Senate Democratic Policy Committee Hearing

"Are We Exporting American Jobs?"

THEA LEE
Chief Economist, AFL-CIO

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"Free trade" has been sold to the American public and American workers as a cure for all that ails us. Proponents of so-called free trade (agreements like the North American Free Trade Agreement, the World Trade Organization, and the granting of permanent normal trade relations to China) have claimed that these agreements would create high-paying export-related jobs here in the United States, bring prosperity to developing countries, and spur economic growth and political stability worldwide. The outcome has been quite different.

Since NAFTA and the WTO were put in place (1994 and 1995, respectively), the United States has lost over 3 million jobs because of growing trade deficits, according to estimates by the Economic Policy Institute.[1] Meanwhile, "free trade" has brought mixed results to many developing countries – often spurring growth in investment and trade flows, but not always improving wages and working conditions for the typical worker or small farmer. And global economic growth has slowed, not accelerated, in the last two decades of increased trade and capital liberalization (compared to the previous two decades, 1960-1980).[2]

Last month marked the 39th straight month in which the United States lost manufacturing jobs. Even the uptick in overall jobs in the last quarter consisted mainly of low-paying service sector jobs, 40 percent in temp and retail. Economists identify outsourcing and exploding trade deficits as one key cause of the "jobless recovery." Yet the Bush Administration is aggressively negotiating new flawed trade agreements that will destroy even more jobs.

The Overall Trade Picture

The U.S. trade deficit in goods hit an all-time record of $484 billion in 2002, meaning that we imported almost half a trillion dollars more worth of goods last year than we exported. A trade deficit of this magnitude results from national economic policies that have utterly failed in almost every dimension: U.S. trade and tax policies encourage and reward companies that move jobs overseas to take advantage of workers who are denied their basic human rights, the overvalued

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[1] Robert E. Scott. "Phony Accounting and U.S. Trade Policy." Economic Policy Institute Issue Brief #184, October 23, 2002.

[2] Mark Weisbrot, Dean Baker, Egor Kraev and Judy Chen . "The Scorecard on Globalization 1980-2000: Twenty Years of Diminished Progress." Center for Economic and Policy Research, July 11, 2001.

dollar puts domestic producers at an impossible disadvantage, and unfair trade practices by other countries keep our goods out of overseas markets.

The trade deficit (in both goods and services) represents a drag of 4.2 percent on U.S. economic growth, slowing any possibility of strong economic recovery and undermining future job growth. The high import propensity of the U.S. economy means that even as economic recovery gets under way, a large proportion of every dollar spent by consumers goes to purchase imports, undermining the economy's ability to generate good jobs at home. According to the *Economist* magazine, "American consumers' indebtedness is currently growing twice as fast as their incomes."[3]

These figures are very real to working Americans who are losing family-supporting jobs and benefits as manufacturing and even service jobs are lost overseas.

Total U.S. exports actually fell in 2001 and in 2002, exposing the falsehood in the Administration's cheerleading that current U.S. trade policies are enhancing our competitiveness in overseas markets. In 2002, U.S. goods exports were only $682 billion, down almost $90 billion from the 2000 level.

Last year's trade figures also reveal other startling weaknesses in the U.S. economy, even in those areas which have traditionally been considered U.S. strongholds, like services and advanced technology products. The trade surplus in services fell by more than $4 billion in 2002, from $69 billion to $65 billion. In advanced technology products, meanwhile, the U.S. surplus of $4.5 billion in 2001 turned into a whopping deficit of $17 billion last year. And in the first 8 months of 2003, the advanced technology deficit is already at $15 billion, about double where it was last year at this time. These trends call into question the conventional wisdom that the United States enjoys a permanent and growing comparative advantage in the export of services and high-technology goods.

The recent trend of outsourcing of white collar and information technology jobs, which is clearly accelerating, is affecting workers all over the country, at every income and education level. Technology companies are laying off American workers from high-paying desirable jobs while they add thousands of jobs overseas. Corporations are shifting jobs in call centers, accounting, engineering, computer, and financial services offshore, among others. Some local and state governments have even begun to outsource administrative jobs, which is an outrageous misuse of taxpayers' dollars. If these trends continue to accelerate, we will see even more dramatic job loss and wage erosion affecting workers throughout the income scale.

[3] Zanny Minton Beddoes, "Flying on one engine," *The Economist*, 9/18/03.

Job Creation or Job Destruction?

The experience of our unions and our members with past trade agreements has led us to question critically the extravagant claims often made on their behalf. While these agreements are inevitably touted as market-opening agreements that will significantly expand U.S. export opportunities (and therefore create export-related U.S. jobs), the impact has more often been to facilitate the shift of U.S. investment offshore. (As these agreements contain far-reaching protections for foreign investors, it is clear that facilitating the shift of investment is an integral goal of these "trade" agreements.) Much, although not all, of this investment has gone into production for export back to the United States, boosting U.S. imports and displacing rather than creating U.S. jobs.

The net impact has been a negative swing in our trade balance with every single country with which we have negotiated a free trade agreement to date. While we understand that many other factors influence bilateral trade balances (including most notably growth trends and exchange rate movements), it is nonetheless striking that *none* of the FTAs we have signed to date has yielded an improved bilateral trade balance (including Israel, Canada, Mexico, and Jordan).

The case of the North American Free Trade Agreement (NAFTA) is both the most prominent and the most striking. Advocates of NAFTA promised better access to 90 million consumers on our southern border and prosperity for Mexico, yielding a "win-win" outcome. Yet in nine years of NAFTA, our combined trade deficit with Mexico and Canada has ballooned from $9 billion to $87 billion. The Labor Department has certified that more than half a million U.S. workers have lost their jobs due to NAFTA, while the Economic Policy Institute puts the trade-related job losses at over 700,000. Meanwhile, in Mexico real wages are actually lower than before NAFTA was put in place, and the number of people in poverty has grown from 62 million to 69 million.

Since Congress granted China permanent normal trade relations in 2000 (and China acceded to the WTO), the U.S. trade deficit with China has grown by almost 25 percent, hitting a staggering $103 billion last year and on track to hit over $120 billion this year – our single largest bilateral deficit. Meanwhile, the Chinese government continues to arrest and brutally repress workers who advocate for independent unions or better working conditions.[4]

If the goal of these so-called "free trade" agreements is truly to open foreign markets to American exports (and not to reward and encourage companies that shift more jobs overseas), it is pretty clear the strategy is not working. Before Congress approves new bilateral free trade agreements based on an outdated model, it is imperative that we take some time to figure out how and why the current policy has failed.

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[4] See Human Rights Watch press release and indictment at www.hrw.org/press/2003/02/china021403.htm .

Free Trade or Fair Trade?

The AFL-CIO believes that increased international trade and investment can yield broad and substantial benefits, both to American working families, and to our brothers and sisters around the world -- if done right. Trade agreements must include enforceable protections for core workers' rights and must preserve our ability to use our domestic trade laws effectively. They must protect our government's ability to regulate in the public interest, to use procurement dollars to promote economic development and other legitimate social goals, and to provide high quality public services. Finally, it is essential that workers, their unions, and other civil society organizations be able to participate meaningfully in our government's trade policy process, on an equal footing with corporate interests.

Unfortunately, we see little evidence that this Administration has learned from the mistakes of past, failed trade policies, and is therefore determined to replicate these mistakes in the Free Trade Area of the Americas and the bilateral and regional agreements presently being negotiated. If we do not dramatically reform these failed trade policies, the current jobless recovery will turn into a great depression.