NAFTA's Impact on Maryland

Job Loss Has Led To Downward Pressure on Wages and Living Standards

New Reports Show 8,000 Jobs Lost in Maryland; 766,000 Jobs Lost Nationwide

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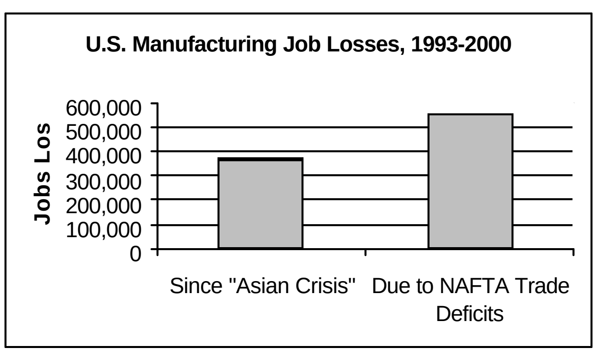
When the North American Free Trade Agreement was being debated by the United States Congress in 1993, proponents argued that the passage of NAFTA would lead to increased job opportunities and rising living standards in the United States, Canada, and Mexico. Seven years later, evidence of economic gains for the majority of the population has failed to materialize in Maryland and the rest of the United States. Nor are the majority of people in Canada or Mexico better off as a result of NAFTA.

In Maryland and the United States overall, NAFTA has been a net destroyer of jobs, as a result of increased trade deficits. Nationally, a recent report from the Economic Policy Institute (EPI) shows, **more than three-quarters of a million** jobs and job opportunities were eliminated in the United States by increased trade deficits with Canada and Mexico during the operation of NAFTA.[i] **More than half a million** of these job losses were direct job losses in manufacturing, the sector principally affected by trade. By comparison, the net job loss in U.S. manufacturing since the 1998 "Asian financial crisis" largely induced by the International Monetary Fund and the World Bank's financial liberalization and austerity policies, which also caused huge job losses through increased U.S. trade deficits, was 368,000 jobs[ii] (Table 1.) A state-by-state analysis by EPI shows that **eight thousand of NAFTA's lost jobs and job opportunities were in Maryland,** with four thousand direct job losses in manufacturing. The manufacturing job loss in Maryland included 1,000 jobs lost in the production of electronic and electrical machinery.[iii] Data from the government's NAFTA -Transitional Adjustment Assistance program (NAFTA-TAA), which, as the experience of Maryland indicates, only captures a small fraction of NAFTA job losses, give a sample of some of the jobs that were lost (Table 2.)[iv] The distribution of these job losses has led to downward pressure on living standards and a weakening of workers' bargaining power. There is little reason to expect negotiations underway to extend the NAFTA model of economic integration to the rest of the Western Hemisphere – the proposed "Free Trade Area of the Americas" [FTAA] to lead to a different result.

Table 1



Thus, a central claim of proponents of NAFTA in 1993, that NAFTA would create jobs in the United States, has been refuted by actual experience. The failure of NAFTA to achieve this central claim made for it by its proponents justifies skepticism in evaluating present claims of benefits from expanding NAFTA through the FTAA.

Given NAFTA's failure to create jobs in the United States, it is now common for proponents of NAFTA and of NAFTA expansion to concede that the purpose of NAFTA was never to create jobs. Now it is claimed that NAFTA has nothing to do with job creation, that the real significance of NAFTA is in promoting economic efficiency and therefore economic growth through increased international competition, and it is pointed out that the number of jobs lost due to NAFTA is small compared with the number of jobs created during the last expansion of the business cycle.

But the fact that more jobs were created by the economic expansion than were lost due to NAFTA does not imply that NAFTA job losses were inconsequential, because not all jobs are equal. As we would expect, NAFTA job losses have overwhelmingly occurred in manufacturing, since it is mostly the products of the manufacturing sector that are traded internationally. But average wages in the manufacturing sector are higher than in the rest of the economy. While the overall level of unemployment is determined more by the interest rate policy of the Federal Reserve than by trade policy, trade policy is reshaping the distribution of employment.

Surveys indicate that when workers displaced by trade do find new jobs, their wages fall, with earnings declining by an average of over 13%[v]. These displaced workers' new jobs are likely to be in the service industry, the source of the overwhelming majority of new jobs created in the last decade. Average compensation in the service sector is only 77% of that in the manufacturing sector.[vi] With the current business cycle expansion ending, displaced workers will find even fewer opportunities.

Moreover, both the theoretical and empirical evidence for significant gains in economic growth from NAFTA-type trade and investment liberalization is extremely weak.

In a recent paper, economist Dean Baker of the Center for Economic and Policy Research estimated what the direct gains to the U.S. economy would be of removing all tariffs on imports. He found that the gain would be roughly $10 billion a year, a mere 0.1 percent increase in the size of the economy. If such a gain were distributed evenly to all households, it would add about $45 a year to an average family income, less than $1 a week.[vii] By comparison, this is about a quarter of what even lower-income households can expect to get from the tax cuts currently being considered by the Congress.

The empirical evidence that NAFTA-type trade and investment liberalization leads to higher growth is no stronger. In a recent study using World Bank data, the Center for Economic Policy Research compared economic growth rates for 116 countries in the last two decades – a period of NAFTA-style trade and investment liberalization promoted by the International Monetary Fund, the World Bank, and the World Trade Organization – with the previous two decades, when national barriers to trade and investment flows were higher. The CEPR study found that three-quarters of the countries had significantly higher growth rates in the earlier period – exactly the opposite of what one would expect if trade liberalization had led to higher growth.[viii]

In particular, neither Mexico nor Canada has seen broad economic benefits for the majority of working families under NAFTA. In Mexico, between 1991 and 1998, the share of workers in salaried jobs with benefits fell sharply. By 1998, the incomes of salaried workers had fallen 25%. Under NAFTA, manufacturing wages in Mexico fell 21%.[ix] In Canada, real incomes declined for the majority of the population in the 1990s, as unemployment averaged near 10% of the workforce.[x]

There is little evidence that NAFTA has generated broad economic benefits. The costs of NAFTA to working families in Maryland and the rest of the United States – lost jobs and wages, weakened environmental laws, restrictions on democratic decision-making – have not been offset by economic gains for the majority of working families, in the United States, Mexico, or Canada.

Table 2
Maryland NAFTA-TAA Certifications as of April, 2001

Company	City	What They Produced	Petitioners	Cause	Estimated Workers
W.R. Grace and Company-Conn.	Beltsville	fireproofing power products	Company	Moved to Canada	24
Eaton	Salisbury	circuit breakers for industrial	Company	Moved to Mexico	280
Polk Audio	Baltimore	loudspeakers	Company	Moved to Mexico	86

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[i] "NAFTA's Hidden Costs – Trade Agreement Results in Job Losses, Growing Inequality, and Wage Suppression for the United States," Robert E. Scott, Economic Policy Institute, April 2001, http://www.epinet.org
[ii] "National Employment, Hours, and Earnings," Bureau of Labor Statistics, http://www.bls.gov.
[iii] "NAFTA'S Impact on the States--The Industries and States That Suffered the Most in the Agreement's First Seven Years," Robert E. Scott and Jana Shannon, Economic Policy Institute, April 2001, http://www.epinet.org.
[iv] As of April, 2001, the Department of Labor had certified more than 328,798 U.S. workers as having lost their jobs directly due to NAFTA. See "A Sampling of NAFTA Related Job Loss... NAFTA Transitional

Adjustment Assistance (NAFTA TAA)," web site of Public Citizen's Global Trade Watch, http://www.tradewatch.org/taa97acs/KEYTAA.html, which explains some of the reasons NAFTA-TAA numbers do not capture all NAFTA job losses. In addition, NAFTA-TAA does not reflect jobs that would have been created in the U.S. had the U.S. trade deficit not increased.

[v] *State of Working America: 2000-01,* Lawrence Mishel, Jared Bernstein, and John Schmitt, 2001, p. 24

[vi] *State of Working America: 2000-01,* Lawrence Mishel, Jared Bernstein, and John Schmitt, 2001, p. 169.

[vii] "Gaining With Trade?" Dean Baker, Center for Economic and Policy Research, April 2001, http://www.cepr.net.

[viii] "The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization," Mark Weisbrot, Robert Naiman, and Joyce Kim, Center for Economic and Policy Research, September 2000, http://www.cepr.net.

[ix] "The Impact of NAFTA on Wages and Incomes in Mexico," Carlos Salas, La Red de Investigadores y Sindicalistas Para Estudios Laborales (RISEL), in "NAFTA at Seven: Its Impact on Workers in All Three Nations," Economic Policy Institute, April 2001, http://www.epinet.org.

[x] "False Promise: Canada in the Free Trade Era," Bruce Campbell, Canadian Centre for Policy Alternatives, A at Seven: Its Impact on Workers in All Three Nations," Economic Policy Institute, April 2001, http://www.epinet.org.