Free Trade Labor:

A Zero-Sum Game for Working People

By Richard D. Vogel

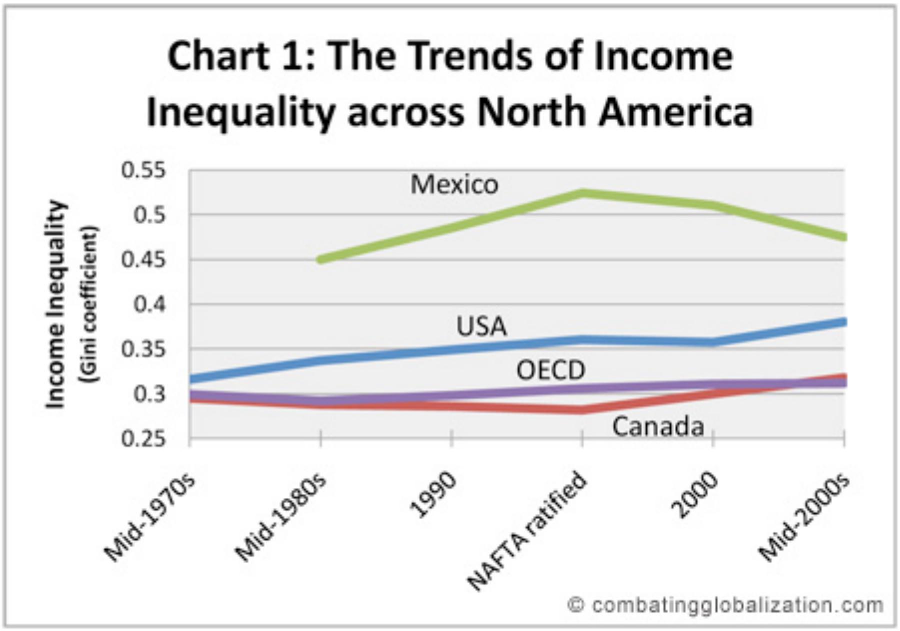
Author's note: This article is a follow-up to *Combating Globalization: Confronting the Impact of Neoliberal Free Trade Policies on Labor and the Environment* (http://combatingglobalization.com/articles/combating_globalization.html). While the first article analyzed the broad historical trends of growing inequality in North America, *Free Trade Labor* focuses on the impact of the North American Free Trade Agreement (NAFTA) on the working people of the three signatory countries and its implications. This essay explores the zero-sum nature of free trade labor and underscores the fact that job offshoring is a keystone of neoliberal globalization. Any viable strategy for combating globalization must embrace this central fact.

The Impact of NAFTA on North American Labor

Even though the current worldwide economic crisis has temporarily slowed the rate of globalization, broad-based resistance must be mobilized now because transnational capitalism will attempt to consolidate its domination of the world economy through intensified exploitation of free trade labor.

The impact of NAFTA on income inequality across North America offers a good starting point for understanding the consequences of free trade labor policies on working people everywhere. An important 2008 study by the Organization for Economic Co-Operation and Development (OECD) presents a comprehensive picture of growing social inequality around the world today (http://www.oecd.org/els/social/inequality). The OECD's country-by-country analysis offers detailed information about the consequences of NAFTA for the working people of the signatory nations.

Chart 1, based on OECD data, tracks income inequality trends in North America:



The OECD trend line in chart 1, which represents the average income disparity for the 30 member nations, provides a baseline for comparing and contrasting the fortunes of working people across North America under NAFTA[i]. Note that the OECD average showed a slight decrease for the first decade of the period and then a gradual increase through the mid-2000s. The rising OECD average mirrors the global trend of growing income disparity.

USA

The USA trend line shows that income inequality in the US started close to the OECD average in the 1970s and the gap has widened for the last 30 years. A close look at the USA line reveals that the US experienced a steady increase in income inequality from the mid-1970s through the mid-1990s, a slight decline during the last half of the 1990s and then a dramatic rise during the early 2000s. The extensive offshoring of US jobs, including the work lost to Mexico under NAFTA, has been a major contributing factor to the rise of income inequality in the USA.

The steepest rise in income disparity in the US took place after the 2001 recession during what was called a "jobless" recovery by economic pundits. The early 2000s was a period of accelerated offshoring which forced more US workers into the informal economy where earnings are meager and supplemental employment benefits are nonexistent. During this period, overall income inequality was further exacerbated by the extensive employment of undocumented migrant workers at substandard wages throughout the US economy.

The widening income gap in the USA has produced the highest income inequality level and poverty rate in the OECD with the exceptions of Mexico and Turkey. In 2008, the average per capita income of the richest 10% of the US was $93,000 compared to the poorest 10% who had an income of $5,800. In that same year, more than 17% of the US population was living in poverty (defined by the OECD as less than 50% of median income).

Income inequality in the USA is bound to soar during the current economic crisis and continue to rise as long as neoliberal free trade labor policies continue.

What happened in Mexico during the same period offers a stark contrast to the decline of workers' fortunes in the USA.

Mexico

The Mexican trend line in chart 1 documents the remarkable turnabout in income inequality in Mexico that followed the adoption of NAFTA.

Income disparity and poverty levels in Mexico have always been the highest among the OECD nations (Mexico joined the OECD in the 1980s.). The Mexican trend line shows that Income inequality was rising steadily before the implementation of NAFTA and began falling immediately after its ratification. During the 10 year period from the mid-1990s to the mid-2000s inequality of household earnings in Mexico fell more than in any other OECD country. The post-2001 recession period that saw the sharpest increase in income disparity in the USA showed the greatest reduction in Mexico.

Despite experiencing a significant reduction in income inequality under NAFTA, Mexico still has the highest income disparity of all the OECD countries (1 1/2 times the OECD average). Mexico also remains the poorest of the OECD nations. In 2008, the average annual income of the poorest 10% of the Mexican population was less than US$1,000. As of last year, almost 20% of all Mexicans lived in poverty.

Although NAFTA has benefited some sectors of the Mexican working class, its impact on Canadian workers has been ruinous.

Canada

The Canadian trend line in chart 1 chronicles the economic upheaval that followed the ratification of NAFTA.

The Canadian data show that income inequality decreased steadily throughout the period between the mid-1970s and the mid-1990's when transnational corporations were offshoring work to that country and then started climbing after the ratification of NAFTA and the subsequent relocation of substantial numbers of manufacturing jobs to the South.

During the 10 year period following the ratification of NAFTA, poverty in Canada increased and, as of 2008, stood at an overall rate of 12%, reversing a remarkable 20-year decline prior to the adoption of the free trade agreement. Income disparity in Canada, which had historically been below the OECD average, has now surpassed it.

The fortunes of Canadian workers continue to decline under neoliberal free trade labor policies and foreshadow what will happen in Mexico if and when transnational corporations move their operations to even cheaper labor markets in the Far East.

____

The conclusion derived from contrasting the economic consequences of NAFTA in the signatory countries is indisputable--while the North American Free Trade Agreement has benefited some Mexican workers temporarily and profits transnational corporations absolutely, it continues to cost the working people of the USA and Canada dearly. The implications of the NAFTA experience for all working people are clear.

Free Trade Labor:

A Zero-Sum Game for Working People

The experience of NAFTA shows that neoliberal free trade labor policy, implemented by transnational capitalism and enforced by the signatory governments, is a zero-sum game for working people.

The implications of free trade labor policy for working people are dire:

- Offshoring (and the threat of offshoring) pits the workers in sending countries against those in the receiving countries--jobs are moved from one side of an international boundary to the other. In zero-sum situations, the loss of one side is the gain of the other. In the case of offshoring jobs, labor in the receiving countries gets the work formerly done in the sending countries. The resulting unemployment and underemployment weaken the position of all working people in sending countries. Offshore startups by transnational corporations compound the problem.
- Offshoring annuls traditional labor organizing platforms in both sending and receiving countries. When factories are shut down in sending countries, worker contact is broken and working class communities disperse. The political power of labor is substantially

weakened, and surviving unions are put on the defensive. In the receiving countries, governments guarantee labor peace through the control of established labor unions, military suppression of wildcat strikes, and intensive policing of working class communities.

- Offshoring tends to nullify labor internationalism. Displaced and threatened workers in sending countries are inclined (and encouraged) to blame the workers in receiving countries for their plight. Workers in receiving countries are seldom willing to risk their sparse gains by demanding union reform or participating in organizing drives. The common cause of labor against capital is obscured in zero-sum situations--cohorts become rivals. Under free trade labor policies, international borders which facilitate and shield transnational corporations are formidable barriers to labor organizations. It is the zero-sum nature of offshoring that accounts for the failure of so many cross-border labor organizing efforts.
- While offshoring jobs is a zero-sum game for workers, it is a winning strategy for transnational capitalism. The *discounted wages* that it pays threatened workers in sending countries and the *minimal wages* that it pays in the receiving countries and free trade zones all contribute to the accumulation of capital. The power of capital vis-à-vis labor increases as offshoring expands.

Free trade labor is a keystone of neoliberal globalization. As long as transnational capitalism is able to run the zero-sum game of offshoring labor, the trends of increasing inequality and growth of absolute poverty will continue.

Because the zero-sum nature of offshoring diminishes the political power of labor, the battle against free trade labor cannot be won solely on the labor front. As we have pointed out in *Combating Globalization*, the war on working people as reflected in the trends of rising inequality and growing absolute poverty is inseparably linked to the global megatrends of climate change and increasing militarization.

A sustainable future depends on developing a viable alternative to neoliberal globalization. The battle against free trade labor must be conducted as an integral part of a concerted global effort to realize that alternative. It is a tough, but not impossible, agenda.

(end)

---

[i] Income inequality in this essay is measured by the Gini coefficient, the standard measure of the allocation of income within a nation. A low Gini coefficient indicates more equal income distribution while a big Gini coefficient indicates a more unequal allocation. 0 represents perfect equality (where every person has the same income) and 1 corresponds to perfect inequality (where 1 person receives all the income). The income measure to calculate Gini coefficients is disposable household income adjusted for family size.