Does "Free Trade" Create Good Jobs? A Rebuttal to the Clinton Administration's Claims

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Executive Summary
U.S. government officials, business leaders and many economists tout "free trade" agreements as U.S. employment and wage boosters. They claim that the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) will generate U.S. export growth, which will automatically translate into more and better U.S. jobs. And yet these rosy jobs claims seem to have little connection to the reality of the U.S. economy, in which nearly every week an export powerhouse like AT&T, Allied Signal or Kimberly Clark announces another mass layoff.

This paper examines why the theory-based jobs claims related to deregulatory, export-promoting policies seem so out of touch with what many Americans are seeing in their workplaces and their communities. Using corporate case studies and statistical data, the paper concludes that these job claims are unsubstantiated. Not only is deregulated, export-led development inadequate as an employment policy, this prevailing model also undermines the capacity of national and local governments to create and sustain good jobs.

Why the jobs claims are false:
1. Most of the jobs claims are based entirely on export gains. More accurate analysis would also consider the effect of imports, which can have a negative impact both on the number of U.S. jobs and on wages.

2. In addition, one can't evaluate a policy by simply saying its being implemented. More exports does not prove that "free trade" policies are creating good jobs.

3. Also, deregulated export-led policies are not just about exports. In the new global economy, mobile multinational corporations have no incentive or requirement to use the benefits from exports to create jobs for or raise wages of U.S. workers.

4. Unregulated corporations that are heavily engaged in export production often use their profits to finance activities that actually lower employment and wages. Mergers, outsourcing and downsizing, use of more labor-saving machinery or moving production to lower wage areas are all examples.

5. Research is often misused to draw conclusions that are not warranted given the methods employed. The studies we review estimate export supported jobs and wages. But these estimates can not support a causal link between exports and higher wage jobs. Nor should they be used to claim that policy packages like NAFTA and WTO are supported by this research.

The paper is not intended as an argument against exports or against trade. It supports a hemispheric or even global approach to economic development that encourages the sharing of resources, commodities, ideas and people across borders. However, it objects to the notion that such sharing has to occur without government rules to ensure that the benefits are fairly

distributed. The paper concludes by calling for a renewed public debate that is open to alternatives to the narrow and failed approach to economic development that currently prevails.

Introduction

To the extent that the Clinton Administration has a jobs strategy, it is centered on expanding U.S. exports through "free trade" agreements. In Clinton's first term, he signed the North American Free Trade Agreement (NAFTA) and an agreement which created a more powerful global trade authority: The World Trade Organization (WTO). At the onset of his second term, Clinton is pursuing the expansion of "free trade" through:

- expanding NAFTA to Chile and the rest of the hemisphere;
- expanding WTO powers and bringing China into the WTO; and
- creating a NAFTA-like agreement in Asia.

In each of these cases, the Clinton Administration argues that freer trade will bring more U.S. exports with more U.S. jobs at higher pay. Throughout the 1980's, development policies that combined deregulation with free trade became dominant in the world. These policies evolved from the structural adjustment programs (SAPS) imposed by the World Bank and the International Monetary Fund (IMF) on developing nations and then developed into stronger institutional arrangements such as NAFTA and WTO. Nation after nation altered domestic policy to conform with the new conventional wisdom.[1] In the U.S., "free trade" with a limited and relatively unrelated effort in training and education has become ***the*** jobs program both nationally and in virtually every metropolitan area around the country.

This strategy, which we term "deregulated export-led growth" policies, has been encouraged by studies conducted by various branches of the U.S. Government that contend that exports are increasingly making greater contributions to growth and employment. More specifically, it is argued that exports are supporting an increasing number of jobs and that these jobs pay higher wages than jobs which are not involved in export activity.

Inspired by these claims, the Clinton Administration and other supporters of NAFTA and WTO have begun to use data on the growth of exports to argue that these policies are "working." At times, supporters use a figure based on a Department of Commerce study equating a billion dollars of exports with between 12,000 and 15,000 jobs, even though the author of the study has declared this use of the data to be invalid.

We wish to stress that deregulated export-led growth policies involve far more than simply exports. While the studies and claims we review in this paper treat exports as if their impacts occur in isolation, we are talking about an economic model that is grounded in the prohibition of government rules that could ensure a fair distribution of the benefits of exports. For this is reason, the impact of exports is mediated by a variety of other processes.

It is argued below that export-led polices do not in any way constitute an employment policy that can create the living wage jobs vitally needed by hundreds of thousands of people in the U.S. Furthermore, NAFTA and WTO, by prohibiting national governments from regulating and directing investment and the cross-border flows of goods, services and capital, undermine the ability of national and local governments to craft policies that will create needed employment opportunities.[2]

In the following pages we present a detailed argument to justify the claim that NAFTA and WTO are misguided policies that are not only inadequate as an employment policy but also undermine the capacity of national and local governments to develop such policies. We begin with a critique of the logic and assumptions behind the claim that a deregulated export economy leads to employment opportunities and higher wages. We illustrate this critique with case studies of the actual behavior of U.S.-based global corporations that have benefited from increasing export markets. Secondly we summarize the studies which are the basis of the claims for the current emphasis on deregulated export-led policies, and include illustrations of how these studies have been misused by the U. S. Trade Representative (USTR) office and other supporters of deregulated export-led growth. We then turn to a detailed explanation of how the government estimates were made and discuss the limitations imposed by methodology and data limitations in relation to the claims made by government and private supporters. We conclude with a brief outline of alternative approaches to development that are being actively undermined through policies such as NAFTA and WTO.

The Flawed Logic of Deregulated Export-Led Development

The basic logic behind deregulated export-led development policies such as NAFTA and WTO is that in the absence of government regulation and barriers to the free flow of goods and capital, competition will force each nation to specialize by producing those things they can produce most efficiently. The benefits of increased efficiency are presumed to accrue to the peoples of all nations in the form of higher rates of productivity which are in turn supposed to create jobs, higher wages and quality products with lower prices.

But the theory behind these presumed benefits is based on assumptions such as full employment and a world in which firms produce in their home countries. And these assumptions are contradicted by the real world of unemployment, underemployment and capital mobility. In practice, there are at least six reasons why the theory does not work like it is supposed to.

1. In the U.S., imports, which can have negative impacts on jobs and wages, have been growing faster than exports.

2. In a deregulated economy, there is no incentive or requirement for firms to use their profits to the benefit of people in any particular place. A global firm that makes profits by exporting products from one location employs its market power to use these profits anywhere it sees fit. Therefore, there is no guarantee that if a firm or a country becomes more efficient and increases exports that this will automatically increase jobs and wages and lower prices.

3. Claims that increased exports will result in employment and income gains do not consider the fact that unregulated corporations can and do use profits gained from exports for activities that can result in the loss of employment and income for many workers. Investment in labor-saving machinery, for example, while increasing manufacturing productivity has decreased employment and forced the workers remaining to work faster for longer hours and for stagnant wages. Mergers, acquisitions and spinoffs are also activities that use corporate profits to eliminate jobs. In 1995 mergers and acquisitions set an all time record and 1996 promises to break the record yet again.

4. Another reason why exports do not always produce jobs at the origin of export production is

that global firms that gain export market shares often find that it is more profitable to locate nearer to their market. This is one of the disadvantages of an approach to economic development that emphasizes export markets at the expense of domestic markets. In some cases, firms will shut down production in the U.S. in order to shift their facilities to Mexico or some other export market. In other instances, firms that supply one of these relocated firms will move to close to their departed customer.

5. During the NAFTA debate, many of us offered evidence that when companies had the option of seeking lower wage labor elsewhere or when they could invest in geographical areas that offered lower costs, they would often do so. Also, increased imports due to the lowering of trade barriers could displace domestically produced goods and services. Thus, an export-oriented deregulated approach to economic development can end up eliminating many jobs. For this reason, the government has a long established program called Trade Adjustment Assistance (TAA) that provides special compensation and job training to workers who lose their jobs due to trade and overseas investment. To appease critics of NAFTA, the government established a special TAA program for cases where workers lose their jobs to NAFTA itself. In all cases, the government goes through a process of evaluating worker claims and certifying successful claimants that their job loss was due to trade. Since the passage of NAFTA, TAA and NAFTA TAA certified claims amount to 90,000 jobs. Because many workers do not know how to take advantage of TAA, this number greatly understates the job loss associated with trade. And the TAA program does not adequately compensate most workers for their loss.

6. Part of the argument in favor of the deregulated export-led approach is that job loss in the "restructuring" process results in greater efficiencies and that new jobs with higher wages will replace the old ones. The fact is, however, that the market is seldom able to replace lost employment with comparable jobs. Even if new jobs are created, without some sort of positive economic development program, the people who lose jobs often do not get the new ones. Also, many of the replacement jobs are of inferior quality. Many of the U.S. jobs lost during the past 20 years have been lower skilled jobs that paid living wages. A recent study in the Chicago area demonstrates that once welfare "reform" measures are implemented, there will be six workers looking for every job. If we were to stipulate that the jobs would have to pay a living wage there would be 44 workers looking for each of these jobs.[3] Furthermore, 20% of all new jobs created are temporary and 16% of the workforce are working in part time jobs; 3 0% in the service and retail sector are part time. Temporary and part time jobs tend to pay lower wages, often lack benefits and workers are more likely to be unemployed after a year than comparable permanent jobs.[4]

And many of these workers are not represented by unions.

For all of the above reasons, deregulated export-led growth policies have made many worse off. And the U.S. Government has no policies in place to adequately compensate the losers. The 1990's has been a period when trade and "restructuring" have been on the rise. But wages for many workers have been stagnant. The share of national income between corporate profits on the one hand and wages/benefits on the other, has been shifting in favor of profits since 1992. In the past three years, workers' wages and benefits as a share of national income are down a full percentage point, while corporate profits' share has increased accordingly.[5] In Illinois, average wages in 10 of 17 of the leading occupations in Illinois' top five export industries either lost purchasing power or remained stagnant between 1993 and 1995.[6] In the absence of adequate development policies and strong labor organization, the distribution of income has shifted toward greater inequality since the 1970's and particularly in the 1990's.[7] These changes are all the more telling given the fact that labor has been working longer hours and has become more educated as the trends have developed.

Case Studies of Top Exporters

The flawed logic behind a deregulated export-led approach is better understood by looking at the employment behavior of five corporations that have been dynamic exporters and are major proponents of "free trade" agreements. While gaining significant government subsidies and increasing the pay of their CEO's, these firms have not passed their increasing profits on to their workers.

Zenith Corporation announced on December 18, 1996 that it was laying off 1,200 workers, one-quarter of its U.S. workforce. Two-thirds of the jobs being eliminated are in the Chicago area. Zenith exports roughly 10% of its U.S. production. Yet, throughout the 1980's Zenith began moving production out of the U.S., mostly to Mexico, where 12 of its 28 plants, offices and retail outlets are located. About 12,000 of Zenith's 18,100 employees are now in Mexico. In an earlier period many of these workers were in the U.S. making goods for export. During the production shift to Mexico, Zenith eliminated 700 jobs in the Chicago area alone. Zenith has been a strong supporter of NAFTA. During the debate over NAFTA, a Zenith spokesperson stated: "Contrary to numerous reports that companies like Zenith Electronics Corporation will transfer all of their production facilities to Mexico as a result of NAFTA, the NAFTA offers the prospect of more jobs for Zenith workers at the company's Melrose Park (Chicago) facility." But in 1995, a year after the implementation of NAFTA, Zenith sold 57.7% of its stock to L.B. Electronics based in the Republic of Korea and laid off 5 10 workers (80 of whom worked in the Chicago facility). These workers were certified by the government for the NAFTA retraining program. Undaunted in their zeal for NAFTA, however, Zenith's 1995 Annual Report stated: "NAFTA... significantly reduced duty costs in 1995 and 1994. NAFTA also improved the company's ability to compete against imports in North America and increased sales of the company's color TV sets in Canada and Mexico in 1994 and in Canada in 1995." Despite these claims, 1,200 more workers in the U.S. are slated to lose their jobs, including 800 Chicago area factory workers.

AT&T is a global corporation that is benefitting from NAFTA and the deregulated export regime generally. It is one of the key U.S.-based corporations to support NAFTA, serving as a "captain" for the pro-NAFTA lobby group USA*NAFTA in seven states. Over the past decade, the communications giant has eliminated over 100,000 jobs in the U.S. During NAFTA's first year, they eliminated 4,000. In 1995, they announced that they were going to consolidate their operations which will eventually cause an additional 40,000 layoffs. The consolidation that will lead to the layoffs took the form of a spinoff. Industry analysts argue that the apparent downsizing plus further U.S. deregulation will position AT&T to buy up some of the regional telephone companies (the so called "baby bells") and to strike deals to work with competitors to further dominate markets.[8] This includes expansion into Mexico and Canada. It is already the case that AT&T as well as GTE and Sprint are operating in both Mexico and Canada. Other potential U.S.-based AT&T collaborators who are beginning to work in Mexico include Southwestern Bell, Bell Atlantic and MCI. U.S. regional phone companies will also have an impetus to merge and cut employment. The maneuvers of AT&T and others are geared to dominate markets for long distance, local service, cable TV, cellular, the Internet and related activities throughout the hemisphere. To accomplish this, thousands of workers have and will lose their jobs. AT&T has also been rewarded with more than $3.1 billion in U.S. government tax subsidies between 1993 and 1995 and its chief executive officer, Robert Allen received a compensation package valued at $5.2 million in salary and stock options in 1995.[9]

Kimberly Clark is a U.S.-based global firm with extensive export markets. Employing more than 55,000 people world wide, the corporation produces paper and personal care products which are marketed in 150 countries. The firm has manufacturing facilities in 33 countries including 14 plants in Mexico, 9 in Canada and 12 in China. A 1994, merger with Scott Paper resulted in 12,000 Scott employees losing their jobs. In 1995, Kimberly Clark announced an additional 6,000 jobs would be cut. Profits between 1993 and 1995 amounted to $3.1 billion. CEO Wayne Sanders en oyed a 44% pay increase in 1995 which added up to $1.6 million and the company received $197 million in U.S. government tax subsidies.[10]

Allied Signal is a firm with world wide operations in aerospace, automotive and engineering sectors that employs 86,400 people. 15,000 of the workers live and work in the U.S. Their products supply many different industries including textiles, electronics, motor vehicles, chemicals, aviation, and agriculture. Half of their sales are derived from exports. But because they supply firms that export their products, many more of Allied Signal's jobs would be classified as "export supported" by the definition used by the U.S. government's Department of Commerce. Between 1991 and 1993 the company initiated what they termed a "facilities rationalization plan" which resulted in the closing of 20 plants in their automotive division. In October of 1995, the company announced both record profits and the layoff of 3, 100 workers. The 1993-95 pre tax profits amounted to $2.8 billion, while they enjoyed government tax subsidies of $665 million during the period. In 1995, CEO Lawrence Bossidy received a 20% increase in salary and bonuses amounting to $8.5 million.[11] Allied Signal's annual report to the Securities and Exchange Commission (SEC) reveals that as a large conglomerate it can make up decline in one of their industry segments (aerospace) by layoffs, even when other segments are enjoying record increases in export sales.

Procter & Gamble is a global corporation employing over 103,000 people making laundry and cleaning products, paper, beauty care products, food and beverages and health care goods. Well-known brands such as Tide, Head and Shoulders, Folgers, Pampers, Crest and Scope have world wide markets. Over half of their sales are outside the U.S. Since, 1993 Procter & Gamble has announced layoffs amounting to over 13,000 workers including a major "restructuring" program in 1995-6. Pre-tax profits between 1993 and 1995 were $6.1 billion. During the same period, the company enjoyed $194 million in tax subsidies from the U.S. Government. Its CEO, Edwin Artzt, received a 26% raise in 1995, amounting to $3.9 million in salary and other compensation.[12]

Summary of Export-Related Jobs Claims

Despite the flawed logic and points raised by the case studies, the U.S. Government and many economists, business executives and politicians continue to push for the expansion of polices to implement a deregulated export-led growth model of development. But on what grounds? Recent reports from the Economics and Statistics Administration, U.S. Trade Representative's Office and the International Trade Administration of the U.S. Department of Commerce make the following claims:[13]

- U.S. exports are a rising share of the U.S. economy's total output. From 1986-1992 they accounted for 43% of the increase in real Gross Domestic Product (GDP).

- During NAFTA's first two years, U.S. exports to Canada and Mexico are up by 22 percent.

- Jobs supported by U.S. exports of goods and services reached a record 10.3 million in 1994 which is up from 6.3 million in 1986.

- In 1992, an estimated average 16,500 jobs were supported by $ 1 billion in merchandise exports.

- Exports support 1 in 10 jobs in all private industries and I in 5 manufacturing jobs.

- Workers in jobs directly supported by goods exports averaged $13.38 an hour in wages, which is 20% higher than the national average in the goods producing industries.

None of these studies make any reference to the impact of imports, which have been growing even more rapidly than exports. Furthermore, with the exception of the wage claim, these numbers are used to suggest that the implementation of policies to increase exports offer proof that the policy is working. The point of our policy to increase exports, by this logic, is to increase exports. Nevertheless, proponents of deregulated export-led policies claim much more. The conclusions of the government studies, summarized above, have been used by government agencies, politicians, corporate lobby groups, journalists and economists to argue for an extension of export-led policy packages like NAFTA and WTO. The U.S. Trade Representatives Office (USTR), the Federal Reserve Bank of Chicago, the Department of Commerce, and economists at First Chicago Bank all make similar claims:

- The USTR argues that "NAFTA has created higher wage jobs for American workers by expanding access for U.S. goods and services in the markets of two of our top three trading partners -- Canada and Mexico -- markets that have been traditionally less accessible than the U.S. market." They go on to argue that because jobs supported by exports pay 13 -16 percent more than other U.S. jobs, "expanding exports is crucial to our ability to create high wage jobs. NAFTA is a critical part of this effort."[14]

- Economists at the Federal Reserve Bank of Chicago contend that NAFTA will boost the nation's exports by 3% annually and the gross domestic product by 0.5% by the year 2004. Already, they claim, thousands of well paying Midwestern jobs trace their origin to exports.[15]

- The *Chicago Tribune* recently cited a study by the U.S. Department of Commerce's International Trade Administration that contends that 253 U.S. metropolitan areas increased exports by 12.6% last year to $467.7 billion. "Based on the Commerce Department data, these metropolitan areas owe 7 million jobs to exports, using a rule of thumb of $1 billion in exports supports 15,000 jobs. By that calculation, roughly 316,000 people are employed thanks to foreign sales by metropolitan Chicago's manufacturers. The gains are payback from the pains of downsizing and restructuring that have cost thousands of people their jobs, but which transformed the area's manufacturers into highly efficient producers of high-quality goods."[16]

So confident are some economists in the development potential of export- led growth and the "free trade" regime, that they see layoffs and outsourcing as a *virtue.* Economists at First Chicago Bank write: "Increased global competition, deregulation, and increased shareholder power ... result (in) more attention to costs, at all stages of the business cycle: corporate layoffs and outsourcing continue well into the expansion; inefficiencies are eliminated, and wastes stagnate; cash flow picks up and investment in labor-saving technologies soars; productivity growth picks up, and provides a boost to cash flow; those gains are then redeployed into infrastructure investments; and the process repeats itself.”[17] In the same vein, the Chicago Federal Reserve Bank argues that Midwest manufacturing and agriculture have become more efficient and thus "competitive" because NAFTA and WTO induced imports forced them to restructure.[18]

Critique of the Jobs Claims

Earlier we presented a critique of the logic behind the deregulated export-led growth approach to economic development. Our critique focused on the fact that in the absence of strong government policy, exports have not been used to develop and generate living wage jobs. To the contrary, we pointed to the fact that imports, which can have a negative impact on jobs and wages, have been growing faster than exports. Furthermore, the benefits of exports have been used to eliminate jobs or create lower quality temporary or part time jobs. We used general data but also offered some case studies of the job-reducing behavior of major exporting firms.

The supporters of NAFTA and related policies, however, remain unconvinced. They make three kinds of arguments in support of their position: (1) the value of exports and the number of export supported jobs is growing; (2) greater efficiencies result from competition with imports which make more efficient firms prosper; and (3) export-supported jobs pay more than others.

None of these arguments address the issue of imports. Furthermore, the first argument is simply wrong unless increased exports and export supported jobs can be linked with real *net* gains for working people. The second argument likewise needs to be attached to gains for people rather than firms. The "efficiency/competitiveness" point lacks this connection. Zenith, AT &T, Kimberly-Clark, Allied Signal, and Procter & Gamble are all firms that have been highly profitable and have become highly "efficient" by being leaders in corporate downsizing. They all benefit from NAFTA and related policies. But their relatively stronger position has come at a cost of the nearly 80,000 layoffs that these companies have announced in the past five years. The third argument on exports and wages is important. We will take it up shortly. At this point it is important to note that the claim that export workers earn more be tied to specific jobs created because of exports. *That speaks to the question of whether increased exports can be tied to gains for working people rather than just companies.* Also, it needs to be determined whether the gains are net gains. Are the 80,000 people laid off by Zenith, AT&T, and others being compensated for their loss with export profits?

Workers seeking employment are doing so in specific geographical regions where they have homes and access to jobs via private or public transportation. These workers also come into regional labor markets with specific skills and work experience that can limit employment opportunities available to them. Below we examine in some detail the government studies cited above to determine whether the estimates of exports and export-supported employment are sufficiently accurate to address these localized labor market issues.

Impact of Imports

All of the reports we have discussed here fail to consider the impacts of the *balance of trade.* The question here is the extent to which benefits from exports are offset by losses from importing goods. Between 1991 and 1996 there has been a growing U.S. *trade deficit* (more imports than exports) with the rest of the world. The deficit has increased during this period from $-67 billion to $-180 billion. After the passage of NAFTA and the collapse of the Mexican economy, the U.S. has run a major trade deficit with Mexico. The U.S. merchandise trade deficit with Mexico between January and October, 1996 stood at $ -14 billion between.

Proponents of deregulation and export-led growth ignore imports in their analysis. One reason for this lies in the assumptions used in their studies. Most of the studies either assume full employment or they assume that competitive labor markets will make the costs of displacement relatively small or transitory. Thus workers displaced by cheaper imports will only suffer temporary, "frictional" unemployment. Workers who suffer actual unemployment (such as those who have successfully filed for NAFTA Trade Adjustment Assistance) will in theory find another job in short order. Those who suffer a loss of wages when the new job pays less or who suffer wage loss due to employer threat to close down are considered to be "overpaid." Earlier we quoted from a report by First Chicago/NBD Bank.[19] The report, in stating that global competition and deregulation have meant greater efficiencies through corporate layoffs and outsourcing, was basing its analysis on the assumption that workers who lose wages or jobs are overpaid and will eventually find jobs at a more appropriate, "efficient" rate of pay.

But the goal of economic policy should be for people to increase their living standards. Praising widespread corporate layoffs and outsourcing as a sign that the policy is working (or will work at some unspecified future time) as First Chicago/NBD does is another case of using the assumptions behind a policy as proof that it is working. In the real world imports do impose real costs. People lose jobs, and they lose pay. Earlier we pointed out that since the mid 1980's (a period of increasing competition from imports and one where the U.S. trade deficit has been soaring), there has been a decided shift in the distribution of income between wages and corporate profits. In Illinois, the 100 highest paid corporate CEOs, take home in four days what a typical worker earns in a year.[20] While all of the decline in worker living standards and the shift in income distribution cannot be attributed to the trade deficit, much of it can. Moreover, in the real world, a trade deficit has to be balanced by something; it is financed by borrowing, and therefore shows up as an inflow of net foreign investment which is not employment neutral.

It is difficult to measure precisely the costs of imports. Just as the use of a crude multiplier linking exports to jobs cannot be justified, it is no more justifiable to turn around and estimate loss of jobs from imports in this manner. But it is also a major flaw in government reports that purport to show the benefits of exports to ignore the cost of imports. If one is to assess the benefits of exports the numbers should be *net exports* (exports minus imports).

Accuracy of the Data

Putting the question of imports aside for the moment, we also question whether geographically specific export data are sufficiently accurate to support the policy conclusions derived from them. Recently, the International Trade Administration of the Department of Commerce released a study on metropolitan area exports. The study estimates export sales of over 250 U.S. cities from 1993 - 1995. The results have been used in specific regions of the U.S. to support the claim that exports are growing. When exports are estimated for geographical areas that are less than the nation as a whole, different statistical series have been devised by the U.S. Bureau of Census for different uses. One of these, the Origin of Movement (OM) series attempts to determine the transportation origin of the goods being shipped. Problems arise when goods produced outside of a region are shipped into that region and from there out of the country. OM data overestimates exports from ports or major transportation hubs and underestimates them in localities that produce export goods and ship them within the U.S. prior to their departure.

The Census Bureau created a second series known as Export Location (EL). The EL series was used in the ITA study of exports from metropolitan areas. EL allocates exports to locations from which the goods were sold. It thus pinpoints *not* the origin of the *production of* exports, but rather concentrations of *marketing activity.* The U.S. Census Bureau cautions users that "the Exporter Location series is not designed to ascertain the state and local pattern of U.S. export production or export related jobs."[21] Yet many users do just that. The Chicago *Tribune* article quoted above combined these data with figures from the Economics and Statistics Administration report on U.S. jobs supported by exports to draw its conclusions. Conceptually there is a link made in most of the claims for NAFTA between the growth of exports and export related jobs. Yet the export numbers were never intended to be used this way. For this reason we conclude that the export numbers are not adequate to draw the conclusions about the export job link that have been drawn.

Exports and the Number of Jobs

Putting aside the problem of export measures, there are serious difficulties with drawing policy conclusions from the estimates of export-supported jobs. The first is conceptual. The fact that a rising number of jobs may be supported by or dependent on export activity does not mean that exports are the only way or even the best way to generate jobs. In the conclusion to this paper, we argue that industrial policies involving government planning, regulation, targeted job training and the management of trade is a far superior way to generate employment, yet much of this approach is outlawed by NAFTA.

Aside from this conceptual problem about the use of estimates of export-supported jobs, the methodology used in making these estimates does not warrant many of the conclusions drawn from them. The estimates of export-supported jobs come from studies made by the Economics and Statistics Administration of the U.S. Department of Commerce. These estimates make use of an econometric input-output model of the U.S. economy produced at the University of Maryland.[22]

Estimates of the number of jobs supported by exports include a calculation of the value of goods and services required to produce intermediate inputs for the exported product as well as capital goods and the goods and services required to get the final product to the point of transport (trade margins). In addition, the value added in the process of combining inputs into the final product is calculated. From these values, the researchers subtract the value of imported products to arrive at a *domestic content* estimate. Then average employment-output ratios (the number of workers per $ 1 billion of output) are calculated for *each industry* (ie.steel, chemicals, etc.). These ratios are then multiplied by the domestic content figures for each industry to arrive at the number of jobs supported by exports. The employment numbers are expressed in terms of full time equivalent (FTE) employment. This means that part time work was combined by using average hours into a fewer number of full time jobs.[23]

A common inference made from estimates using this methodology is that $1 billion in exports account for approximately 15,000 jobs. The article cited in the *Chicago Tribune made* such a calculation calling it a "rule of thumb." The author of the government report, however, is emphatic about the fact that *this is an improper use of his study.* To quote Lester Davis, the average number of jobs supported by exports, as presented in the main body of this report, *should not* be used to estimate marginal employment impacts from changes in exports."[24] The reason is that the estimate of a ratio of jobs to exports is an average over a number of industries for a given year. Davis shows that the ratios vary considerably from one industry to the next and over time. Changes in inflation, productivity, the use of imports to produce the final product, the composition of exports greatly effect the ratio. For this reason, numbers that use an average for a single period and across different industries can't be used for other periods, other industry compositions, or to predict changes in employment generated by a different set of exports.

The data in the Davis study suggest that the relative importance of export-related employment is growing. As noted above, however, this does not mean that alternative economic development policies could not generate even larger numbers of jobs which could be used to gainfully employ those most in need.

Moreover, the methodology used in the Davis study makes *any* inference drawn from specific numbers suspect, and the problem gets worse when estimates are made of sub-national areas such as the state numbers issued in a separate report .[25] The methodology uses output-to employment ratios that are averaged by industry without accounting for the possibility of considerable variation of output employment ratios among firms within industries. An industry, as used in this study, includes a group of business establishments that produce related, yet very different products or services. Electronic and related equipment, for example, is an industry. It includes establishments that make electric transmission equipment, motors and generators, household appliances, electric lighting equipment, radios, TVs stereos, telephones, electronic components and many other things.[26] With establishments in a particular industry producing so many different things, averages of the characteristics of establishments within an industry can obscure some important differences among them. In this case what may be obscured are differences in output-to-employment ratios.

To illustrate the problem, let us assume that in a particular state there are 100 establishments that make up a particular industry. Suppose that the industry produces $ 2 billion in output (including the domestic/state content of intermediate inputs, capital and trade margins) using 30,000 full time equivalent (FTE) workers. Further, suppose that half of the output goes to exports. The methodology of the Davis study would conclude that the exports in this industry from the state support 15,000 FTE jobs. But what if the industry included 10 ten highly capitalintensive establishments that employ 100 workers each. And that these establishments produce virtually all of the goods for export. Meanwhile the other 90 establishments in the industry that produce solely for the domestic market and employ the remaining 29,000 workers. In this example, the actual number of jobs supported by exports would be only 1,000. While the example is admittedly extreme, the point is that the methods used in the Davis study cannot account for variations in capital intensity within an industry. Nor can the methodology pinpoint any characteristics of establishments within exporting industries that don't export and distinguish them from those that do.

A second problem has to do with the definition Davis uses for employment. For one thing, he combines part time jobs into full time equivalents (FTE). The use of FTE means that two half time jobs is the equivalent, from the perspective of the Davis methodology, of one full time job. Furthermore, no distinction is made in the Davis methodology between permanent and temporary jobs. As noted earlier, part time workers presently constitute 16% of the workforce (23 million people). In some sectors (retail and service) they are over 30%.[27] Furthermore, 20% of all the new jobs created in U.S. are temporary.[28] For the past 12 years, the temporary help industry has been growing on average, at five times the rate of growth of employment as a whole. These figures suggest that part time and temporary employment may make up a significant proportion of the FTE export-supported jobs figures estimated by Davis and related studies. Research into the nature of part time and temporary work, moreover, suggests that from a qualitative perspective part time and/or temporary jobs are not the equivalent of full time permanent jobs. They pay lower wages and few provide benefits. [29]

The fact that export-supported job estimates contain part time and temporary work limits the policy conclusions that can be drawn from the estimates themselves. It cannot be implied from the employment numbers that increasing exports leads to high quality living wage jobs. In fairness to Davis, he does not make that connection. Instead, he estimates average wages in export industries and makes the argument for export-led growth policy on that basis.

Exports and Wages

The wage claim is the most important argument being made by proponents of deregulation and export-led growth. The Davis study argues that over the long term, the primary benefit to U.S. workers of increasing exports is the growth in demand for higher skilled workers in jobs that pay higher wages. The theoretical rationale for this position is that the U.S. will export those goods in which the nation has a comparative advantage. To gain such an advantage, these goods will be produced competitively with high productivity and hence high wages. The Davis study and its updates claim that such benefits are already showing up. According to the 1996 preliminary data release on the update of the Davis study, 1994 hourly earnings of nonfarm production workers in jobs supported by U.S. goods exports averaged 13 -20% higher than the national average paid to all non-farm workers. The USTR uses this as the major rationale for NAFTA and a "free trade" regime. According to a briefing paper on NAFTA on the USTR Internet home page:

"Jobs supported by goods exports pay 13 to 16 percent more than other U.S. jobs. That is why expanding exports is crucial to our ability to create high wage jobs. NAFTA is a critical part of this effort."

There are three aspects of this statement worth considering. Is it true that exportsupported jobs pay more than other jobs? Does that mean that expanding exports is crucial to our ability to create high wage jobs? What is the impact of imports on wages?

All of the arguments made above that questioned the validity of the export-supported jobs estimates apply equally to wages. The government estimates do not examine wages of workers producing goods for exports versus those who serve a domestic market. Rather they look at average wages in *industries* that are major exporters. The methodology cannot distinguish wages paid for exports from those paid to make goods for national consumption. Furthermore, higher wages found in industries that export could be due to higher rates of unionization, labor shortages in specific occupations, or higher productivity. The study assumes that higher wages in particular industries are due to exports because exports are supposed to lead to higher wages.

The study does not test this assumption by holding other potential wage factors constant.[30] Thus the premise (exports lead to higher wages) is used as its own proof; a classic tautology.

Furthermore, the Davis study ignores an important trend that would support a contrary conclusion. As we noted earlier, the theoretical justification for a link between exports and higher wages is that exporting firms must be competitive by achieving higher rates of productivity. This enables them to pay their workers higher wages. Yet, since 1989, the link between productivity and wages in the U.S. has not held. During that period, productivity increased by 21.8% while inflation adjusted wages increased by only 1.1 % This reflects a shift in the distribution of income between wages and corporate profits which began shifting in favor of profits in 1984.[31]

In addition to these problems, a forthcoming study by the Economic Policy Institute (EPI) offers an even deeper critique of the use of industry wage averages to estimate export-related wages.[32] EPI finds that while jobs and industries with a high share of exports do pay wages above the national average, so do jobs in import competing industries. However, when you look at industries where import and export shares are growing rapidly rather than at industries with high levels of imports and exports, they find a different result. Industries where the *import share is* expanding by more than 2% per year paid $11.79 per hour compared to industries where the *export share* was growing by more than 2%, which paid only $10.95 per hour. The growth of import and export *shares* may be more relevant to decisions about future trade policy than the *levels* of imports and exports which may reflect the past effects of expanded trade.

These findings support the view that imports may depress wages in certain industries and occupations. A valid conclusion of the wage effects on trade needs to consider the net effect that would include both imports and exports. Unions have complained that firms under competition from imports or who could easily produce in other countries with lower wages use that fact to bid down wages. Even if wages are higher in firms that export, the benefit to U.S. workers must be a *net* benefit -- wage gains in exporting industries minus wage losses in industries where imports dominate.

Is There an Alternative?

The above discussion points to the failure of the deregulated export-led approach. With the passage of NAFTA and WTO, economic theories have become institutionalized into social policies that are harmful to people. This suggests that we must be open to alternative approaches to development that meet higher standards. Again, we contend that the point of development policy is not to make things better for firms but for the people who work for them.

This discussion is not intended as an argument against exports or against trade. We favor a hemispheric or even global approach to economic development that encourages a sharing of resources, commodities, ideas and people across borders. But we object to the notion that such sharing has to occur without government rules to make certain that the benefits are fairly distributed.

We believe that economic development policy should begin and end with the goal of reducing inequality while raising living standards. That requires, in our view, policies at both a local and national level that target groups of people whose living standards are in need of improvement. At a local level this approach to development has been termed "labor force based development."[33] Rather than gearing development strategies to the needs of businesses, this framework seeks policies to directly meet the needs of specific groups of people. Business development policies, in this view, should support the needs of human development.

There is no reason why this approach needs to be at the, expense of peoples in other locations and other nations. In fact, throughout the period of NAFTA negotiation and implementation -- from 1992 to the present -- broad coalitions from Mexico, Canada, and the U.S. have been meeting to discuss such an alternative approach. Principles have been developed to enable localities to develop people-oriented development policies that do not infringe on the ability of others to do likewise. A "Just and Sustainable Trade and Development Initiative" has been produced based on those discussions that states:

"Our countries can reduce trade barriers and remove some obstacles to investment, as long as we embrace a new framework of initiatives for our continent and for the world that steer trade and investment to promote fair paying jobs, democratic and self-reliant communities and a healthy environment.”[34]

The document goes on to outline specific measures to reduce inequalities within and among nations; international rules designed to ensure that corporate activity across borders contributes to the common good; a policy framework for economic and environmental sustainability; and specific measures associated with the U.S. - Mexico border including immigration policy and environmental rules.
While this alternative model needs further elaboration, it demonstrates how local development policies designed to benefit local populations can be crafted in a context of international cooperation rather than exclusion. The problem with the deregulation export-led growth model that has been institutionalized in NAFTA and WTO is that it specifically prohibits many needed local development strategies while ignoring the needs of working people.

For example, within the context of the "Just and Sustainable Trade and Development Initiative," it is possible to consider a managed approach to trade that: a) assesses local employment needs; b) assesses the potential of particular industries to meet those needs; c) offers incentives, subsidies and even limited protections to industries and firms that agree to enter into a program of targeted training and hiring. In such a program, various forms of capital controls may be required for enforcement. For example it may be desirable to institute controls over destructive capital flight that could be monitored by international institutions. The controls could be internationally negotiated, apply to regions within and among nations, and require firms and/or governments to return capital to countries and regions victimized by destructive capital flight.[35] Furthermore, we could consider the institution of "speed bumps" such as the Chilean rule that foreign capital invested in Chile remain in that country for at least a year. A variety of other possibilities for capital controls as a part of an internationally negotiated and monitored program of development geared to local economic development needs are possible. These include a transactions tax, controls on foreign direct investment, restrictions on bank lending policies, use of taxes to reduce capital mobility, controls over exchange rates among others.[36]

Rather than rely on export-led development, such a program could employ a strategy of import substitution that could create local chains of linked firms which are capable of meeting localized development goals within regions of the hemisphere. Such a program can be justified on both equity and efficiency grounds. From an equity point of view, the social benefits of a redistributional policy may outweigh losses of efficiency. At the same time, a program of localized import substitution can mobilize local resources in a fashion that greatly enhances productivity--particularly in efforts that attempt to re-energize central-city economies or those of depressed regions. In such cases the question is not merely whether local production is organized more efficiently than the same production elsewhere.[37] Rather, we must begin to question the definition of efficiency itself when firms can force workers and communities to pay some of the costs of production through low wages, unsafe working conditions and environmental pollution. A program of localized import substitution requires government planning, business regulation, the prudent use of subsidies and managed trade policies rather than deregulation and a reliance on export-led development. Furthermore, such national and local programs can take form in the context of international principles and monitoring to assure that the programs do not degenerate into self destructive trade wars, xenophobia, and racism.

Presently such a program not only runs against the grain of the deregulated export-led growth school of thought, it is NAFTA- and WTO-illegal and runs counter to the requirements of most structural adjustment programs of the International Monetary Fund and World Bank. In the case of NAFTA, for example, "trade related investment measures" (TRIMS) are included in Chapters 11 and 14 which lay out rules governing investment and financial services respectively. Both chapters put forth the principle of "national treatment" meaning that each member government is required to treat foreign investors and financial service corporations exactly the same as they treat their own national firms. In the case of investment, Chapter 11 *prohibits:* restrictions on the destination of outputs; requirements that goods produced with foreign investment satisfy domestic content rules; the imposition of procurement and outsourcing strategies, trade balance strategies, and technology transfer restrictions. The chapter also prohibits the regulation of the transfer of profits, dividends, capital gains, sales proceeds, loan payments and other forms of income. Chapter 14 establishes the right of financial institutions based in one country to open up branches or subsidiaries in the other countries and prohibits any regulations that are specific to foreign owned institutions. The chapter also prohibits restrictions on cross border trade in financial services. Other chapters prohibit the use of tariffs or quotas to achieve local economic development objectives and make international rules concerning labor rights, human rights, consumer safety and the environment subject to challenge as "non tariff barriers to trade."

The implication of this paper is that we need to rethink the basis for much of our economic development policy. We therefore call for a renewed public debate that is open to alternatives to the narrow and failed approach to economic development that presently prevails.

Notes

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2. Sarah Anderson, John Cavanagh and David C. Ranney, "NAFTA's First Two Years: The Myths and Realities," Institute for Policy Studies, 1996, pp 4-17; also see David C. Ranney and Anne Miller, "NAFTA in Illinois: Who Benefits and Who Pays"?, Illinois Fair Trade Campaign, 1996, pp. 5-27.

3. Virginia L. Carlson and Nikolas C. Theodore, "Are There Enough Jobs?: Welfare Reform and Labor Market Reality," Illinois Job Gap Project, Woods Fund of Chicago, December, 1995.

4. Lewis A Segal and Daniel G. Sullivan, "The Temporary Labor Force," *Economic Perspectives,* The Federal Reserve Bank of Chicago, Chicago, IL, V. 19, March-April 1995.

5. Christina Duff, "Wage-Benefit Increase Sets 14 Year Low," *Wall Street Journal,* February 14, 1996, p.A2.

6. David C. Ranney and Anne Miller, "NAFTA in Illinois: Who Benefits and Who Pays," Illinois Fair Trade Campaign, 1996, pp. 23-24.

7. Based on Gini Coefficients calculated by the Chicago Federal Reserve Bank from U.S. Bureau of the Census, *Current Population Reports.*

8. "Divide to Conquer: AT&T to Split into Three," *Wall Street Journal,* September 21, 1995, p. 1.

9. Citizens for Tax Justice, "Tax Subsidies Reward Corporate Downsizers," (http://www.ctj.org) October, 1996.

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14. USTR, "North American Free Trade Agreement: An Overview," (http://www.ustr.gov/agreements/nafta/infonnation) July 1996.

15. John Schmeltzer, "Powerful growth in exports helps the factory sector hum." *Chicago Tribune,* September 19,1996.

16. David Young, "A label of growth: Made in Chicago," *Chicago Tribune,* October 24, 1996. The main study on which Young's article was based is: U.S. Department of Commerce, International Trade Administration, *Metropolitan Area Exports: An Export Performance Report on Over 250 U.S. Cities, U.S.* Government Printing Office, April, 1996.

17. Erin K. Fossett, Greg R. Mount, & Diane C. Swonk, "The Profit Machine: A Closer Look at the Impetus Behind Recent Profit Gains," *First Forecasts,* First Chicago NBD, July 10, 1996, p. 3.

18. Federal Reserve Bank of Chicago, "Final Report of the Project: Assessing the Midwest Economy: Looking Back for the Future," draft, November 28, 1996.

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21. U.S. Department of Commerce, International Trade Administration, *Metropolitan Area Exports: An Export Performance Report on Over 250 Cities, U.S.* Government Printing Office, April, 1996, pp. 119-127.

22. Computations for the Department of Commerce report were produced by Margaret McCarthy, Interindustry Economic Research Fund, University of Maryland. The model utilized is a 480 sector INFORUM input output model. Its technical coefficients are based on 1982 benchmark input output tables produced by the Bureau of Economic Research which was updated with new data "as much as possible" through 1990 and then projected to 1992.

23. The methodology is explained in greater detail in Lester A. Davis, "U.S. Jobs Supported by Goods and Services Exports, 1983-92, Economics and Statistics Administration, U.S. Department of Commerce, OIMA Research Series 1-95, May, 1995, pp. 38-41.

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26. The government has standardized the definitions of industries so that data on business

establishments can be compiled in a uniform way. See, Office of Budget and Management, Executive Office of the President, *Standard Industrial Classification Manual, 198 7, U.S.* Government Printing Office, 1987.

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28. R.C. Longworth and Sharman Stein, "Temp Jobs Gaining Permanence," *Chicago Tribune,* October 11, 1995.

29. Lewis M. Segal and Daniel G. Sullivan, "The Temporary Labor Force," *Economic Perspectives,* Federal Reserve Bank of Chicago, Chicago, IL, V. 19, March-April, 1995.

30. Other studies do control for some of these factors. They also find higher wages in export industries but the magnitudes are not as great. See, for example, David J. Richardson and Karin Rindal, Why *Exports Matter,* Washington D.C., Institute for International Economics and the Manufacturing Institute, February, 1996. Also, Andrew B. Bernard and J. Bradford Jensen, "Exporters, Jobs and Wages in U.S. Manufacturing: 1976-87," *Brookings Papers on Economic Activity: Microeconomics,* Washington D.C., Brookings Institution, 1995, pp. 67-119.

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