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NAFTA AND THE STATES

Job Destruction Is Widespread

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Proponents of the North American Free Trade Agreement (NAFTA), eager to expand it to Chile and other Latin American nations, have consistently used misleading job numbers to support their case. For example, the Clinton administration claims that 2.3 million jobs in the U.S. are supported by exports to Mexico and Canada, with 311,000 of them attributable to increased trade under NAFTA. It also claims that rising exports have created jobs in every state in the U.S. (EOP 1997).

Discussions of trade, however, must consider imports as well as exports. Ignoring the effect of imports is like trying to balance a checkbook by counting the deposits and not the withdrawals. If the U.S. exports 1,000 cars to Mexico, many Americans will be employed in their production and assembly. If, however, the U.S. 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 employment. The analysis used in this study considers both imports and exports in assessing NAFTA's effect on U.S. employment and corrects for methodological problems that have plagued earlier studies. The study reveals that an exploding deficit in net exports with Mexico and Canada has eliminated 394,835 U.S. jobs since NAFTA took effect in 1994 (**Table 1**), contributing significantly to the 4% decline in real median wages since 1993.

Although gross U.S. exports have increased dramatically, with real growth of 31% to Mexico and 24% to Canada, these gains have been dwarfed by the growth in imports, which have increased by 87% from Mexico and 33% from Canada. By 1996, the United States' net export deficit with its NAFTA partners, which was $16.1 billion in 1993, had surged to $48.3 billion (all figures in inflation-adjusted 1987 dollars).

TABLE 1
U.S. Trade With Mexico and Canada, 1993-96
Totals for All Commodities (Millions of Constant 1987 Dollars)

			Change Since 1993		
	1993	1996	Dollars	Percent	Jobs Lost or Gained
Mexico					
1. Domestic Exports	$35,450	$46,338	$10,888	31%	158,171
2. Imports for Consumption	34,816	65,162	30,346	87%	(385,834)
3. Net Exports	635	(18,824)	(19,458)	-3066%	(227,663)
Canada					
1. Domestic Exports	$80,970	$100,052	$19,082	24%	244,309
2. Imports for Consumption	97,713	129,555	31,843	33%	(411,481)
3. Net Exports	(16,743)	(29,504)	(12,761)	76%	(167,172)
Mexico and Canada					
1. Domestic Exports	$116,420	$146,390	$29,970	26%	402,481
2. Imports for Consumption	132,528	194,717	62,189	47%	(797,315)
3. Net Exports	(16,108)	(48,327)	(32,219)	200%	(394,835)

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

Job Loss in All 50 States

This study's analysis allows a determination of NAFTA's impact on state-by-state employment (it also permits demographic breakdowns; see Rothstein and Scott 1997). The analysis shows that, despite claims to the contrary, all 50 states and the District of Columbia have experienced a net loss of jobs under NAFTA (**Table 2**). Exports are offset in every state by a larger loss of jobs due to imports. Net jobs lost range from a low of 621 jobs in Vermont to a high of 38,406 in California. Other hard-hit states include Texas, Michigan, New York, Ohio, Pennsylvania, Indiana, Illinois, North Carolina, Tennessee, Georgia, and Florida, each with more than 10,000 jobs lost.

Several states, notably Alabama, Arkansas, Indiana, Michigan, North Carolina, Tennessee, and Texas, experienced job losses disproportionate to their share of the overall U.S. labor force. These states have high concentrations of industries (such as motor vehicles, textiles, apparel, computers, and electrical appliances) in which a significant amount of production has moved to Mexico.

Some may dismiss these numbers as small relative to the size of the economy, but it is important to remember that the promise of new jobs was used by the Clinton administration and the business community as a principal justification for NAFTA. According to proponents, new jobs are supposed to compensate for the increased environmental degradation, economic instability, and public health dangers the agreement brings (Lee 1995, 10-11). If NAFTA does not deliver net new jobs, then it cannot provide enough benefits to offset the costs it imposes on the American public.

As for NAFTA's impact on workers' wages, even when displaced workers are able to find new jobs in the growing U.S. economy, they face a reduction in wages, with average earnings declines of over

TABLE 2
NAFTA Job Loss and Wage Changes, by State, 1993-96

State	Net NAFTA Job Loss* No. of Jobs	Net NAFTA Job Loss* Share of Total	Share of U.S. Labor Force	Change in Real Median Wage
U.S. Total	(394,835)	100%	100%	-4.0%
Alabama	(8,714)	2.2%	1.5%	-4.1%
Alaska	(1,119)	0.3%	0.2%	-5.8%
Arizona	(3,128)	0.8%	1.5%	-9.8%
Arkansas	(5,456)	1.4%	0.9%	-0.7%
California	(38,406)	9.7%	10.6%	-5.1%
Colorado	(4,409)	1.1%	1.6%	4.2%
Connecticut	(4,353)	1.1%	1.3%	0.0%
Delaware	(922)	0.2%	0.5%	1.2%
District of Columbia	(670)	0.2%	0.3%	-0.8%
Florida	(11,294)	2.9%	5.1%	1.6%
Georgia	(11,906)	3.0%	2.9%	-0.2%
Hawaii	(749)	0.2%	0.5%	-7.8%
Idaho	(1,526)	0.4%	0.4%	-0.4%
Illinois	(16,910)	4.3%	4.8%	-1.1%
Indiana	(17,672)	4.5%	2.4%	1.6%
Iowa	(4,065)	1.0%	1.2%	5.2%
Kansas	(3,386)	0.9%	1.0%	-1.3%
Kentucky	(6,718)	1.7%	1.4%	2.5%
Louisiana	(6,626)	1.7%	1.5%	-5.8%
Maine	(2,055)	0.5%	0.5%	0.3%
Maryland	(3,736)	0.9%	1.9%	0.4%
Massachusetts	(7,668)	1.9%	2.5%	-3.7%
Michigan	(24,001)	6.1%	3.6%	3.4%
Minnesota	(6,489)	1.6%	2.0%	3.8%
Mississippi	(6,671)	1.7%	0.9%	1.2%
Missouri	(8,227)	2.1%	2.2%	1.8%
Montana	(1,141)	0.3%	0.3%	-1.2%
Nebraska	(1,789)	0.5%	0.7%	0.6%
Nevada	(1,814)	0.5%	0.7%	-1.9%
New Hampshire	(1,408)	0.4%	0.5%	1.4%
New Jersey	(8,742)	2.2%	3.1%	-4.7%
New Mexico	(1,670)	0.4%	0.6%	-1.3%
New York	(20,230)	5.1%	6.7%	-4.2%
North Carolina	(16,406)	4.2%	2.9%	3.4%
North Dakota	(633)	0.2%	0.3%	2.7%
Ohio	(19,483)	4.9%	4.5%	-2.6%
Oklahoma	(6,082)	1.5%	1.1%	-5.3%
Oregon	(5,394)	1.4%	1.2%	-6.1%
Pennsylvania	(18,731)	4.7%	4.5%	-0.2%
Rhode Island	(2,244)	0.6%	0.4%	-2.1%
South Carolina	(6,326)	1.6%	1.4%	-0.9%
South Dakota	(866)	0.2%	0.3%	6.2%
Tennessee	(13,105)	3.3%	2.1%	1.5%
Texas	(30,201)	7.6%	6.9%	-4.6%
Utah	(2,535)	0.6%	0.8%	0.8%
Vermont	(621)	0.2%	0.2%	-2.5%
Virginia	(8,377)	2.1%	2.6%	-5.7%
Washington	(7,737)	2.0%	2.0%	-9.9%
West Virginia	(1,927)	0.5%	0.6%	1.2%
Wisconsin	(9,481)	2.4%	2.2%	-0.8%
Wyoming	(1,013)	0.3%	0.2%	-1.6%

* Excluding effects on wholesale and retail trade and advertising.
Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

16% (Farber 1996). Their new jobs are likely to be in the service industry—the source of 112% of net new jobs created in the U.S. since 1993—where average compensation is only 77% of that in manufacturing (Mishel et al. 1997, 185).

A study commissioned by NAFTA's own Labor Secretariat further demonstrated that the wage effects of NAFTA 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 their workers has tripled since NAFTA's inception (Bronfenbrenner 1997).

As the "Change in Real Median Wage" column of Table 2 illustrates, median wages in the United States dropped 4% between 1993 and 1996. NAFTA is not the only factor influencing wages, and several states (e.g., Indiana, Mississippi, North Carolina, Tennessee) have experienced rising wages in spite of high job loss. Median wages, however, fell in 29 of the 50 states and in the District of Columbia; many states with high job losses attributable to NAFTA, especially Texas, Ohio, Oklahoma, and Alabama, experienced large drops in median wages.

Methodology[1]

For this study we have developed a new model for analyzing the effects of trade on employment, solving some of the problems prevalent in current research. These problems include:

- looking only at the effects of exports and ignoring those of imports;
- including foreign exports (transshipments)—goods produced outside North America and shipped through the U.S. to Mexico or Canada—as U.S. exports;
- using trade data that have not been adjusted for inflation;
- applying single employment multipliers to all industries, despite differences in labor productivity and utilization.

This study's model 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-industry, SIC-based trade data (Census Bureau 1997), deflated with new industry-specific, chain-weighted price indices (BLS 1997a).

We have extended our model for this paper to calculate state-level employment effects. Imports and exports are allocated to the states on the basis of their share of three-digit, industry-level employment (BLS 1997b).[2]

Endnotes

1. See Rothstein and Scott (1997) for a more detailed treatment of the methodology used.

2. Other studies have allocated all employment effects to the state of the exporting company. (See, for example, California State World Trade Commision 1997, which finds 47,600 jobs created in California from increased trade with Canada alone.) This practice is problematic because the production—along with any attendant 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. The cars, however, 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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