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“WHOSE TRADE ORGANIZATION?”

The Comprehensive Guide To The WTO”

Excerpts from the *new* book by Lori Wallach and Patrick Woodall of Public Citizen

For Richer or Poorer: Facts and Fiction about Trade and Economic Gains in the Developed World and Economic Results of the WTO in the U.S.

In the early 1990s, many economists argued that the opening of foreign markets for U.S. exports under NAFTA and the WTO would create jobs and increase income in the U.S. As Congress was considering the WTO and other Uruguay Round agreements in 1994, the President’s Council of Economic Advisers claimed that the adoption of the package would increase annual U.S. GDP by \$100-200 billion over the next decade. Others claimed that its adoption would lead to a decline in the U.S. trade deficit. President Clinton even went so far as to promise that the average American family would gain \$1700 annually from the WTO’s adoption. The growth projections were revised drastically downward shortly after the WTO came into effect. By 2002, the U.S. trade deficit has grown to more than four times its pre-WTO size, and millions of U.S. jobs—including almost two million manufacturing jobs—have been lost during the era of the WTO. Annual average U.S. family income did not increase by \$1700 in *any* year since the WTO passed, much less in each year. Indeed, as this chapter describes, one cannot prove, either using trade theory models or empirically, that most Americans have benefited from the WTO—yet it can be shown that the economic well-being of many has declined. In short, few of the claims made about the benefits that would flow from greater trade liberalization can be shown to have been even remotely accurate. This, however, has not stopped another round of ridiculous projections and promises regarding the economic benefits that would follow if a “Doha Round” is launched.

Our key findings on the economic impact of the WTO regime at home include the following:

- **A large increase in the volume of international trade has failed to produce better jobs or higher wages for most Americans.** Wage increases have lagged far behind the growth in trade and investment volumes. For instance, in the U.S. from 1946-73, there was an 80% gain in median wages, yet although trade now represents two times the share of U.S. economic activity that it did in that period, from 1972-2000, U.S. median wages were almost flat.
- **The U.S. lost millions of jobs as the U.S. trade deficit widened during the WTO era and the composition of the workforce shifted.** U.S. export growth between 1994 and 2000 created an estimated 2.7 million jobs, but faster import growth eliminated 5.8 million, creating a net loss of three million jobs. The composition of jobs also shifted significantly during this period as the U.S. shed manufacturing jobs but gained service-sector jobs. The U.S. manufacturing sector has been in extreme crisis during the era of NAFTA and the WTO: between 1993 and 2003, 1.7 million jobs have been lost. Meanwhile, the high-end professional service jobs we were all told by WTO boosters would be our happier future when the industrial jobs left the U.S. are also now being outsourced. Three million high-end service sector jobs—doctor, computer programmer, engineer, accountant and architect jobs—are all forecast to be outsourced overseas in the next decade.
- **The explosion of the U.S. trade deficit from \$97 billion in 1994 to \$436 billion in 2002 continues to limit economic growth at home.** When the U.S. runs a trade deficit, imports exceed exports and the deficit is subtracted from the nation’s GDP. The trade deficit is now estimated to

exert a 5.6% drag on U.S. economic output, a level that Federal Reserve Chairman Alan Greenspan has labeled “unsustainable.”

- **Nearly all economists agree that trade has been one of the factors that has increased income inequality in the U.S. in the last two decades.** This is both a prediction of trade theory and an empirical finding in a large body of research. Not so long ago, from 1967 to 1980, income inequality in the U.S. was actually declining. The poorest households had increased their share of total income by 6.5% while the wealthiest fifth’s share decreased by nearly ten percent. Yet the globalization era of the 1990s has brought greater inequality, with the bottom fifth stagnating while the top fifth continued to increase its share of total income. While median family income increased by approximately 0.5% a year through the 1990s, U.S. corporate profits were up 88% and corporate CEO pay rose by 463%.
- **Trade liberalization has contributed to income losses for the 75% of U.S. workers without a college degree.** Using high-end estimates of the impact of trade on inequality and adding it to the indirect impact of trade on workers’ wages via deunionization and other factors, calculations by Weisbrot and Baker show that trade liberalization has cost U.S. workers without college degrees an amount equal to 12.2% of their current wages. For a worker earning \$25,000 a year, this loss would be slightly more than \$3,000 per year.
- **The human and economic cost of some 1.7 million jobs lost in the U.S. manufacturing sector since 1993.** Government statistics suggest a high level of long-term unemployment among displaced manufacturing workers. For those who do find new positions, they are overwhelmingly service-sector jobs with considerably lower pay and benefits. The manufacturing sector is expected to continue hemorrhaging jobs; of the 22 million jobs expected to be created in the U.S. between 2000 and 2010, only 187,000 (0.1%) will be manufacturing jobs.
- **Credible employer threats to move production facilities overseas have undermined unions and depressed wages for many workers.** A Cornell University study shows that threats by employers to relocate overseas made during union organizing efforts have increased in the NAFTA and WTO era. Campaigns where the employer threatened to move to another country if the union prevailed have had a substantially lower success rate (38%) than campaigns where no such threats were made (51%). It is also striking that the unionization rate has declined the most rapidly in the manufacturing sector, the sector in which job losses and factory relocations have been most prevalent in the 1990s. It can reasonably be assumed that trade liberalization under the WTO has weakened workers’ bargaining power in manufacturing and depressed wages in ways that would not be picked up on standard economic models.