Twenty-one years of Nafta's failed promises

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NAFTA was going to enrich consumers, workers and farmers in the US, Mexico and Canada. A minute percentage of the very wealthiest gained — everybody else lost massively.

The North American Free Trade Agreement (NAFTA) went into effect on 1 January 1993, on a cloud of promises of economic, social and environmental benefits. Few matters unite the US, deeply divided along partisan lines, yet Republicans, Democrats and independents of diverse geographic and socio-economic groups consider NAFTA to have damaged their families and the nation. But as details of the secretive Transatlantic Trade and Investment Partnership (TTIP) (1) negotiations emerge, we learn that the NAFTA mistakes are likely to be repeated.

NAFTA was an experiment, establishing a radically new "trade" agreement model. It was fundamentally different in that it was only partially about trade. Previous US trade pacts had focused narrowly on cutting tariffs and easing quotas, while NAFTA created new privileges and protections for foreign investors that incentivised the offshoring of investment and jobs by eliminating many risks of moving production to low-wage countries. NAFTA allowed foreign investors to directly challenge domestic policies and actions before investor-state dispute settlement (ISDS) tribunals, and demand government compensation for policies that "undermined" their expected future profits.

NAFTA also required the signatory countries — Canada, Mexico, the US — to limit regulation of services, such as banking, energy and transportation; extend medicine patent monopolies; limit food and product safety standards and border inspections; and waive domestic "buy local" preferences, such as Buy American policies.

It was sold to the US public with grand promises. In 1993 Gary C Hufbauer and Jeffrey J Schott of the Peterson Institute for International Economics — now making grandiose projections of TTIP gains — projected that NAFTA would lead to a rising trade surplus with Mexico, which would create 170,000 net jobs in the US within the pact's first two years. US farmers would export their way to wealth. NAFTA would bring Mexico to a first-world level of economic prosperity and stability, providing opportunities that would reduce immigration to the US. Environmental and consumer standards would be harmonised upwards — improving public health, the safety of food and products and the quality of the air and water. Consumer prices would be reduced. The economies would enjoy new growth.

Two decades later, the grand projections and promises remain unfulfilled. Indeed, many outcomes are *exactly the opposite* of what was promised.

Where did the jobs go?

Rather than creating US jobs, NAFTA has contributed to an enormous US trade deficit with Mexico and Canada, and an estimated net loss of 1m US jobs by 2004. This figure, calculated by the Economic Policy Institute (EPI), includes the net balance between jobs created and jobs lost (2). Much of the erosion stems from the decisions of US firms to embrace NAFTA's foreign investor privileges and relocate production to Mexico, with its lower wages and weaker environmental standards. The EPI calculates that the trade deficit with Mexico destroyed about 700,000 net US jobs between NAFTA's implementation and 2010. More than 845,000 US workers have been certified for Trade Adjustment Assistance (TAA), having lost their jobs due to imports from Canada and Mexico or the relocation of factories there.

NAFTA has contributed to downward pressure on US wages and growth in US income inequality. Its broadest economic impact has been to transform the types of jobs and wages for the 63% of US workers without a college degree. Trade deeply affects the types of jobs available rather than the total number. The US workers who lost manufacturing jobs to NAFTA offshoring and import competition went into lower-wage jobs in service sectors, which can't be off-shored, where they added to a glut of workers, pushing down wages across the economy. According to the US Bureau of Labour Statistics, two out of every three displaced manufacturing workers who were rehired in 2012 had to take lower wages, most of them a pay cut of more than 20%. For the average US manufacturing worker on more than $47,000, that's at least $10,000 down. As more workers displaced from manufacturing have joined those competing for low-skill jobs in sectors such as hospitality and food services, real wages have fallen in these sectors under NAFTA. US median wages have been flat since NAFTA, even as worker productivity has soared.

The reductions in consumer goods prices that *have* materialised have not been enough to offset the losses to middle-class wages under NAFTA. US workers without college degrees have lost 12.2% of their wages in real terms under NAFTA-style trade, even after the benefits of cheaper goods. Despite a 239% rise in food imports from Canada and Mexico, the average price of food in the US has jumped 67% since the deal, the opposite of the outcome promised. Back then, some NAFTA proponents acknowledged that the deal would cost some US jobs, but argued that US workers would win because of cheaper imported goods.

Soon after 1993, the small pre-NAFTA US trade surplus with Mexico turned into a massive trade deficit and the pre-NAFTA US trade deficit with Canada expanded greatly. The 1992 inflation-adjusted trade surplus with Mexico of $2.5bn and the $29.6bn deficit with Canada have morphed into a combined NAFTA deficit of $177bn. The rosy job-creation promises were predicated on NAFTA improving the US balance of trade. The reality has been the opposite.

US manufacturing and services exports to Mexico and Canada have grown slower since NAFTA; annual growth in US manufacturing exports to Canada and Mexico has fallen 62% below the annual immediately-pre-NAFTA rate. Even growth in services exports, supposed to do especially well given a presumed US comparative advantage in services, dropped precipitously. Annual growth of US services exports to Mexico and Canada since NAFTA has fallen 49% below the pre-NAFTA rate. The overall growth of US exports to countries that *are not* FTA partners has exceeded combined US export growth to countries that *are* FTA partners by 30% over the last decade.

Scores of NAFTA countries' environmental and health laws have been challenged in foreign tribunals through the ISDS system. More than $360m in compensation to investors has been extracted via challenges against toxics bans, land-use rules, water and forestry policies, etc. More than $12.4bn is currently pending in such claims, which cover foreign investor challenges to medicine patent policies, a fracking moratorium and a renewable energy programme. Instead of learning the lessons from these corporate excesses, the Obama administration ignored all the input from civil society representatives when it reviewed its model investment treaty language in 2011 and continues to push for inclusion of ISDS in TTIP, despite protests from the European Commission and EU member state officials and parliamentary bodies. US corporations, such as Chevron, which is using ISDS to try to avoid paying billions for environmental and health damage from pollution in the Amazon, have made clear that ISDS must be included in TTIP.

The average post-NAFTA annual US agricultural deficit with Mexico and Canada has reached $975m, almost three times the pre-NAFTA level. US food processors moved to Mexico for its low wages, and food imports soared. NAFTA rules relaxing US food safety standards allowed imports from plants previously considered unsafe. Before NAFTA, when imports were allowed, pre-NAFTA, only from facilities deemed to at least satisfy US standards, just one beef processing plant and no poultry facilities from Mexico were approved. US beef imports from Mexico and Canada have risen by 133% since 1993.Over the last decade, US food exports to Mexico and Canada have fallen slightly while food imports from them have more than doubled.

This is nothing like the promises made to US farmers and ranchers that NAFTA would allow them to export their way to wealth and farm income stability.

Lose-lose in Canada and Mexico, too

Given the extreme negative impact on US workers and farmers, it's shocking that NAFTA did not benefit people in Mexico and Canada. Rather than the win-win promised, NAFTA has been lose-lose for most. Exports of subsidised US corn increased under NAFTA's first decade, destroying the livelihoods of more than a million Mexican *campesino* farmers and about 1.4 million other Mexicans whose livelihoods depended on agriculture. The mass dislocation exacerbated the instability and violence of the drug war. And the desperate migration of those displaced from the rural economy pushed down wages in the border maquiladora factory zone and contributed to a doubling of Mexican immigration to the US.

Though the price paid to Mexican farmers for corn plummeted, the deregulated retail price of tortillas — the staple food — shot up 279% in the pact's first 10 years. Real wages in Mexico have fallen below pre-NAFTA levels as price increases for basic consumer goods have exceeded wage increases. A minimum wage earner in Mexico today can buy 38% fewer consumer goods than on the day NAFTA took effect. Despite promises that NAFTA would benefit Mexican consumers by granting access to cheaper imported products, the cost of basic consumer goods has risen to seven times the pre-NAFTA level, while the minimum wage is only four times the pre-NAFTA level. Facing displacement, rising prices and stagnant wages, more than half of the total population, and more than 60% of the rural population, are still below the poverty line. The promised NAFTA nirvana did not happen.

TTIP negotiations could have been the place to create a new model of economic integration — premised on not repeating the mistakes of NAFTA and other damaging pacts. But by following the same secretive, biased negotiating processes and including the same provisions that undermine the public interest, TTIP is setting up workers and consumers on both sides of the Atlantic for more damaging consequences. Given the grim evidence of two decades of NAFTA, European and US citizens are right to raise the alarm. If any good is to come from the damage NAFTA has caused millions, then we must use NAFTA's record to stop the TTIP project.