Fair Trade or Free Trade? Understanding CAFTA

NAFTA's Impact on US Farmers and Workers

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US farmers and workers were led to believe that the signing of NAFTA would expand the US export market, adding jobs and increasing production levels at home. In reality, workers in both the manufacturing and agriculture sectors have suffered since the agreement was signed in 1994.

- <u>NAFTA's benefits to the US agricultural sector have favored large producers; the agreement has negatively impacted small farmers in the US.</u> According to a report on Florida's agricultural sector by the watchdog group Public Citizen, in NAFTA's first six years, farm income for non-corporate Florida farm operations fell 74.4%, while total Florida farm income increased 13.4%.[1] Similarly, a 1400% increase in Mexican peanut imports has allowed corporate Alabama peanut farms to expand production, but production by small Alabama peanut farmers declined by 5.3% between 1994 and1999.[2] Low floor prices and US subsidies that target larger producers allow agribusinesses to sell their products at below production cost in Mexico, undercutting small and medium producers in both countries.

- <u>The growing US trade deficit has caused a fall in domestic employment rates.</u> NAFTA supporters claim that every 1 billion dollar increase in US exports creates an additional 20,000 American jobs.[3] However, they ignore the increase in imports that can offset job growth at home. According to Economic Policy Institute research, US imports rose nearly 20% more than exports between 1994 and 2000, creating a negative trade balance.[4] Furthermore, EPI concludes, "Job losses associated with the trade deficit increased six times more rapidly between 1994 and 2000 than they did between 1989 and 1994."

  2.8 million jobs were created in the United States in this six year period, but 5.8 million were eliminated, resulting in a net loss of 3 million jobs.[5] According to Public Citizen, more than 525,094 US workers were certified as of December 31, 2002 under a special NAFTA unemployment program, "NAFTA Transitional Adjustment Assistance (NAFTA-TAA)". This unemployment is directly attributed to NAFTA, as only workers who produced a product directly affected by NAFTA are eligible for assistance under the NAFTA-TAA., as opposed to those employed in supply chain industries (many of whom were also negatively effected).[6] While this job loss figure is small relative to the size of the economy, job creation was the principal motivation for elimination of trade barriers under NAFTA. According to NAFTA promoters, the increase in jobs would compensate for other economic and environmental risks under the free trade agreement.[7] <u>The job loss figures suggest that NAFTA has failed to achieve its main objective.</u>

  The sectors that lost the greatest number of jobs between 1994 and 2001 were the motor vehicle industry, the textile and apparel industry, the electronics equipment industry, and the lumber industry.[8]

- <u>Rising import competition has undermined US working conditions.</u> The availability of cheap labor and weaker labor standards in Mexico has allowed U.S. corporate management to use the threat of relocation to suppress wages, discourage union organizing, and allow working conditions to deteriorate. According to a report by the Alliance for Responsible Trade (ART), the threat of plant relocation has been a "frequent tactic used by US employers in bargaining with their workers over wages and working conditions and in thwarting union organizing drives." By 1999, more than 68% of employers used the threat of closing during bargaining.[9]

U.S. workers in the manufacturing sector, which was hit hardest by the trade deficit created by NAFTA,[10] saw 1.5 million jobs leave the country.[11] As a result, these workers were forced to relocate to lower-wage industries, namely the service-sector, where the U.S. saw an increase of 3 million jobs during the 1990s. Workers faced an average reduction of wages of 13% when they found new employment.[12] And even for those workers who were able to keep their jobs, purchasing power declined during the NAFTA period. Productivity increased by 25% between 1990 and 2000, but real wage growth was only 8%.[13]

A breakdown of job losses under NAFTA by state and industry is available at http://www.epinet.org/briefingpapers/nafta01/state-losses-table.pdf.

[1] Public Citizen: *Down on the Farm: NAFTA's Seven-Years War on Farmers and Ranchers in the US, Canada and Mexico*, August 2001, p. 5. Available at http://www.citizen.org/documents/ACFF2.PDF.
[2] Ibid, p. 7
[3] Alliance for Responsible Trade: *Lessons from NAFTA: the High Cost of 'Free' Trade*, p. 36
[4] Economic Policy Institute: NAFTA at Seven: Its Impact on Workers in All Three Nations. April 2001. Available at http://www.epinet.org/content.cfm/briefingpapers_nafta01_index.
[5] Ibid
[6] Public Citizen: A Sampling of NAFTA-Related Job Loss. Available at http://www.citizen.org/trade/forms/search_taa.cfm.
[7] Economic Policy Institute, op cit.
[8] Scott, Robert: *NAFTA's Impact on the States*. Report available at http://www.epinet.org/content.cfm/briefingpapers_nafta01_impactstates.
[9] Alliance for Responsible Trade, op cit, p. 37
[10] The US deficit in manufacturing trade increased 158.5% between 1994 and 2000, according to the Economic Policy Institute.
[11] Alliance for Responsible Trade, op cit, p. 38
[12] Ibid
[13] Ibid