Those at the top have never done better,” President Barack Obama reported in his 2014 State of the Union address, “but average wages have barely budged. Inequality has deepened.”¹ The income gap is expanding as a result of specific policies that favor large multinational corporations and the wealthiest Americans at the expense of everyone else. Nobel Prize winning economist Joseph Stiglitz stated, “Widening and deepening inequality is not driven by immutable economic laws, but by laws we have written ourselves.”² These include tax policies that provide incentives to off-shore jobs, investment and profits and that favor speculative over productive investment; deregulation of Wall Street and other sectors which has benefited corporations over consumers and workers; and court rulings regarding political contributions that have resulted in even more power for corporations, multinationals and the wealthy.

But two other, often overlooked, policies have exacerbated income inequality - the concerted attack on workers’ rights and U.S. trade policy. Along with the policies noted above, these have combined to increase the power of corporations to accumulate more profits and reduce the power of workers to collectively bargain for better wages, benefits and working conditions.

There has been a precipitous decline in private sector collective bargaining coverage. The loss of union representation for millions of U.S. workers has eroded the presence of unions in the private sector to just 6.6% of the workforce – levels not seen since the early 1900s.³

The decline in union representation is not accidental but the result of specific governmental policies that aid and abet corporate interests. Here are a few examples of management responses when workers attempt to organize a union.4

- 31% of employers illegally fire at least one worker during the organizing campaign.
- 92% of employers force workers to attend mandatory closed door meetings where management attacks unions while not allowing such access for union supporters.
- 51% of employers threaten to close if the union wins the election.
- 45% of employers do not agree to a first contract even after workers vote to join a union.

To make matters even worse, the government routinely allows corporations to misclassify workers as private contractors making them ineligible for union representation.

The decline in union membership represents both the absence of worker power in the workplace – the power to negotiate wages, benefits and working conditions, a dynamic that influences standards for workers both inside and outside the bargaining unit – and the absence of organizations with the ability to engage in policy and political campaigns that affect general social and economic conditions. For example, the loss of collective bargaining and union representation has been directly linked to the shrinking share of national income obtained by the middle class.5

Indeed, as President Obama said, the real wages of American workers have “barely budged.” More precisely, real average weekly earnings dropped from $747 in the early 1970s to $678 in 2013. For almost three decades following World War II, there had been a connection between wages and productivity – as the nation’s productivity increased, so did workers’ wages. That linkage was severed in the 1970s. By 2013, there was a gap of more than $600 between real average wages and the amount wages would be if they were linked to productivity.

The continued growth of U.S. productivity has resulted in the creation of wealth in the U.S.; however, the suppression of U.S. wages has meant that this wealth is not being shared equitably. The richest one percent of Americans has been accumulating wealth at a markedly faster pace than for the rest of us. While incomes for most families increased at less than the rate of inflation, income for the top 1 percent of families has been increasing by approximately 10 percent per year since 1979. Of all new income generated in the U.S. since 2009, 95 percent has gone to the top 1 percent.6

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5 David Madland and Nick Bunker, “Unions Make Democracy Work for the Middle Class,” Center for American Progress, January 2012.
U.S. globalization policy – as expressed in so-called “free trade” agreements – is the second overlooked factor depressing real wages for working families. Chart 4 depicts the yearly balance of trade as a percentage of the gross domestic product and overlays the dates of key trade agreements. The trade deficit increased significantly following NAFTA, the formation of the World Trade Organization (WTO) and allowing China into the WTO. Note how the timing of the trade agreements and the related growth of the trade deficit in Chart 4 coincide with the timing of the decline in worker wages in Chart 2. This correlation is not coincidental. Trade deals act to suppress workers’ wages in at least two ways:

1. Trade deals stimulate the export of investment and jobs from the U.S. and the import of cheaper goods to the U.S. These policies decimated the U.S. manufacturing sector which had higher rates of union representation and paid relatively higher wages. The loss of production and corresponding loss of jobs depressed wages. The trade deficit in manufacturing goods and the number of lost jobs has grown with each new agreement.

2. Commencing in the 1970s but really taking off in the 1990s, the U.S. entered into a series of trade agreements with lower-waged countries, putting U.S. workers in direct competition with corporations employing workers in developing countries, further depressing U.S. wages.

U.S. negotiated trade agreements have had a significant impact on rising income inequality due to the rise in the trade deficit, the corresponding loss of millions of jobs, the reduction in wages and the erosion of labor rights. This rest of this report examines these dynamics of U.S. trade policies. We rely on a number of studies for our analysis – some of which are described in the Appendix.

**Trade Agreements Have Increased our Overall Trade Deficit**

In 1993, the year before NAFTA, our trade deficit in goods and services amounted to -$70.3 billion or -0.9% of GDP. In 2013, the overall trade deficit amounted to -$475 billion or -3% of GDP. This represents an increased drain of 2% of our entire domestic product to other countries.\(^7\)

The trade deficit in goods – which is especially critical for manufacturing jobs – is even worse. In 1993, the trade deficit in goods amounted to $132.45 billion or -1.9% of GDP. By 2013, our trade deficit in goods amounted to $704 billion or -4.4% of GDP. We exported $1.59 trillion in goods but this was overwhelmed by $2.29 trillion in imports.

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\(^7\) Department of Commerce, Bureau of Economic Analysis, U.S. International Transactions, Table 1.1; Percentage Shares of Gross Domestic Product, Table 1.1.10.
The following chart examines our trade balance as a percentage of GDP with the overlay of major trade agreements. Our trade deficit was fairly steady under Presidents Nixon, Ford and Carter. Yet, a significant increase in the trade deficit occurred following the passage of NAFTA under President Clinton and was exacerbated by the inclusion of China into the WTO in 2001. Indeed, the combined impact of these two deals resulted in a massive increase in the trade deficit.8

Trade Pacts with Mexico, China and Korea Eliminated 4 million Jobs and Increased Our Trade Deficits

A central argument made by free trade proponents is that the free trade agreements (FTAs) will create thousands of U.S. jobs. The reality is that these FTAs have resulted in a net loss of millions of U.S. jobs. This loss of largely manufacturing jobs has worsened inequality in the U.S.
- President Clinton promised that NAFTA would “create 200,000 jobs in this country by 1995 alone.” But the U.S. actually experienced a net loss of almost 700,000 jobs to Mexico.9
- President Clinton promised that allowing China to join the World Trade Organization in 2001 would create thousands of jobs. Yet, the U.S. has experienced a net loss of 3.2 million jobs.10
- President Obama claimed that the U.S.-Korea Free Trade Agreement which took effect in 2012 would support “70,000 American jobs from increased goods exports alone.” But the U.S. has already lost 60,000 jobs to Korea in just two years.11

Supporters routinely promise that FTAs will boost exports, reduce our trade deficits and lead us into prosperity. These promises often focus solely on exports and ignore the job-killing, wage-shrinking effect of imports. In reality, our FTAs have increased imports (which destroy U.S. jobs) significantly more than any increase in exports. As a result, our trade deficits have increased dramatically.12

- In 1993, the year before NAFTA went into effect, the United States had a $1.6 billion trade surplus in goods with Mexico; by 1995, just one year after NAFTA went into effect, we had a deficit of $16.8 billion. In 2013, the deficit with Mexico was $96 billion.
- In 2001, when China was admitted to the WTO, the U.S. had a trade deficit in goods with China of $82 billion. By 2013, this deficit had ballooned to $324 billion.
- By March 2014, just two years after the U.S.-Korea FTA took effect, our trade deficit in goods with South Korea increased from $14.6 billion to $22.6 billion – an increase of $8 billion or 55 percent.

8 The downward trend in our trade deficits that was ushered in with the Global Agreement on Trade and Tariffs was only reversed in the late 1980s by the Plaza Accords – an international agreement to devalue the dollar with the result that our exports became cheaper and imports more expensive. This policy was reversed and a high dollar policy introduced along with larger trade deals. The Great Recession also led to a decline in our trade deficit.
12 The following information is based on CWAs analysis of data from the US International Trade Commission Trade DataWeb.
These trade deficits represent lost manufacturing jobs in the U.S. – many of which were covered by union-negotiated collective bargaining agreements. In the past, unions had succeeded in negotiating productivity gains for working families. Without the power of collective bargaining workers’ wages have stagnated as shown previously.

**Trade Agreements Reduce Workers’ Wages**

Increased trade is associated with downward pressure on wages. President Obama described the dynamic perfectly in a recent interview: “You have an economy that is ruthlessly squeezing workers and imposing efficiencies that make our flat-screen TVs really cheap but also puts enormous downward pressure on wages and salaries. That’s making it more and more difficult not only for African-Americans or Latinos to get a foothold into the middle class but for everybody—large majorities of people—to get a foothold in the middle class or to feel secure there.” President Obama identified income inequality as the defining moral issue of our time.

The agreement to admit China into the WTO is a prime example. In 2011, this deal alone resulted in the net loss of 2.7 million jobs with an average wage loss of $13,500. Net wage losses totaled $37 billion per year.\(^{14}\)

**Minority Workers Are Especially Hit Hard**

Minority workers are hit especially hard by the job loss associated with FTAs and the decline in collective bargaining coverage. Almost 1 million of the workers displaced by the China trade agreement were members of minority groups – representing a disproportionately large 35% of the total jobs displaced. These minority workers suffered an annual 29.6% cut in their average wage. Net wage losses totaled $10.1 billion for the 959,000 minority workers displaced by China trade deficits.

- The displaced jobs paid minority workers more than their replacement jobs: 6.1% more for Hispanics, 12% more for blacks, 35% more for Asians, and 45.5% more for all others.
- Some of the best minority job opportunities in the country were displaced. For example, 1.1 million jobs in computer and electronic products were displaced including 369,000 jobs held by minority workers. Blacks working in this sector earned 15.9% more and Asians earned 29.4% more than workers of the same race/ethnicity in all manufacturing.

The Bureau of Labor Statistics also provides data that corroborates these conclusions. From 2009-2011, the BLS calculated that 6.1 million workers were displaced from jobs they had held for at least three years because their plant or company closed or moved, there was insufficient work, or their position or shift was abolished. While trade is only one reason for such job displacement, the results are illustrative. Of the 6.1 million, only 1.38 million found work in which they earned as much or more than they did at their lost job. This means that 4.72 million, or 77% of the total, were hired into jobs that paid less, were still unemployed or dropped out of the labor force. The BLS survey also found that one-third of the workers who found full time work actually experienced a wage reduction of 20% or more.\(^{15}\)

**Trade Agreements Lower Wages for U.S. Workers Who Must Compete with Lower-Waged Countries**

There has been a dramatic increase in the export of U.S. jobs to lower-waged countries and the import of goods to the U.S. from countries like China where labor costs are just 3% of U.S. levels.\(^{16}\) Importantly, one study concludes that off-shoring and the increased exposure of U.S. firms to cheap imports account for 85% of the decline in labor’s share of U.S. income over the past quarter century. “Strikingly, we find that increases in import exposure of U.S. businesses can explain about 3.3 percentage points of the 3.9 percentage point decline in the U.S. [labor] share over the past quarter century.”\(^{17}\)

In testimony before the Senate Finance Committee, Larry Cohen, the President of CWA, provided a real world example of how competition from low waged countries adversely affects the wages of employed U.S.

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13 David Remnick, Going the Distance: On and Off the road with Barack Obama, The New Yorker, January 27, 2014, Section 5.
17 Ibid.
workers. President Cohen stated, “When I talk to CEOs they tell me about the competitive global markets they are operating in and their need to be competitive. They say they must benchmark their operations against low wages in other countries. For example, we successfully negotiated with AT&T to bring some 5,000 technical support jobs at AT&T back to this country, but at wage levels the company defined as competitive – meaning competitive with wage rates for overseas call centers. Our subsequent efforts to boost the living standards of those workers is stymied because of the competitive pressures from AT&T competitors like Sprint and T-Mobile who have focused on outsourcing and offshoring their call center operations. So we have seen firsthand that the global economy does not translate into better wages for workers.”

Trade Deals Erode Workers’ Rights

The bargaining power of workers is greatly enhanced when they belong to unions. Workers with unions get paid higher wages and better benefits, obtain more training, have lower rates of turnover and are protected by due process in relation to firings and discipline. But free trade agreements provide U.S. corporate management with effective weapons to roll back labor rights and worker gains.

Employers have stepped up their anti-union crusade and are now twice more likely to use ten or more coercive tactics in their union-busting campaigns than they were before the adoption of NAFTA in 1993.

Employer threats made during organizing campaigns to close plants if workers voted for a union rose from 29% in the mid-1980s to 50% in the two years following the adoption of NAFTA to 57% during the mid-2000s.

Actual plant closings where these threats were made following union elections rose from 2% to 15% during this same period. While there are many reasons for plant closings, the incentives to off-shore jobs and investment due to trade agreements are clearly important factors. The example of the movement of auto-assembly plants from the U.S. to Mexico is well documented.

The Trans-Pacific Partnership Will Exacerbate Income Inequality

The Trans-Pacific Partnership (TPP) is poised to become the largest free trade agreement in history. Current negotiating countries include the U.S., Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam a group that accounts for 38% of global economic activity. Moreover, the U.S. trade representative stated that he wants many other countries to join, including China and South Korea. The TPP will exacerbate income inequality in the U.S. in a number of ways:

1. The off-shoring of U.S. manufacturing, service, and even public sector jobs will increase.
   According to industry projections, the U.S. could lose more than 600,000 jobs just in the auto and textile sectors due to the TPP. The Center for Automotive Research projects the loss of 91,500 auto jobs to Japan along with a reduction of 225,000 automobiles produced in the U.S. The National Council of Textile Organizations projects the loss of 522,000 U.S. textile and related jobs over an eight year period. But this is simply the tip of the iceberg.

Service sector jobs. Corporations have already off-shored an estimated 3.4 million U.S. service sector jobs. The TPP will make such off-shoring easier. The TPP will include both investment rules (making it safer to invest overseas) and service sector rules (guaranteeing access for cross border services here) that will further promote the off-shoring of jobs in call centers, back-office operations, computer programming, engineering, accounting, medical diagnostics and more.

Manufacturing jobs. Previous trade deals have devastated the U.S. manufacturing sector. Trade agreements with China cost us 2.7 million jobs; NAFTA cost us 700,000 jobs; and the Korea agreement cost us nearly 60,000 jobs in just two years. The TPP would make things worse by giving special benefits to firms that off-shore investment and jobs and reducing the risks normally associated with operating in low-wage countries. Corporations would love to produce their products in places like Vietnam which has a minimum wage that averages just 52 cents an hour – less than half of China’s minimum wage. Moreover, there may be
problems with “rules of origin.” For example, the Korea trade agreement gave duty free access to the U.S. market to products which only had 35% of their content from Korea — the other 65% could come from parts made in other countries like China. Thus, the TPP could be used as another backdoor way for Chinese products to come into the U.S. duty free.

Public sector jobs. The TPP will give foreign firms operating in the U.S. equal access to the vast majority of federal procurement contracts creating even more incentives for privatization and contracting out.

Wages, benefits and collective bargaining rights will be further eroded. Trade agreements have driven down wages and benefits while eroding our collective bargaining rights. The TPP will only exacerbate this race to the bottom as it places our workers in competition with Vietnamese workers who have a minimum wage that averages just 56 cents an hour (just 8% of our minimum wage) with no effective labor rights.22

The policies of the federal government — and maybe state governments — to stimulate job creation by giving preferences to American made goods would be undermined. The TPP’s procurement chapter would require that firms operating in any signatory country be provided access equal to that of domestic firms to many, if not most, U.S. government procurement contracts over a certain dollar threshold. To implement this “national treatment” requirement, the U.S. would agree to waive Buy American procurement policies for bids coming from firms in TPP countries for the purchase of any goods. If the U.S. fails to conform our domestic policies to these terms, then the U.S. government could be subject to challenges by TPP trading partners and possible trade sanctions. Other government purchasing standards could also be undermined including rules requiring “renewable” or “recycled”, or “sweat free” goods or prevailing wage obligations — all of which could be challenged by firms from TPP countries that bid on U.S. contracts or by the TPP countries themselves.

U.S. sovereignty will be undermined by giving corporations the right to challenge our laws before international tribunals. The TPP creates a special Investor-State Dispute Settlement (ISDS) process that allows foreign corporations to initiate proceedings against a sovereign government for failure to enforce the expansive investor rights and protections contained in the agreement. These challenges would be heard before World Bank and UN tribunals that are staffed by private lawyers. These tribunals could require governments to compensate corporations for any alleged loss of expected future profits. There are over $38 billion in pending claims filed by corporations against sovereign governments using the ISDS provisions of U.S. trade agreements that are similar to the TPP. All of these challenges related to environmental, energy, financial, public health, land use and transportation policies - not traditional trade issues. This entire process undermines our sovereignty and subverts democratically passed laws.

Conclusion

Trade agreements have primarily worked to benefit the bottom line of large multinational corporations. Such deals allow corporations to reduce their operating costs by shifting jobs and investment from the U.S. to foreign affiliates or contractors while still obtaining un-tariffed access to the U.S. market. Consumers may feel they also benefit from these policies through cheaper goods and services. But the evidence demonstrates that open markets and cheaper goods actually come at a much higher cost: lost U.S. jobs and reduced incomes.

If income inequality is truly an imperative economic and social justice issue to be addressed through public policy, then we must take care that trade agreements are structured to revive U.S. wage growth and to expand U.S. jobs. The Trans Pacific Partnership does not meet these goals. Moves to “fast track” Congressional oversight of the TPP will only fast track an increase in income inequality in the U.S.

We live in a global economy, but any trade agreement must be thoroughly and thoughtfully examined to assure that its framework supports our common goals of democracy, economic justice, and consumer and environmental protections.

22 Socialist Republic of Vietnam, Decree Stipulating Region Based Minimum Wage Levels, November 14, 2013. The Vietnamese average was calculated as a simple average of the minimum wage in the four regions. The Vietnamese dong was converted to dollars using the exchange rate of 21,195 dong to the U.S. dollar effective June 5, 2014.
APPENDIX– Studies of the Impact of Trade on U.S. Inequality

Standard economic theory predicts that increasing trade liberalization will contribute to increased income inequality. A number of studies were conducted in the 1990s that tried to explain the relationship of increased trade flows to increased income inequality. This research produced an array of estimates. For example, in 1997 Cline estimated that trade and immigration together explained 40 percent of the growth in wage inequality over the last quarter century. Paul Krugman in 1995 concluded that trade accounted for 10 percent of the increase in inequality over this period – a figure that was located at the lower end of the range of estimates.23

However, the landscape of trade and trade flows has changed since the 1980s and the early 1990s. Specifically, there has been a dramatic increase in the export of U.S. jobs to lower waged countries and the import of goods to the U.S. from countries like China with labor costs that are less than 10% of U.S. levels.

Accordingly, there has been a growing body of more recent analyses which conclude that trade has contributed significantly to the rise in inequality in the U.S. Importantly, one study concludes that off-shoring and the increased exposure of U.S. firms to cheap imports accounts for 85% of the decline in labor’s share of U.S. income over the past quarter century. Here is a summary of some of these analyses.

- **Brookings Panel on Economic Activity 2013.** This 2013 study states, “Our analysis identifies offshoring of the labor-intensive part of the U.S. supply chain as a leading potential explanation for the decline in the labor share [of income]. Strikingly, we find that increases in import exposure of U.S. businesses can explain about 3.3 percentage points of the 3.9 percentage point decline in the U.S. [labor] share over the past quarter century.”24 The study concludes, “Thus, if globalization continues during the next decades, then the labor share will most likely continue to decline, especially in sectors that face the largest increases in foreign competition.”25

- **World Bank 2011.** In a 2011 survey of the literature, a World Bank study concluded that “there is now fairly strong evidence…that offshoring can raise wage inequality in both countries [i.e., the country that is off-shoring the jobs and the country receiving the jobs].”26 The survey also states that newer, more sophisticated analyses have resulted in a “vigorous resurgence of the idea that trade can lead to a rise in inequality – with the new features that it can do so through North-North trade; in countries of the South; and within each industry and within each class of workers.”27

- **Paul Krugman 2008.** Krugman, who won a Nobel Prize for economics, issued a 2008 paper that revised a previous analysis he wrote in 1998. In the new paper Krugman states that “Standard economic analysis predicts that increased U.S. trade with unskilled labor-abundant countries should reduce the relative wages of U.S. unskilled labor, but empirical studies in the 1990s found only a modest effect.”28 However, since that time there has been a massive surge of imports from lower-waged countries. Krugman’s new study takes these changes into consideration and reached the following conclusion: “the analysis presented here indicates that the rapid rise in manufactures imports from developing countries probably is, indeed, a greater force for growing inequality, and that factor content calculations suggesting otherwise are missing the essence of what is happening.”29

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26 Ann Harrison, John McLaren, Margaret McMillan, Recent Perspectives on Trade and Inequality, the World Bank, August 2011, p. 40.  
27 Harrison, et.al. Recent Perspectives, p. 43  
29 Krugman, p. 134.