

The Real Cost of "Free" Trade



July, 2002

Prepared by U.S. Representative Bernard Sanders

The Real Cost of "Free" Trade

American Jobs, American Wages



Dear Fellow Vermonter,

Many Vermonters, and people throughout our country, are now working longer hours for lower wages than ever before. Some people now work two or three jobs just to pay the bills, and today there are relatively few middle class families that don't need both husband and wife to work for economic reasons. In addition, more and more workers are seeing substantial increases in the cost of health care, and cutbacks in other benefits.

Further, it seems that almost every day there is another news story about a company that is laying off workers or closing down altogether. More often than not, the jobs lost are the kind of good-paying manufacturing jobs that families need in order to have a decent standard of living. Tragically, since 1994, Vermont has lost more than 5,000 manufacturing jobs.

This pamphlet focuses on one of the least talked about, but most important, reasons as to why millions of American workers are struggling so hard to keep their heads above water economically. **And that is our disastrous national trade policy that has cost this country millions of decent paying jobs, and has forced wages down for many workers in Vermont and throughout our country.**

The sad truth is that this country today now has a \$346 billion trade deficit. Between 1994 and 2000, the U.S. lost more than 3 million decent-paying manufacturing jobs due our trade policies. In 2001, the manufacturing sector lost another 1.3 million jobs. Over the past four years we have lost a total of 2 million factory jobs representing **ten percent of the manufacturing workforce.**

As a result of the decline in our manufacturing base, more and more people are asking hard questions. They want to know why plants are being shut down, and why workers are receiving pink slips. They want to know why, when they go shopping, it is harder and harder to find products manufactured in the USA. They want to know why major American corporations seem to care so little about the working people in their own country, and why the exorbitant compensation packages of corporate CEOs seem to get even larger when they lay off workers.

Sometimes, officials and the media tell us that manufacturing jobs are leaving Vermont because of the so-called “unfriendly business climate” in our state. While Vermont can and should do better to eliminate unnecessary red tape and bureaucracy, the facts just don’t support the “unfriendly” claim. The sad truth is that manufacturing jobs are being lost *in every state in the nation* – north, south, east and west. Is it possible that every state in the country has an “unfriendly business climate?” I don’t think so.

In my view, it is clear that *federal* policies, not state decisions, are primarily responsible for the loss of manufacturing jobs. The real problem is that Congress passed anti-worker legislation such as NAFTA, GATT, Most Favored Nation (MFN) Status with China and Permanent Normalized Trade Relations (PNTR) with China, as well as other trade legislation that benefits large multinational corporations at the expense of working families.

The devastating truth is that “free” trade is not about exporting U.S. manufactured goods, it’s about exporting American jobs. The real goal of free trade is to lower labor costs **everywhere**, by allowing companies to move production to wherever labor is cheapest. Eliminating tariffs in the name of free trade allows corporations to do that without penalty. Rather than pay Americans a living wage, they can hire desperate workers in China for 20 cents an hour, and keep the difference as profits.

This pamphlet contains an in-depth discussion of our trade policy and how that policy has been so harmful to American workers. I hope you find it helpful. In my opinion, global trade can be good for American workers and the countries we trade with. But the underlying principles must be based on “*fair*” trade, not unfettered “*free*” trade. The goal must be to create decent paying jobs in the United States, and improve the standard of living of people abroad. The goal should not simply be to increase corporate profits and the salaries of CEOs.

As always, I would appreciate your comments and input on how my office can be of assistance to you. I also encourage you to visit my website at bernie.house.gov for frequently updated information on Congress and the work my office is doing.

Sincerely,



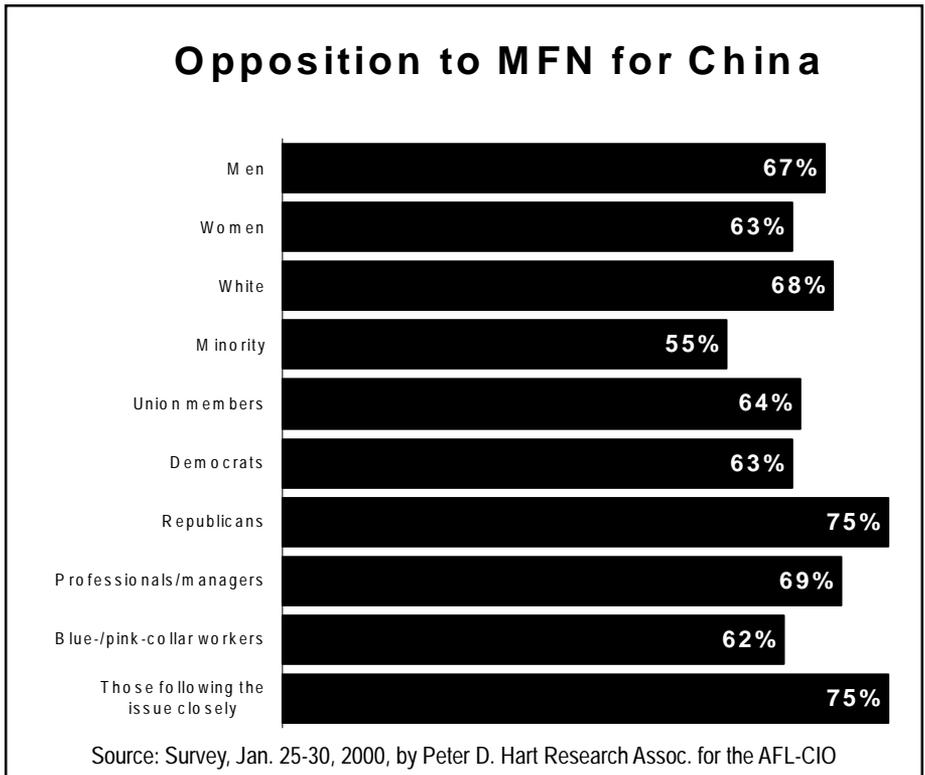
Bernard Sanders
U.S. Congressman

“Ideally, what you would want is to have every company on a barge.”

— Jack Welch, former CEO of General Electric

Why is Washington So In Love With “Free” Trade?

Let’s begin with a question. Under both Presidents Bill Clinton, a Democrat, and George W. Bush, a Republican, this country granted Most Favored Nation Status (MFN) to China. This MFN status was reviewed annually by the Congress. In 2000, Permanent Normalized Trade Relations (PNTR) with China was passed. This ended Congress’ annual review of China’s preferential trading status. These trade agreements mean that there will be a minimum of trade barriers between the United States and China. So here is the question:



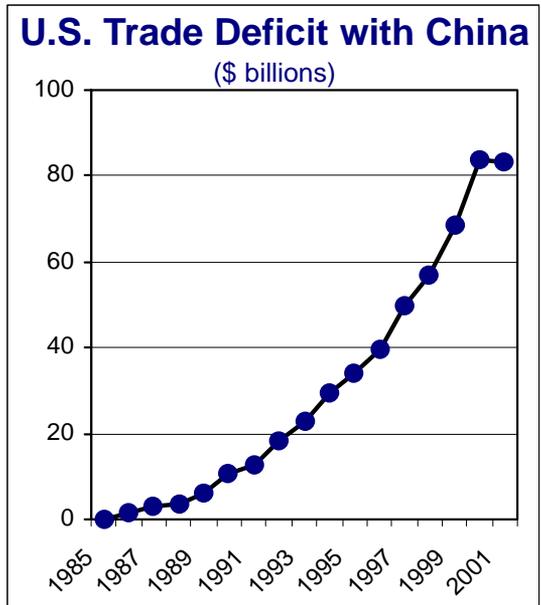
Why did the two Presidents ask for, and Congress pass, preferential trading status for China?

It can't be because we believe in supporting democracy, since China has a highly authoritarian government.

It can't be because we believe in freedom, since China restricts freedom of the press, of assembly, of religion, of speech. If Chinese workers try to form an independent union, or speak out against their government, they are often jailed.

It can't be because the American people support free trade agreements with China, since polls indicate that men and women, union members and managers, Democrats and Republicans, oppose giving MFN to China, as the graph indicates.

It can't be because MFN status brings new money to Americans, because when Congress last deliberated MFN in spring 2000, the statistics were brutally clear: in 1999 the U.S imported approximately \$81 billion in goods from China and exported \$13 billion—a six-to-one ratio of imports to exports that was the most unbalanced trade relationship in the history of the United States. The latest figures available, for 2001, show



that the U.S. has an incredible \$83 billion trade deficit with China – the largest trade deficit that we've ever had with any other country.

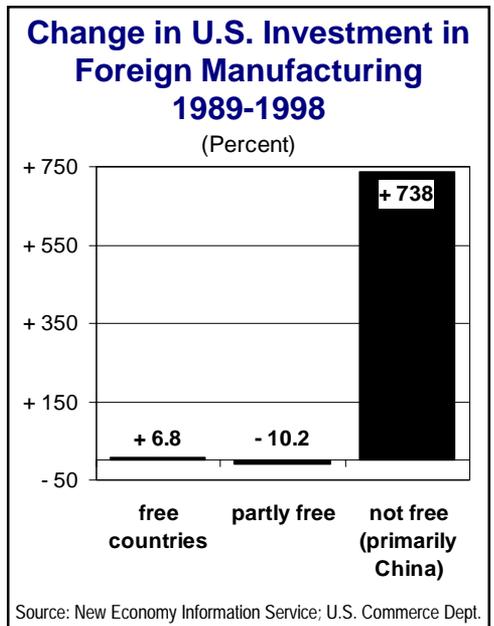
It can't be because MFN status creates new jobs in the United States. In 1999, exports to China generated about 170,000 jobs in the U.S. On the other hand, imports eliminated almost 1.1 million domestic jobs, for a net loss of 930,000 manufacturing jobs – many of them high-wage.

So if MFN status for China did not advance democracy, freedom, American wealth or American jobs, and if most Americans oppose making China a Most Favored Nation trading partner, then **why did both presidents ask for, and Congress pass, Most Favored Nation status for China? If NAFTA has resulted in huge job losses and growing trade deficits with Mexico and Canada, why has Congress voted to maintain this agreement and, in fact, to expand it?**

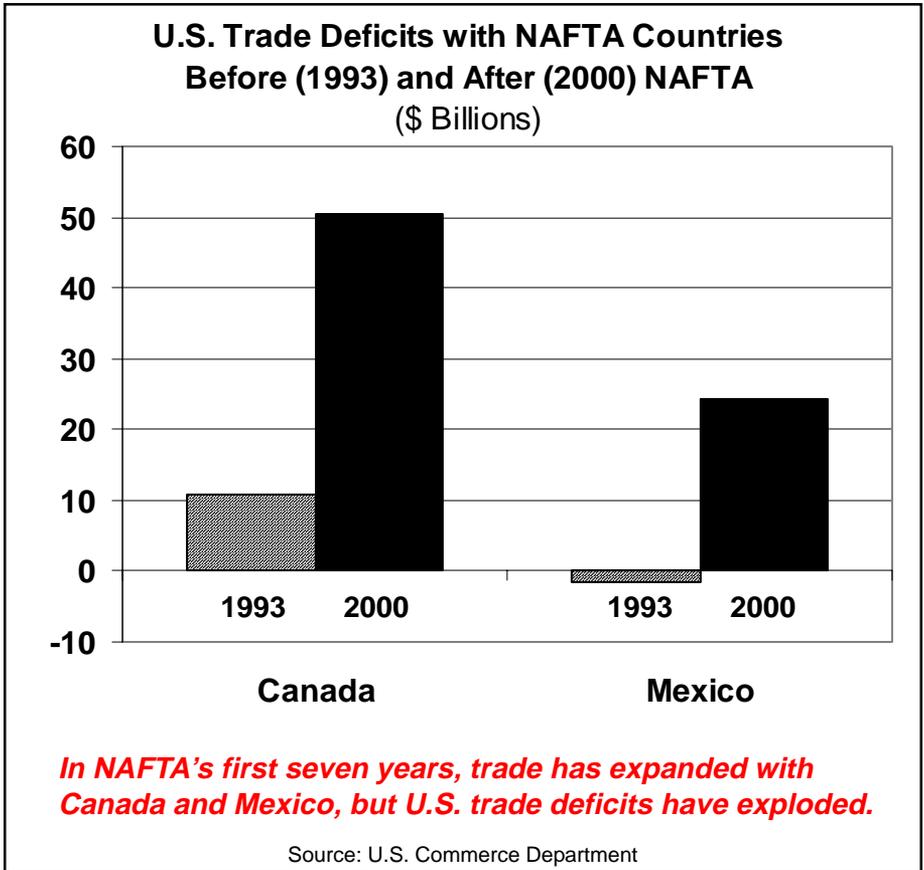
The answer is simple. Large multinational corporations make huge contributions to presidential campaigns, both political parties, and many Members of Congress. They also have hundreds of well-paid lobbyists on Capitol Hill. The large multinationals like free trade, want free trade, and have paid for free trade – and that’s what they have received from the White House and Congress.

Why have these companies spent millions in support of free trade? The answer is obvious. They really are not primarily interested in selling products in China or the Third World. In many of these countries the impoverished population couldn’t afford to buy U.S.-manufactured goods even if they wanted to. What’s important to these companies is not the buying power of Third World consumers. It’s the fact that the people there will work for pennies an hour.

Why would a company pay a Vermont worker \$15 an hour, provide benefits, and follow worker safety and environmental regulations when that company could move its manufacturing to China and hire a desperate worker there for twenty cents an hour? As Jack Welch, former CEO of General Electric, stated, “Ideally, what you would want is to have every company on a barge.” In other words, corporations want to be able to move the work to those countries anywhere in the world where labor costs are the lowest.



And MFN for China is only one example. For NAFTA, the free trade agreement with Mexico and Canada that went into effect in 1994, the story is very much the same. In the first three years of NAFTA, U.S. exports to Mexico created over 150,000 jobs. That's the good news. The bad news is that during that same period, Mexican imports cost us over 385,000 jobs, for **a net loss of over 230,000 American jobs**. Our trade deficits are now \$29.9 billion with Mexico and \$53.3 billion with Canada.



It's amazing how the free-trade promoters always tell us about the new export jobs that have been created but somehow never mention the hundreds of factories that have been shut down, and the enormous job losses that have occurred because of our huge trade deficit. They don't talk about the fact that, today, the United States has the largest trade deficit in our history – \$430 billion.

Free Trade and Vermont: Why are We Losing so Many Manufacturing Jobs?

Vermont, like the rest of the nation is suffering from the hemorrhaging of decent-paying manufacturing jobs. Here is a list of some of the companies in Vermont that have shut down or laid off workers because of our disastrous trade policies:

Stanley Tools, 160 jobs lost in Shaftsbury — The Labor Dept. determined that increased imports were a key factor in the plant closing. A union official at the plant noted, “The levels went to Thailand and the chalk lines were outsourced to China.”

Bogner, 42 jobs lost in Newport — The Newport production manager: “We just can’t do it anymore. We can’t pay \$10 an hour versus 25 cents an hour,” (what overseas plants pay).

Sheftex, 80 jobs lost in St. Johnsbury — The plant manager observed, “Imports are absolutely killing us. It’s hurting me, and it’s hurting to see my people go.”

Kimberly Clark, 63 jobs lost in East Ryegate — Company officials cited increased competition from overseas as the reason manufacturing capacity had to be reduced here.

Ethan Allen, 124 jobs lost in Island Pond, 154 in Randolph, 69 in Orleans —The workers were approved for federal Trade Adjustment Assistance (TAA)*.

Johnson Controls, 240 jobs lost in Bennington — TAA* approved.

Fair-Rite Products, 25 jobs lost in Springfield — TAA* approved.

Precision Rotary Instruments, 37 jobs lost in Bridgewater — TAA* approved.

Cone-Blanchard, 250 jobs lost in Windsor — TAA* approved.

Fellows Corporation, 253 jobs lost in Springfield — TAA* approved.

**The U.S. Department of Labor only provides Trade Adjustment Assistance (TAA) to workers when it is officially proven their jobs were lost due to imports.*

On top of that, **every state in the nation** has been losing manufacturing jobs as a result of our trade policies. Clearly, this has nothing to do with any “anti-business climate” in any particular state. It is a national trend.

Between 1994 and 2000, “pro-business” New Hampshire lost more than twice as many jobs as Vermont. Texas, under “pro-business” Governor George W. Bush, lost almost a quarter of a million jobs during that period. In fact, from 1994 to 2000, only North Dakota had fewer trade-related job losses than Vermont.

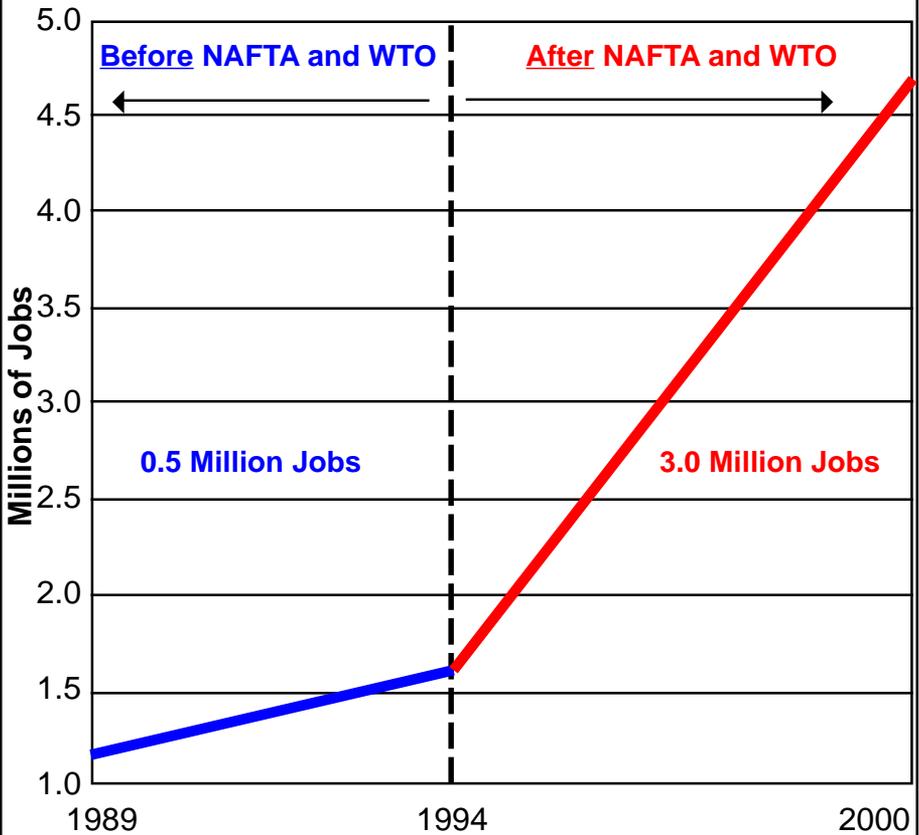
Trade-related Job Losses by State, 1994-2000

<u>State</u>	<u>Jobs lost</u>				
Alabama	63,239	Louisiana	44,940	Oklahoma	42,266
Alaska	6,972	Maine	22,357	Oregon	41,124
Arizona	32,461	Maryland	31,057	Pennsylvania	142,221
Arkansas	37,469	Massachusetts	64,434	Rhode Island	29,164
California	309,762	Michigan	152,061	South Carolina	54,233
Colorado	34,982	Minnesota	49,952	South Dakota	8,458
Connecticut	31,431	Mississippi	41,338	Tennessee	96,355
Delaware	6,467	Missouri	68,392	Texas	227,559
Dist. of Columbia	6,558	Montana	7,521	Utah	22,523
Florida	100,047	Nebraska	15,312	Vermont	6,283
Georgia	89,736	Nevada	16,493	Virginia	66,083
Hawaii	7,116	New Hampshire	12,936	Washington	45,739
Idaho	11,021	New Jersey	84,749	West Virginia	14,458
Illinois	139,537	New Mexico	16,733	Wisconsin	73,476
Indiana	102,873	New York	179,288	Wyoming	6,977
Iowa	31,770	North Carolina	133,219		
Kansas	23,248	North Dakota	5,788	U.S. Total	3,044,241
Kentucky	50,948	Ohio	135,139		

source: Economic Policy Institute, from U.S. Census, Bureau of Labor Statistics data

All across America, the more free trade agreements we sign onto, the more jobs we lose. A graph follows which shows just what free trade has meant for American workers. Notice how the line suddenly soars after the two major free trade agreements were put into effect:

Net U.S. Job Losses from Trade Deficits, 1989-2000



Source: U.S. Census, Bureau of Labor Statistics, Bureau of Economic Analysis

And it's not just manufacturing workers who are taking it on the chin. Vermont farmers are also being hit hard. Vermont apple growers have suffered as a result of product being dumped in the U.S. from South Korea. Free trade is also depressing milk prices because food companies are importing large amounts of a dairy product called milk protein concentrates (MPCs). When corporations import MPCs, they displace milk produced here in the U.S. That means more surplus milk and lower prices for our farmers.

Free Trade and The Race to the Bottom

To understand just how difficult it is for Americans to compete against Third World workers, consider the wages paid to people who make apparel – clothes and shoes – in other countries as shown in the accompanying table. And these are average wages, not minimum wages. Some workers earn even less!

Can Vermont workers, or workers in South Carolina or California, compete with workers in Honduras, Haiti or China? Of course not. So jobs go abroad, because the labor costs are less.

Ironically, even workers in countries like Honduras have to worry about losing their jobs to countries where wages are even lower. For example, if wages are lower in Bangladesh, it is likely that the Hondurans' jobs will end up there. So workers, states, and entire nations everywhere are thrown into what is known as the "**Race to the Bottom.**" A race driven by corporations that threaten to move their plants to countries with lower labor costs if workers don't accept pay cuts. And it's a race to lower not just wages, but also every benefit, worker safety requirement, and environmental standard.

Want to see where the race to the bottom ends? Here is an excerpt from a recent report by the National Labor Committee about a Nike clothes factory in Bangladesh:

1300 workers average 78 hours per week in a crowded, hot and poorly ventilated factory, with 10-13 hour shifts standard and mandatory 19-hour shifts (from 8:00 a.m. to 3:00 a.m.) required up to twice a week. Workers are prohibited from speaking to each other while at work and supervisors often shout at workers and threaten them if they

Average Apparel Hourly Wage 1998, U.S. dollars

<u>Country</u>	<u>Wage</u>
El Salvador	\$0.59
Honduras	0.43
Haiti	0.30
China	0.23
Nicaragua	0.23

Source: National Labor Committee

work too slowly. The drinking water is unsafe and at times causes bouts of diarrhea and vomiting.

Sewers are paid between 11 and 20 US cents an hour and 15 year old “helpers” are paid just 8 US cents an hour. Few workers can afford to marry and it is typical for four or five workers to be forced to share a small room in a dangerous slum area. Workers suggested that a wage of 34 US cents an hour would be adequate to meet their most basic needs.

Low wages overseas and trade policies encouraging companies to ship jobs to where wages are lowest, are a recipe for disaster for American workers. In the *Race to the Bottom*, workers both at home and abroad can only lose.

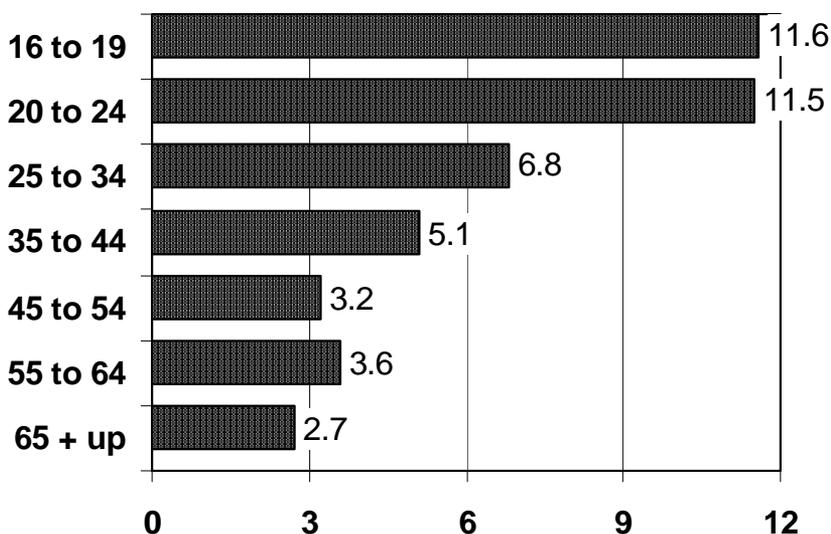
The “Race to the Bottom” Hurts More Than Those Who Lose Their Jobs

Free trade is bad news for all Americans. While those who lose jobs are most directly affected by our failed trade policy, each of our communities suffers as a result of the free trade policies pushed by our Presidents and approved by Congress. When corporations can move their facilities to countries where workers make 20 cents an hour, those corporations can use these horrendous wages as leverage to get American workers to take pay and benefit cuts. Throughout our country today workers are hearing their employers say, “If you are not happy with the pay or benefit cuts we’ve established, we can take your job to Mexico or China.” When workers lose their jobs or suffer pay cuts, they buy less from community businesses and local economies suffer.

One of the groups of Americans hardest hit by free trade are young, entry-level workers without a college education. When manufacturing jobs are available these workers are often able to earn a living wage and receive decent benefits. With the collapse of our manufacturing sector, the only jobs available to these young workers

Poverty Rate for Working Americans by Age

(percent)



Younger workers are the most likely to be poor. In 1997, workers under the age of 25 had poverty rates about twice the overall rate.

Source: U.S. Department of Labor, Bureau of Labor Statistics

are service industry jobs which most often pay inadequate wages and provide minimal benefits. The result has been that *the average real (inflation-adjusted) wages of these workers has dropped by over 25% since 1980. Women with less than six years in the workforce and no college education have seen their average real wages fall about 18% during that time.*

Free trade is also often bad for workers in other countries. The promise made to Mexican workers was that NAFTA would spur on the Mexican economy and improve the lives of the workers there. Unfortunately, the opposite has happened. After five years of experience with NAFTA, the Economic Policy Institute reported:

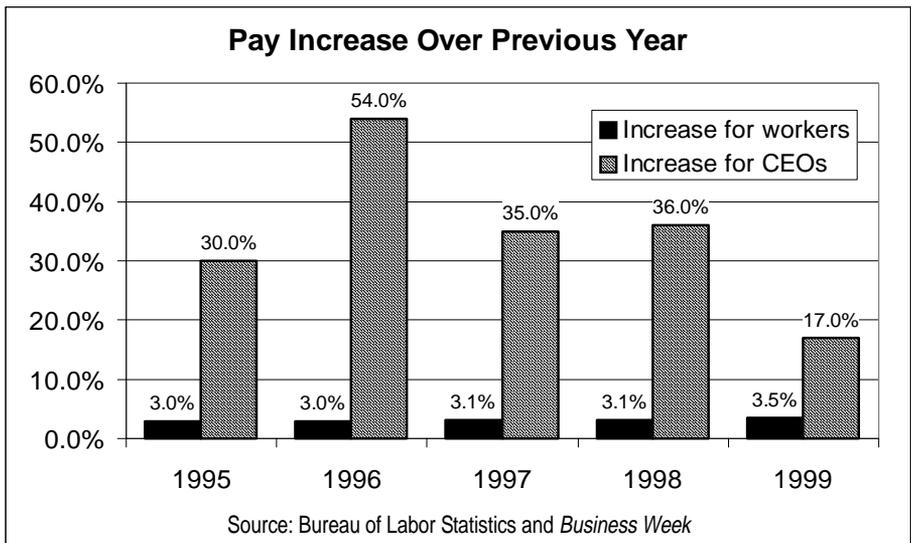
“Instead of raising living standards in Mexico, NAFTA reinforced “reform” government policies in Mexico that reduced real wages for workers by 25% and increased to 38% the share of the Mexican population living on less than \$2.80 a day.”

“How much [more] am I worth to IBM than that guy down at the bottom of the pay scale? Twice as much? Sure. Ten times as much? Maybe. Twenty times as much? Probably not.”

— Tom Watson Jr., IBM Founder

So Who Does Gain from “Free” Trade?

Free trade has cost the American economy millions of decent-paying jobs and has pushed down wages for millions of other workers. Free trade has devastated industry after industry and has left dozens of Americans communities desolate. While free trade has been a disaster for most Americans, there have been some very big winners. Who are they?



Today, corporate executives earn obscene amounts of money. *The average annual CEO salary at a Fortune 500 company is about \$11 million, or a staggering \$5,288 per hour.* That’s about 487 times what the average worker makes. But the CEOs get much, much more.

In most major companies, CEOs receive tens of millions of dollars in stock options, retirement benefits, bonuses and golden parachutes. In fact, some studies suggest a direct correlation between the CEO's compensation and the number of workers laid off. The larger the layoffs, the higher the CEO's compensation.

For example, James Keyes, the CEO of Johnson Controls, which laid off 240 workers in Bennington, made almost \$13 million in 2001, and still has another \$18 million in stock options yet to exercise.



The sad truth is that in the name of free trade, the CEOs of major corporations are selling out American workers and their very own country. With greed as their motive, they have become far more interested in earning huge profits by hiring abroad, than by maintaining a strong and well-paid workforce in the United States.

What Can Be Done?

Renegotiate NAFTA, WTO, China PNTR and other trade agreements to protect workers' rights and the environment

In today's global economy, the major American export is our jobs. As this pamphlet shows, our record-breaking trade deficits are costing us millions of decent-paying jobs. The function of U.S. trade policy must be to improve the standard of living of the American people. We must demand “*fair*” trade, not just unfettered “*free*” trade which benefits well-paid CEOs at the expense of American workers. Instead of forcing wages in the United States down and exploiting desperate people in developing countries around the world, we must raise wages and benefits in the United States and improve the standard of living of people in the Third World.

What else needs to be done?

Corporate management must obey the law

In recent months the American people have been learning more and more about the dishonesty and illegal activities of major corporations. Enron, Arthur Anderson, WorldCom, Global Crossing, Xerox, Adelphia, Tyco and other companies have shown that they are far more concerned about huge paychecks for top management than they are about their employees, investors, or fellow Americans — or even about obeying the law. It's time for Congress to pass laws to hold major CEOs accountable and severely punish those whose illegal activities impact the livelihood or workers and investors.

Stop corporate welfare and huge tax breaks for the rich

At a time when the United States has the most unequal distribution of wealth and income in the industrialized world, it is imperative that we create a tax system that asks the wealthy to pay their fair share of taxes, allows us to lower taxes for middle-class and working fami-

lies and provides additional revenue for important social needs.

It is absolutely obscene that Congress and the President have recently passed legislation to borrow money from Social Security in order to provide some \$500 billion in tax cuts for the wealthiest one percent of our population — people with minimum incomes of \$375,000 a year.

It is also critical that we end the more than \$100 billion in corporate welfare we provide to large corporations each year. We should be providing assistance to those businesses, often small and medium-size companies, who want to expand jobs in the U.S. and not the multinational corporations who are moving jobs abroad.

Raise the Minimum Wage to a livable wage

At the current \$5.15 an hour, the federal minimum wage has become a poverty wage. With today's minimum wage, a full-time worker with one child lives below the official poverty line. The minimum wage has failed to keep pace with inflation, and its purchasing power today is far lower than it used to be. In fact, the minimum wage would have to be \$7.33 an hour to have the same purchasing power today that it had in 1968.

The minimum wage should be set at a rate sufficient to support a family of three above the poverty line. In the long run, Congress should move the minimum wage to a livable wage. Nobody who works 40 hours a week should earn less than they need to maintain a decent standard of living. In Vermont, that amount has been calculated to be \$10.47 an hour for a single worker and \$15.89 an hour for a single parent with one child.

Reform our labor laws so more workers can organize unions

Union membership is declining as a result of corporate downsizing, globalization of the economy and union-busting. Today, fewer than 14% of American workers have unions (down from 35% in 1955), and that hurts all working families. We need to reform our labor laws to allow more workers to organize unions.

These reforms should include: recognition of a union when a majority of workers sign authorization cards; compulsory arbitration

when there is a stalemate in the negotiation of a first contract; and greater protections against union-busting and the intimidation of workers. Workers in unions make an average of over \$7,100 (28%) more a year than non-union workers, and that's not counting better health and pension benefits. The truth of the matter is that the most effective anti-poverty program in the U.S. membership in a union.

Labor unions are the main reason we have the right to overtime pay for overtime work, employer-provided health benefits and pension plans, occupational safety laws, child labor laws, and even the 40-hour workweek. Unions led the effort for Medicare, Medicaid, affordable housing, and many other programs that benefit all working families. When unions are strong, all working families benefit because unions drive wages up even for non-union workers.

National Health Care

Our current health care system leaves more than 41 million Americans without health insurance and millions more underinsured. Meanwhile, the cost of health care is soaring and is estimated to double in the next ten years. Further, our citizens pay the highest prices in the world for prescription drugs, which is causing very serious health and financial problems for the elderly and the chronically ill. Meanwhile, at 14% of our GNP, we spend far more per person on health care than any other major nation, all of which provide universal health care.

The United States must establish a single-payer health care system, administered at the state level, which guarantees health care to all Americans. A single-payer system can slash the paperwork and bureaucracy that now consume 25% of our health care dollars, and use the savings to cover every American.

Reduce the influence of money in elections

It is no secret that Big Money interests and the wealthy make huge contributions to both political parties, and as a result have enormous influence over what goes on in Washington. Recently, for example, the Republican Party raised **\$33 million in one night** at a DC fundraiser. Thanks to strong local activity nationwide, Congress took an important step forward in campaign finance reform by passing the

“McCain-Feingold” bill that would ban “soft money.” But much more needs to be done. We must eventually limit the amount of money that any candidate can spend, and move toward public financing of elections in order to re-establish the principle that American democracy means “one-person-one-vote.” The rich and powerful should no longer be able to buy elections.

A first-class education for every American

Our public schools, the cornerstone of democracy, and once the gateway to economic and political equality, often lack the resources they need. And the cost of a college education is increasingly out of reach for working families. We need to increase federal funding to improve the quality of our public schools and to relieve the burden of the regressive property tax. We also need to make funding available for scholarships, college loans and work-study programs to ensure that every American can pursue an advanced education.

Revitalize the electoral process

Voter turnout in the United States has fallen to all-time lows. In the 1998 elections, only 36% of all eligible Americans bothered to vote, and only 18% of young people under the age of 24 turned out to vote. By comparison, it is not uncommon in Canada, Europe and Scandinavia for 70%, 80% or even 90% of eligible voters to participate in elections. Our goal in the United States should be for at least 80% of all eligible Americans to vote. The truth is that if working people do not actively vote and participate in the political process, their needs will not be heard or addressed. Some of the election reforms we need include same-day voter registration; keeping polling places open for longer and uniform hours, and allowing people to vote by mail.

Copies of this booklet are available electronically at:
www.bernie.house.gov/economy

and by contacting Congressman Sanders' office at:

phone: 802-862-0697

toll-free: 800-339-9834

email: bernie@mail.house.gov