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Briefing Paper

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# NAFTA'S PAIN DEEPENS

## Job destruction accelerates in 1999 with losses in every state

*by Robert E. Scott*

From the time the North American Free Trade Agreement (NAFTA) took effect in 1994 through 1998, growth in the net export deficit with Mexico and Canada has destroyed 440,172 American jobs (see **Table 1**). Moreover, through the first half of 1999 the portion of the U.S. trade deficit attributable to NAFTA has nearly doubled in comparison to the same period last year, leading to even more job losses.

Many previous evaluations of NAFTA's impact on the domestic economy have failed to consider imports as well as exports. Ignoring the impact of imports is like trying to keep score in a baseball game by counting only the runs scored by the home team. When the United States exports 1,000 cars to Mexico, many American workers are employed in their production. If, however, the U.S. imports 1,000 or more cars from Mexico rather than build them domestically, then a similar number of Americans who would have been employed in the auto industry will have to find other work.

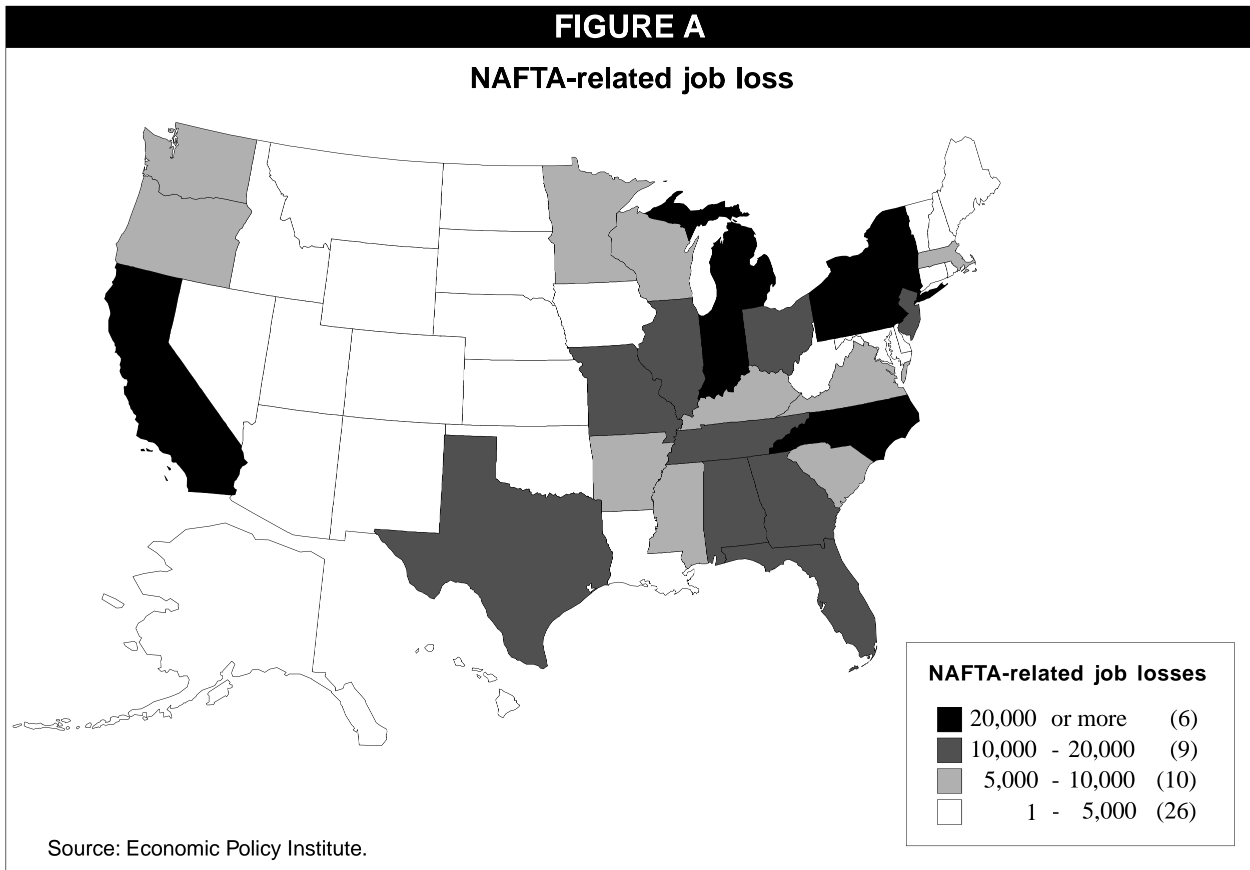
Although gross U.S. exports have increased dramatically — with real growth of 92.1% to Mexico and 56.9% to Canada — these increases have been overshadowed by the growth in imports, which have gone up by 139.3% from Mexico and 58.8% from Canada. In 1993, the United States had a net export deficit with its NAFTA partners of $18.2 billion (all figures in inflation-adjusted 1987 dollars). From 1993 to 1998, this deficit increased by 160% to $47.3 billion, resulting in job losses in all 50 states and the District of Columbia (see **Figure A**).

## TABLE 1
## U.S. trade with Mexico and Canada, 1993-98 totals for all commodities (millions of constant 1987 dollars)

| | 1993 | 1998 | Change since 1993: Dollars | Percent | Jobs lost or gained |
|---|---|---|---|---|---|
| **Mexico** | | | | | |
| Domestic exports | $36,390 | $69,911 | $33,521 | 92.1% | 489,266 |
| Imports for consumption | 35,915 | 85,951 | 50,035 | 139.3 | -721,935 |
| Net exports | 475 | -16,039 | -16,514 | -3478.4 | -232,669 |
| **Canada** | | | | | |
| Domestic exports | $84,055 | $131,875 | $47,820 | 56.9% | 650,470 |
| Imports for consumption | 102,715 | 163,114 | 60,399 | 58.8 | -857,973 |
| Net exports | -18,660 | -31,239 | -12,579 | 67.4 | -207,503 |
| **Mexico and Canada** | | | | | |
| Domestic exports | $120,445 | $201,787 | $81,341 | 67.5% | 1,139,736 |
| Imports for consumption | 138,630 | 249,065 | 110,435 | 79.7 | -1,579,908 |
| Net exports | -18,185 | -47,278 | -29,093 | 160.0 | -440,172 |

Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

## FIGURE A
### NAFTA-related job loss




Source: Economic Policy Institute.

The growing U.S. trade deficit has been facilitated by substantial currency devaluations in Mexico and Canada, which have made both countries' exports to the United States cheaper while making imports from the United States more expensive. These devalued currencies have also encouraged investors in Canada and Mexico to build new and expanded production capacity to export even more goods to the U.S. market.

## The surging NAFTA deficit in 1999

The total U.S. trade deficit with the rest of the world, through June 1999, increased by 38.6% relative to the same period in 1998 (see **Table 2**). The U.S. deficit with Mexico increased by 71.8%, and the deficit with Canada more than doubled (increasing by 121.3%) in this period. If current trends continue, the U.S. trade deficit attributable to NAFTA is likely to double in 1999, leading to a rapid increase in the number of jobs lost. Over three-quarters of the jobs lost due to NAFTA through 1998 were in the manufacturing sector, and further growth of the NAFTA deficit will continue to reduce the number of such high-wage, high-skill manufacturing jobs available to non-college-educated workers.

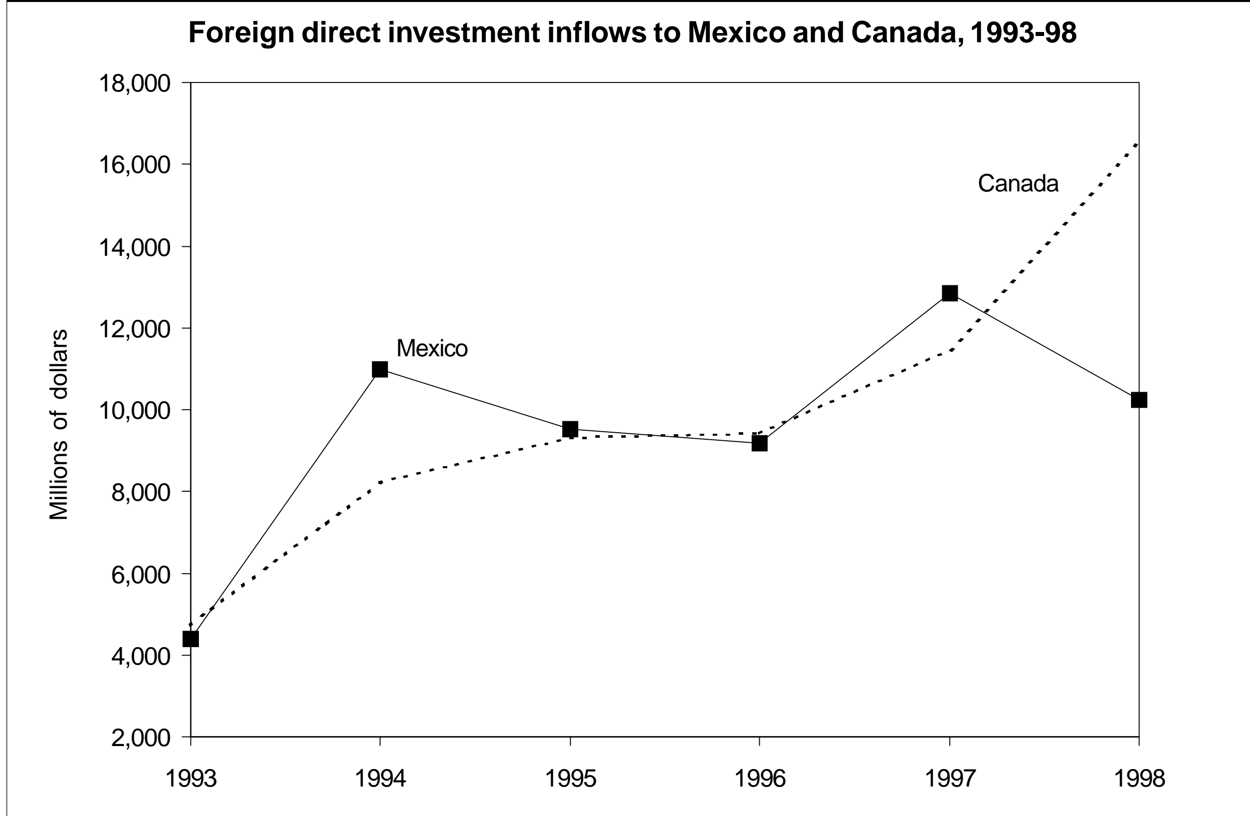
As mentioned above, the recent depreciations of the Mexican peso and Canadian dollar have helped drive the growth in the United States' trade deficit with its NAFTA partners. The Mexican peso has lost more than 40% of its value since the 1995 peso crisis, and the Canadian dollar has declined about 7% against U.S. currency in the past year alone (Federal Reserve Board of Governors 1999).

This devaluation of currency in Mexico and Canada, combined with the opportunities afforded by NAFTA, has led to a surge in foreign direct investment (FDI) in these countries (see **Figure B**). In 1994 — the first year NAFTA took effect — FDI in Mexico increased by 150%. It has remained strong since, despite the economic problems caused by the peso crisis. FDI in Canada has more than doubled since 1993, increasing 44% in 1998 alone. Combined FDI inflows of $116

**TABLE 2**
**U.S. trade with NAFTA countries through June 1999**
(merchandise trade, millions of current dollars)

| | First six months | | Percent change |
|---|---|---|---|
| | 1998 | 1999 | 1998 to 1999 |
| Total balance-of-payments basis | -107,273 | -148,666 | 38.6% |
| Canada | -6,250 | -13,831 | 121.3% |
| Mexico | -7,209 | -12,383 | 71.8 |
| Canada and Mexico combined | -13,459 | -26,214 | 94.8 |

Source: EPI analysis of U.S. Census Bureau, FT900 - U.S. International Trade in Goods and Services (August 19, 1999).




billion since 1993, along with bank loans and other types of foreign financing, have funded the construction of thousands of Mexican and Canadian factories that produce goods for export to the United States. These factories (and their increased export capacity) have contributed substantially to the growing U.S. trade deficit and the related job losses.

## Job losses in all 50 States

All 50 states and the District of Columbia have experienced a net loss of jobs under NAFTA (see **Table 3**). Exports from every state have been offset by faster rising imports. Net job loss figures range from a low of 395 in Alaska to a high of 44,132 in California. Other hard-hit states include Michigan, New York, North Carolina, Indiana, Pennsylvania, Ohio, Texas, Tennessee, Illinois, Georgia, Florida, Alabama, New Jersey, and Missouri, each with more than 10,000 jobs lost.

Several states, notably Arkansas, Indiana, Kentucky, Michigan, North Carolina, Rhode Island, and Tennessee, experienced job losses disproportionate to their share of the overall U.S. workforce. These states all have high concentrations of industries (such as motor vehicles, textiles and apparel, computers and electrical appliances) where a large number of plants have moved to Mexico.

While job losses in most states are modest relative to the size of the economy, it is important to remember that the promise of new jobs was the principal justification for NAFTA. According to its promoters, the new jobs would compensate for the increased environmental degradation, economic

**TABLE 3**
**NAFTA job loss by state, 1993-98**

| State | Net NAFTA job loss* Number of jobs | State | Net NAFTA job loss* Number of jobs |
|---|---|---|---|
| U.S. total | -440,172 | Missouri | -10,758 |
| Alabama | -11,594 | Montana | -1,139 |
| Alaska | -395 | Nebraska | -1,751 |
| Arizona | -3,296 | Nevada | -2,342 |
| Arkansas | -6,663 | New Hampshire | -1,265 |
| California | -44,132 | New Jersey | -11,045 |
| Colorado | -3,625 | New Mexico | -1,268 |
| Connecticut | -4,616 | New York | -27,844 |
| Delaware | -866 | North Carolina | -24,118 |
| District of Columbia | -798 | North Dakota | -732 |
| Florida | -13,841 | Ohio | -19,098 |
| Georgia | -15,784 | Oklahoma | -3,018 |
| Hawaii | -907 | Oregon | -5,359 |
| Idaho | -1,397 | Pennsylvania | -20,918 |
| Illinois | -16,980 | Rhode Island | -4,234 |
| Indiana | -21,063 | South Carolina | -7,305 |
| Iowa | -4,850 | South Dakota | -1,217 |
| Kansas | -3,452 | Tennessee | -18,332 |
| Kentucky | -8,917 | Texas | -18,752 |
| Lousiana | -3,245 | Utah | -2,973 |
| Maine | -1,877 | Vermont | -597 |
| Maryland | -3,981 | Virginia | -9,797 |
| Massachusetts | -8,362 | Washington | -8,331 |
| Michigan | -31,851 | West Virginia | -1,183 |
| Minnesota | -6,345 | Wisconsin | -9,314 |
| Mississippi | -8,245 | Wyoming | -402 |

* Excluding effects on wholesale and retail trade and advertising.

Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

instability, and public health dangers that NAFTA brings (Lee 1995, 10-11). If NAFTA is not delivering net new jobs, it is not providing enough benefits to offset the costs it imposes on the American public.

Even when displaced workers are able to find new jobs in the growing U.S. economy, they face a reduction in wages, with earnings declining by an average of over 16% (Farber 1996). These displaced workers' new jobs are likely to be in the service industry, the source of 104% of net new jobs created in the United States since 1989 and a sector in which average compensation is only 77% of that of the manufacturing sector (Mishel, Bernstein, and Schmitt 1999, 173).

A study commissioned by NAFTA's own labor secretariat further demonstrated that NAFTA's wage effects extend beyond the workers who are actually displaced. The study found that many U.S. employers have been winning wage and benefit concessions from their workers simply by threatening to shut down and move production to Mexico. The percentage of firms that move rather than continue to bargain with workers has tripled since NAFTA's inception (Bronfenbrenner 1997).

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## Methodology

This study uses the model developed in Rothstein and Scott (1997a and 1997b; see the former for a more detailed treatment of the methodology used). This approach solves four problems that are prevalent in previous research on the employment impacts of trade:

- Some studies look only at the effects of exports and ignore imports;
- Some studies include foreign exports (transshipments) — goods produced outside North America and shipped through the United States to Mexico or Canada — as U.S. exports;
- Trade data are usually not adjusted for inflation;
- A single employment multiplier is applied to all industries, despite differences in labor productivity and utilization.

The model used here is based on the Bureau of Labor Statistics' 183 sector employment requirement table, which was derived from the 1987 U.S. input-output table and adjusted to 1993 price and productivity levels (BLS 1996). We use three-digit, SIC-based industry trade data (Bureau of the Census 1999), deflated with industry-specific, chain-weighted price indices (BLS 1999). State-level employment effects are calculated by allocating imports and exports to the states on the basis of their share of three-digit, industry-level employment[2] (BLS 1997). Note that other studies — see California State World Trade Commission (1997), which finds 47,600 jobs created in California from increased trade with Canada alone — have allocated all employment effects to the state of the exporting company. This is problematic because the production—along with any attendant job effects—need not have taken place in the exporter's state. If a California dealer buys cars from Chrysler and *sells* them to Mexico, these studies will find job creation in California. However, the cars are not made in California; the employment effects should instead be attributed to Michigan and other states with high levels of auto industry production. Likewise, if the same firm buys auto parts from Mexico, the loss of employment will occur in auto industry states, not in California.

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