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WORKERS SUFFER CONTINENT-WIDE UNDER NAFTA

Three-Country Study Details Effects on Economies, Labor Markets

Twelve years under the rules of the North American Free Trade Agreement, or NAFTA, has had a perverse impact on the distribution of income, wealth, and political power across the continent. A new three-country report shows that NAFTA has not lived up to its promise of better jobs and faster growth for Mexico, Canada, and the United States. Instead it has promoted an integrated continental economy with rules set by and for the benefit of the political and economic elite. ***NAFTA Revisited***, a report released today by the Economic Policy Institute, details the trade deal's effects on the economies, working people and the labor markets of all three nations.

Jeff Faux, EPI Distinguished Fellow and author of *The Global Class War*, states in the introduction, "NAFTA rules protect the interests of large corporate investors while undercutting workers' rights, environmental protections, and democratic accountability. …The time for a continent-wide debate over the future of this agreement, which was negotiated by and for the rich and powerful in all three countries, is now overdue."

Mexico

NAFTA's preamble promised sustained growth of the member countries—particularly in Mexico—such that Mexican workers would enjoy increases in both the number and quality of jobs. *NAFTA Revisited* co-author, Carlos Salas, illustrates how, instead of growth in Mexico, NAFTA made employment more precarious and sent wages on a race to the bottom. Corporate earnings have grown while inequality in income distribution has followed a volatile path.

Since NAFTA took effect, employment in Mexico has become ever more precarious: of all new salaried positions generated between the second quarter of 2000 and the second quarter of 2004, only 37% have full benefits, and 23% have no benefits at all.

NAFTA increased employment in the low-wage "maquiladora" industries of Mexico, with the benefits flowing mainly to large companies, the financial sector, and a thin layer of administrative and professional workers earning high salaries. Despite steady growth of investments in maquiladoras, the flow of account balances between firms does not translate into real technology transfer that would strengthen and stabilize Mexico's industrial sector – one of the great promises NAFTA held out for Mexico.

Meanwhile, the agricultural sector has suffered a large and steady loss of employment due to NAFTA. The share of the population engaged in agricultural activities fell from 26.8% in 1991 to 16.4% in 2004, a significant decrease.

"NAFTA must be revised in order to create a social fund that stimulates the development of infrastructure and employment in the country as a whole and especially in Mexico's most marginalized regions," said Mr. Salas. "Mexico's experience should serve as a warning concerning the dangers of any trade agreement, bilateral or multilateral, which is similar to NAFTA."

Canada

NAFTA promised Canada increased economic growth, income, and employment across all sectors, regions, and income groups; closure of the longstanding productivity gap with the United States; the creation of a more diversified, efficient, and more knowledge-based economy; and, an economy that would maintain and strengthen the generous Canadian social model.

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Co-author Bruce Campbell details the broken promises that are the hallmarks of the NAFTA free trade era in Canada: the growth of precarious employment, the undermining of unions as a countervailing power to transnational capital, the erosion of the Canadian social state, and heightened economic dependence on the United States.

Under NAFTA's rules, Canada has lowered the government's spending on individuals and social programs while real incomes have virtually stagnated, except for those at the top. Average income has registered the worst performance of any comparable period since World War II, and inequality (after taxes and transfers) has grown for the first time since the 1920s.

The productivity gap with the United States, which was supposed to narrow under free trade, has in fact widened. Canadian labor productivity (GDP per hour worked) rose steadily in relation to U.S. productivity during the 1960s and 1970s, peaking at 92% of the U.S. level in 1984. Thereafter, it slid to 89% in 1989 and by 2005 had fallen to just 82% of U.S. productivity—below where it was in 1961.

"At its core, NAFTA is about shifting the power in the economy from government to corporations, from workers to corporations," explained Mr. Campbell. "Without a rebalancing of power in the continental economy, these problems will worsen."

United States

EPI economist Robert Scott documents the job displacement and declining job quality that NAFTA imposed on the U.S. economy. Growing trade deficits with Mexico and Canada after NAFTA took effect reduced employment in high-wage, traded-goods industries, resulting in a substantial loss of income for such workers.

Growing trade deficits with Mexico and Canada have displaced production that supported 1,015,291 U.S. jobs since NAFTA took effect in 1994. The displacement of 1 million jobs from traded to non-traded goods industries reduced wage payments to U.S. workers by $7.6 billion in 2004 alone.

The lost job opportunities are distributed among all 50 states and the District of Columbia, with the biggest losers, in numeric terms: California (-123,995), Texas (-72,257), Michigan (-63,148), New York (-51,582), Ohio (-49,886), Illinois (-47,701), Pennsylvania (-44,173), Florida (-39,987), Indiana (-35,157), North Carolina (-34,150), and Georgia (-30,464).

"Growing trade deficits with Mexico and Canada under NAFTA contributed to inequality in wages and falling demand for workers without a post-secondary education, males in trade-related production, and minorities," said Scott.

About the Authors:

Carlos Salas holds a PhD in economics and is currently a professor of Regional Development at El Colegio de Tlaxcala and is also a member of the Board of Directors at Instituto de Estudios del Trabajo (IET) in Mexico City. Along with Enrique de la Garza he has recently edited the 2006 version of *The State of Working in Mexico*.

Bruce Campbell is Executive Director (since 1994) of the Canadian Centre for Policy Alternatives. His books include "*Straight Through the Heart: How the Liberals Abandoned the Just Society*," (1995), and the forthcoming "*Living with Uncle: Canada-US Relations in an Age of Empire*," (2006).

Robert Scott holds a PhD in economics and Director of International Programs at the Economic Policy Institute. His research has been published in academic journals and widely cited in major newspapers.