NAFTA's Bitter Legacy

In February 2014, 20 years after the implementation of NAFTA, Public Citizen's Global Trade Watch published a dossier on NAFTA's devastating impact on U.S. and Mexican workers and farmers. The full title of their report is "NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership." It is available in full at www.citizen.org/sites/default/files/nafta-at-20.pdf. The study, excerpts of which follow, demonstrates unequivocally that revisions to NAFTA cannot ameliorate the problems intrinsic to the free-trade agreement. These excerpts have been selected by ***Mya Shone*** *and* ***Ralph Schoenman****, co-producers of Taking Aim. Their commentary, in italics, is interspersed throughout the text.*

Public Citizen wrote:

NAFTA was fundamentally different than past trade agreements in that it was only partially about trade. Indeed, it shattered the boundaries of past U.S. trade pacts, which had focused narrowly on cutting tariffs and easing quotas. In contrast, NAFTA created new privileges and protections for foreign investors that incentivized the offshoring of investment and jobs by eliminating many of the risks normally associated with moving production to low-wage countries.

NAFTA allowed foreign investors to directly challenge before foreign tribunals domestic policies and actions, demanding government compensation for policies that they claimed undermined their expected future profits. NAFTA also contained chapters that required the three signatory countries to limit regulation of services, such as trucking and banking; extend medicine patent monopolies; limit food and product safety standards and border inspections; and waive domestic procurement preferences, such as Buy American policies.

Mexico had to re-write portions of its constitution to allow privatization of land and critical natural resources, such as oil and gas, in order to meet its NAFTA obligations.

One million U.S. jobs were lost in NAFTA's first years:

• Rather than creating the promised hundreds of thousands of U.S. jobs, NAFTA contributed to an enormous new U.S. trade deficit with Mexico and Canada and an estimated net loss of one million U.S. jobs by 2004. This figure, calculated by the Economic Policy Institute (EPI), includes the net balance between jobs created and jobs lost.[1] Much of the job erosion stems from the decisions of U.S. firms to embrace NAFTA's new foreign investor privileges and relocate production to Mexico to take advantage of its lower wages and weaker environmental standards.

EPI calculates that the ballooning trade deficit with Mexico alone destroyed about 700,000 net U.S. jobs between NAFTA's implementation and 2010.[2] EPI estimates that two thirds of the jobs lost were in the manufacturing sector and about one third of the jobs lost were in the non-manufacturing sectors of the economy, including service sector jobs, which suffered as closed factories no longer demanded services. The toll has likely grown since 2010, as the non-oil U.S. trade deficit with Mexico has risen further.[3]

The U.S. Department of Commerce tried to identify specific jobs created by NAFTA rather than destroyed but found fewer than 1,500 specific jobs that could be attributed to NAFTA.[4]

• NAFTA has contributed to downward pressure on U.S. wages and growth in U.S. income inequality. NAFTA's broadest economic impact has been to transform fundamentally the types of jobs and wages available for the 63 percent of American workers without a college degree. Most of those who lost manufacturing jobs to NAFTA offshoring and import competition found re-employment in lower-wage jobs in non-offshorable service sectors.

According to the U.S. Bureau of Labor Statistics, two out of every three displaced manufacturing workers who were rehired in 2012 experienced a wage reduction. Two out of every five displaced manufacturing workers took a pay cut of greater than 20 percent.[5] For the average manufacturing worker earning more than $47,000 per year, this meant an annual loss of at least $10,000.

As increasing numbers of workers displaced from manufacturing jobs have joined those competing for non-offshorable, low-skill jobs in sectors such as hospitality and food service, real wages also have fallen in these sectors[6] contributing to overall wage stagnation. Given rising inequality, the median U.S. wage has fared even worse and today remains at the same level seen in 1979.[7]

• NAFTA also contributes to rising inequality by enabling employers to threaten to move their companies overseas during wage bargaining with workers. A Cornell University study commissioned by the NAFTA Labor Commission found that after the passage of NAFTA, as many as 62 percent of U.S. union drives faced employer threats to relocate abroad, and the factory shut-down rate following successful union certifications tripled.[8]

Three illustrative examples cited by the *Los Angeles Times*, December 19, 2016:[9]

• **Brake Parts Inc.,** with 5,300 employees worldwide, manufactured brake calipers at a factory in the Central Valley community of Chowchilla for nearly 30 years, but a company executive said pressure was growing to reduce costs as all its competitors moved their factory work to Mexico.

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About a year ago, employees got the bad news: Operations were moving to a facility in Nuevo Laredo, Mexico. By the time the factory closed in August, about 280 Brake Parts workers had lost their jobs and it was the end of Brake Parts U.S. domestic manufacturing.

"There's no way that U.S. workers are going to work for $3.50 or $4 an hour, and that's the reality of the situation," said Randy Clausen, vice president for global human resources at Illinois-based Brake Parts.

• In October, **Rexnord**, which makes industrial bearings at an Indianapolis factory, notified the United Steelworkers Union Local 1999 that it had "tentatively decided" to move its operations to an existing company facility in Monterrey, Mexico.

Union President Chuck Jones said 300 workers would lose their jobs as the factory operating since the 1950s will close its doors in early 2017. "We sat down with the company, and we made some proposals to try to keep the jobs here, to no avail," Jones said. "They said they were saving $15.5 million a year, and they said we couldn't come up with nothing, unless we worked for $5 an hour, to keep this facility open," he said.

Rexnord's Indianapolis employees earn $25 an hour, along with benefits, compared to $3 an hour with no benefits for the workers in Mexico, Jones said. "It's going to be devastating, without a doubt," he said of the job losses. Some employees will face home foreclosures because they "won't be able to get jobs for the most part that will pay anything close to what they're currently making."

• **Nabisco**, a subsidiary of Illinois-based Mondelez, had been making Oreo cookies in Chicago since 1953. But in July 2016, the last Oreos rolled off the production lines at the factory.

Last year, Mondelez chose its facility in Salinas, Mexico, over Chicago for a $130-million upgrade that included four new state-of-the-art manufacturing lines for the company's top products. That meant the 1,200-person workforce in Chicago would be cut in half.

Anthony Jackson was among those laid off. Workers would have had to take a 60% pay cut for Mondelez to even consider choosing Chicago over Mexico for the manufacturing upgrades, he said. "You can't tell me that they seriously thought anyone would say OK to giving away 60% of their pay and benefits," said Jackson, a spokesman for the Local 300 of the Bakery, Confectionery, Tobacco Workers and Grain Millers Union who had worked at the factory for five years before being laid off in March.

Public Citizen continues — The cost of living increases in the United States as food prices rise:

• Despite a 239 percent rise in food imports from Canada and Mexico under NAFTA,[10] the average nominal price of food in the United States has jumped 67 percent since the deal went into effect.[11]

The reductions in consumer goods prices that have materialized have not been sufficient to offset the losses to middle-class wages under NAFTA. U.S. workers without college degrees (63 percent of the workforce) have lost an amount equal to 12.2 percent of their wages under NAFTA-style trade even after accounting for the benefits of cheaper goods. This net loss, calculated by the Center for Economic and Policy Research, means losing more than $3,300 per year for a worker earning the median annual wage of $27,500.[12]

Deterioration of environmental, health and safety regulations as a result of treating multi-national corporations in an "investor-state" system:

• NAFTA included an array of new investment privileges and protections that at the time were unprecedented in scope and power among U.S. "trade" pacts. NAFTA elevates foreign investors to the level of sovereign signatory governments, uniquely empowering individual corporations to skirt domestic laws and courts and privately enforce the terms of the public treaty by directly challenging governments' public interest policies before World Bank and U.N. tribunals. The tribunals are typically comprised of three private sector attorneys, unaccountable to any electorate, who often rotate between serving as "judges" and bringing cases for corporations against governments. The tribunals are empowered to order payment of unlimited sums of taxpayer funds to compensate the investors.

This process is called "investor-state" enforcement. Only commercial interests have standing to challenge government policy, not unions or consumer groups. More than $360 million in compensation to investors has been extracted from NAFTA governments via investor-state tribunal challenges against toxics bans, land-use rules, water and forestry policies and more than $12.4 billion were pending in such claims at the time of the 2014 report.[13]

Five examples:

• The **U.S. Ethyl Corporation** used NAFTA's investor-state system in the late 1990s to reverse a Canadian environmental ban of the carcinogenic gasoline additive MMT, also banned by numerous U.S. states, while also obtaining $13 million in compensation from the Canadian government.[14]

• In another infamous NAFTA case, a Mexican municipality's refusal to grant the U.S. firm **Metalclad** a construction permit, which it also had denied to the contaminated facility's previous Mexican owner (until and unless the site was cleaned up), resulted in $15.6 million in compensation being paid by Mexico.[15]

• In a NAFTA claim, a Canada-headquartered natural gas corporation set up an office in the United States and launched a $241 million NAFTA demand against a Canadian province's moratorium on natural gas fracking.[16] and in another case, still pending, **Lone Pines** sued Quebec after it passed a ban on oil and gas exploration in the St. Lawrence River and revoked all previous

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licenses.

• **Ely Lilly**, a U.S. pharmaceutical corporation, demanded $481 million for Canada's revocation of its medicine drug patents. The corporation asked a NAFTA tribunal to second-guess Canada's domestic court rulings that the corporation failed to present sufficient evidence that the drugs would deliver promised benefits when it requested monopoly patent rights.[17]

Empty promises for U.S. farmers and farmworkers:

• High imports and lackluster exports under NAFTA have particularly wracked family farmers in some sectors. Since NAFTA took effect, about 170,000 smaller-scale family farms have gone under – a 21 percent decrease in the total number.[18] The U.S. vegetable deficit with Canada and Mexico has soared to $4.2 billion, nearly 10 times the pre-NAFTA level.[19]

Overruling U.S. food safety regulations:

• NAFTA required the United States to accept meat and poultry from all facilities in Mexico and Canada if those countries' domestic systems were found to be "equivalent," even if core aspects of U.S. food safety requirements, such as continuous inspection or the use of government (not company-paid) inspectors, were not met. "Equivalence" was not defined in NAFTA. In violation of U.S. requirements for government meat inspection, Mexico was allowed to have company-paid meat inspectors.[20] Only 8.5 percent of beef, pork, and chicken is physically inspected at the border by the U.S. Department of Agriculture.[21] and the U.S. Food and Drug Administration (FDA) physically inspects only 1.8 percent of the food imports that it regulates (vegetables, fruit, seafood, grains, dairy, and animal feed) at the border.[22]

Mexico:

To provide a framework for foreign corporations to operate easily in Mexico, NAFTA required the revision of key gains enshrined in the Mexican constitution. This enabled the privatization of land, oil and gas resources as well as the national electrical utility industry. Mexico also eliminated tariffs on corn imports and programs supporting small farmers in response to NAFTA's agricultural provisions.

The example of corn:

• The export of subsidized U.S. corn increased in NAFTA's first decade, destroying the livelihoods of more than 1.1 million Mexican campesino (small) farmers and about 1.4 million additional Mexican workers whose livelihoods depended on agriculture.[23]

As reported in a *New Republic* exposé, wages dropped so precipitously that the income of a farm laborer was one-third of what it was before NAFTA. As jobs disappeared and wages sank, many of these rural Mexicans emigrated, doubling Mexican immigration to the United States and swelling the ranks of 12 million undocumented immigrants living incognito and competing for low-wage jobs in the United States.[24]

• Though the price paid to Mexican farmers for corn plummeted 66% after NAFTA, the deregulated retail price of tortillas – Mexico's staple food – shot up 279 percent in the pact's first 10 years. NAFTA included service sector and investment rules that facilitated consolidation of grain trading, milling, baking and retail so that in short order the relatively few remaining large firms dominating these activities were able to raise consumer prices and reap enormous profits as corn costs simultaneously declined.[25]

Real wages plummet:

• Real wages in Mexico have fallen below pre-NAFTA levels as price increases for basic consumer goods exceeded wage increases. A minimum wage earner in Mexico today can buy 38 percent fewer consumer goods as on the day that NAFTA took effect.[26]

A 2006 comprehensive study found that inflation-adjusted wages for virtually every category of Mexican worker decreased over NAFTA's first six years. The workers that experienced the highest losses of real earnings were employed women with basic education (-16.1 percent) and employed men with advanced education (-15.6 percent).

Overall, there has been a shift from formal, wage- and benefit-earning employment to informal, non-wage and benefit-earning employment under NAFTA. Even formal employment has shifted to carrying fewer benefits than it did prior to the pact's passage. Maquiladora employment, where wages are almost 40 percent lower than those paid in heavy non-maquila manufacturing, surged in NAFTA's first six years.

As of 2017, there are 3,000 maquiladoras — three-quarters located along the U.S.-Mexico border — employing over 1 million Mexican workers.

Public Citizen concludes in 2014:

After two decades of NAFTA, the evidence is clear: the vaunted deal failed at its promises of job creation and better living standards while contributing to mass job losses, soaring income inequality, agricultural instability, corporate attacks on domestic health and environmental safeguards, and mass displacement and volatility in Mexico.

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COMMENTARY:

NAFTA is a system of pauperization of working people on both sides of the border. The war on U.S. workers affected by NAFTA destroys hard-fought for social and economic gains while undermining the very fabric of labor organizations and working class communities. The war on Mexican workers and campesinos attacks the historic legacy and gains of the Mexican Revolution. It assails the core content of the Mexican Constitution, which proclaimed that land and resources belong to the people themselves. Together, we must create an effective mobilization to Cancel NAFTA as our unions and popular organizations join hands in a common struggle.

Endnotes:

1 Robert E. Scott, Carlos Salas, and Bruce Campbell, "Revisiting NAFTA: Still Not Working for North America's Workers," Economic Policy Institute, Briefing Paper 173, September 28, 2006. Available at: http://s2.epi.org/files/page/-/old/briefingpapers/173/bp173.pdf.

2 Robert E. Scott, "Heading South: U.S.-Mexico trade and job displacement after NAFTA," Economic Policy Institute Briefing Paper 308, May 2011. Available at: http://www.epi.org/publication/heading_south_u-s-mexico_trade_and_job_displacement_after_nafta1/.

3 U.S. International Trade Commission, "Interactive Tariff and Trade Dataweb," accessed February 9, 2014. Available at: http://dataweb.usitc.gov. Exports are domestic exports and imports are imports for consumption. Oil is defined as products falling within NAICS 2111 and 3241.

4 Public Citizen, "NAFTA at Five: School of Real-Life Results, Report Card," PC report, 1999. Available at: http://www.citizen.org/trade/article_redirect.cfm?ID=6473.

5 U.S. Bureau of Labor Statistics, "Displaced Workers Summary," Table 7, U.S. Department of Labor, Aug. 24, 2012. Available at: http://www.bls.gov/news.release/disp.nr0.htm.

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7 U.S. Bureau of Labor Statistics, "Weekly and Hourly Earnings Data from the Current Population Survey," Series ID LEU0252881600, U.S. Department of Labor, extracted February 12, 2014. Available at: http://data.bls.gov.

8 Kate Bronfenbrenner, "The Effects of Plant Closing or Threat of Plant Closing on the Right of Workers to Organize," North American Commission for Labor Cooperation Report, 1997.

9 "These three U.S. companies moved jobs to Mexico. Here's why" by Jim Puzzanghera, *Los Angeles Times*, December 19, 2016.

10 Foreign Agricultural Service, "Global Agricultural Trade System," U.S. Department of Agriculture, accessed February 12, 2014. Available at: http://fas.usda.gov/gats/default.aspx. The statistic is a comparison of the inflation-adjusted dollar value of food imports from Canada and Mexico in 1993 and 2013. Food imports are defined as the following USDA Foreign Agricultural Service aggregations: dairy products, fruits & preparations, grains & feeds, livestock & meats, oilseeds & products, other horticultural products, planting seeds, poultry & products, sugar & tropical products, tree nuts & preparations, and vegetables & preparations.

11 Bureau of Labor Statistics, "Consumer Price Index Database," CPI for food at home for all urban consumers, Series ID CUUS0000SAF11, U.S. Department of Labor, extracted February 12, 2014. Available at: http://www.bls.gov/cpi/.

12 Dean Baker and Mark Weisbrot, "Will New Trade Gains Make Us Rich?" Center for Economic and Policy Research (CEPR) Paper, October 2001. Available at: http://www.cepr.net/documents/publications/trade_2001_10_03.pdf. The share of workforce without a college degree comes from U.S. Census Bureau, "Educational Attainment in the United States: Table 2. Educational Attainment of the Population 25 Years and Over, by Selected Characteristics: 2013," 2014. Available at: http://www.census.gov/hhes/socdemo/education/data/cps/2013/tables.html. Median wage information comes from Social Security Administration, "Wage Statistics for 2012," February 2014. Available at: http://www.ssa.gov/cgi-bin/netcomp.cgi?year=2012.

13 Public Citizen, "Table of Foreign Investor-State Cases and Claims under NAFTA and Other U.S. 'Trade' Deals," February 2014.

14 *Ibid.*

15 *Ibid.*

16 *Ibid.*

17 *See* Public Citizen, "U.S. Pharmaceutical Corporation Uses NAFTA Foreign Investor Privileges Regime to Attack Canada's Patent Policy, Demand $100 Million for Invalidation of a Patent," PC briefing paper, March 2013.

18 Farming typologies and numbers come from Economic Research Service, "Agricultural Resource Management Survey: Farm Financial and Crop Production Practices," U.S. Department of Agriculture, updated Nov. 27, 2012. Available at: http://www.ers.usda.gov/data-products/arms-farm-financial-and-crop-production-practices/tailored-reports.aspx. Small family farms consist of "farming occupation" farms grossing less than $250,000 per year ("lower sales" and "higher sales"), while large farms include family farms grossing more than $250,000 per year ("large" and "very large") and nonfamily farms. Comparisons are between 2011 and 1996, the latest and earliest data available for those typologies.

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20 Public Citizen, "The WTO Comes to Dinner: U.S. Implementation of Trade Rules Bypasses Food Safety Requirements," PC report, 2003, pages 36-37.

21 Food Safety and Inspection Service, "Quarterly Enforcement Report for Quarter 4, Fiscal Year 2013," U.S. Department of Agriculture, 2013, at Table 3a. Available at: http://www.fsis.usda.gov/wps/portal/fsis/topics/regulatory-compliance/regulatory- enforcement/quarterly-enforcement-reports/qer-q4-fy2013.

22 U.S. Food and Drug Administration, "Fiscal Year 2013 Congressional Justification," 2013 at 157. Available at: http://www.fda.gov/downloads/AboutFDA/ReportsManuals-Forms/Reports/BudgetReports/UCM301716.pdf.

23 John B. Judis, "Trade Secrets," *The New Republic,* April 9, 2008.

24 *Ibid.*

25 Gisele Henriques and Raj Patel, "NAFTA, Corn, and Mexico's Agricultural Trade Liberalization," Interhemispheric Resource Center, February 13, 2004, at 6.

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