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THE HIGH PRICE OF 'FREE' TRADE

NAFTA's failure has cost the United States jobs across the nation

by Robert E. Scott

Since the North American Free Trade Agreement (NAFTA) was signed in 1993, the rise in the U.S. trade deficit with Canada and Mexico through 2002 has caused the displacement of production that supported 879,280 U.S. jobs. Most of those lost jobs were high-wage positions in manufacturing industries. The loss of these jobs is just the most visible tip of NAFTA's impact on the U.S. economy. In fact, NAFTA has also contributed to rising income inequality, suppressed real wages for production workers, weakened workers' collective bargaining powers and ability to organize unions, and reduced fringe benefits.

NAFTA is a free trade and investment agreement that provided investors with a unique set of guarantees designed to stimulate foreign direct investment and the movement of factories within the hemisphere, especially from the United States to Canada and Mexico. Furthermore, no protections were contained in the core of the agreement to maintain labor or environmental standards. As a result, NAFTA tilted the economic playing field in favor of investors, and against workers and the environment, resulting in a hemispheric "race to the bottom" in wages and environmental quality.

False promises

Proponents of new trade agreements that build on NAFTA, such as the proposed Free Trade Agreement of the Americas (FTAA), 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[1] for an FTAA, Bush called the bill's passage a "historic moment" that would lead to the creation of more jobs and more sales of U.S. products abroad. Two weeks later at his economic forum in Texas, the president argued, "[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 tend to create jobs in this country, but increases in imports tend to reduce jobs because the imports displace goods that otherwise would have been made in the United States by domestic workers.

President Bush'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. Such arguments are 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.

NAFTA supporters frequently tout the benefits of exports while remaining silent on the effects of rapid import growth (Scott 2000). Former President George H.W. Bush, whose administration negotiated NAFTA, recently claimed that "two million NAFTA-related jobs have been created in the United States since 1993" (Bush 2002). But any evaluation of the impact of trade on the domestic economy must include the impact of *both* imports and exports. If the United States exports 1,000 cars to Mexico, many American workers are employed in their production. If, however, the United States imports 1,000 cars from Mexico rather than building them domestically, then a similar number of Americans who would have otherwise been employed in the auto industry will have to find other work.

Another critically important promise made by the promoters of NAFTA was that the United States would benefit because of increased exports to a large and growing consumer market in Mexico. This market, in turn, was to be based on an expansion of the middle class that, it was claimed, would grow rapidly due to the wealth created in Mexico by NAFTA. Thus, most U.S. exports were predicted to be consumer products destined for consumption in Mexico.

In fact, most U.S. exports to Mexico are parts and components that are shipped to Mexico and assembled into final products that are then returned to the United States. The number of products that Mexico assembles and exports—such as refrigerators, TVs, automobiles, and computers—has mushroomed under the NAFTA agreement. Many of these products are produced in the Maquiladora export processing zones in Mexico, where parts enter duty free and are re-exported to the United States in assembled products, with duties paid only on the value added in Mexico. The

share of total U.S. exports to Mexico that is represented by Maquiladora imports has risen from 39% of U.S. exports in 1993 to 61% in 2002.[2] The number of such plants increased from 2,114 in 1993 to 3,251 in 2002 (INEGI 2003a, 2003b).

Growing trade deficits and job losses

NAFTA's impact in the United States, however, has been often obscured by the "boom-and-bust" cycle that drove domestic consumption, investment, and speculation in the mid- and late 1990s. Between 1994 (when NAFTA was implemented) and 2000, total employment rose rapidly in the United States, causing overall unemployment to fall to record low levels. But unemployment began to rise early in 2001, and 2.4 million jobs were lost in the domestic economy between March 2001 and October 2003 (BLS 2003). These job losses have been primarily concentrated in the manufacturing sector, which has experienced a total decline of 2.4 million jobs since March 2001. As job growth has dried up in the economy, the underlying problems caused by U.S. trade deficits have become much more apparent, especially in manufacturing.

The United States has experienced steadily growing global trade deficits for nearly three decades, and these deficits accelerated rapidly after NAFTA took effect on January 1, 1994. For the purposes of this report it is necessary to distinguish between exports produced domestically and foreign exports, which are goods produced in other countries but exported to the United States, and then re-exported from the United States. Foreign exports made up 11.6% of total U.S. exports to Mexico and Canada in 2002. However, because only domestically produced exports generate jobs in the United States, our trade calculations are based only on domestic exports. Our measure of the net impact of trade, which is used here to calculate the employment content of trade, is the difference between domestic exports and total imports.[3] We refer to this as "net exports," to distinguish it from the more commonly reported gross trade balance. However, both concepts are measures of net trade flows.

Although U.S. domestic exports to its NAFTA partners have increased dramatically—with real growth of 95.2% to Mexico and 41% to Canada—growth in imports of 195.3% from Mexico and 61.1% from Canada overwhelmingly surpass export growth, as shown in **Table 1**. The resulting $30 billion U.S. net export deficit with these countries in 1993 increased by 281% to $85 billion in 2002 (all figures in inflation-adjusted 2002 dollars). As a result, NAFTA has led to job losses in all 50 states and the District of Columbia, as shown in **Figure 1**. Through September 2003, the U.S. goods trade deficit with Mexico and Canada has increased 12% over the same period last year (U.S. Census Bureau 2003a). Job losses for the remainder of 2003 are likely to grow at a similar rate.

NAFTA's effects on foreign direct investment

NAFTA contained a number of unique provisions designed to provide special protections for investors in order to encourage foreign direct investment in chapter eleven of the agreement, which concerned investment. Chapter eleven specifically outlaws a number of performance requirements, including 1) exporting a given percentage of goods; 2) achieving a given level of domestic content; 3)

TABLE 1
U.S.-NAFTA trade, job creation, and job destruction, 1993-2002 totals for all commodities (billions of 2002 dollars)*

	1993	2002	Changes since 1993: Dollars	% change
Changes in U.S.-NAFTA trade				
Canada				
Domestic exports	$101	$142	$41	40.8%
Imports	-129	-208	-79	61.1%
Net exports	-29	-67	-38	132.9%
Mexico				
Domestic exports	$44	$85	$42	95.2%
Imports	-45	-134	-88	195.3%
Net exports	-2	-48	-47	3057.2%
NAFTA totals				
Domestic exports	$144	$227	$83	57.3%
Imports	-175	-342	-168	96.0%
Net exports	-30	-115	-85	281.4%
U.S. trade-related job creation and destruction**				
NAFTA totals				
Domestic exports	1,235,912	2,030,086	794,174	64.3%
Imports	-1,332,972	-3,006,426	-1,673,454	125.5%
Net exports	-97,060	-976,339	-879,280	905.9%

* Totals may not add due to rounding errors.
** Excluding effects on wholesale and retail trade and advertising.

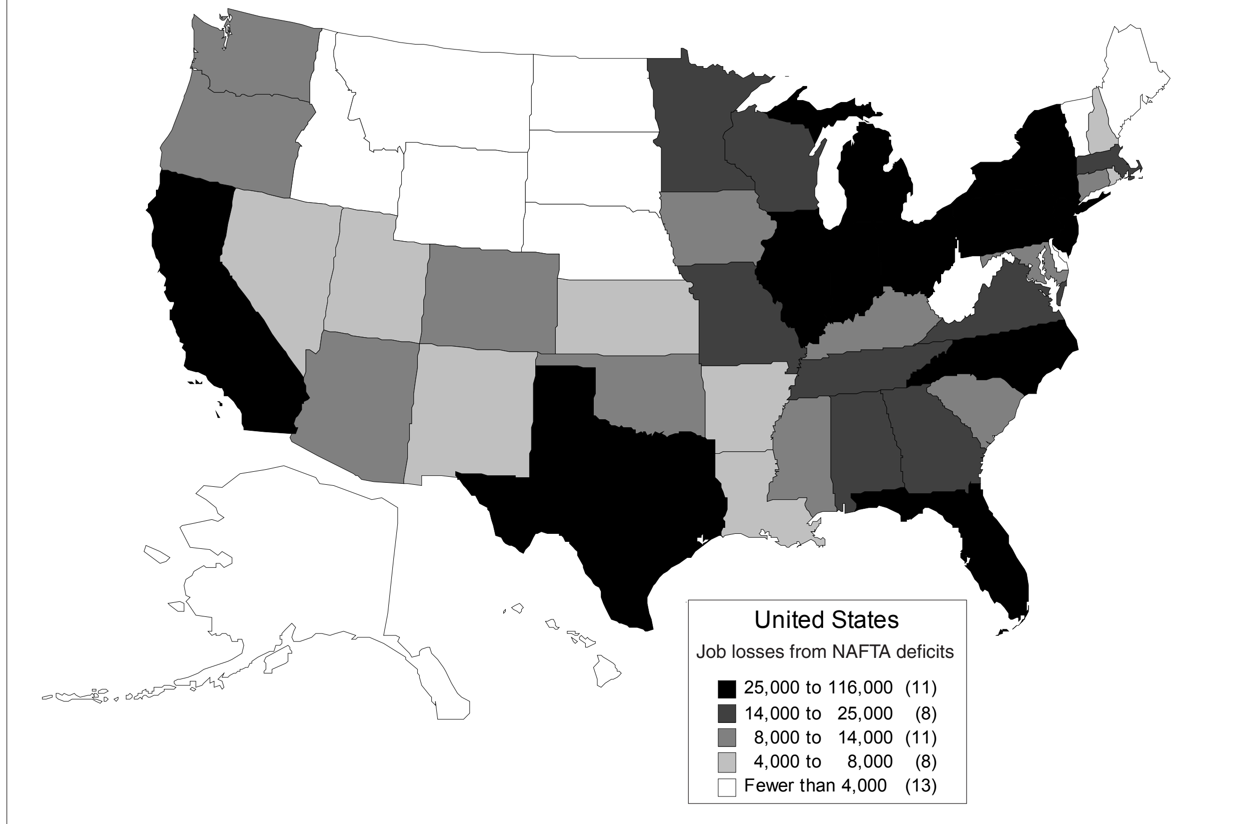
Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data. See Appendix 1.

transfering technology; and 4) other limits on the use of foreign exchange (NAFTA Secretariat 2003, article 1106). These types of measures were used by both Mexico and Canada to encourage development of their domestic economies, and to maximize the benefits they obtained from foreign indirect investment (FDI).

In addition, NAFTA included unprecedented guarantees to protect the value of corporate investments and even the rights to earn profits in the future arising out of changes in government regulations or policy. In particular, NAFTA created specific clauses that provide for compensation for lost investments and loss of future profits due to regulations that are "tantamount to expropriation" (NAFTA Secretariat 2003, article 1110). No other part of NAFTA has generated as much controversy as this "investor state" clause. To date, 27 cases have been reviewed under this clause by companies alleging that their foreign investments or their right to earn profits in other countries have been expropriated (Hemispheric Social Alliance 2003, 68-74). These claims, several of which have resulted in damages paid or regulations rescinded, have had a chilling effect on government efforts to regulate private businesses throughout the hemisphere.

FIGURE 1

NAFTA costs jobs in every state

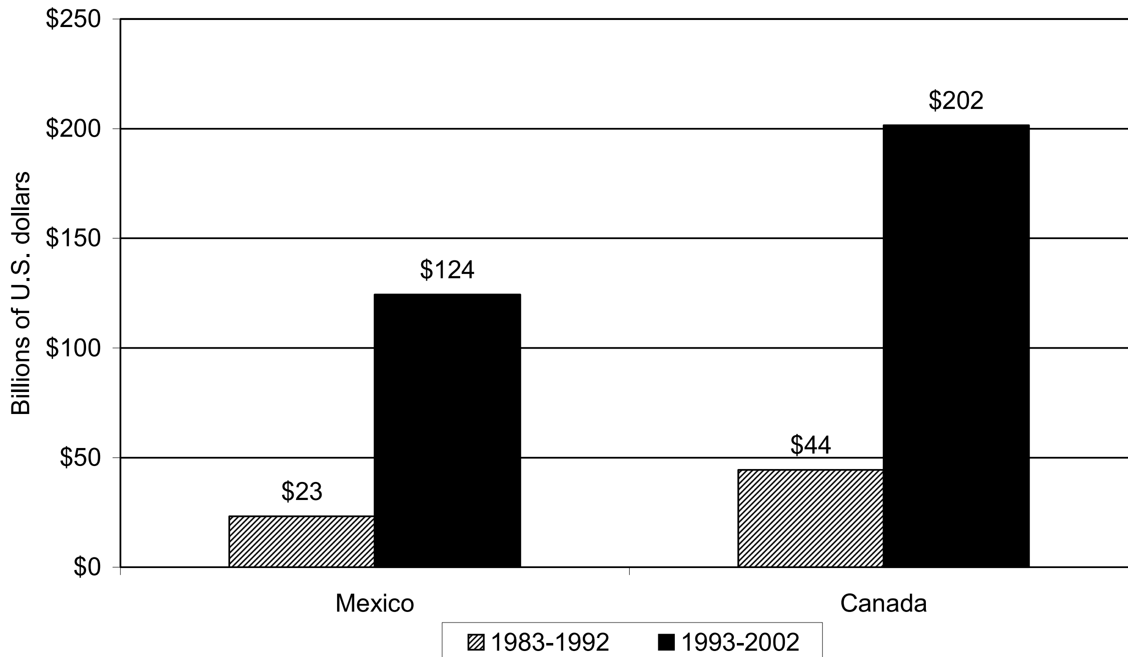


The enormous surge in FDI entering Mexico and Canada after 1994 was clearly driven in large part by the signing of NAFTA. NAFTA essentially represented an ironclad commitment on the part of the Mexican and Canadian governments to a development strategy hinging on attracting foreign investment by harmonizing investment deregulation with standards in the United States.

Substantial deregulatory reforms undertaken during the 1980s did not lead to increasing foreign direct investment in Mexico. NAFTA was the next step in trying to assure foreign investors that Mexico was an attractive place to invest. The Congressional Budget Office (1993) describes this strategy as follows:

> The key to this [development] strategy is to attract and productively absorb foreign capital. In addition to making Mexico more attractive for U.S. investors (because of the investment provisions of the agreement), NAFTA reduces doubts that other foreign investors may have about the permanency of Mexico's economic reforms—that is, it helps to lock in those reforms and so reduce the risk involved in investment.

Research by Monge-Naranjo (2002) shows that the passage of NAFTA immediately translated into significant increases in FDI into Mexico, in large part because NAFTA made Mexico an attractive export platform for labor-intensive manufacturing. A recent report from the World Bank reaches a



* Stock of FDI measured as the total amount accumulated since 1979.

Source: IMF (2003).

similar conclusion: "In particular, a conservative estimate of NAFTA's influence would suggest that it is responsible for increasing FDI in Mexico by about 70%" (Cuevas, Messmacher, and Werner 2002).

NAFTA has resulted in a huge surge of foreign direct investment into Canada and Mexico, as shown in **Figure 2**. This figure measures changes in the stock of FDI over 10-year periods, before and after NAFTA took effect (IMF 2003).[4] Between 1983 and 1992, before NAFTA, the stock of FDI in Mexico increased by $23 billion U.S. dollars. In the decade after NAFTA, between 1993 and 2002, the stock of FDI increased $124 billion, an increase of 435% over the decade before NAFTA.

In Canada, the story is much the same. Between 1983 and 1992, before NAFTA, the stock of FDI in Canada increased by $44 billion U.S. dollars. In the decade after NAFTA, between 1993 and 2002, the stock of FDI increased $202 billion, an increase of 354% over the decade before NAFTA.

Inflows of FDI, 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. Canada and Mexico have absorbed $326 billion in FDI from all sources since 1993. One result is that the United States absorbed 84% of Mexico's total exports in 2002, up from 77% in 1993.[5] The growth of U.S. imports from these factories has contributed substantially to the growing U.S. trade

TABLE 2
NAFTA job creation and destruction by state, 1993-2002

	Changes due to growth in:		
	Exports (jobs gained)	Imports (jobs destroyed)	Net exports (net jobs gained or lost)
Alabama	13,999	-29,068	-15,070
Alaska	793	-1,512	-719
Arizona	9,596	-21,752	-12,157
Arkansas	6,638	-14,520	-7,882
California	89,282	-205,004	-115,723
Colorado	9,354	-19,684	-10,330
Connecticut	11,478	-24,198	-12,720
Delaware	2,059	-3,814	-1,756
District of Columbia	579	-1,233	-654
Florida	28,586	-64,097	-35,511
Georgia	22,413	-44,612	-22,200
Hawaii	1,844	-3,772	-1,928
Idaho	3,126	-6,395	-3,269
Illinois	42,018	-86,343	-44,325
Indiana	33,176	-68,008	-34,832
Iowa	9,398	-18,222	-8,825
Kansas	6,666	-13,574	-6,908
Kentucky	11,498	-22,798	-11,300
Louisiana	6,831	-13,195	-6,364
Maine	2,578	-5,293	-2,716
Maryland	10,230	-21,288	-11,058
Massachusetts	20,719	-44,042	-23,323
Michigan	45,945	-97,411	-51,466
Minnesota	15,126	-30,950	-15,825
Mississippi	6,974	-15,643	-8,670
Missouri	14,236	-28,913	-14,677
Montana	2,208	-4,125	-1,918
Nebraska	4,772	-8,713	-3,941
Nevada	4,213	-8,726	-4,513
New Hampshire	4,606	-10,563	-5,957
New Jersey	21,038	-46,082	-25,044
New Mexico	4,737	-9,310	-4,573
New York	46,182	-102,975	-56,793
North Carolina	26,456	-59,041	-32,585
North Dakota	1,480	-2,570	-1,090
Ohio	47,289	-93,882	-46,593
Oklahoma	9,101	-17,577	-8,476
Oregon	8,295	-18,015	-9,720
Pennsylvania	34,838	-73,163	-38,325
Rhode Island	6,971	-13,954	-6,983
South Carolina	15,554	-28,167	-12,613
South Dakota	3,278	-6,238	-2,961
Tennessee	15,969	-35,996	-20,028
Texas	48,399	-98,669	-50,270
Utah	6,246	-12,892	-6,646
Vermont	1,980	-4,295	-2,315
Virginia	14,924	-31,939	-17,016
Washington	12,145	-25,790	-13,645
West Virginia	4,030	-7,512	-3,482
Wisconsin	23,368	-46,395	-23,028
Wyoming	956	-1,519	-562
Total U.S.	**794,174**	**-1,673,453**	**-879,280**

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

deficit and the related job losses. The growth of foreign production capacity in these factories has played a major role in the rapid growth in exports to the United States.

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 2**). Exports from every state have been offset by faster rising imports. Table 2 provides detailed estimates of job gains due to the growth in exports, 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.

Net job loss figures range from a low of 719 in Alaska to a high of 115,723 in California. Other hard-hit states include New York, Michigan, Texas, Ohio, Illinois, Pennsylvania, Florida, Indiana, North Carolina, New Jersey, Massachusetts, Wisconsin, Georgia, and Tennessee, each with more than 20,000 jobs lost. These states all have high concentrations of industries where a large number of plants have moved to Mexico (such as motor vehicles, textiles and apparel, computers, and electrical appliances). Manufacturing industries were responsible for 78% of the net jobs lost under NAFTA, a total of 686,700 manufacturing jobs.

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 NAFTA's promoters, the new jobs would compensate for the increased environmental degradation, economic instability, and public health dangers that NAFTA brings (Lee 1995, 10-11). If NAFTA does not deliver an increase in net jobs, it can't provide enough benefits to offset the costs it imposes.

Long-term stagnation and growing inequality

NAFTA has also contributed to growing income inequality and to the declining relative wages of U.S. workers without college degree, who made up 72.1% of the workforce in 2001 (Mishel et al. 2003, 163). NAFTA, however, is but one contributor to a larger process of globalization and growing structural trade deficits that has shaped the U.S. economy and society over the last few decades.[6] Rapid growth in U.S. trade and foreign investment as a share of U.S. gross domestic product (GDP) has played a large role in the growth of inequality in income distribution in the last 20 years. NAFTA has continued and accelerated international economic integration, and thus contributed to the growing tradeoffs that have accompanied this integration process.

The growth in U.S. trade and trade deficits has put downward pressure on the wages of workers without a college degree, especially those who have no formal education beyond a high school degree. This group includes most middle- and low-wage workers, including the 68.5% of the total workforce with the lowest pay, those earning a wage that is equal to 200% or less of poverty level wages in 2001 (Mishel et al. 2003, p. 134). In March 2000, the base year used for data, these workers earned wages of $16.93 or less per hour (See Appendix 1). These U.S. workers bear the brunt of the costs and pressures of globalization (Mishel et al. 2003, 181-89).

A large and growing body of research has demonstrated that expanding trade has reduced the price of import-competing products and put downward pressure on the real wages of workers

engaged in producing those goods. Trade, however, is also expected to increase the wages of the workers producing exports, but growing trade deficits have meant that the number of workers hurt by imports has exceeded the number who have benefited through increased exports. Because the United States tends to import goods that make intensive use of skills of less-educated workers in production, it is not surprising to find that the increasing openness of the U.S. economy to trade has reduced the wages of less-educated workers relative to other workers in the United States.[7]

Globalization has put downward pressure on the wages of less-educated workers for three primary reasons. First, the steady growth in U.S. trade deficits over the past two decades has eliminated millions of manufacturing jobs and job opportunities in this country. Most displaced workers find jobs in other sectors where wages are much lower, which in turn leads to lower average wages for all U.S. workers. Recent surveys have shown that, even when displaced workers are able to find new jobs in the United States, they face a reduction in wages, with earnings declining by an average of over 13% (Mishel et al. 2001, 24). These displaced workers' new jobs are likely to be in the service industry, the source of 98% of net new jobs created in the United States between 1989 and 2000, and a sector in which average compensation is only 81% of the manufacturing sector's average (Mishel et al. 2003, 177). This competition also extends to export sectors, where pressures to cut product prices are often intense.

Second, the effects of growing U.S. trade and trade deficits on wages goes beyond just those workers exposed directly to foreign competition. As the trade deficit limits jobs in the manufacturing sector, the new supply of workers to the service sector (from displaced workers plus young workers not able to find manufacturing jobs) depresses the wages of those already holding service jobs. The growth in import competition and capital mobility under NAFTA has also contributed to stagnant and falling wages in the United States (Bronfenbrenner 1997a).

Finally, "threat effects" arise when firms threaten to close plants and move them abroad while bargaining with workers over wages and working conditions. Employers' credible threats to relocate plants, outsource portions of their operations, and purchase intermediate goods and services directly from foreign producers can have a substantial impact on workers' bargaining positions. The use of these kinds of threats is widespread. A *Wall Street Journal* survey in 1992 reported that one-fourth of almost 500 American corporate executives polled admitted that they were "very likely" or "somewhat likely" to use NAFTA as a bargaining chip to hold down wages (Tonelson 2000, 47). In a unique study of union organizing drives in 1993 though 1995, it was found that more than 50% of all employers made threats to close all or part of their plants during organizing drives (Bronfenbrenner 1997b). This study also found that plant closing threats in National Labor Relations Board (NLRB) union certification elections nearly doubled following the implementation of NAFTA, and that threat rates were substantially higher in mobile industries, where employers can credibly threaten to shut down or move their operations in response to union activity.

Bronfenbrenner updated her earlier study with a new survey of threat effects in 1998 and 1999, five years after NAFTA took effect (Bronfenbrenner 2000). In her updated study, Bronfenbrenner found that most employers continue to threaten to close all or part of their opera-

tions during organizing drives, despite the fact that, in the last five years, unions have shifted their organizing activity away from industries most impacted by trade deficits and capital flight (e.g., apparel and textile, electronics components, food processing, and metal fabrication). According to the updated study, the threat rate increased from 62% to 68% in mobile industries such as manufacturing, communications, and wholesale distribution. The threat rate was only 36% in immobile industries such as construction, health care, and education. Meanwhile, in 18% of union certification election campaigns with threats, the employer directly threatened to move to another country, usually Mexico, if the union succeeded in winning the election.

In the context of ongoing U.S. trade deficits and rising levels of trade liberalization, the pervasiveness of employer threats to close or relocate plants may conceivably have a greater impact on real wage growth for production workers than actual import competition. There are no empirical studies of the effects of such threats on U.S. wages, so such costs have been underappreciated.

NAFTA's effects on workers throughout the hemisphere

Further study of NAFTA by researchers in Canada and Mexico has shown that workers in all three countries have been hurt, but for different reasons (Faux et al. 2001). In Mexico, real wages have fallen sharply and there has been a steep decline in the number of people holding regular jobs in paid positions. Many workers have been shifted into subsistence-level work in the "informal sector," frequently unpaid work in family retail trade or restaurant businesses. Additionally, a flood of subsidized, low-priced corn from the United States has decimated farmers and rural economics. In Canada, a decade of heightened competition with the United States is eroding social investment in public spending on education, health care, unemployment compensation, and a wide range of other public services.

NAFTA, globalization, and the U.S. economy

The U.S. economy created 21 million jobs between 1992 and March 2001 (Bureau of Labor Statistics 2003c). All of those gains are explained by growth in domestic consumption, investment, and government spending. The growth in the overall U.S. trade deficit eliminated production supported by three million jobs in the same period (Scott 2001). Thus, NAFTA and other sources of growing trade deficits were responsible for a change in the composition of employment, shifting workers from manufacturing to other sectors and, frequently, from good jobs to low-quality, low-pay work.

Since the onset of recession in early 2001, trade-displaced workers have been especially hard hit. Workers have experienced longer unemployment spells, and they have found it much more difficult to get new jobs. Many have concluded that their jobs in manufacturing will never come back. The growth of the trade deficit since early 2001 has contributed to an absolute decline of jobs, not just a shift in jobs from manufacturing to other sectors.

When trying to identify the causes behind trends such as the disappearance of manufacturing jobs, the rise in income inequality, and the decline in wages in the United States, NAFTA and growing trade deficits only provide part of the picture. Other major contributors include deregula-

tion and privatization, declining rates of unionization, sustained high levels of unemployment, and technological change. While each of these factors has played some role, a large body of economic research has concluded that trade is responsible for at least 15% to 25% of the growth in wage inequality in the United States (U.S. Trade Deficit Review Commission 2000, 110-18). In addition, trade also has indirect effects on wage inequality by contributing to many of these other causes. For example, the decline of the manufacturing sector attributable to increased globalization has resulted in a reduction in unionization rates, since unions represent a larger share of the workforce in this sector than in other sectors of the economy.

Although NAFTA is not responsible for all U.S. labor market problems, it has made a significant contribution to the state of the U.S. economy, both directly and indirectly. Without major changes in NAFTA to address unequal levels of development and enforcement of labor rights and environmental standards, continued integration of North American markets will threaten the prosperity of a growing share of the U.S. workforce. Expansion of a NAFTA-style agreement, such as the proposed Free Trade Agreement of the Americas, will only worsen these problems. Past experience suggests that workers have good reasons to be concerned as NAFTA enters its second decade.

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Appendix 1: Methodology used for job loss estimates

This study uses the model developed in Rothstein and Scott (1997a and 1997b). 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. The trade data used in many studies are usually not adjusted for inflation. Finally, a single employment multiplier is often applied to all industries, despite differences in labor productivity and utilization. [8]

The model used here is based on the Bureau of Labor Statistics' 192-sector employment requirements table, which was derived from the 1992 U.S. input-output table and adjusted to 2000 price and productivity levels (BLS 2003a), in real, chain-weighted 1996 dollars. This model is used to estimate the direct and indirect effects of changes in goods trade flows in each of these 192 industries. This study updates the 1987 input employment requirements table used in earlier reports in this series (Rothstein and Scott 1997a, 1997b; Scott 1996).

We use three-digit, SIC-based industry trade data (U.S. Bureau of the Census 1996, 2003b), deflated with industry-specific, chain-weighted price indices (BLS 2001), which were updated using industry-specific producer price indexes (BLS 2003b). These data are concorded from HS to SIC (1987) classifications using conversion tables on the Census CDs. The SIC data are then concorded into the BLS sectors using sector-plans from the BLS (2003a). 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 for 2000 (U.S. Census Bureau 2001).

Endnotes

1. Now referred to as "Trade Promotion Authority."

2. U.S. Department of Commerce (2003), Table 56 and IMF (2003). This calculation compares total U.S. exports to Mexico, as reported by the U.S., with total imports into the Maquiladora plants, as reported by Mexico.

3. For consistency with the concept of domestic exports, we use a measure of consumption imports as reported by the U.S. Census Bureau (2003). The intent is to obtain an estimate of goods that are imported for domestic consumption, net of goods that are imported for re-export. However, consumption and general imports are virtually indistinguishable in the trade statistics.

4. The stock of FDI discussed here refers to the total amount accumulated since 1979, the first year in which FDI flows were reported for both countries.

5. Bureau of the Census (2003) and IMF (2003).

6. Globalization includes rapid growth in imports, exports, and the share of trade in the world economy, and even more rapid growth in the international flows of foreign investment around the world. The term is also used to refer to the international convergence of rules, regulations, and even the social structure and role of government in many countries. This process is often viewed as a "race to the bottom" in global environmental standards, wages, and working conditions.

7. See U. S. Trade Deficit Review Commission (2000, pp. 110-18) for more extensive reviews of theoretical models and empirical evidence regarding the impacts of globalization on income inequality in the U.S.

8. Other studies—see California State World Trade Commission (1996), 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; so the employment effects should instead be attributed to Michigan and other state 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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