 13 percent between 1993 and 2006 – the exact same rate as between 1980 and 1993.[8] Parts manufacturing is among the most labor-intensive aspects of manufacturing, so offshore outsourcing of parts can strongly impact working people. Finally, manufacturing imports in 2007 reached an all time high with a value of $1.5 trillion, or nearly 70 percent more than manufacturing exports.[9]

Bush Claim 4: Rising wages over 1993-2007 relative to 1979-1993 show NAFTA's success.

Fact: Actually, U.S. median wages in inflation-controlled terms have scarcely risen in a generation, in no small part thanks to "labor arbitrage" between U.S. workers and low wage workers offshore, and the replacement of higher paying manufacturing jobs with lower paying service sector jobs. The Bush administration has manipulated the time periods it is citing to find tiny wage gains that it can generalize to be "rising wages."

Economists have known for over 60 years that non-professional workers in developed countries like the United States will face downward wage pressure when trade policy creates a selective form of "free trade"

in goods that non-professional workers produce.[10] Indeed, U.S. real wages began to stagnate since the 1970s, when the United States began running ever-increasing trade deficits, composed increasingly of manufacturing imports – once produced domestically at high wages – from low-wage nations. In 1973, the average 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' average productivity nearly doubled.[11]

The business strategy of relocating production of goods destined for the U.S. market to low wage countries began before NAFTA, starting with lower value goods. NAFTA's investment rules, and then those included in a World Trade Organization (WTO) agreement, provided new protections to reduce the risks otherwise associated with such an offshore production strategy, effectively subsidizing the offshoring of production of a vast array of high value-added, high technology goods to be sold in the U.S. market. A recent study found that the average family lost $2,000 net 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 that net wage losses from trade now exceed the median American household's income tax burden by hundreds of dollars. If current trade policies and trends continue, all wage gains made since 1979 by workers without a four-year college degree (70 percent of us) could be essentially erased.[12]

Moreover, the years that the USTR chooses to average are highly misleading. It is thanks to Alan Greenspan's uncharacteristic decision to ignore neoliberal pundits and lower interest rates – not NAFTA – that U.S. unemployment sunk in the late 1990s, creating a tight labor market that significantly bid up U.S. wages for the first and only time in a generation. Combining the 1993-2001 years with the post-2001 period obscures the dismal economic trends of the Bush years, while starting the clock at 1979 obscures the positive wage trends of the pre-1973 period.

Finally, some have suggested that technology – not trade deficits – are to blame for the job losses and stagnant real wages, meaning that policymakers should ignore trade and focus on making workers more computer literate.[13] While more education and skills are certainly desirable, these are a separate concern. For instance, college-educated workers have seen their wage growth stagnate in recent years, even in technologically sophisticated fields like engineering[14] – the opposite of what you would expect if growing returns to skill were the main story. As well, a National Academies' study has found that employers will continue to demand mostly low skilled labor for the foreseeable future, projecting occupations like hospitality and restaurants as having the greatest demand in the coming decades.[15] Thus, addressing the problems with the existing trade and investment rules, not only better educating American workers, will be an essential part of halting rising income inequality.

Bush Claim 5: The agricultural sector has benefited from NAFTA.

Fact: Nearly 300,000 U.S. family farms were lost during the NAFTA era, while these farms' income shrunk 13 percent.

While American farmers were told by NAFTA-WTO supporters that the pacts would secure America's role as "breadbasket to the world," nearly 300,000 family farms have been shuttered since NAFTA and the WTO went into effect.[16] Now the United States is importing massive amounts of the grains and feeds it also exports. Today over $71 billion in food goods are imported annually – over double the value imported before NAFTA and WTO. And America is running a trade deficit in many categories of foods that wind up on Americans' dinner tables, including fruits, vegetables and more. While we had a slight trade surplus in food products in 2007 *overall,* **the United States has a food deficit with NAFTA and**

other FTA countries.[17] Moreover, farmers care far more about the declining prices that their products fetch in the NAFTA-WTO era than the total amount of trade. Pre-NAFTA in 1993, corn fetched $3.53 a bushel in inflation-adjusted terms, went down to $2.12 in 2005. A similar story happened with soy. In 1988, when the NAFTA-predecessor Canada FTA was signed, U.S. soy farmers received $12.49 a bushel in inflation-adjusted terms, only to see this nearly halved to $6.01 by 2005.[18] While commodity prices are turning around in the face of the ethanol boom, even this may be threatened by trade challenges at the WTO.[19] As a consequence of these and other price trends, net farm income (minus government payments) declined 13 percent for family farmers during the NAFTA period (1993-2005).[20]

Bush Claim 6: Mexican wages have increased under NAFTA.

Fact: Mexican wage growth has declined under NAFTA relative to Mexico's pre-neoliberal period.

Mexico has seen lower per capita economic growth relative to the pre-neoliberal era,[21] massive rural displacement of over a million peasants,[22] and most recently manufacturing job loss to China since NAFTA.[23] Indeed, annual Mexican immigration to the United States jumped 60 percent in NAFTA's first six years alone,[24] while the number of undocumented immigrants in the United States (who are mostly Mexican and Central American) increased 185 percent over a similar period, from 3.9 million in 1992 to 12 million in 2005.[25] A 2006 comprehensive study found that inflation-adjusted wages for virtually every category of Mexican worker decreased over NAFTA's first six years,[26] largely because of the influx of workers from the countryside.[27] While wages have turned around slightly in more recent years,[28] wage growth and the wage share of GDP are still disappointing compared with pre-neoliberal period rates.[29]

Bush Claim 7: NAFTA has helped the environment by creating new environmental institutions that spent $3 billion on border clean-up.

Fact: The funds spent on environmental clean up fall far short of what was needed – and even what was promised. Moreover, an array of environmental laws has been challenged under NAFTA, weakening and chilling environmental policy innovation.

U.S. government estimates at the time of NAFTA suggested that over $8 billion would need to be spent between 1994 and 2004 in order to clean up the U.S.-Mexico border. The Sierra Club suggested $21 billion as necessary.[30] Thus, when USTR suggests that roughly $3 billion has been spent on border clean-up initiatives, this is still only a third of the conservative U.S. government estimate of what was needed, and a tenth of what environmentalists said was needed.

But there are reasons to doubt the USTR's numbers on NAFTA's environmental side institutions. First of all, NAFTA proponents promised $5 million a year each for the NAFTA-established Commission for Environmental Cooperation (CEC) and the Border Environmental Cooperation Commission (BECC). But these institutions received little over half of their promised appropriations, or roughly $3 million a year, in budget dollars constantly being eaten away by inflation. The North American Development Bank, which was created to finance low-interest loans for BECC-approved projects, has only disbursed $33.9 million in low-interest loans from its $2.7 billion lending capacity.[31] At the high end, this means that in over 13 years of operation, the NAFTA-established environmental initiatives have put $112 million[32] into the projects promised by NAFTA proponents in 1994, thus falling considerably short of the $8-21 billion that were the consensus estimates of the border needs alone.

The other major environmental threat identified at the time of NAFTA was the undemocratic investor-state system of enforcing NAFTA's extensive new foreign investor protections. This system allows corporations to privately enforce NAFTA-granted rights to be compensated for government policies or actions that undermine their expected future profits against governments in closed World Bank and United Nations tribunals. Indeed, the majority of the cases brought by corporations against governments under this system have been against public interest policies related to the environment, natural resources and public health (26 out of 49). Over $31 billion has been claimed by investors in NAFTA investor-state suits, and $45 million has been paid out by taxpayers to corporations – all in cases related to environmental, health or agricultural policy.[33] Legislators throughout North America have had their environmental initiatives chilled by threats of damaging NAFTA investor-state cases.[34]

CONCLUSION: Can we evaluate the promises on NAFTA? Yes, we can!

An army of think tanks and corporations spends millions every year in an attempt to muddle even the basic facts on NAFTA. We know that under NAFTA, the U.S. trade deficit is up, manufacturing jobs are down, wages are stagnant, Mexican immigration is up, Mexican growth is down, and policy space has been seriously limited. Bush administration officials and pundits can debate whether any of these facts matter, but they cannot make up their own facts, nor serve up irrelevant ones in the hope of distracting policymakers or the public from continuing to demand trade policy change.

ENDNOTES

1 See original at http://ustr.gov/assets/Document_Library/Fact_Sheets/2008/asset_upload_file173_14540.pdf.
2 U.S. International Trade Commission Dataweb; all figures inflation adjusted to 2007 dollars using CPI-U-RS from the Congressional Budget Office.
3 Mark Weisbrot, John Schmitt and Luis Sandoval, "The Economic Impact of a U.S. Slowdown on the Americas," Center for Economic and Policy Research Issue Brief, March 2008.
4 Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment,* (Washington, D.C.: Institute for International Economics, 1993), at 14.
5 Bureau of Labor Statistics, Current Employment Statistics survey, series ID CES3000000001, manufacturing industry.
6 Robert E. Scott, Carlos Salas, and Bruce Campbell, "Revisiting NAFTA: Still Not Working for North America's Workers," Economic Policy Institute Briefing Paper 171, September 2006.
7 According to U.S. International Trade Commission numbers, the trade deficit under Chapter 27 of the Harmonized Tariff System (for "Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes") accounted for 82 percent of the U.S. NAFTA trade deficit in 1993, while it accounted for only 50 percent in 2007.
8 Annual Survey of Manufactures, U.S. Commerce Department, accessed March 7, 2008.
9 Which were $870 billion according to comparable figures from Exhibit 15 of the Feb. 14, 2008 release of international trade numbers from the Bureau of Economic Analysis.
10 Wolfgang F. Stolper and Paul A. Samuelson, "Protection and Real Wages," *The Review of Economic Studies*, Vol. 9, Number 1, November 1941, at 58-73.
11 Average wage data for 1962-2008 from Bureau of Labor Statistics' Current Employment Statistics survey, series CES0500000008. Productivity data from Bureau of Labor Statistics' Major Sector Productivity and Costs index, series ID PRS88003093, accessed Feb. 15, 2008. 2007 figures are preliminary data, as reported by the BLS. All data in this document was inflation-adjusted using the Consumer Price Index-U-RS as estimated by the Congressional Budget Office in the backup data for Table E-1 of their Budget and Economic Outlook: Fiscal Years 2008 to 2018, released January 2008.
12 Josh Bivens, "Globalization and American Wages," Economic Policy Institute (EPI) Report, October 2007.
13 *World Economic Outlook 2007: Globalization and Inequality* (Washington, D.C.: International Monetary Fund, 2007), at 31-65.

[14] Jared Bernstein and Lawrence Mishel, "Economy's Gains Fail to Reach Most Workers' Paychecks," EPI Briefing Paper 195, September 2007.
[15] Mary Gatta, Heather Boushey, and Eileen Appelbaum, "High-Touch and Here-to-Stay: Future Skills Demands in Low Wage Service Occupations," Paper written for National Academies' Center for Education, June 1, 2007.
[16] From numbers for the USDA's "limited resources," "farming occupation – lower sales," and "farming occupation – higher sales" farm typology categories. *See* USDA's Economic Research Service's "Farm Business and Household Survey Data: Customized Data Summaries for Agricultural Resource Management Survey," for numbers after 1996, and "Farm structure: historic data on farm operator household income" data tables for numbers prior to 1996.
[17] These figures are a comparison of the 1993 and 2007 inflation-adjusted dollar value of food imports and balance, defined as the following USDA Foreign Agricultural Service aggregations: dairy products, fruits & preparations, grains & feeds, livestock & meats, oilseeds & products, other horticultural products, planting seeds, poultry & products, sugar & tropical products, tree nuts & preparations, and vegetables & preparations. Extracted Feb. 20, 2008.
[18] USDA's Economic Research Service.
[19] Todd Tucker and Mary Bottari, "Presidential Candidates' Key Proposals on Health Care and Climate Will Require WTO Modification," Public Citizen Report, March 2008.
[20] This figure is the sum of the average net cash income for both limited resources and farming occupation farms, minus government payments, and is inflation adjusted, for years 1996 and 2005, the most recent comparable data. For 1996, the average inflation-adjusted net cash income for limited resource, low- and high- sales farming occupation farms were -$3,721, -$979, and $35,947, respectively; while the comparable 2005 numbers were -$4,245, $1,538, and $29,354, respectively. Economic Research Service, U.S. Department of Agriculture.
[21] Mark Weisbrot, David Rosnick, and Dean Baker, "Getting Mexico to Grow with NAFTA: The World Bank's Analysis," Center for Economic and Policy Research Issue Brief, October 2004.
[22] John Audley, Sandra Polaski, Demetrios G. Papademetriou, and Scott Vaughan, "NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere," Carnegie Endowment for International Peace Report, November 2003.
[23] Kevin P. Gallagher and Lyuba Zarsky, *The Enclave Economy*, (Cambridge: MIT Press, 2007), at 133; "Mexico's Maquiladora Decline Affects U.S.- Mexico Border Communities and Trade; Recovery Depends in Part on Mexico's Actions," Government Accountability Office Report 03-891, July 2003, at 27-28.
[24] The number was slightly lower, but still above historical norms, at 459,000 in 2004. Jeffrey S. Passel and Roberto Suro, "Rise, Peak and Decline: Trends in U.S. Immigration 1992 – 2004," Sept. 27, 2005, Pew Hispanic Center, at 39.
[25] Jeffrey S. Passel, "The Size and Characteristics of the Unauthorized Migrant Population in the U.S.: Estimates Based on the March 2005 Current Population Survey," Pew Hispanic Center Research Report, March 7, 2006, at 9.
[26] Carlos Salas, "Between Unemployment and Insecurity in Mexico: NAFTA Enters Its Second Decade," in Robert E. Scott, Carlos Salas, and Bruce Campbell, *Revisiting NAFTA: Still Not Working for North America's Workers*, (Washington, D.C.: Economic Policy Institute, 2006).
[27] Gabriel Palma, "Trade liberalization in Mexico: Its impact on growth, employment and wages," International Labor Organization Employment Paper 2003-55, at 14.
[28] Carlos Salas, current unpublished research.
[29] Gabriel Palma, "Trade liberalization in Mexico: Its impact on growth, employment and wages," International Labor Organization Employment Paper 2003-55, at 14, and 42-57.
[30] Mary Tiemann, "NAFTA: Related Environmental Issues and Initiatives," Congressional Research Service Paper 97-291 ENR, March 1, 2000; J. Michael McCloskey, Sierra Club Chairman's Testimony Before the Senate Environment and Public Works Committee, Oct. 19, 1993.
[31] NADBank's lending capacity for low-interest loans for border clean-up (its core mission when it was created) is equal to 90 percent of its $3 billion in authorized capital, with consists of paid-in and callable capital from the U.S. and Mexican governments. NADBank has experienced significant mission creep, turning into a market rate lending facility and a conduit for a variety of grant programs that are outside of the mission as originally conceived by members of Congress. *See* North American Development Bank, "Annual Report 2006," at 11 and 23. For more on this and other FTA promises, *see* Todd Tucker, Brandon Wu and Alyssa Prorok, "Trade Wars: Revenge of the Myth," Public Citizen, June 2005.
[32] $78 million in BECC and CEC appropriations, plus the amount disbursed in low-interest loans.
[33] Scott Sinclair, "NAFTA Chapter 11 Investor-State Disputes," Canadian Center for Policy Alternatives Brief, January 2008.
[34] *See* Mary Bottari and Lori Wallach, "NAFTA's Threat to Sovereignty and Democracy: The Record of NAFTA Chapter 11Investor-State Cases, 1994-2005," Public Citizen, February 2005.