

## For Unions, Protecting Jobs Means Protectionism

By Ivan G. Osorio

*Summary: In a presidential election year, politics trumps reason as the unions cry out for restricting U.S. trade and against jobs outsourcing. Will the voters listen?*

On June 7, the U.S. Supreme Court unanimously ruled that Mexican trucks can enter the U.S. without a government agency review of their impact on air quality. A coalition of labor union and environmental advocacy groups—including the AFL-CIO, the Teamsters, Public Citizen, the Environmental Law Center, and the Natural Resources Defense Council—had argued that Mexican truckers must comply with strict environmental standards. But the Court, in an opinion written by Justice Clarence Thomas, decided that President Bush had the authority to open U.S. highways to Mexican trucking in compliance with the North American Free Trade Agreement (NAFTA).

Despite the prominence of the environmental arguments, the labor unions that pressed the Administration on this issue were mainly concerned about losing jobs to Mexican drivers. The U.S. enforced a



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**Exhibitors seek to fill job openings at Destiny USA, a retail complex in Syracuse, New York. Whereas unions are quick to support ventures that create new jobs in the United States, they hinder free trade that allows corporations—especially retail chains—to grow and hire more employees.**

two-decades long moratorium on Mexican trucking, allegedly over safety concerns, which had protected U.S. drivers from competition in the distribution of trucked goods throughout the country. With the Court decision the unions had failed to thwart a policy increasing free trade. The unions heard Ross Perot's "giant sucking sound"—U.S. jobs being drained south of the border.

Unions have claimed protectionist policies can safeguard the U.S. economy and its workers. But by standing in the way of policies that encourage companies to cut

costs and increase competitiveness, unions actually hasten the decline of the U.S. economy and contribute to the loss of U.S. jobs. This November will the voters endorse candidates who want to prevent business outsourcing and stop the negotiation of free trade agreements?

### Fiesta or Famine?

In 1982, Congress forbade Mexican trucks from entering U.S. highways. The Clinton administration maintained the moratorium even after President George H.W. Bush signed the NAFTA treaty in

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1992 and committed the U.S. to admit Mexican trucks by January 2000. In February 2001 an international arbitration panel concluded that the U.S. was failing to honor its NAFTA deadline, and the incoming Bush administration agreed to change the policy. That's when the unions and advocacy groups sued to keep the border closed.

The Supreme Court's decision guarantees that Mexican trucking companies and their employees will now be able to deliver goods to U.S. cities far beyond the border. Transportation Department spokesman Brian Turmail told *The Arizona Daily Star* that U.S. and Mexican officials still must finalize an agreement on border safety and inspections. But the agency charged with oversight, the Federal Motor Carrier Safety Administration, is opening the border. It is adding safety inspectors at Nogales, Arizona's busiest point of entry, and other border crossings.

Union leaders predict disaster even though U.S. companies will still overwhelmingly control traffic originating from distribution hubs across the United States. Mexican trucks, by contrast, generally travel only along routes originating in Mexico. Moreover, U.S. trucking companies could increase their employment of drivers thanks to new opportunities inside Mexico, which has excluded U.S. trucks in retaliation for the moratorium. Leon Flores Gonzales, president of Mexico's National Freight Transport Chamber, notes that smaller Mexican trucking firms worry about increased com-

petition from U.S. firms.

Certainly the unions' lawsuit has done nothing for Mexican workers. To protest U.S. border regulations, Mexican truckers went so far as to block traffic in Nogales, Mexico, in December 2002. According to some estimates, the U.S. moratorium cost Mexico's economy more than \$2 billion.

And what about the unions and their

2003, more than a third of House Democrats voted for free trade agreements with Chile and Singapore. They bucked Teamsters President James P. Hoffa's threat to withhold his union's financial and grassroots support from any member of Congress who backed the two trade deals. (The Teamsters' political action committee, one of the country's largest, gave \$2.4

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green allies' professed concern for the environment? The Transportation Department's Turmail has noted that opening the border may actually benefit air quality in border areas. Currently, Mexican trucks can travel no more than 20 miles north of the border, must stay within a designated commercial zone, and must transfer cargo to U.S. trucks—usually while idling. Mexican buses do the same for passengers. But opening the border is likely to weaken Mexico's border area short-haul, or drayage, truck fleet—the trucks that specialize in short hops are generally of poorer quality and pollute more than long-haul trucks.

"What you won't have are these short-haul, older, dirtier drayage trucks idling in communities," said Turmail. In other words, obsolete drayage trucks, no longer necessary, will be phased out. But protectionists, seeking to scare Americans about the border opening, point to these vehicles as indicative of the kinds of trucks that will be traveling on U.S. highways.

### Beating Up on Free Trade

American non-union workers in general support free trade. A June 2003 Pew Research poll found that most Americans favor international trade: nearly 80 percent say it is at the very least "somewhat good" for the country.

Even among Democrats an anti-trade position faces an uphill fight. On July 23,

million to candidates in the 2002 elections.)

Nonetheless, organized labor treated the fight as a dress rehearsal for a far larger trade battle: the creation of the Free Trade Area of the Americas (FTAA), which would expand NAFTA to cover the Western Hemisphere. The Chile and Singapore trade deals are small in terms of their impact on the U.S. economy: in 2002, Singapore ranked 16th in products shipped to the U.S. (\$14.8 billion), while Chile ranked 36th (\$3.8 billion).

Nevertheless, both agreements provoked strong warnings from Hoffa: "This is a wake-up call for both Democrats and Republicans who say they are with labor. Today I tell them, if you want to call yourself a friend of labor, you'd better start acting like a friend of labor."

Labor unions even recently opposed the trade pact with Australia, which can hardly be attacked on the same grounds as were used against Mexico.

"Now, this is a country that ranks ahead of the United States and behind only Norway, Iceland, and Sweden on the U.N. Human Development Index," noted U.S. Trade Representative Robert B. Zoellick, in an April 19, 2004 *Washington Post* op-ed. "If the United States cannot have free trade with a high-wage, developed country such as Australia, with whom can we trade?"

Union attacks on free trade are not limited to specific industry sectors or par-

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ticular unions, but are the common policy of the AFL-CIO. During the fall of 2003, the AFL-CIO launched its "Campaign for American Manufacturing," which it has described as an effort to "spotlight the crisis in manufacturing spawned by trade policies that encourage imports from countries that use sweatshops and at the same time give U.S. companies incentives to move jobs abroad in search of cheap labor and weak workers' rights rules." The labor federation specifically targets the proposed FTAA, which it claims "will destroy family-supportive U.S. jobs." In Detroit, the campaign featured activists who signed a "7-foot by 100-foot postcard" urging Congress and the Bush administration to oppose trade deals. In Milwaukee, there was a bus tour "through the city of facilities closed due to trade." The campaign culminated in November 2003 in Miami, the site of international negotiation on the treaty. There the AFL-CIO led 10,000 protesters in anti-trade street demonstrations.

The Central American Free Trade Agreement (CAFTA), signed by President Bush on May 28 and subject to Senate ratification, is another treaty that organized labor is mobilizing to defeat. It would liberalize U.S. trade with the five Central American republics. AFL-CIO President John Sweeney denounced CAFTA as "an agreement that will utterly fail to create good jobs at home or promote equitable and sustainable development in Central America." He claimed that it "will leave workers, family farmers, the environment, and communities more vulnerable, while enriching and empowering corporate elites," and "would reward companies that ship American jobs overseas with greater access to the U.S. market, more freedom to violate workers' rights with impunity, and the ability to challenge government regulations enacted in the public interest."

Teamsters President Hoffa is more succinct. He says CAFTA "will only exacerbate job losses here in the United States, while offering up for exploitation the workforces of five additional nations." On June 24, Hoffa resigned from President Bush's Advisory Committee on Trade Policy and Negotiations (ACTPN), citing disagreement over CAFTA. In a letter to

Bush, posted on the Teamsters' website, Hoffa accuses the President of conducting a "full-fledged attack on workers' rights, social justice and economic common sense." He finishes his tirade by laying out the kind of man he wants in the White House:

*Our country desperately needs leaders who will include enforceable labor and environmental standards in all future trade deals, combat offshoring, strengthen our Buy America laws, ensure that foreign investors don't get greater rights than our Constitutional standards, require all food products and trucks entering the U.S. comply with U.S. safety and in-*

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## **Union chiefs are betting a lot on Election 2004. Stung by the pro-trade Clinton, they're not ready to give Democrats a pass on trade. And they have been encouraged by the failure of Republican politicians to issue a strong pro-free trade message.**

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*spection standards, and renegotiate CAFTA.*

In short, he wants a good old-fashioned protectionist.

### **Election Politics**

While the timing of Hoffa's resignation and public outburst is linked to CAFTA, it also comes as the presidential candidates gear up for the fall election. The Teamsters union homepage ([www.teamsters.org](http://www.teamsters.org)) features a prominent link to a "Teamsters for Kerry" website ([www.teamstersforkerry.org](http://www.teamstersforkerry.org)).

Hoffa, Sweeney and the other union chiefs are betting a lot on Election 2004. Stung by the pro-trade Clinton, they're not ready to give Democrats a pass on trade. And they have been encouraged by the failure of Republican politicians to issue a strong pro-free trade message. Last spring, Republican House Speaker Dennis Hastert actually joined in the public pillory of Gregory Mankiw, chairman of the President's Council of Economic Advisors, when he said that job outsourcing is an inevitable byproduct of free trade and

is ultimately good for the U.S. economy.

Before he locked up the Democratic presidential nomination, Sen. John Kerry frequently hurled rhetorical attacks on "Benedict Arnold CEOs" who relocate businesses operations outside the U.S. That was during the primary season, when the Democratic candidates vied for union support and distanced themselves from the Clinton administration's free trade policies, including NAFTA.

But Kerry now needs corporate support for the general election, and his message seems to shift to the center. Still, he has plenty of room to play the demagogue on alleged job losses. Gene Sperling, former director of President Clinton's National

Economic Council and now an adviser to Kerry, demonstrates how easy this is.

"Whenever someone tells you the market will take care of things sooner or later," Sperling told *The Washington Post*, "the one thing you know is they're talking about someone else's job."

In March, Senate Democrats organized a Capitol Hill rally that featured a United Auto Workers shop steward who denounced Electrolux AG's decision to shut down its Greenville, Michigan plant. Union members waved placards reading "Stop Exporting American Jobs." Now, as the campaign season shifts into high gear, we can expect to see other events like this.

But Democrats need to be careful in how they frame the issue. Because many U.S. jobs in agriculture, consumer goods and manufacturing depend on increasing trade, it is perhaps best for a politician to emphasize the importance of "saving jobs" rather than curbing trade. Further, as Republican pollster Frank Luntz notes, Democrats need to avoid seeming gleeful over the loss of U.S. jobs. And they need to make a strong political case for what,

why and how their policies will be better for American workers. He told *The Washington Post*: “[T]he Democrats are playing with fire here because at some point they are going to be forced to say what they’re going to do differently, and a tax credit here, a tariff there is unlikely to provide compelling rationale for their cause.”

### Targeting ‘Benedict Arnolds’

Even if he fails to win the White House, Kerry did the unions a big favor with his “Benedict Arnold” comment. Outsourcing jobs and the movement of corporate operations overseas has become a big story in the news media and a rallying point for labor union protectionists.

Organized labor likes to refer to “the exporting of American jobs” whenever a business makes a business decision that unions don’t like. Union officials denounce outsourcing as a process, arguing that it inevitably leads to a race to the bottom, a lowering of wages and lax worker safety as companies cut corners to compete over shrinking profit margins. Labor claims free trade, by allowing greater mobility for capital and resources, forces countries to compete against one another. Each country’s politicians urges a lowering of labor, environmental and safety standards to attract companies seeking the most favorable business climate.

This line of argument is summed up by Communications Workers of America executive vice-president Larry Cohen who addressed a World Bank conference in late June: “This business strategy...leads to a relentless global race to the bottom. Absent public policies to block the low-road, no worker, no firm, and no national economy is secure. For as soon as living standards rise in one workplace, one community, or one country, the footloose firm has packed its bags in search of the next low-cost location.”

A crude understanding of the concept of comparative advantage makes this analysis appear plausible on the surface. However, if this were true, multinational companies would be lining up to set up shop in low-wage Haiti. What the unions ignore is the other factors besides low wages and light regulation. Firms want secure property rights, political stability

and a highly educated workforce. It isn’t low wages that attract foreign investment to India—India has always had low wages—but the country’s improved business environment as a result of market reforms. This investment, in turn has led to a growing middle class and higher wages.

What unions seem to fear most is in-

Exhibition Center, where the wage and benefit package for an electrical worker costs exhibitors as much as \$46 an hour.

### Flawed Jobs Picture

Listening to union spokesmen, one would get the impression that America is hemorrhaging jobs. The Teamsters claim that by the end of 2002 the U.S. apparel

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creased competition from non-union businesses that benefit from free trade. Indeed, the world has been moving towards freer trade since the end of World War II. Many union officials recognize that it is difficult, if not impossible, to stop trade liberalization. So what’s a protectionist to do?

The union answer is to try to “manage” international trade through bureaucratic institutions. Cohen calls on “national governments, multinational organizations and international development agencies, such as the World Bank” to link “the defense of good, secure jobs in one country to the fight for good, secure jobs globally.”

It’s likely that unions’ woes are the result of their own unreasonable demands for high wages and benefits, which cause companies to do business to look for lower cost areas—and not necessarily overseas. Consider, for example, the AFL-CIO Union Label & Service Trades Department. It chose Cleveland over Detroit to hold its convention last May largely because union rules make labor costs prohibitively high in Detroit!

The department publicly denies that union costs influenced its decision, but a report by the Detroit Metro Convention and Visitors Bureau contends otherwise. The Visitors Bureau found that the Detroit area lost \$162 million in potential convention business during the first three months of this year due in part to high labor costs at the city’s COBO Conference/

industry had lost more than 90,000 jobs because of NAFTA. Outsourcing is a significant trend, but such claims are exaggerated.

The Bureau of Labor Statistics (BLS) reports that, of 239,361 private sector non-farm layoffs during the first quarter of 2004, only 4,633 “were associated with movement of work outside of the country.” By contrast, domestic relocations affected more than double that amount: 9,985 workers.

According to BLS, for the first quarter of 2004, “relocation of work was reported in 119 layoff events, resulting in the separation of 16,021 workers.” Ninety of the layoffs—about three fourths—occurred within the same company. In seven out of ten cases, work was reassigned to another worksite in the United States. In 29 layoffs where work was reassigned to another company, half went to companies within the U.S. So much for offshore outsourcing. Finally, while 16,000 layoffs sounds like a lot, consider that during that period the economy added around 595,000 new jobs.

Outsourcing—whether overseas or domestic—can have a positive impact on U.S. jobs in the long run. For instance, information technology (IT) is one of the industries often accused of creating a new class of unemployed when it replaces American workers with cheap foreign workers. Many IT companies have

outsourced to countries like India. But according to a recent study by Global Insight, an economic consulting firm, conducted on behalf of the Information Technology Association of America, the effect on the U.S. economy is far different from what the critics allege.

Global Insight's analysis—which includes jobs not created in the U.S. as well as layoffs—places the number of IT jobs lost in recent years due to outsourcing at 104,000. The number of IT jobs lost because of other reasons—including the end of the dot-com bubble, the mild recession of 2001, and labor productivity in-

denounce NAFTA as the agreement greedy U.S. corporations have used to “ship” jobs south of the border. But the claim is hollow. Unemployment has not skyrocketed—recently it has hovered around 5.6 percent.

NAFTA has forced some industries to adjust to new competitive pressures, but its overall impact appears positive. According to Census Bureau figures, from 1993 to 2003, U.S.-Mexico trade increased from \$81 billion to \$235 billion. The Federal Reserve finds total U.S. industrial output increased steadily from 3.3 percent in 1993 to a high of 7.4 percent in 1997 and

*expansion of commercial, retail and residential development is evident throughout the region. New international bridges have opened in Brownsville and Pharr, and the expressways connecting McAllen, Harlingen and Brownsville are being expanded to handle increased traffic and to establish the infrastructure of the planned I-69, known as the NAFTA highway, connecting Mexico and the border region to Canada.*

Today, Canada and Mexico are the United States' first and second trading partners.

“We are probably 85 percent into the accord now,” says Texas A&M University economist Parr Rosson, “and if its objective was to increase trade, it has certainly done so.”

Does that mean organized labor, still feeling betrayed by Bill Clinton's pro-free trade policies, will give Democrats a pass this election season? Apparently not. Unions are holding candidates' feet to the fire, demanding that they denounce outsourcing and free trade. (John Kerry's selection of the protectionist John Edwards as his running mate may reflect this.)

And politics are just one way unions are striving to “protect” jobs. Blatant protectionism may not resonate with most Americans, who seem comfortable with a global economy. But, as the Mexican trucks fight demonstrates, don't expect the unions to go quietly into the night.

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creases—is estimated at more than twice that: 268,000. The report also finds that IT outsourcing has helped create 90,000 *net* new jobs and added \$33.6 billion to GDP as of 2003.

The study estimated that savings throughout the economy generated by IT outsourcing lead to lower inflation and higher labor productivity. That leads to higher real wages, greater business investment and more consumer spending.

### NAFTA's Impact

Protectionist labor unions are fighting an uphill battle against the truth. They still

4.3 percent or higher in other years—dipping only during the 2001 recession. NAFTA certainly can't claim all the credit, but the data undercuts the argument that the agreement would ravage American manufacturing.

Particularly in border regions, NAFTA's effects are positive. In the ten years since NAFTA took effect, Texas' Rio Grande Valley has become one of America's fastest growing regions.

*Brownsville Herald* reporter Tony Vindell notes:

*The changes are obvious even to the most casual observer. The rapid*

**Please remember Capital Research Center in your will.**

# Labor Notes

## **NEA Convention Rallies Members Against Bush**

From the very start, the annual convention of the National Education Association on July 4-6 seemed more a political rally to defeat President George Bush in the November election. NEA president Reg Weaver opened the meeting with a call for the union's 2.7 million members to be the "X-factor" in the election: "I know that if we put forth our best effort, we are going to win." Members were pressured to participate in political "house parties"—co-sponsored by liberal groups MoveOn.org, ACORN and the Campaign for America's Future—to plan rallies and mobilize voters. Michael Moore's anti-Bush film "Fahrenheit 9/11" was shown to delegates for \$20 donations to the NEA's political action committee.

## **Bureaucrats Union Endorses Kerry**

The American Federation of Government Employees, the largest federal employee union, has formally endorsed John Kerry and pledged to unseat President George Bush. AFGE John Gage cited the Bush administration's efforts to reform personnel and pay systems, including increased use of private contractors, as reasons for the endorsement. "Senator Kerry is against this dismantlement of the fed government," Gage said.

## **Complaint Filed Against Pro-Democratic Group**

Three campaign watchdog groups—Democracy 21, the Campaign Legal Center and the Center for Responsive Politics—filed a complaint with the Federal Election Commission accusing Americans Coming Together (ACT) of illegally financing direct-mail solicitations with unregulated "soft" contributions. According to initial FEC reports, soft money accounted for 98 percent of ACT's funding for efforts to mobilize voters in support of Democratic candidates. ACT is backed by liberal groups including labor unions.

## **SEIU's Stern Calls for Reform at AFL-CIO**

The president of the Service Employees International Union (SEIU), the nation's largest labor union, addressed the SEIU national convention in San Francisco with a call to "transform the AFL-CIO or build something stronger that can really change workers' lives." Stern complained that the AFL-CIO is too weak: "It has no enforceable standards to stop a union from conspiring with employers to keep another stronger union out or from negotiating contracts with lower pay and standards." Stern also proposed setting aside \$1 million for an SEIU effort to organize Wal-Mart, joining a possible \$30 million AFL-CIO campaign to organize the retail chain.

## **Unions Complain About Contractors**

Union complaints about the Bush administration's use of private contractors took a new turn when the National Air Traffic Controllers Association blamed a private contract employee for a communication error that led to the June 9 evacuation of the U.S. Capitol before former president Ronald Reagan's funeral procession. Union officials said the contract worker had insufficient training and failed to recognize that an unresponsive plane had a broken transmitter. They say a union worker would have known this. The Federal Aviation Administration says the employee had sufficient training but made a mistake. Unions are also complaining about a Department of Homeland Security plan to allow airports to replace federal airport security screeners with private employees by the end of 2005. Adding salt to a wound, Homeland Security has agreed to pay Northrop Grumman Corp. as much as \$175 million over three years to develop and manage the agency's personnel system, already criticized by government employees unions for new pay and discipline procedures. American Federation of Government Employees president John Gage complained that the contract would bust the agency's budget.