



FACTS & FIGURES

From the Economic Policy Institute

NAFTA & Canada

The effects on Canada of the new “free trade” era ushered in by NAFTA, along with the accompanying policy changes locked in by it and by the Canada-U.S Free Trade Agreement that preceded it in 1989, can best be described as broken promises. Contrary to its advance billing, its benefits have accrued to the elite – the top 1% of earners – at the expense of most of the population. 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. Instead of broad prosperity, Canada’s free trade era has ushered in more precarious employment, undermined unions, erosion of the social safety net, and greater economic dependence on the United States.

- Jobs**
- ❖ High-tech, high-quality jobs have not materialized to the extent promised. Canada’s trade deficit in high-tech products, remains high. Since 1999 exports of higher value-added products – such as autos, machinery and equipment, and consumer goods – have fallen by one-quarter as a share of GDP.
 - ❖ The boom in demand for Canada’s energy, forestry, agricultural, and mineral products has boosted the share of resources in Canada’s exports from 40% to 50% from 2002 to 2005; significant job growth in these relatively small sectors has contributed little to overall employment, however.
 - ❖ Far-reaching changes have occurred in Canada’s manufacturing sector, where 47% of the plants (representing 28% of the jobs) that existed in 1988 were closed by 1997. At the same time, 39% of the plants in existence in 1997 (21% of jobs) did not exist in 1988. Those that closed, however, tended to be larger, higher productivity plants, while the new ones were smaller, lower productivity establishments.
 - ❖ Manufacturing employment has been on a roller coaster ride. The sector shed 400,000 jobs in the first four years of free trade, regained them by 2001, then dropped 198,000 by March 2006. If the current trend continues, job losses could again reach 400,000 by 2007.
 - ❖ Reducing unemployment, one of the selling points for the Canada-U.S Free Trade Agreement (a predecessor to NAFTA), which took effect in 1989, remains an unmet goal. Average unemployment during the past 15 years remains about the same as during the previous 15.
 - ❖ A government study found that by 1997, because of the high import content of its exports, more of Canada’s jobs were being destroyed by imports that were created by exports.

Exports vs. Imports

- ❖ Canada’s merchandise exports to the U.S. grew \$138 billion (\$US) between 1996 and 2005. Canadian companies’ rising use of imported parts, however, has dampened the impact of this growth on jobs. In auto manufacturing, for example, one-half of auto parts and other inputs are now imported rather than made by Canadian workers.
- ❖ Despite claims that the new trade arrangements would give Canada greater access to U.S. markets, Canada’s share of U.S. imports actually fell after 1994.

Inequality Rises

- ❖ Only those at the very top of the income scale saw significant growth in their earnings. From 1990 to 2000, the average Canadian's wage grew just 8%. Meanwhile, the average wage for the top 1% of earners shot up 64%, and among the top 0.1% it doubled.

How average income changed for the poorest 20% and the richest 20% of Canadian families from 1980 to 2004

Income distribution after taxes and transfers, by family quintiles

	Lowest quintile	Highest quintile
(2004 Canadian dollars)		
1980	11,700	94,300
1989	13,200	94,800
2004	12,200	110,700
Change 1980-89	+ 1,500	+ 500
Change 1989-2004	- 1,000	+ 15,900
(Percent)		
Change 1980-89	+ 12.8%	+ 0.5%
Change 1989-2004	-7.6%	+ 16.8%
1980: income share	5.0%	40.9%
1989: income share	5.6%	40.6%
2004: income share	4.8%	44.0%

SOURCE: Statistics Canada, Cansim, Table 202

Social Supports Shrink

- ❖ Corporate and personal tax cuts tilted to high-income groups led to the biggest non-military spending cuts in Canada's history, with program spending shrinking from 41% to 32% of GDP from 1992 to 2005.
- ❖ Changes in Canadian unemployment insurance, promoted by business to increase competitiveness, reduced the proportion of unemployed people who qualified for benefits from 75% in 1989 to 38% in 2002, about the same level as in the U.S. These changes hit the most vulnerable workers hardest.
- ❖ Canada still spends a higher percentage of its GDP on social programs than the United States does, but the gap has narrowed. Canada's non-military program spending fell from 42.9% of GDP in 1992 to 33.6% in 2001, compared to 27.7% and 27.9% for the U.S.

Source

- ❖ *Revisiting NAFTA: Still not working for North America's workers*, by Robert E. Scott, Carlos Salas, and Bruce Campbell. September 28, 2006

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