
Economic Policy Institute

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NEW REPORT SHOWS NAFTA HAS HARMED WORKERS IN ALL THREE COUNTRIES

Washington, D.C. - An evaluation of the North American Free Trade Agreement on its seventh anniversary finds a continent-wide pattern of stagnant worker incomes, lost job opportunities, increased insecurity, and rising inequality, according to **NAFTA at Seven**, a new report from the **Economic Policy Institute**, written by economic analysts from the United States, Mexico, and Canada.

As proponents press for extending free trade to the rest of the hemisphere through a Free Trade Area of the Americas agreement, the report warns that other countries are susceptible to the ill effects already experienced by NAFTA countries.

In the United States, NAFTA eliminated over 766,000 job opportunities between 1994 and 2000, as the trade deficit between the U.S. and its northern and southern neighbors ballooned, according to U.S. author **Robert Scott**.

In Mexico, large trade surpluses with the United States have not been enough to overcome even larger trade deficits with the rest of the world. Wages and incomes in Mexico fell between 1991 and 1998; and with NAFTA, inequality has grown and job quality has deteriorated for most workers, according to Mexican author **Carlos Salas**.

And in Canada, exports now account for 40 percent of gross domestic product. Still, overall growth during the 1990s was worse than in any other decade since the 1930s, and productivity growth has not led to growth in wages, according to Canadian author **Bruce Campbell**.

Key findings from the study for the **United States** include:

- Since NAFTA took effect on January 1, 1994, exports to Mexico have grown by 147 percent and exports to Canada have grown by 66 percent. But imports from Mexico have grown much faster, by 248 percent; and imports from Canada have grown by 79 percent.
- As a result, the net export deficit between the U.S. and its neighbors has grown from \$16.6 billion in 1993 to \$62.8 billion in 2000 in real terms.
- This growing trade deficit has led to the loss of 766,030 jobs in the United States since NAFTA's implementation. These job losses are spread across all 50 states and the

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District of Columbia, with the biggest losses – where more than 20,000 job opportunities were eliminated per state – in California, Michigan, New York, Texas, Ohio, Illinois, Pennsylvania, North Carolina, Indiana, Florida, Tennessee, and Georgia.

- By reducing the prices of import-competing products, the growing U.S. trade deficit, and the new rules of the NAFTA agreement, have put downward pressure on the wages of non-college-educated workers in this country, who account for 72.7 percent of the workforce.
- This has happened for at least three reasons. First, displaced manufacturing workers have sought jobs in the service sector, where the average wage is 77 percent of the average manufacturing wage. Second, this movement from manufacturing to the service sector has increased the labor supply there, further depressing wages. And finally, employers have used their new freedom to move across borders as a tool in collective bargaining, by threatening to close plants.

Key findings from the study for **Mexico** include:

- Between 1995 and 1999, manufacturing exports improved rapidly, growing at an annual rate of 16 percent, due almost exclusively to maquiladora factories, factories built near the border for the purpose of manufacturing exports to the U.S.
- Maquiladora employment grew rapidly over the last two-and-a-half decades, from 60,000 jobs in 1975 to 420,000 in 1990 to 1.3 million in 2000. Maquiladora factories remained largely unaffected by the recession of the mid 90s, given their limited dependence on the Mexican economy. Though these factories have thrived under NAFTA, they have contributed little to Mexico's development and internal markets. Wages, benefits, and workers' rights are deliberately suppressed in maquiladoras.
- The growth in manufacturing imports during this period outpaced exports, however, growing by 18.5 percent, which explains Mexico's rapidly growing overall trade deficit from 1995 to 1999, and which could lead to another major currency crisis like the collapse of the Peso in 1995.
- NAFTA has not delivered many of its promised benefits to Mexican workers. By 1998, the incomes of salaried workers had fallen by 25 percent since 1991, while incomes of the self-employed had fallen 40 percent.
- During the 1990s, the minimum wage in Mexico lost nearly 50 percent of its purchasing power. Manufacturing wages fell 21 percent between 1993 and 1999.
- Mexico has no social safety net, so deteriorating labor conditions are likely to be reflected in lower quality of jobs rather than the unemployment rate. The growing share of urban workers holding low-productivity, low-paying jobs reflects the Mexican economy's inability to create higher-quality jobs. The share of salaried employees among all workers decreased from 74 percent in 1991 to 61 percent in 1998.

Key findings from the study for **Canada**, where NAFTA was largely an extension of the 1989 Free Trade Agreement with the U.S., include:

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- Exports now account for 40 percent of Canadian gross domestic product, up from 25 percent in 1989. And 85 percent of Canadian exports now flow to the U.S., up from 74 percent in 1989.
- Imports destroyed more jobs than exports created; the net destruction of jobs was 276,000. This happened despite an annual average trade surplus of \$19.7 billion (Canadian) during the 1990s, far higher than the \$9.4 billion (Canadian) average in the 1980s. It also happened despite growth in employment in export industries.
- In an effort to be more competitive under NAFTA, the Canadian government cut public spending from 16 percent to 11 percent of GDP, removed much of the social safety net – so that the share of unemployed collecting unemployment insurance declined from 75 percent in 1990 to 36 percent in 2000, and cut corporate and high-end taxes; all after the Bank of Canada worked to raise unemployment.
- Average per capita income in Canada fell steadily in the first seven years of the 1990s, and only regained its 1989 levels in 1999. Growth performance was worse in the 1990s than in any decade since the 1930s. Unemployment averaged 9.6 percent for the decade, compared with a U.S. average of 5.8 percent, and was also higher than any decade since the 1930s.
- By the end of the 1990s, manufacturing employment was still six percent below its level in 1989. Self-employment and part-time employment skyrocketed, accounting for 43 percent and 37 percent of new job creation, respectively. The absolute number of full-time jobs did not reach its 1989 level again until 1998.
- Income inequality expanded in Canada during the 1990s, as the top 20 percent of families saw their share of pre-tax incomes increase from 41.9 percent to 45.2 percent by 1998; the bottom 20 percent saw their share drop from 3.8 percent to 3.1 percent. After taxes and transfers, the distribution still favored the top 20 percent.

“The experience [with NAFTA] suggests that any wider free trade agreement . . . that does not give as much priority to labor and social development as it gives to the protections of investors and financiers is not viable,” writes **Jeff Faux**, EPI’s president, in the report’s introduction. “Rather than attempting to spread a deeply flawed agreement to all of the Americas, the leaders of the nations of North America need to return to the drawing board and design a model of economic integration that works for the continent’s working people.”

Robert Scott is an economist with the Economic Policy Institute. His publications include *NAFTA and the States* (1997) and *NAFTA’s Pain Deepens* (1999).

Carlos Salas is an economist at the Colegio de Mexico and an author of *The State of Working Mexico*.

Bruce Campbell is director of the Canadian Center for Policy Alternatives.

The **Economic Policy Institute** is a non-profit, non-partisan economic think tank founded in 1986. The Institute can be found on the web at <http://www.epinet.org>.