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NAFTA Numbers Don't Add Up

— by Melvin Burke, Kraig A. Schwartz, and William G. Steele —

On November 17, 1993, the U.S. Congress passed the North American Free Trade Agreement, which became the law of the land in Canada, Mexico, and the United States on January 1, 1994. Despite the passage of over a year, there has been precious little discussion of the economic results of the "free trade" agreement. In fact, until the recent devaluation of the Mexican peso, proponents of NAFTA had claimed that the matter was settled and not worthy of further discussion or investigation. It was a *fait accompli*, they said; time to move on to other, more pressing social and political issues. The irony of this thinly disguised attempt to stifle public inquiry is that only now—one year after the passage of NAFTA—can its impact be tested in the field and reality substituted for rhetoric.

This being the case, how has NAFTA performed thus far? Not very well. Proponents of NAFTA promised that the free-trade agreement would create 170,000 new jobs in the United States by 1995; even now the Department of Commerce claims that 100,000 jobs have been generated. Yet the official numbers offered by Commerce actually reveal a loss of more than 20,000 American jobs during the first six months of the agreement. We will discuss this finding in more detail shortly—but first, a few words on the problem with "official numbers."

It should be obvious that studies and reports—however objective and empirical—which document the failures of NAFTA are not going to be welcomed by the powerful multinational corporations, conservative politicians, and orthodox economists who were responsible for the agreement in the first place and who are among the few who stand to benefit from it (though at the expense of others). We can rest assured that any post-NAFTA increases in pollution, unemployment, or poverty will be ignored, denied, obscured, or attributed to causes other than the agreement. Strategies which NAFTA defenders are already using and will continue to use to protect

the agreement include: altering the semantics of economics; lying with statistics; and, when all else fails, evoking the infamous "long-run" solution.

As regards to semantics, here are some tricks to watch out for. When the integrated North American economy performs poorly but one of the three nations performs well, it is that country's success which makes the news. When all three nations suffer from increased unemployment, increased poverty, or negative economic growth, external "shocks" will be blamed. These shocks include interest-rate increases, currency devaluations, and rebellions—all of which are already happening in Mexico, Canada, and the United States.

The skillful manipulation of statistics is yet another tactic employed to disguise the negative impacts of NAFTA. Gross—not net—changes in trade, investment, income, and employment are the figures that are officially recorded and made available to the public. Likewise, only export-generated employment is counted, while import-generated unemployment is ignored. All decreases in investment and employment are viewed as structural "down-sizing" necessary for international competition and unrelated to NAFTA. Most of the displaced workers who subsequently leave the labor force and either become self-employed, take part-time jobs, or disappear into the "informal labor sector" are not included in the official unemployment statistics.

In the unlikely event that these tactics prove insufficient to justify NAFTA—or when poor economic results can no longer be obscured or explained away with "shocks"—the guardians of free trade will employ their ultimate rationalization: arguing from deep paradigm conviction, neoclassical economists and conservative politicians will claim that NAFTA's benefits will be realized in the "long run," which, for them, is simply the period of time needed for the promised theoretical results to be realized—no more, no less, and certainly not today. In the New World Order being crafted by multinational corporations, free-trade

agreements cannot be held responsible for poor economic performance or any of the "shocks" experienced by the working citizens of the signatory nations. To do so would violate the neoclassical free-trade paradigm and the "win/win" fable of NAFTA.

The recent 35 percent devaluation of the Mexican peso plus reputed paper losses of some \$8 billion for U.S. investors and a \$40 billion investor "bail-out" are but the latest manifestations of the divergence between NAFTA promises and NAFTA reality. Not even from the perspective of NAFTA's major beneficiaries—the multinational corporations and the wealthy—is the agreement any longer viewed as the unmitigated blessing it once was.

NAFTA was sold to the public in all three nations not as the profit-creating mechanism it is but as a jobs program—one that would create more employment here and abroad. Presidents Bush, Clinton, and Salinas, multinational corporate executives, and a plethora of neoclassical economists assured us that NAFTA would generate jobs here in the United States as well as north and south of the border. The Clinton administration Department of Labor promised that 170,000 new jobs would be generated in the United States by January 1995. The predictions of job losses which were made by labor leaders, Ross Perot, and economists opposed to NAFTA were summarily dismissed as unsound, unscientific, or xenophobic. Yet after only six months into the agreement, official statistics revealed that the opponents of NAFTA were correct: the agreement has generated unemployment in the United States. Nevertheless, most Americans continue to believe that NAFTA creates jobs in this country. The reason for their delusion is not difficult to find. They have been misinformed by the Department of Commerce and corporate media reports that distort the facts.

On August 18, 1994, the U.S. Department of Commerce released a six-month report on NAFTA which claimed an increase of 100,000 jobs in the United States, thanks to NAFTA. Yet, the official trade data included in the report actually revealed a net loss of more than

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on those who remain at work. Politics collapses into an endless cycle of name-calling, as both liberals and conservatives defend their views only by pointing to the futility of their opponents. Eventually someone like Murray turns to the alleged moral and personal failings of the racial underclass to explain the continuing problem. Neither attacks problems at their root.

At a very minimum, government can and should promote full employment through stimulation of alternative transit and energy systems and preventive health-care initiatives. These would lift time and monetary pressures off ordinary citizens. Such policies need not be inflationary if accompanied by a genuine supply-side revolution. Toward this end, we must challenge the ways in which both corporate and public bureaucracies have been insulated from citizen access and have failed to provide opportunities to deploy education and skills within workplaces and communities. We should redouble efforts to provide education in its many forms, not only to minorities but to all whose economic and family circumstances have denied them opportunity. In addition,

while setting high qualifications for promotions in business and the professions, we must insist on breaking down racial and gender stereotyping in such decisions. Such an agenda would not ask the most marginal elements of the white working class to pay the highest cost of racial justice, but it would clearly recognize and challenge the role race has played in union halls as well as corporate boardrooms.

Greater equality, democracy, opportunities for development at work and at home, and more free time would encourage us to build personal and social identities not based on a presumption of the inferiority of those who differ in life-style or physical appearance. Such an ideal could inform and challenge social life even if its full implementation might always remain just over the horizon. The best test of such an ideal lies in the quality of politics and social life which it informs and helps shape. I would happily live by such a verdict. H

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21,000 jobs for American workers. This fact was not brought to the public's attention because the major daily newspapers never even bothered to check the Commerce Department's own numbers and arithmetic; they uncritically accepted and promulgated the department's new "NAFTA Facts." (See, for example, "NAFTA—Glad We Met Ya," the lead editorial in the August 20, 1994, *Los Angeles Times*; two articles by Hobart Rowen and Peter Behr in the August 21, 1994, *Washington Post*; and an August 30, 1994, *Wall Street Journal* article by Patrick Lucey, ambassador to Mexico.)

When one performs the proper calculations using the data in the Department of Commerce's own report, one finds that the U.S. trade deficit with our NAFTA partners in the first six months of 1994 worsened by about \$1.1

billion. That is to say, *growth* in our imports from NAFTA partners outpaced growth in our exports to them by \$1.1 billion. How 100,000 jobs were created by this worsening trade deficit is a mystery not explained by the Commerce Department or the press.

Our own calculations are based on the "trade-employment multiplier" proposed by Gary Hufbauer and Jeffrey Schott, two pro-NAFTA economists. This "trade-employment multiplier" is 19,600 American jobs (increase or decrease) for each \$1 billion change (increase or decrease) in trade with our NAFTA partners. Applying this simple multiplier reveals that the deterioration in the U.S. trade balance with Mexico and Canada of \$1.1 billion during the first six months of the agreement resulted in the loss of 21,560 jobs.

To our knowledge, there was only one mention of this discrepancy in the corporately owned mainstream press. On October 28, 1994, the *Wall Street*

Journal published a 12-page review of NAFTA. This section included two articles of interest: one by Gary Hufbauer, who was now curiously silent about the Commerce Department's 100,000 job-gain figure; and another by Jeff Faux, a NAFTA opponent who correctly reported the net loss of more than 20,000 American jobs. Had the Department of Commerce, the press, and pro-NAFTA "economists" properly fulfilled their civic and professional duties, the headlines would have read: "First NAFTA Results Show Job Losses for Americans."

Yet another study prepared by the staff of the Joint Economic Committee of Congress—a study which has been ignored by the press—recently reported that 10,000 jobs may have been eliminated as a result of trade with Mexico alone during the first nine months of the agreement. (Tellingly, this study ignored Canada, which also has an increasing trade surplus with the United States.) It appears that we are a long way from the promised 170,000 new jobs to be created by NAFTA. We are proceeding in the wrong direction, and the recent devaluation of the Mexican peso will just hasten the increase in a U.S. trade deficit with Mexico. Yet more job losses from NAFTA loom on the horizon for all those who dare to look. H

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