EPI Issue Brief

Issue Brief #184 Economic Policy Institute October 23, 2002

PHONY ACCOUNTING AND U.S. TRADE POLICY

Is Bush using Enron-like tactics to sell trade deals to the public?

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The U.S. has experienced steadily growing trade deficits for nearly three decades, and these deficits have accelerated rapidly since the North American Free Trade Agreement (NAFTA) took effect in 1994 and the World Trade Organization (WTO) was created in 1995. The toll on U.S. employment has been heavy: from 1994 to 2000, growing trade deficits eliminated a net total of 3.0 million actual and potential jobs from the U.S. economy.[1]

Proponents of new trade agreements to build on NAFTA and the WTO have frequently claimed that such deals create jobs and raise incomes in the United States. When the Senate recently approved President Bush's request for fast track trade negotiating authority,[2] he called the bill's passage an "historic moment" that would lead to the creation of more jobs and more sales of American products abroad. Two weeks later at his economic forum in Texas, he argued that "[i]t is essential that we move aggressively [to negotiate new trade pacts], because trade means jobs. More trade means higher incomes for American workers."

The problem with these statements is that they misrepresent the real effects of trade on the U.S. economy: trade both creates and destroys jobs. Increases in U.S. exports create jobs in this country, but increases in imports destroy jobs because the imports displace goods that otherwise would have been made in the U.S. by domestic workers.

The President's statements—and similar remarks from others in his administration and from members of both major parties in Congress—are based only on the positive effects of exports, ignoring the negative effects of imports. It is an attempt to hide the costs of new trade deals, in order to boost the reported benefits. These are effectively the same tactics that led to the bankruptcies of Enron, WorldCom, and several other major

corporations.

The impact on employment of any change in trade is determined by its effect on the *trade balance*, the difference between exports and imports. Ignoring imports and counting only exports is like balancing a checkbook by counting only deposits but not withdrawals. The many officials, policy analysts and business leaders who ignore the negative effects of imports and talk only about the benefits of exports are engaging in false accounting.

The impact of trade on employment is one of the most widely used measures of the costs and benefits of trade policies, but also one of the least understood. **Table 1** shows the changes in goods trade (excluding services) from 1994 to 2000, measured in constant 2000 dollars. Table 1 also shows estimates of the employment impact of trade. These estimates utilize a detailed, 192-sector model that is prepared annually by the U.S. Bureau of Labor Statistics (see the methodology section for more details).

The net impact of trade on employment is determined by the relationships between imports, exports, and the domestic labor requirements for each type of good. An increase in exports creates demand for U.S. workers to produce those goods, while an increase in imports reduces demand for U.S. workers, either because imports displace already-existing, comparable U.S. products, or because new demand is satisfied by foreign rather than domestic products.

Although gross U.S. exports increased 61.5% between 1994 and 2000, those increases were over-shadowed by the growth in imports, which rose 80.5%, as shown in Table 1. As a result, the 1994 U.S. trade deficit of $182 billion increased 141.6% to $439 billion by 2000 (all figures are in inflation-adjusted 2000 dollars).

As shown in Table 1, total U.S. exports rose from $583 billion to $942 billion between 1994 and 2000. This net increase of $359 billion created 2.8 million jobs or job opportunities. On the other hand, the $616 billion rise in imports eliminated 5.8 million jobs. Thus, the $257 billion increase in the trade deficit eliminated a net of 3.0 million jobs or job opportunities in this period.

All 50 states and the District of Columbia have experienced a net loss of jobs since the implementation of NAFTA in 1994 and the creation of the WTO in 1995. Between 1994 and 2000, the U.S. lost more than 3 million jobs and job opportunities—equal to 2.3% of the labor force (for details, see Scott 2001a). Exports rose over the period, but imports rose faster, yielding net job loss figures ranging from a low of 6,000 in North Dakota to a high of 310,000 in California. Other hard-hit states—over 100,000 jobs lost in each—include Texas, New York, Michigan, Pennsylvania, Illinois, Ohio, North Carolina, Indiana, and Florida.

These states have high concentrations of the kinds of industries (motor vehicles, textiles and apparel, computers and electrical appliances) where production has shifted most rapidly to export-processing zones in China, Mexico, and other countries since NAFTA and the WTO took effect.

Table 2 provides detailed estimates of job gains due to the growth in exports and job losses due to changes in imports and the trade balance for each state. In every case, many more jobs are lost due to growing imports than are gained by increasing exports.

Ongoing barriers to U.S. exports (as well as overvaluation of the U.S. dollar) have contributed to these growing deficits, refuting the claim that NAFTA and the WTO would overcome such barriers. Instead, trade deficits have accelerated, with resulting job losses. Nearly two out of every three jobs lost (1.9 million out of 3.0 million) were in manufacturing. (For further details on job losses by industry and sector, see Scott 2001b).

TABLE 1
U.S. trade and trade-related job creation, 1994-2000

	1994	2000	Changes since 1994	
			Dollars	% Change
Change in U.S. trade, 1994-2000 (billions of constant 2000 dollars)				
U.S. exports	$583	$942	$359	61.5%
U.S. imports	765	1,381	616	80.5
U.S. trade balance	-182	-439	-257	141.6
U.S. trade-related job creation, 1989-2000				
U.S. exports	5,723,000	8,494,000	2,771,000	61.5%
U.S. imports	-7,371,000	-13,186,000	-5,815,000	80.5
U.S. trade balance	-1,648	-4,692,000	-3,044,000	141.6

Sources: U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis, and author's calculations.

TABLE 2
Trade-related job creation by state, 1994-2000

State	Changes due to growth in: Exports (jobs gained)	Imports (jobs lost)	Trade balance (net jobs gained or lost)
Alabama	40,703	-103,943	-63,239
Alaska	2,549	-9,521	-6,972
Arizona	42,597	-75,058	-32,461
Arkansas	26,860	-64,329	-37,469
California	309,877	-619,639	-309,762
Colorado	35,417	-70,400	-34,982
Connecticut	48,776	-80,206	-31,431
Delaware	11,818	-18,286	-6,467
District of Columbia	6,042	-12,600	-6,558
Florida	96,523	-196,570	-100,047
Georgia	69,340	-159,076	-89,736
Hawaii	5,299	-12,416	-7,116
Idaho	9,155	-20,176	-11,021
Illinois	153,399	-292,936	-139,537
Indiana	86,022	-188,895	-102,873
Iowa	29,404	-61,175	-31,770
Kansas	27,625	-50,873	-23,248
Kentucky	38,288	-89,236	-50,948
Louisiana	29,190	-74,130	-44,940
Maine	9,617	-31,974	-22,357
Maryland	32,116	-63,173	-31,057
Massachusetts	80,722	-145,156	-64,434
Michigan	122,976	-275,037	-152,061
Minnesota	58,251	-108,176	-49,925
Mississippi	21,676	-63,014	-41,338
Missouri	59,107	-127,499	-68,392
Montana	4,820	-12,341	-7,521
Nebraska	15,496	-30,808	-15,312
Nevada	13,840	-30,333	-16,493
New Hampshire	17,584	-30,520	-12,936
New Jersey	88,487	-173,236	-84,749
New Mexico	12,732	-29,465	-16,733
New York	156,925	-336,213	-179,288
North Carolina	92,573	-225,792	-133,219
North Dakota	4,349	-10,136	-5,788
Ohio	155,688	-290,827	-135,139
Oklahoma	27,572	-69,838	-42,266
Oregon	31,966	-73,090	-41,124
Pennsylvania	137,206	-279,427	-142,221
Rhode Island	20,887	-50,052	-29,164
South Carolina	51,185	-105,418	-54,233
South Dakota	8,105	-16,563	-8,458
Tennessee	62,995	-159,350	-96,355
Texas	187,214	-414,774	-227,559
Utah	19,706	-42,228	-22,523
Vermont	7,753	-14,036	-6,283
Virginia	53,045	-119,129	-66,083
Washington	52,885	-98,624	-45,739
West Virginia	14,207	-28,666	-14,458
Wisconsin	76,981	-150,458	-73,476
Wyoming	3,213	-10,189	-6,977
Total	**2,770,762**	**-5,815,004**	**-3,044,241**

Sources: U.S. Census Bureau, Bureau of Labor Statistics, and author's calculations.

Methodology

This analysis of the employment effects of U.S. trade policies under NAFTA and the WTO takes into account both actual job losses and potential jobs, or job opportunities, lost as a result of increasing U.S. trade deficits. Job losses in 2000 are estimates of the difference between predicted trade-related employment (if the trade deficit had remained constant between 1994 and 2000) and estimated employment in 2000 based on actual trade flows. This estimate measures the number of additional jobs and job opportunities that would have been available, above actual employment in 2000. Since U.S. unemployment was at low levels in 2000, a smaller deficit with the NAFTA countries would probably shift jobs from low-wage service industries to traded-goods sectors (such as manufacturing), where wages are higher. We use 1994 as the base year because NAFTA went into effect on January 1, 1994, the WTO on January 1, 1995. This analysis evaluated the impacts of changes in the trade balance on domestic employment.

Endnotes

1. The total number of jobs and job opportunities is a measure of what employment in trade-related industries would have been if the U.S. trade balance had remained constant (and holding everything else in the economy constant) between 1994 and 2000. Maintaining a constant trade balance while growing rapidly, as the U.S. did between 1994 and 2000, would have required that imports grow more slowly than they did and/or that exports grow faster. If the U.S. economy had grown at exactly the same rate under this condition as it did between 1994 and 2000, then more jobs would have been created in import-competing and exporting industries.

2. Now referred to as “Trade Promotion Authority.”

References

Scott, Robert E. 2001a. *Fast Track to Lost Jobs: Trade deficits and manufacturing decline are the legacies of NAFTA and the WTO.* Washington, D.C.: Economic Policy Institute.

Scott, Robert E. 2001b. *Where the Jobs Aren’t: Particular industries and states bear brunt of dislocations wrought by trade agreements.* Washington, D.C.: Economic Policy Institute.