NAFTA and the American Worker: Economic Considerations and Governmental Response

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Résumé

Jusqu'à présent, les évidences empiriques autant que celles fondées sur des études de cas indiquent que L'ALENA n'a été ni la panacée imaginée par ses partisans ni l'apocalypse prévu par ses adversaires. Ce papier souligne des considérations économiques clés et la réponse gouvernementale dans le cadre de L'ALENA, l'accord affectant le travailleur américain. L'argument est que (1) les pertes d'emploi dues à -- ou depuis-- L'ALENA ont été relativement limitées; (2) le gouvernement Américain adresse la question du déplacement des travailleurs directement à travers des programmes d'assistance d'ajustement commercial; (3) l'efficacité de ces programmes est discutable; et (4), dans le contexte post- L'ALENA, les syndicats ont en partie transféré leur attention des accords en réorientant et élargissant leur campagne contre la libéralisation commerciale.

Abstract

Evidence to date, both empirical and case-based, indicate that NAFTA has been neither the panacea envisioned by its proponents nor the apocalypse predicted by its opponents. This paper highlights key economic considerations and the governmental response surrounding NAFTA, as the agreement affects the American worker. It argues that: (1) employment losses due to--or since--NAFTA have been relatively small; (2) that the U.S. government is addressing worker displacement directly through trade adjustment assistance programs; (3) that the efficacy of these programs is questionable; and (4) that in the post-NAFTA environment organized labor has shifted much of its attention from the accord and refocused and broadened its campaign against trade liberalization.
The polemic surrounding NAFTA's impact on U.S. workers--heated, passionate, and contentious arguments over jobs gained and lost, wages increased and depressed, and industry expansion and contraction--has made NAFTA a lightning rod for political debate and an issue that continues to be more domestic than international in nature. The purpose of this paper is to highlight key economic considerations and the governmental response that have formed--and will continue to shape--the future debate not only on NAFTA implementation but on wider trade liberalization, as well.

The trade and labor nexus, in which worker displacement has emerged as an increasingly important issue during the last eight years, has been analyzed extensively by economists (Thygesen, Kosai, and Lawrence 1997; Burtless 1995) and continues to be a topic of vital academic and public policy interest (Rodrik 1997; Burtless, Lawrence, Litan, and Shapiro 1998; Golub 1999; Destler and Balint 1999). A fundamental feature of U.S. economic policy since the end of the Second World War, trade liberalization has increasingly become a contentious domestic political issue during the last decade.

Anti-trade groups cite "lost jobs" due either to imports or to plant relocation as the most compelling reason to reject further trade liberalization. This argument, which has some validity, served to rally the forces--including many environmental groups--against NAFTA. The accord, now in its eighth year, passed with the inclusion of labor and environmental side agreements.

While U.S. government (or government-commissioned) evaluations of NAFTA find labor impacts to be positive (Gould, 1996; U.S. Trade Representative, 1997; U.S. Department of Commerce, 1999; Dallas Federal Reserve Board, 1999), NAFTA opponents have produced their
own assessments which paint a negative portrait of NAFTA effects (Stevenson, 1997; Rothstein and Scott, 1999).

Two major studies that eschew polemics in favor of more value-neutral methods (Bolle 2000; Hinojosa-Ojeda, Runsten, Depaolis, and Kamel 2000) examine NAFTA’s employment-related performance in a broader and more dynamic context. According to Mary Jane Bolle, NAFTA has accelerated trade-related job trends that were already ongoing. She asserts that, instead of talking about the effects of NAFTA, which are extremely hard to measure, one should refer to the effects since NAFTA. By doing so, one finds that during the last five and a half years 259,618 U.S. workers were certified as potentially suffering NAFTA job losses. This figure is less than the number of jobs created nationwide in one month during the same time period. Her calculations indicate that net U.S. job growth from new exports to Canada and Mexico exceeds 700,000. Moreover, NAFTA is responsible for 50 percent of the 355,000 net job gains in U.S. manufacturing, a sector that has made a turnaround during the last five years (Bolle 2000).

In addition, Bolle calculates that job gains and losses both on a state-by-state basis and by industry have not been a zero-sum game. For example, three states with the highest jobs losses (Texas, California, and New York) are also the states with the highest job gains. On an industry basis, one finds that the greatest number of certified job losses since NAFTA have been in precisely those industries where U.S. dollar exports and growth rates have been among the highest: electronics, transportation equipment, and non-electrical machinery. In the communications industry, for example, NAFTA has had minimal impact on union members, according to Paul Anderson of the Communications Workers of America (CWA). High-end manufacturing, services, maintenance, and installation are done in the United States, while low-
end manufacturing and billing are increasingly performed offshore (Anderson 2000). This confirms findings of analyses by the Federal Reserve Board of Dallas (1999) that show that the top U.S. exports to Canada and Mexico and the top U.S. imports from Canada (excluding commodities) and Mexico fall into the same product categories in most cases. Gary Shoesmith's (1999) in-depth study of the U.S. textile industry argues that, rather than being a major casualty of NAFTA, the industry is one of its greatest success stories: Productivity, wages, and exports to Mexico have increased, yielding a $400 million trade surplus for the United States, even though total employment in production jobs has declined.

Seen in a larger context, NAFTA's overall effect on the U.S. economy is small, given that foreign trade accounts for 14 percent of the GDP and trade with Canada and Mexico accounts for 20 percent of all U.S. trade. Moreover, Bolle emphasizes, "In an economy operating at full employment, trade results in neither net job gains nor net job losses, only in relocations from less efficient to more efficient industries" (Bolle 2000). This is empirically confirmed in by a study by Ferrantino (2001) who further finds that workers displaced due to NAFTA have likely been similar to that of workers displaced for reasons unrelated to trade.

In the most comprehensive quantitative assessment to date of NAFTA's employment impact, Hinojosa-Ojeda et al. (2000) employ a computable general equilibrium model using Armington elasticities to measure the degree to which lower prices would give imports greater market share. They find that the overall pattern of United States-Mexico trade and investment began to change radically nearly a decade before NAFTA with Mexico's unilateral trade liberalization. (Mexico joined the General Agreement on Tariffs and Trade [GATT] in 1985, and in 1988, President Miguel de la Madrid lowered average tariffs on imported goods from 25 percent to 10 percent.)
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It is interesting to note that this study also finds that the lowering of tariffs through NAFTA has not had a significant impact on the growth of Mexican exports to the United States; however, Mexican exports to the United States have actually grown faster in those sectors that were not directly liberalized by NAFTA.

Hinojosa-Ojeda and his colleagues (2000) estimate that approximately 37,000 U.S. jobs per year are "put at risk" by Mexican imports and 57,000 by Canadian imports. Because the U.S. economy creates more than 200,000 jobs per month and causes separation of about 400,000 workers per month from their jobs, trade contributes only a very small share to potential employment effects. The researchers point out that "applying more realistic productivity and demand changes experienced since NAFTA significantly reduces the potential United States job impacts due to imports" (Hinojosa-Ojeda et al. 2000). Using a partial equilibrium aggregation function to the four-digit Standard Industrial Classification (SIC) level, the investigators find NAFTA's job impacts to be relatively small and argue that general macroeconomic policy is far more significant for employment, as are economies of scale, technological change, new investment, and productivity growth.

Regardless of which argument or statistical data pool one tends to support, it is clear that NAFTA has produced both job gains and job losses. Given this fact, public policy choices faced by Congress and the executive branch have focused on the need to address the inevitable inequities and negative effects of trade liberalization. The following section addresses the government's response to worker displacement by examining the principal programs that provide trade adjustment assistance for workers whose jobs are lost or threatened because of international trade.
Governmental Response

With the passage of the Trade Expansion Act of 1962, tariff-based protectionism as policy was discarded in favor of compensation in the form of trade adjustment assistance (TAA). The TAA program provides weekly cash assistance, known as trade adjustment allowances (TRAs), via extended unemployment benefits and job training to workers who have lost their jobs as a result of federal trade policies and foreign imports.

In 1974, the TAA program was amended and revised in an effort to make it more user-friendly at a time of increasing economic volatility and political uncertainty (Kapstein, 1998). In 1994 the NAFTA Implementation Act was passed to expand the TAA further by creating a transitional adjustment assistance program (NAFTA-TAAP), offering many of the same TAA benefits with several new rules for displaced workers.

NAFTA-TAAP affords benefits to those workers who have been displaced because of trade with Canada or Mexico or because of plant or job relocations to either country. NAFTA-TAAP also allows for job search and relocation allowances. Training is mandatory, and it must begin within 16 weeks of job loss or the sixth week after NAFTA-TAAP certification (16/6 rule).

In terms of the number of participants, 36,000 TAA and 2,000 NAFTA-TAAP recipients received TRA assistance, while 22,000 TAA and 8,000 NAFTA-TAAP recipients were enrolled in job training (Storey 2000). Fiscal year 2000 figures, as set forth in the CAA, indicate that total funding for TAA will be $349 million and for NAFTA-TAAP, $66 million.
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Throughout the 1960s, international trade constituted only 9.5 percent of the U.S. GDP. However, by the 1990s, this figure had risen dramatically, to over 20 percent, signaling the arrival and dominance of globalization as a pervasive aspect of the U.S. economy (Chimerine, Fooks, Harig, and Samuel 1998).

Compensation programs such as TAA and NAFTA-TAAP serve as a social safety net for individual workers and companies that may be immediately or imminently threatened by free trade. TAA and NAFTA-TAAP are seen as a necessary corollary of free trade, prerequisites for trade liberalization policies to continue receiving the necessary support from all actors and sectors involved. No trade package could ever get the necessary labor backing to be passed by the U.S. Congress if TAA and NAFTA-TAAP programs were not in place. Political necessity and viability were dominant factors in the creation of TAA and NAFTA-TAAP, and they continue to be paramount to maintain these programs.

In summary, both the TAA and NAFTA-TAAP worker assistance programs have several advantages that help serve workers displaced by international trade:

1. Employment services provide counseling, information, job placement, and other supportive mechanisms to guide workers who have lost their jobs.

2. Training is designed to prepare workers for new careers, providing greater opportunities for occupational growth and earning potential.

3. Weekly cash benefits enable workers to adapt to their new situation, while enabling them to seek employment at or above their previous level.

4. Job search and relocation allowances enable workers to search for work outside their geographical area, opening up possibilities they normally would not consider.
There are some valuable and beneficial differences between TAA and NAFTA-TAAP that address some of the concerns with the original program. NAFTA-TAAP has earlier and more efficient intervention through the use of employment services, a shorter waiting period for eligibility determination, and a mandatory training requirement.

Organized labor leaders claim that the programs fall short of assisting and compensating workers who have been displaced due to the government's trade policies. In fact, they view the TAA and NAFTA-TAAP as "modest but necessary assistance" (Donahue 1995). They propose increasing the amount of income support, which would alleviate much of the responsibility of the already burdened states, and reforming the outreach mechanism necessary to provide accurate information. Labor insists that inadequate outreach damages potential workers who are not aware of the program and, as a result, are denied the opportunity of participating. By addressing these issues via appropriate legislation, organized labor believes that TAA and NAFTA-TAAP will better serve those it was intended to help.

As for Congress, while ideological and partisan differences have threatened both programs periodically, the fundamental rationale-to assist those harmed by trade liberalization-has never been seriously challenged.

The most positive feature of these programs is the retraining mechanism in NAFTA-TAAP because it requires that applicants get training if they want unemployment benefits. Currently, a TAA for Firms also exists, which provides technical assistance to companies that have been hurt as a result of trade liberalization.
In terms of assessing the Trade Adjustment Assistance Programs, a U.S. Government Accounting Office (GAO) report (U.S. Government Accounting Office, 1994) report was critical. Their main complaint was the failure on the part of the Department of Labor to move forward with discretionary assistance to help secondary workers affected by NAFTA, workers ineligible for Unemployment Compensation, and workers who had not met the NAFTA-TAAP deadline. A GAO reported issued a year ago confirmed the continuing structural problems that impede effective service delivery in meeting the training needs of dislocated workers (U.S. General Accounting Office, 2001).

Clearly the principal question remains: "How effective is the training mechanism?" Resources allocated for training displaced workers are substantial. Funding in fiscal year 1999 was $94.3 million for TAA training and $22 million for NAFTA-TAAP, while the number of trainees reached an estimated 22,000 for the TAA and 8,000 for NAFTA (Storey 2000). Out of the 216,715 who were certified in the first five years of NAFTA-TAAP, around 6,000 actually completed training, according to Gregory Woodhead, of the AFL-CIO (Woodhead 2000; McDonald-Pines 2000).

There are varying explanations for the low training completion numbers:

1. Completion of training is low as a result of monetary demands on displaced workers who have family and financial responsibilities.

2. A lack of adequate counseling and information impedes workers from receiving the proper training or even knowing that it is available to them.

3. Low training levels are a direct result of the "older worker" phenomenon. Older workers may be reluctant to learn new skills and change careers.

4. As was mentioned by the TAA office at the Department of Labor (Beale 2000), training is a commitment that requires a major sacrifice on the part of a worker. The decision rests
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with the individual worker as to whether to endure short-term hardship in the hope of long-term benefits.

5. Many people complain that not everyone benefits from training; it must be necessary for an individual's career development.

6. Another criticism concerns the "one training rule," which forbids individuals from switching between training programs. Regardless of perceived shortcomings, these guidelines were put in place in an effort to avoid abuse.

Admittedly, too few people stay in training long enough to enjoy the entitlements. While it is evident that structural and operational deficiencies in the training component of the programs exist, it is also worth noting that recent high levels of growth and employment creation in the United States may also explain low training enrollment rates, as displaced workers may have found new employment relatively quickly (Hipple 1999).

Beyond NAFTA

Trade liberalization, globalization, and sweeping changes in the structure and organization of work continue unabated, producing positive effects on many workers and negative effects on others. Even in an economy in which job creation exceeds job displacement, the replacement dynamic does not operate on a one-for-one basis. A laid-off metal worker cannot fill a job vacancy for a software programmer. In the case of NAFTA, although employment effects have been modest over all, there have been significant job losses in certain sectors, such as apparel and electronics. Moreover, as global, regional, and bilateral trade liberalization initiatives grow, expand, and deepen, one can expect an increase in the aggregate number of workers threatened with job loss in selected sectors of the U.S. economy.
Recognizably, American workers whose jobs are threatened by the deepening and widening of NAFTA and other regional and multilateral trade accords will make their voices heard through the political process. Although organized labor comprises a mere 11% of the U.S. workforce, it is a powerful lobby, despite its inability to have derailed NAFTA (although it did achieve a partial victory in the labor side accord to the agreement). Through its umbrella organization, the AFL-CIO, organized labor has broadened its focus to campaign vigorously against employment threats based on industry (steel being the latest case), trade authority (Trade Promotion Authority) and region (the proposed Free Trade Area of the Americas)—not to mention its opposition to the World Trade Organization (WTO). Although it realizes it cannot bring about the abrogation of NAFTA, it now emphasizes the violation of foreign worker rights (including health and safety) as a focus in its tactical campaign against all trade liberalization, not to mention globalization itself. (For a comprehensive collection of unions' current positions on these issues see: www.aflcio.org.)

While government programs for displaced workers may offer a remedy for worker displacement, they are not a cure. Preventive medicine, as the adage argues, is the best sort of remedy. In this case, the solution is continuing education and training: "Increased investment in schooling and job training, possibly combined with compensatory adjustment assistance for workers most hurt by trade shocks, are likely to be the most effective policy responses to recent shifts in the international trading environment" (Sachs and Shatz 1996, 239).

Fortunately, many private companies and labor organizations are responding to the basic education and the technical skill requirements of an increasingly competitive global economy. These efforts, along with effectively delivered TAA and NAFTA-TAAP programs, can help
displaced workers adjust to the realities of the market. However, in the final analysis, it is up to the individual worker to recognize the irrefutable fact that one should strive to gain control of one's occupational destiny through a lifetime commitment to continuing education and training - through a corporate or union program, community college, trade school, adult education center, university, or self-directed study.

Public policy should focus on how to make trade adjustment assistance programs more effective programmatically and financially and determine the optimal structure and associated costs of programs to aid workers displaced by trade and production relocation beyond Mexico and Canada. As U.S. Labor Secretary Elaine Chao points out, "The new economy is 'deconstructing' work.... As we invest in critical job training, we are giving workers the bargaining power they need to custom-design their jobs around their lives - instead of the other way around" (U.S. Senate 2001).

The economic considerations and governmental response vis-à-vis NAFTA and the American worker are harbingers of an international trade environment which will create simultaneously threats and opportunities for business and labor, domestically--regionally and globally. As the nexus between politics and economics on the one hand, and microeconomics and firm-level behavior on the other, converge the result will be an increased level of competitiveness across sectors, industries and firms. Within this dynamic milieu, one that will produce both winners and losers, the prime beneficiary who will emerge---one too often forgotten in the discourse, debate,

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1 The TAA bill currently before the U.S. congress would expand the 40-year-old trade adjustment assistance program that helps workers who lose jobs because of trade to include, for the first time, health insurance coverage (70% of premium costs). The proposal also extends adjustment assistance to workers who supply goods to a
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and formation of public policy--is the consumer. If one accepts that this is the ultimate objective of trade liberalization, be it NAFTA, MERCOSUR, the EU or the WTO, then this indeed bodes well for the future.

References


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