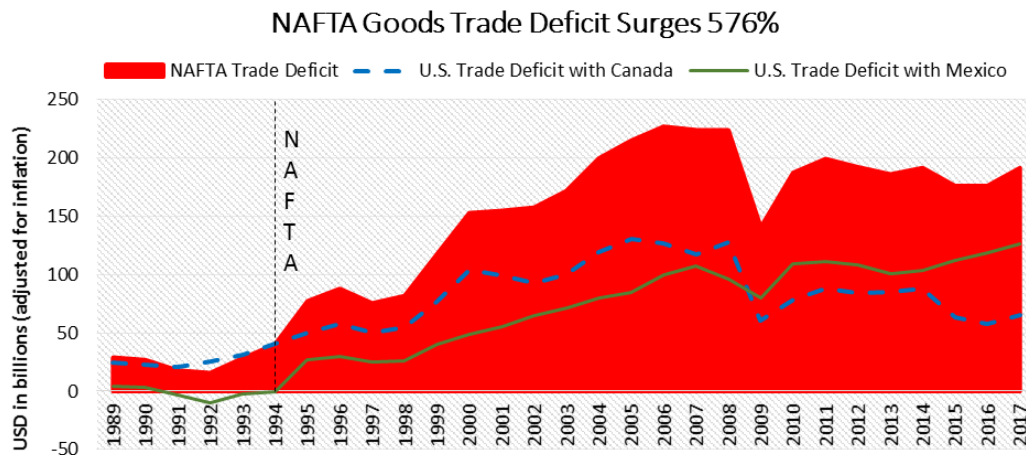


NAFTA's Legacy: Lost Jobs, Lower Wages, Increased Inequality

The North American Free Trade Agreement (NAFTA) was sold to the U.S. public in 1993 with grand promises. The deal would create 200,000 new U.S. jobs per year in its first five years alone, according to President Clinton.¹ That projection was based on a study by the Peterson Institute for International Economics (PIIE) 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.² By expanding our pre-NAFTA trade surplus with Mexico and improving the U.S. trade balance with Canada (with which the United States 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 that led to a huge new U.S. NAFTA trade deficit.



Source: U.S. International Trade Commission DataWeb

More than 950,000 specific U.S. jobs have been certified by the U.S. Labor Department as lost to NAFTA outsourcing and import floods under just one narrow program. This is a significant undercount of the job loss, given that the program, Trade Adjustment Assistance (TAA), excluded many categories of workers during NAFTA's first decade of damage, and reporting is voluntary, so only those who know about the program and do the work to apply are even considered. The mass outsourcing of American jobs 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 outsource U.S. jobs to low-wage Mexico. 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 what U.S. workers are paid, 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. 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 United States for sale. Mexican workers were not paid enough to buy the cars, televisions and other goods they produced. And many of the U.S. workers who used to make these goods – many in union factories – could only find new jobs that paid much less. Companies' profits exploded, while U.S. workers lost jobs and faced declining wages, fueling increasing income inequality.

Huge New NAFTA Trade Deficit Emerges

The U.S. goods trade deficit with Canada of \$31 billion and the \$2.7 billion surplus with Mexico in 1993 (the year before NAFTA took effect) turned into a combined NAFTA goods trade deficit of \$191.2 billion by 2017, as indicated in the graph above.³ This represents a 576 percent increase in the U.S. goods trade deficit with NAFTA countries. These numbers are inflation-adjusted, meaning the difference is not due to inflation, but an increased deficit in real terms.

The U.S. goods trade deficit with 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 43 percent higher with Mexico and Canada than with countries that are not party to a NAFTA-style trade pact.⁴

If you include the relatively small U.S. service sector trade surpluses with Mexico and Canada, the combined U.S. goods and services trade deficit with Mexico and Canada rose (in inflation-adjusted terms) from \$10.5 billion before NAFTA in 1993 to \$158.3 billion in 2017.⁵

Canada NAFTA deficit: The U.S. goods and services trade balance with Canada in 1993 before NAFTA went into effect was a \$17.7 billion deficit. That consisted of a \$31 billion goods trade deficit and a \$13.3 billion services surplus. In 2017, the U.S. goods and services trade balance with Canada was a \$39 billion deficit. That consisted of a \$64.8 billion goods trade deficit and a \$25.9 billion services surplus.

Mexico NAFTA deficit: In 1993, the U.S. goods and services trade balance with Mexico was a \$7.5 billion surplus. That consisted of a \$2.7 billion goods trade surplus and a \$4.8 billion services surplus. In 2017, the U.S. goods and services trade balance with Mexico was a \$119.4 billion deficit. That consisted of a \$126.3 billion goods trade deficit and a \$7 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 fossil fuel categories, the remaining 2017 NAFTA goods trade deficit was \$152.2 billion.⁶ Moreover, the share of the U.S. NAFTA goods trade deficit that is comprised of fossil fuels has declined under NAFTA (from 82.3 percent in 1993 to 20.4 percent in 2017) as we have faced a surge of imported manufactured and agricultural goods. As a result, minus fossil fuels our NAFTA goods and services deficit in 2017 was \$119.3 billion, which represents a large U.S. deficit with Mexico and Canada in manufactured and agriculture goods.⁷

U.S. manufacturing and services exports grew more slowly after NAFTA took effect. Since then, annual growth in U.S. manufacturing exports to Canada and Mexico has fallen 72.7 percent below the annual rate in the years before NAFTA.⁸ 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.⁹

Massive U.S. Jobs Losses Due to NAFTA

The Economic Policy Institute (EPI) estimates 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 2004.¹⁰ 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.¹¹ EPI further calculated that the ballooning trade deficit with Mexico alone destroyed about 850,000 net U.S. jobs between NAFTA's implementation and 2013.¹² This toll has likely grown since 2013, as the non-fossil fuel U.S. trade deficit with Mexico has risen further.¹³

Moreover, data from the U.S. Bureau of Labor Statistics reveal that nearly 4.5 million U.S. manufacturing jobs have been lost overall since NAFTA took effect.¹⁴ 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.¹⁵ 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 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 outsourcing through TAA. As mentioned above, the TAA program is quite narrow, so NAFTA TAA numbers significantly undercount NAFTA job loss. Still, more than 950,000 workers have been certified as having lost their jobs due to imports from Canada and Mexico or the relocation of factories to those countries.¹⁶ 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 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.¹⁷ For the average worker earning the median manufacturing wage of \$39,500 per year, this meant an annual loss of at least \$7,900.

Many displaced workers in the manufacturing sector had to shift over to lower paid service sectors. For example, between 1993 and 2017, the manufacturing sector lost about 4.5 million jobs. At the same time, the leisure and hospitality sector gained 5.4 million jobs, which has an average wage of \$13 an hour, almost half that of the average wage in the manufacturing sector.¹⁹

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 55 percent.²⁰

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.²¹

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. NAFTA and pacts like it also forbid 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 outsourced 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.²²

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.²³

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 216 percent rise in food imports from Canada and Mexico under NAFTA,²⁴ the average nominal price of food in the United States has jumped 70 percent since the deal went into effect.²⁵

Second, even those reductions in prices that have materialized have not been sufficient to offset the losses in wages under NAFTA. The Center for Economic and Policy Research 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 wage losses 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.²⁶ That means a net loss of more than \$3,965 per year for a worker earning the median annual wage of \$32,500.²⁷

ENDNOTES

¹Robert L. Jackson, “Clinton Sees NAFTA Gains, Urges Foes to Dismiss Fears,” *Los Angeles Times*, Nov. 14, 1993. Available at: http://articles.latimes.com/1993-11-14/news/mn-56962_1_american-workers.

²Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment*, (Washington, D.C.: Institute for International Economics, 1993), at 14.

³For this paragraph and the accompanying graph: U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed Feb. 8, 2018. Available at: <http://dataweb.usitc.gov>. Exports are domestic exports and imports are imports for consumption. Figures are adjusted to 2017 dollars using the CPI-U-RS from the Congressional Budget Office.

⁴U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed Feb. 8, 2017. Available at: <http://dataweb.usitc.gov>. Data is a comparison of the compound annual growth rates of the combined balance of the respective countries from 1993 through 2017. For NAFTA trade data, exports are domestic exports and imports are imports for consumption, adjusted for inflation. For all other countries, exports are total exports and imports are general imports, adjusted for inflation.

⁵Goods data derives from U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed Feb. 8, 2017. Available at: <http://dataweb.usitc.gov>. Services data derives from U.S. Bureau of Economic Analysis, “International Transactions, International Services, and International Investment Position Tables,” accessed Feb. 8, 2018. Available at: <http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&i-suri=1>.

⁶Trade in Fossil Fuels is defined as HS 27.

⁷Goods data derives from U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed Feb. 8, 2017. Available at: <http://dataweb.usitc.gov>. Services data derives from U.S. Bureau of Economic Analysis, “International Transactions, International Services, and International Investment Position Tables,” accessed Feb. 8, 2018. Available at: <http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&i-suri=1>.

⁸U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” accessed Feb. 8, 2018. Available at: <http://dataweb.usitc.gov>. Manufacturing exports are defined as NAICS 31, 32, and 33 from 1997-2017, 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.

⁹U.S. Bureau of Economic Analysis, “International Transactions, International Services, and International Investment Position Tables,” accessed Feb. 8, 2018. Available at: <http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&i-suri=1>. This a comparison of the pre- and post-NAFTA compound annual growth rates of inflation-adjusted services exports to Mexico and Canada from 1986 (earliest year of available data) through 1993 and from 1993 through 2017.

¹⁰Robert 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>.

¹¹Robert 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>.

¹²Robert 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>.

¹³U.S. International Trade Commission, “Interactive Tariff and Trade Dataweb,” Feb. 6, 2018. Available at: dataweb.usitc.gov. Exports are domestic exports and imports are imports for consumption. Trade in fossil fuels is defined as HS 27.

¹⁴U.S. Bureau of Labor Statistics, Current Employment Statistics survey, series ID CES3000000001, manufacturing industry, U.S. Department of Labor, extracted Feb. 6, 2018. Available at: <http://www.bls.gov/ces/>.

¹⁵Robert Scott, “Growth in U.S.–China trade deficit between 2001 and 2015 cost 3.4 million jobs,” Economic Policy Institute, Jan. 31, 2017. Available at: <http://www.epi.org/publication/growth-in-u-s-china-trade-deficit-between-2001-and-2015-cost-3-4-million-jobs-heres-how-to-rebalance-trade-and-rebuild-american-manufacturing/>.

¹⁶Public Citizen, Trade Adjustment Assistance Database, accessed Feb. 8, 2018. Available at: <https://www.citizen.org/trade-adjustment-assistance-database>.

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¹⁸U.S. Bureau of Labor Statistics, “May 2016 National Industry-Specific Occupational Employment and Wage Estimates: Sectors 31, 32, and 33 – Manufacturing,” Occupational Employment Statistics, U.S. Department of Labor, accessed Feb. 8, 2018. Available at: http://www.bls.gov/oes/current/naics2_31-33.htm#00-0000.

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²⁰Mark W. Frank, “Frank-Sommeiller-Price Series, Annual Top Income Shares by U.S. State, 1917-2015,” accessed Feb. 9, 2018. Available at: http://www.shsu.edu/~eco_mwf/inequality.html.

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²²Public Citizen, “How Overreaching “Trade” Pact Rules Can Undermine Buy American and Other Domestic Preference Procurement Policies,” accessed Feb. 12, 2018. Available at: https://www.citizen.org/sites/default/files/procurement-from-ftas_0.pdf.

²³William 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>.

²⁴Foreign Agricultural Service, "Global Agricultural Trade System," U.S. Department of Agriculture, accessed Feb. 12, 2018. 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.

²⁵Bureau 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 Feb. 12, 2018. Available at: <http://www.bls.gov/cpi/>.

²⁶Dean 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.

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²⁷Median wage information comes from Social Security Administration, "Wage Statistics for 2016," accessed Feb. 12, 2018. Available at: <https://www.ssa.gov/cgi-bin/netcomp.cgi?year=2016>.

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