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The debate over NAFTA has neglected America's poor, its children and its schools.

A Perspective on the North American Free Trade Agreement and Education

Deborah A. Verstegen

Introduction

On November 17, 1994, the North American Free Trade Agreement (NAFTA) was approved in Congress by a vote of 234 to 200 in the U.S. House of Representatives, providing a margin of 16 votes over the 218 needed for passage of the agreement. Under the provisions of the historic NAFTA, nearly all tariffs and other trade barriers among the United States, Mexico and Canada would be eliminated over 15 years, beginning January 1, 1994.

The debate leading up to the passage of the North American Free Trade Agreement had centered mainly on jobs, corporations, labor and the environment. The effect of the NAFTA on education and children has received little, if any, attention. Preliminary analysis indicates that schools and children will be disadvantaged under the agreement as it currently stands. This is due, in part, to provisions which provide incentives for industries to locate in Mexico, thereby eroding local property tax bases which serve to support elementary and secondary education programs and services. Additionally, because all taxes are paid out of incomes, downward pressures on incomes of U.S. workers competing with Mexico for low wage jobs will further constrain revenues for education and other governmental services, while negatively impacting vulnerable communities, families and children. This article discusses potential impacts of the NAFTA on elementary and secondary education in the United States while calling for additional research and information in this area.

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The Bottom Line on NAFTA and Children

How will the NAFTA affect education, children and the schools? One test of the effects of the NAFTA on children and the schools relates to how the agreement will affect their parents and guardians—particularly when their earnings are at the bottom of the wage scale. Another indicator of how children and schools will be affected is the impact of NAFTA on local and state governments—the major providers of revenue for the public schools. Both indicators suggest negative impacts on schools and children under the NAFTA.

Effects on Low Wage Workers and Their Families. Much attention over the NAFTA has focused on the impact of the agreement on workers and jobs. The NAFTA supporters argue that it will generate economic gains for United States industries by eliminating tariff and non-tariff barriers to Mexico thereby increasing exports of some American companies and creating jobs. However, they concede that there will also be losses under the NAFTA. Opponents of the NAFTA find that losses under the agreement will outweigh the gains—the NAFTA will cost American jobs and erode the environment and worker rights, but the overall effects on the U.S. economy will be negligible.

A recent analysis across 16 major studies forecasting job changes under the NAFTA, released in October (1993) by the Joint Economic Committee in Congress, concludes: "the predictions of the studies are widely contradictory and the utility of the studies in reaching policy conclusions on NAFTA is extremely limited."[1] Some studies project job gains, some estimate job losses, others project a neutral bottom line.[2]

This scenario—that there may be large gains, large losses or the chance of a small (versus large) net gain or loss, even if accurate—ignores important and fundamental questions: Who will gain? Who will lose? How can losses be minimized?[3]

Most studies agree that regardless of whether the overall effect of the NAFTA is net job losses or job gains, there will be significant shifts among workers—some will lose jobs and some will gain jobs. Many concede that under the NAFTA, low wage workers will be the losers because the agreement creates incentives for U.S. corporations to locate in Mexico while eliminating tariff and non-tariff barriers to trade. Women and minorities, often clustered in vulnerable low wage industries, will be negatively impacted under the NAFTA. Conversely, the NAFTA is projected to provide benefits to select corporations and investors.

Shifts that occur under the NAFTA are related to two fundamental issues: (1) the extent investment in Mexico is diverted from the U.S., creating job dislocations at home, (2) the effect of the NAFTA on U.S. wages, independent of gross job impacts. According the Joint Economic Committee report, "there are plausible estimates of gross dislocation of over 300,000 U.S. jobs up to around 600,000. This question of gross [job] dislocation has not received as much attention as the question of net jobs effects, but these levels would require significant program efforts for worker adjustment. . . ."[4]

With regards to wage impacts, the Joint Economic Committee finds: "the question of the impact of the NAFTA on wages in the United States has received relatively little attention. . . . Yet it may be the issue with the most far-reaching impact on the United States. . . ."[5]

Some analysts contend that the NAFTA will not result in long-term sustainable growth without explicit provisions that link Mexican productivity to rising wages for Mexican workers together with environmental, health and safety standards. Without these provisions, possible export benefits are likely to be exhausted in the short term because only a small percentage of Mexicans enjoy the purchasing power necessary to buy American exports. Without wage policies that broaden consumer markets in Mexico by linking productivity to explicit levels of wage growth, market-expansion will be hindered, eroding export gains over the long-term while creating U.S. job losses from imports and the diversion of investment to Mexico.

If productivity increases are not passed on to labor, Mexicans will not be able to enjoy the "fruits of their labor" by purchasing the products they make; nor will they be able to expand U.S. export markets over the long term and create American jobs. This is a critical but ignored component of a successful NAFTA policy, given that in the past Mexican manufacturing productivity and wage growth have been decoupled and currently are not explicitly linked in the NAFTA. For example, while manufacturing productivity in Mexico rose 29 percent in the 1980s, real wages fell 24 percent.[6]

Moreover, without explicit policies for wage harmonization between the United States and Mexico, wage imbalances between the two countries will result in the flight of many U. S. labor intensive industries to low-cost wage structures in Mexico.[7] Currently Mexican wages are only 10% to 15% of U.S. levels.[8]

This suggests that under the NAFTA, the United States will be a primary market for Mexican products, thereby creating competition within the United States between similar higher cost, American-made products and lower cost, Mexican-made products. To be competitive in this environment, effected American businesses will be faced with reducing real wages and conditions of work for American workers; or closing plants, laying off workers, and locating plants in Mexico to seek lower wage structures that will reduce costs, and therefore, product prices.

Downward wage pressures are estimated by economists to negatively effect the bottom of the U. S. workforce which is distributed across the country; the largest losses are projected to be in the Southeast,[9] a region that benefitted by industries that moved to this area to take advantage of low-cost labor—labor that under the NAFTA will be cheaper in Mexico.

U.S. industries targeted to be vulnerable to relocation to Mexico or low-wage competition from Mexican-based facilities include: autos, electrical machinery, trucking, agriculture, apparel, food processing, furniture, glass and cement, toys, and sporting goods.[10] Often, women and minorities are clustered in these industries, especially in the rural areas of the South and Southeast; they are therefore most vulnerable under the NAFTA. For example, of furnishing, apparel and textile machine operators, 77% are female, 24% are African–American (compared to 12% in the U.S. population), and 19% are Hispanic (compared to 9% in the population). Of textile sewing machine operators, 90% are women, 20% are African–American, and 23% are Hispanic.[11]

These potential effects of the NAFTA have direct implications for children and the schools.

Effects on Children. Downward pressures on earning levels, diverted U.S. investments, or plant closures and job losses, may provide net job gains, losses, or neutral effects, but without explicit agreements that upwardly adjust Mexican wages and extend corporate profit sharing broadly to impacted individuals and governmental services—many individuals, families, and especially children will be negatively impacted by shifts that occur under the NAFTA. Pressures on minimum wages and increased unemployment for vulnerable sectors of the population can catapult these individuals and families into poverty, accelerating current trends. The interlocking effects of poverty and deprivation have been associated with increased crime, higher costs of dependency, and increased needs for health, social and welfare services.

Currently, full-time work at the minimum wage by the head of a family of three leaves that family $2,500 below the poverty line. In 1987, 60% of all poor families with children were families where someone worked during the year. Twenty-five percent of all poor families with children were families with one or more full-time worker equivalents (FTWEs). The number of prime working-age individuals aged 22 to 64 who work but are still poor has increased by 50% between 1978 and 1988; the number of prime working-age people who work **full time** year round but are still poor has increased by 57% since 1978. There are an estimated 6 million individuals—including 2 million children—in households where someone works full time, year round, but the household is still poor. These tendencies are likely to grow under the NAFTA due to downward wage pressures and job losses among vulnerable sectors of the population, exacerbating poverty among American families and their children.

Poverty in America increased over 40% between 1973 and 1987[12]—and the poor have been growing poorer. The average poor family in 1986 was further below the poverty line than at any time since 1963, except for the recession of 1981–82.[13] Individuals in female-headed households and children, in addition to African–Americans and Hispanics, had poverty rates that greatly exceeded the average.[14] These effects will likely sharpen under the NAFTA, as these groups are most vulnerable to job losses. Notably, poor children will be especially disadvantaged under the NAFTA. The NAFTA does nothing to protect our future workforce and citizens from the deleterious effects of the agreement.

Today, children in America are the single largest poverty group for the first time in history. Child poverty has risen at an alarming rate over the past two decades, from 8.4% in 1973 to 20.4% in 1987, when 12.8 million children—one out of every five and one out of every four below the age of six—were in poverty. International comparisons reveal that the United States leads Australia, Canada, Germany (F.R.), Norway, Sweden, Switzerland, and the United Kingdom, in child poverty.[15] Although some children in poverty do well in schools, poverty has a significant dampening effect on educational achievement and growth, creating effective obstacles to learning.

School Effects. Not only are vulnerable American children and workers at-risk under the NAFTA, but the diversion of investment to Mexico and downward wage pressures also has the potential to negatively impact U.S. government programs and services in effected geographic areas through reduced or lost taxes. Lost taxes will negatively effect all levels of government in the current environment of fiscal stress, but education will be especially impacted, as education comprises the largest share of most state and local government budgets.

Moreover, incentives in NAFTA for U. S. businesses to invest in Mexico may not only accelerate the displacement of American workers with Mexican workers and create downward pressures on U.S. wages and work conditions; the NAFTA may encourage the erosion or displacement of property tax bases, depressing revenues for police, fire and a variety of governmental services, particularly education, which is dependent on property taxes for local support. Thus, affected local governments, schools and children will bear a substantial portion of the negative effects of the NAFTA agreement as it currently stands.

Moreover, if the NAFTA reduces tax bases in affected jurisdictions, tax increases will be necessary if services are to be maintained. However, in education the need is to upgrade programs and services if the U.S. is to have a skilled workforce in the 21st century and be competitive in a global economy. This creates additional cost requirements for impacted jurisdictions under current assumptions—costs that are not calculated in NAFTA economic analyses.

The ultimate losers under the agreement—the bottom of the U.S. workforce—will have to be reskilled and reeducated,[16] creating additional finance implications. Where will the money

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Table 1. State General Revenue, by Source, Percentage Distribution, 1948–1990

		OWN SOURCE: Taxes	
Year	Total (in millions)	Individual Income	Corporation Income
1948	$ 9,257	5.4%	6.3%
1950	11,262	6.4	5.2
1955	16,194	6.8	4.6
1960	27,363	8.1	4.3
1965	40,930	8.9	4.7
1970	77,755	11.8	4.8
1975	134,612	14.0	4.9
1980	233,591	15.9	5.7
1985	365,344	17.4	4.8
1990	517,429	18.6	4.2

Source: ACIR computations based on U.S. Department of Commerce, Bureau of the Census, Historical Statistics of the United States, Table Series Y 710–735; Historical Statistics on Governmental Finances and Employment, Census of Governments, various years; Government Finances in [year].

come from? The NAFTA does little to address this important concern. The NAFTA does nothing to assure corporate gains will be channeled into public services supported by state and local governments, i.e., schooling. In fact, the agreement may result in the further erosion of corporate contributions to state general fund income, which have fallen over the past thirty years while individual costs have escalated (See Table 1). How will corporate benefits reach impacted workers, children and schools without explicit provisions in the NAFTA?

Economic Cleavages. Importantly, the NAFTA may exacerbate economic cleavages in society and the schools by exacerbating poverty. Additionally, to the extent that zoning laws cluster NAFTA-vulnerable manufacturing industries in low income neighborhoods, poor schools and children will be disadvantaged, further worsening their position vis á vis their more advantaged counterparts, and increasing already wide disparities in educational opportunity.

In more than one-half the states in the nation, the range of difference in spending among school systems is at least twofold; in one-third of all states spending varies over threefold.[17] In Illinois, for example, spending for elementary education varies from $1,162 per student in one elementary school to $7,040 in another. In New Jersey, one elementary district spends $2,081 per pupil and another spends $12,556. In Virginia, wealthy localities have an additional $4,343 per pupil, or almost three times more to spend on education than do poor localities.[18]

Interstate variation in education revenue is also extreme. In 1990, state and local revenue (excluding federal aid) averaged $4,464 across the states; it ranged from $2,612 in Mississippi to $6,120 in New Jersey. Thus, New Jersey had nearly three times more revenue available per pupil than did Mississippi, a difference that amounts to over $105,000 for each class of 30 students. Under the NAFTA, the difference in spending for schools within and between the states is likely to grow, with the greatest impacts falling most heavily on poor children, schools and states—where, on average, spending is currently the lowest.

Moreover, without explicit safety nets, or provisions for the redistribution of corporate gains, economic cleavages among Americans may also increase under the NAFTA, exacerbating current trends. For example, after tax incomes of the top 1% of the population increased 74.2% between 1977–87; but for the lowest 10% of the population, there was a drop in real income of 10.5%.[19] In 1988, approximately 1.3 million Americans were millionaires by assets, up from 574 thousand in 1980, 180 thousand in 1972, and 90 thousand in 1964. Even when adjusted for inflation, the number of millionaires doubled between the late 1970s and 1990.[20] In contrast, almost 20% of all American families had zero or negative net worth.[21]

Growing economic polarization in America is also apparent in the widening gap between the top and bottom fifth of the income distribution. Total income among the poorest 20% of families in the U.S. decreased 7.3% between 1973 and 1987, but the total income among the richest 20% of families increased 10.7%. In 1987 the most affluent 20% of households held over 43% of total income—the highest ratio since the Census Bureau began its official measurements in 1949; but the lowest 20% held only 3.9% of total income.[22] Among major industrial nations—including France, Britain, Canada, W. Germany (F.R.), Sweden, Netherlands and Japan—the United States held the ominous distinction of leading in the gap between the upper fifth and the lowest fifth of the income distribution.[23] Thus, under the NAFTA, economic polarization in the U.S. and the disparities in spending for schools within and between the states is likely to grow, with the greatest impacts falling most heavily on the schools and the poor, including women, children and minorities.

In conclusion, the debate over the NAFTA has neglected America's poor, its children and its schools. The economic and social cost of this neglect may be high, not only for the individual but for the nation—it should not be ignored when weighing the benefits and the weaknesses of the NAFTA. As Samuel Johnson, writing in 1770, admonished: "A decent provision for the poor is the true test of civilization." The NAFTA as it currently stands fails this test; it is a flawed policy that is likely to increase social and economic cleavages in the nation, while disadvantaging the most vulnerable sectors of the U.S. population. Further research and information in this area is needed as is the close monitoring the NAFTA's affects on impacted American families, communities and children and corporate profits-sharing strategies.

Endnotes

1. Joint Economic Committee (October 1993). *Potential Economic Impacts of NAFTA: An Assessment of the Debate.* Washington, D.C.: U.S. Congress.
2. For studies that predict job gains, c.f., Hufbauer, G. C. and Schott, J. J. (1992). *North American Free Trade: Issues and Recommendations.* Washington, D.C.: Institute for International Economics. United States International Trade Commission (USITC). (May 1992). *Economy-Wide Modeling of the Economic Implications of a FTA with Mexico and a NAFTA with Canada and Mexico.* Report on Investigation No. 332–317, Publications 2508 and 2516. For studies that predict job losses, c.f., Koechlin, T., Mehreme, L. Bowles, S. and Epstein, G. (February 1992). *Effect of the North American Free Trade Agreement on Investment, Employment and Wages in Mexico and the U.S.* Amherst, MA: University of Massachusetts. Stanford, J. Continental Economic Integration: Modeling the Impact on Labor. (1993). *Annals of the American Academy of Political and Social Science.* Faux, J. and Lee, T. (July 1992). *The Effect of George Bush's NAFTA on American Workers: Ladder Up or Ladder Down?* (Briefing Paper). Washington, D.C.: Economic Policy Institute.
3. These questions are adopted from: Thurow, L. C. (n.d.). Statement of Lester C. Thurow, Dean, Sloan School of Management, Massachusetts Institute of Technology, Cambridge, Massachusetts, to the U. S. Congress.

4. Joint Economic Committee, *Potential Economic Impacts*, p. 29.
5. Joint Economic Committee, *Potential Economic Impacts*, p. 29.
6. Rothstein, R. (March 1993). *Setting the Standard: International Labor Rights and U.S. Trade Policy*. Washington, D.C.: Economic Policy Institute.
7. c.f., Chote, P. (April 1993). *Jobs at Risk: Vulnerable U.S. Industries and Jobs Under NAFTA*. Washington, D.C.: The Manufacturing Policy Project.
8. Faux, J. (June 1993). *The Failed Case for NAFTA: The Ten Most Common Claims for the North American Free Trade Agreement and Why They Don't Make Sense*. (Briefing Paper). Washington, DC: Economic Policy Institute, p. 4.
9. Thurow, L. C. (n.d.). *Statement of Lester C. Thurow*.
10. Faux, *The Failed Case for NAFTA*, p. 2. See also, Chote, P. (April 1993). *Jobs at Risk*. Washington, D.C.: Manufacturing Policy Project.
11. U. S. Department of Commerce, Bureau of the Census. (1992). *Statistical Abstract of the United States, 1992*. (Table 629). Washington, D.C.: U.S. Government Printing Office, p. 394.
12. In 1973, 11.1% of the population was poor; this is approximately 23 million people. In 1987, the poverty rate rose to 13.5%; 32.5 million people were poor.
13. Between 1973 and 1988, the poverty gap—the difference between a poor family's disposable income and the poverty level, summed across all poor families—grew from $28.6 billion to $41.4 billion (in 1987 dollars) representing an increase of $12.8 billion.
14. The poverty rate for all Hispanics remained near 30% during the decade. The poverty rates for African Americans and individuals in female-headed households remained above 30% from 1959 to 1987.
15. Verstegen, D. A. (1992). *Economic and Demographic Dimensions of National Educational Policy* (pp. 71–96). In Ward, J. G., and Anthony, P. (Eds.), *Who Pays for Student Diversity? — Population Changes and Educational Policy*. Newbury Park, CA: Corwin Press, Inc.
16. Thurow, *Statement of Lester C. Thurow*.
17. Riddle, W. C. (July 5, 1990). *Expenditures In Public School Districts: Why Do They Differ?* (CRS Report 90-322 EPW). Washington, D.C.: Congressional Research Service. These are conservative estimates. Due to the lack of data, the estimates do not include, for example, funding for capital outlay which is generally provided out of local revenue. Nor are locally augmented revenues raised through private foundations, activities and associations included; neither is additional revenue for justifiable differences in costs for pupil or district needs excluded. These modifications would show disparities in funding to be larger than the figures illustrate.
18. Verstegen, D. A. & Salmon, R. G. (1989). The Conceptualization and Measurement of Equity in School Finance in Virginia. *Journal of Education Finance*, 15(2), 205–228.
19. Phillips, K. (1990). *The Politics of Rich and Poor: Wealth and the American Electorate in the Reagan Administration*. New York: Random House, p. 14.
20. Phillips, *The Politics of Rich and Poor*, p. 10.
21. Thurow, L. (1985). *The Zero Sum Solution*. New York: Simon & Schuster.
22. Phillips, *The Politics of Rich and Poor*, p. 12
23. Phillips, *The Politics of Rich and Poor*, p.11

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