



Executive Alert



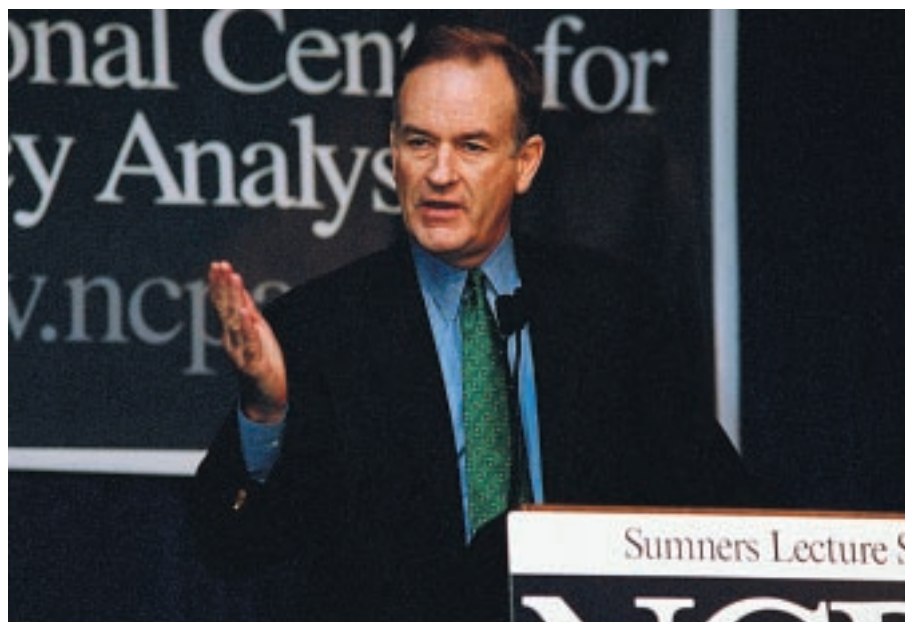
VOL. 16, NO.1

ALL THAT'S NEW IN THE WORLD OF IDEAS

JANUARY/FEBRUARY 2002

IN THIS ISSUE

- Not Everybody Chooses Health Insurance..... 2
- Overriding Patents Would Reduce Drug Innovation 2
- Health Tax Credits Can Reduce Uninsured Ranks 3
- Hunters Preserve Wildlife 4
- Gene-Splicing: Overregulated? 4
- School Choice Can Mean More Teacher Pay 5
- Home-Schoolers Are Academic Winners 5
- How Do We Pay for Future Retirement? 6 and 7
- NAFTA Myths and Realities 8
- U.S. Trade Laws Challenged 8



Bill O'Reilly, author of a new bestseller and a Fox News commentator, speaks at an NCPA Hatton W. Sumners lecture. See related story on page E-1.

Regulatory Costs Wallop Small Businesses

Complying with federal government regulations cost Americans an estimated \$843 billion, or 8 percent of total U.S. gross domestic product, in 2000. That's an amount equal on the average to \$8,164 for every household in America, in addition to the \$19,613 share each household contributes directly or indirectly to federal revenue.

While all citizens and businesses share in these costs, the distribution of this burden is quite uneven. In the business sector, those hit hardest are small businesses — the 90 percent of U.S. firms with fewer than 20 employees.

- The smaller firms face an annual total regulatory burden of \$6,975 per em-

ployee, compared to \$4,463 for firms with more than 500 employees and \$4,319 for medium-sized firms.

- Thus regulations cost small firms 55 to 60 percent more than they cost large and medium-sized firms.

Environmental regulations and the paperwork burden of tax compliance make up about 40 percent of the total business regulatory burden. These costs fall most heavily on small businesses.

- Environmental regulations cost small firms an average of \$3,328 per worker, compared to \$717 for large businesses and \$625 for medium-sized ones.

- Tax paperwork costs small businesses an average of \$1,202 per worker, compared to \$562 for large businesses and \$625 for medium-sized ones.

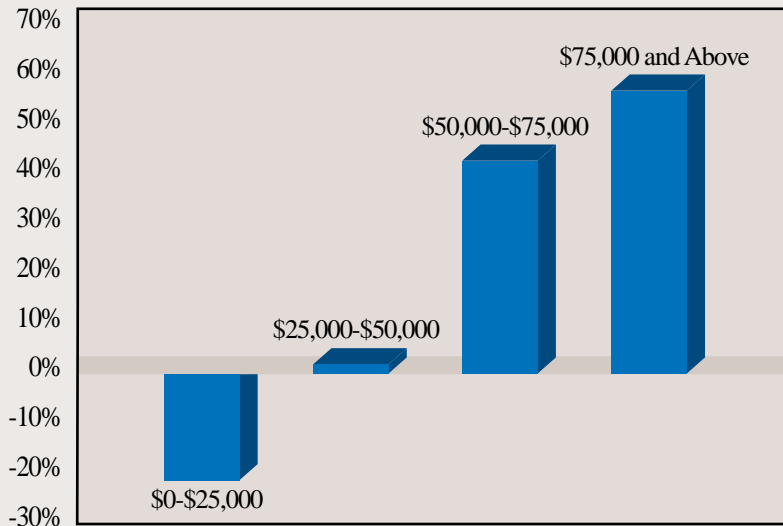
The disproportionate burden on

small firms is particularly stark for the manufacturing sector, where small firms face a regulatory cost more than twice that for large and medium-sized firms. The total costs don't necessarily vary much based on company size, but larger firms can spread the costs over more employees.

Not all regulations cost small companies the most to comply. The cost per employee of economic regulations costs large firms the most. The cost of workplace regulations falls most heavily on medium-sized businesses, perhaps because many workplace regulations explicitly exempt small firms.

Source: W. Mark Crain and Thomas D. Hopkins, "The Impact of Regulatory Costs on Small Firms," 2001, Office of Advocacy, U.S. Small Business Administration, RFP No. SBAHQ-00-R-0027.

GROWTH IN THE UNINSURED 1993-2000 (by Income Group)



Source: Census Bureau.

Uninsured by Choice

The number of Americans who lack private or public health insurance stood at an estimated 38.7 million in 2000 (the latest year for which statistics are available). A number of factors explain why so many people lack coverage; affordability or lack of access alone cannot explain it. For example:

- During the last decade, the ranks of the uninsured have increased among affluent households and decreased among low-income households.
- Almost one-third of the uninsured live in households with annual incomes above \$50,000.
- Virtually all children from low-income families are eligible for Medicaid or the State Children's Health Insurance Program (SCHIP) — yet the parents of about 7.7 million eligible children failed to enroll them.
- The uninsured spent about the same portion of their income on

recreation, alcohol and tobacco as the fully insured, but they spent less than half as much on health care.

Age, health status and personal preferences also may explain much. According to Bureau of Labor Statistics research, 40 percent of the uninsured — 15.2 million — are young adults ages 18 to 34. And as noted above, 7.7 million children are eligible for SCHIP but aren't enrolled. Together, the two groups — who are among the healthiest segments of the population — account for more than half of the uninsured.

Good health, personal consumption preferences and the availability of free charity care and emergency room care when needed are among the factors that lead many to stay uninsured by choice, say analysts.

Source: Devon Herrick, "Uninsured by Choice," Brief Analysis No. 379, November 15, 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

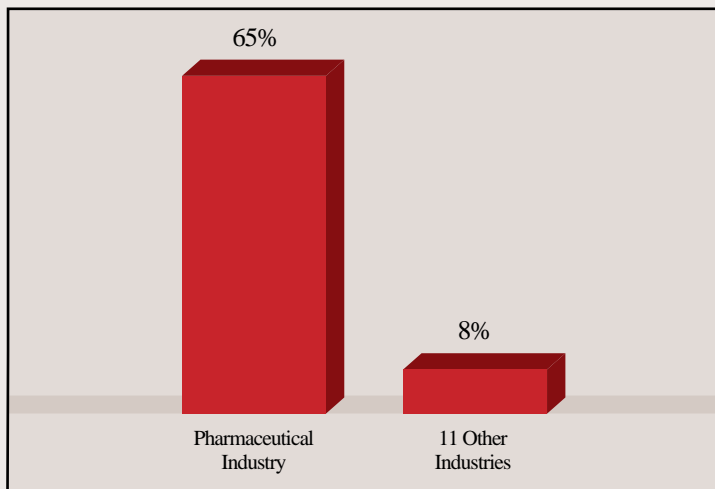
Cipro and the Value of Patent Protection

When the threat of anthrax became a widespread concern, the Canadian government said it had serious doubts that Bayer, owner of the patent for the anti-anthrax drug Cipro, could meet Canadian needs. It ignored the patent and ordered generic copies. In the United States, Sen. Charles Schumer proposed that the U.S. government do the same thing. After Bayer said it could meet the needs of both nations, and after other drugs as effective against anthrax were identified, Canada reversed its decision and the United States dropped the issue for the time being.

While overriding a patent might temporarily increase the supply of a drug, evidence suggests that this policy would lead, in the long run, to a lower supply of innovative drugs. That is because spending on research and development depends on the expectation of future returns. And government actions can affect those expectations. For example:

- Both firm-level and industry-level evidence indicate that the threat of pharmaceutical price controls in the Clinton administration's 1992-93 health care reform proposals had a significant negative effect on pharmaceutical R&D investment.
- A paper from the National Bureau of Economic Research estimated that the threat of Clinton health care reform reduced the market value of pharmaceutical firms by 44 percent from September 1992 to October 1993.
- On the other hand, the Food and Drug Administration said passage of the Orphan Drug Act in 1983 led to a twelvefold increase in the number of drugs for rare diseases brought to market.

PERCENT OF INVENTIONS INTRODUCED BECAUSE OF PATENT PROTECTION



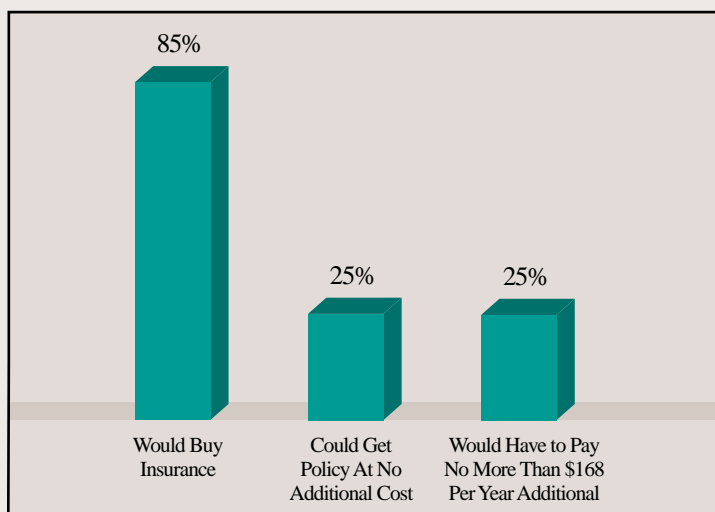
Source: Edwin Mansfield, "Patents and Innovation: An Empirical Study," *Management Science*, February 1986.

Pharmaceutical firms rely more on patent protection than firms in other industries. Edwin Mansfield found that 65 percent of pharmaceutical inventions would not have been introduced if patent protection had not been available; for 11 other industries he studied, only 8 per-

cent of inventions would not have been marketed.

Source: Frank R. Lichtenberg, "Cipro and the Risks of Violating Pharmaceutical Patents," *Brief Analysis No. 380*, November 15, 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

IMPACT OF \$1,000 TAX CREDIT ON UNINSURED INDIVIDUALS



Assumes \$1,000 deductible policy with 20 percent copayment requirement and \$2,000 limit on out-of-pocket spending.

Source: Mark Pauly, David Song and Bradley Herring, "Tax Credits, the Distribution of Subsidized Health Insurance Premiums and the Uninsured," National Bureau of Economic Research, Working Paper 8457.

Tax Credits Can Reduce Uninsured Ranks

People who get their health insurance through their employers are not taxed for that cost. Proposals in Congress would help those who buy their own insurance with after-tax dollars by giving them a refundable tax credit (one that is paid regardless of whether the recipient paid that much in taxes). Most proposals suggest a tax credit of about \$1,000 for an individual and \$2,500 for a family. Two recent studies show that a credit would substantially lower the number of uninsured.

A study by the National Bureau of Economic Research (NBER) found that, with a \$1,000 credit:

- As many as 85 percent of the uninsured would buy health insurance with a \$1,000 deductible, a 20 percent coinsurance requirement and a \$2,000 limit on out-of-pocket spending.
- More than 25 percent of the uninsured could get the policy without paying anything beyond the tax credit.
- Another 25 percent would have to pay no more than \$168 a year beyond the tax credit.

Another study, by FamiliesUSA, considers only the insurance a 25-year-old woman and a 55-year-old woman could obtain, limited to policies similar to the most generous plan offered federal employees, which is Blue Cross Blue Shield with a \$250 deductible and minimal copayments. But even that study found that a healthy, non-smoking 25-year-old woman could get coverage for \$1,000 in all but six states.

The FamiliesUSA study is intended to demonstrate that the \$1,000 tax credit is a bad idea. But since 79 percent of the uninsured are under age 45, it actually supports the conclusion of the NBER study that something approaching 85 percent of the uninsured would be able to purchase coverage with a \$1,000 tax credit.

Source: Greg Scandlen, "Tax Relief for the Uninsured: Scholarship vs. Political Hype," *Brief Analysis No. 381*, December 4, 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Is Gene-Splicing Overregulated?

Some radical environmentalists want to ban gene-spliced organisms, but they have not proposed the same for organisms genetically modified by older methods.

Gene-splicing involves the introduction or substitution of just a few genes whose locations and functions are known. It is more precise and predictable than older, less exact methods used to change plant characteristics, according to the National Research Council.

Furthermore, gene-splicing is heavily regulated by the government, while each year dozens of new plant varieties produced through traditional methods are marketed without any scientific review or special labeling. One of those methods, called hybridization, can involve crosses between plants of different species or even genera.

- Thus the relatively new manmade “species” *Triticum agropyrotriticum*, cultivated for food, is a hybrid of common wheat and a weed called quackgrass.

- It has all of wheat’s chromosomes plus an entire genome of quackgrass — introducing thousands of extra genes into a widespread plant variety.

Another technique is “induced-mutation breeding.”

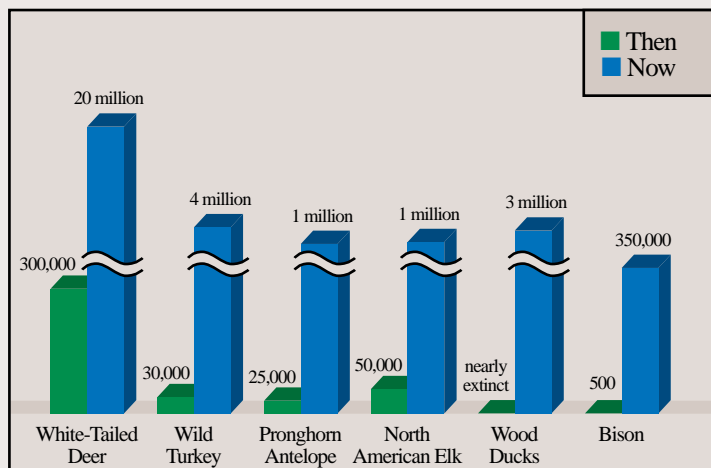
- In widespread use since the 1950s, it involves subjecting cultivated plants or their seeds to ionizing radiation or toxic chemicals to induce random mutations.

- Most mutations kill the organism — but sometimes a plant that survives exhibits a desirable new trait.

- Although no one knows which genes have mutated to produce the new traits — or what other mutations might have occurred — 1,400 varieties of plants produced by induced mutation have been marketed in the last half-century.

- Plants of several of these varieties — including two of squash and one variety of potato — were banned because they contained endogenous toxins at dangerous levels.

CHANGES IN U.S. WILDLIFE POPULATION SINCE 1920s



Source: National Rifle Association and author’s research.

Hunters Preserve Wildlife

Wildlife populations in Africa are declining today, much as in the United States in the late 19th century. Outdoor sportsmen proposed and carried out virtually all of the initiatives that saved important U.S. game species from extinction. Hunters’ organizations have voluntarily funded many conservation projects. And various licenses, fees and taxes on hunting and hunting equipment fund more than 90 percent of the budgets of state fish and wildlife agencies. If Africa’s diverse wildlife is to survive, it too likely will owe that survival to hunters.

Hunters’ dollars and efforts have paid off for wildlife in the United States. In the 1920s many wildlife populations were at historic lows, but now they are booming:

- White-tailed deer populations had declined to approximately 300,000, wild turkey to fewer than 30,000, pronghorn antelope to only 25,000 and North American elk to 50,000; the wood duck was

nearly extinct and there were fewer than 500 bison.

- Today there are more than 20 million white-tailed deer, more than 4 million turkeys (with populations in every state but Alaska) and more than 1 million antelope and elk.

- Wood ducks, numbering over 3 million, are the most common breeding waterfowl in the U.S., and bison number 350,000.

Individually and through organizations such as Safari Club International, big-game hunters from the United States and around the world also have worked with governments in Africa to save threatened and endangered African wildlife. Hunters, private landowners and even tribes and villages have worked together to establish wildlife conservancies in several countries. With regulated sport hunting, the money hunters spend and contribute pays the cost of wildlife protection.

Source: H. Sterling Burnett, “Hunters: Founders and Leaders of Wildlife Conservation,” *Brief Analysis No. 377*, November 12, 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

There is minimal risk from such plants, and less from gene spliced plants. Yet U.S. Department of Agriculture requirements make paperwork and field trials for gene-spliced organisms 10 to 20 times more expensive than for plants

modified in other ways.

Source: Henry I. Miller and Gregory Conko, “Precaution (of a Sort) Without Principle,” *Priorities for Health*, Volume 13, No. 3, 2001, American Council on Science and Health, 1995 Broadway, Second Floor, New York, N.Y. 10023, (212) 362-7044.

School Choice Can Improve Teacher Pay

Raising the quality of the nation's teachers has become a priority that cuts across partisan lines. Driven by teacher shortages in subjects such as math, science and special education, and in rural and inner-city schools, state legislatures have earmarked billions of dollars for salary increases and teacher training.

What is strange about the drive to "professionalize" teaching is that it has taken place largely within the confines of the existing public school system. Little attention has been paid to how parental choice and competition, in the form of vouchers and charter schools, will affect the profession.

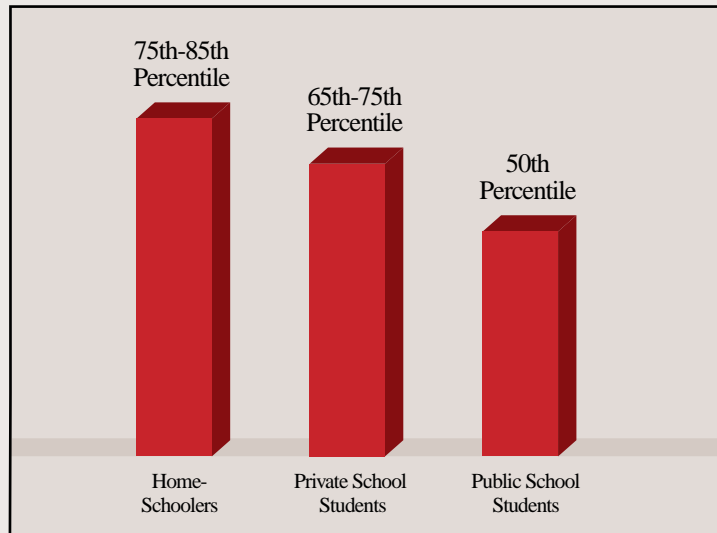
Researcher Caroline M. Hoxby argues that school choice would raise demand for highly talented and skilled teachers who would receive rewards closely linked to their performance. Some of the results of her research show that schools that face tougher competition:

- Have greater demand for teachers who attended well-regarded colleges, majored in particular subject areas (especially in math and science), and who put in more effort and show more independence.
- Are more likely to hire such teachers and to pay them higher wages than they would earn in schools that face less competition.
- In general, have less demand for certification and master's degrees and pay teachers who hold such credentials less than similarly educated teachers earn in schools that are less choice-driven.

Hoxby also says that by making teaching a more market-oriented profession, school choice might also make it a more attractive career.

Source: Caroline M. Hoxby, "Changing the Profession: How would school choice affect teachers?" Education Matters, Spring 2001, Hoover Institution, Stanford University, Stanford, Calif. 94305, (650) 723-1754.

U.S. RANKING ON TEST SCORES



Source: Fraser Institute.

Home-Schoolers Rank Higher

Home-schooled children in both the United States and Canada are more academically advanced than either public and private school students on average.

U.S. statistics using percentiles to rank groups of students by performance show that:

- At every grade level, home-schooled students' average scores were between the 82nd and the 92nd percentiles in reading and reached the 85th percentile in math — with home-schoolers' overall test scores placing them between the 75th and 85th percentiles.
- In contrast, public school students scored at the 50th percentile and private school students' scores ranged from the 65th to the 75th percentile.
- The largest study to date in Canada, where less research is available, found that home-schooled students on average score at the 80th percentile in reading, at the 76th percentile in language and at the 79th percentile in mathematics.

- The Canadian average for all public and privately educated students is the 50th percentile.

Home-schooled students also surpass the national averages on both of the major college-entrance tests, the ACT and the SAT.

Home-schooling parents have above average levels of education. Among American parents who home-school, 81 percent have studied beyond high school compared with 63 percent of parents nationwide. Interestingly, having at least one parent who is a certified teacher has no significant effect on the achievement levels of home-schooled students.

Home-schooling in the United States saves money for states. In the 1993-94 school year (the latest for which figures are available), home-schooling instruction cost an average of \$546 per student, compared to an average of \$5,325 for instruction in public schools.

Source: Patrick Basham, "Home Schooling: From the Extreme to the Mainstream," Public Policy Sources No. 51, 2001, Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, B.C., Canada V6J 3G7, (604) 688-0221.

Solving the 401(k) Problem

Traditional defined benefit pension plans, which are managed by employers and which promise workers a specific monthly payment on retirement, are disappearing. Instead, more than 42 million workers now participate in defined contribution retirement plans, primarily 401(k) plans, which specify the annual contributions to an employee's pension fund.

Workers are responsible for choosing among investment options, and the account can be moved when the worker changes jobs and can be passed on to heirs. As now constituted, however, defined contribution plans are performing poorly. The consulting firm Watson Wyatt found that among 503 employers sponsoring both a 401(k) plan and a defined benefit plan during 1990-95, the defined benefit plans averaged an annual return that was 1.9 percentage points better than the 401(k) plans. Even the 401(k) plans sponsored by firms in the financial services industry have often had below-average returns.

- An examination of plans sponsored by five leading financial services firms reveals that from 1995 through 1998, none had returns that matched a simple index of 60 percent stocks and 40 percent bonds.
- Although these companies offer investment advice to the public, the investment choices of their own employees underperformed the market index by 3.2 to 10.5 percentage points.

Companies offer little assistance in making wise investment choices, fearing they will open themselves to lawsuits charging them with responsibility if employees have investment losses. Many employees with limited understanding of investing make uninformed investments that reduce their retirement income. For example, an examination of a number of large plans found:

- Within plans, regardless of years studied or geographical location, the lowest-paid 20 percent of participants receive the worst returns and the higher the participants' average pay, the higher their returns.
- Almost two-thirds of the money in the lowest-income quintile was in a money market fund or bonds.

Bad News for Older Retirees

Social Security has had great success in reducing poverty among the elderly. However, as currently structured, Social Security will be distributing smaller and smaller shares of its expenditures to the oldest and poorest recipients in the future.

For example, since 1940 the Social Security program has paid out spousal and survivors benefits to ensure that persons with little or no earnings have adequate income in old age. However:

- These benefits are tied to the prime beneficiary's earnings, so that spouses of higher earners gain more in benefits than spouses of lower earners.
- Single heads of households — mainly lower-income women raising children — are increasing significantly, and they do not receive spousal and survivors benefits.

Older retirees also see their share of benefits falling steadily relative to benefits paid to younger retirees.

- Social Security pays each year's new

- By contrast, about 85 percent of the money in the highest-income quintile was in equities.

If designed properly, defined contribution retirement plans offer the best hope for a comfortable retirement for most workers. To remedy flaws, employers could be encouraged to offer a new type of plan: the American Freedom 401(k) plan. In exchange, employers would enjoy "safe harbor" protection from certain kinds of lawsuits. To take advantage of the American Freedom 401(k) plan, employers would have to:

- Give participants the opportunity to have their funds invested in efficient portfolios (e.g., market index funds) or in portfolios managed by investment professionals.
- Automatically enroll all employees (both new and current) unless they opt out.
- Set a minimum contribution rate of 4 percent to 6 percent of income by the participant — an amount that could prudently be expected, when combined with the

retirees a level of benefits equaling the average wage growth relative to the previous year's retirees.

- Thus, if future real wage growth averages 1 percentage point per year, the average benefit for retirees age 67 in 2042 will be 21 percent higher than the average benefit for 87-year-old retirees in that same year.

In the past a majority of younger retirees used to work until older ages.

- In 1940 about 80 percent of men expecting to live 16 more years still worked.
- Today only 35 percent of men expecting to live 16 more years still work.

So in some respects, Social Security has shifted from an old-age to a middle-age retirement program, replacing income that still healthy individuals could earn themselves.

Source: Eugene Steuerle and Adam Carasso, "Social Security's Additional Dollars Could Buy Less Poverty," No. 33 in the Series "Straight Talk on Social Security and Retirement Policy," October 30, 2001, Urban Institute, 2100 M Street, N.W., Washington, D.C. 20037, (202) 833-7200.

employer contribution, to provide a reasonable retirement income — unless the employee specifically opts for a smaller amount.

- Require plan sponsors to pay all plan fees and expenses, and to disclose them fully.
- Prohibit cashouts of 401(k) accounts by the plan or the employee following termination of employment and allow all funds to be rolled over into another qualified plan or to remain in the previous employer's plan if the new employer does not have a plan.
- Make vesting 100 percent and immediate.
- Prohibit loans or hardship distributions from an individual account but allow "hardship loans" from the plan's trust fund.

Source: Brooks Hamilton and Scott Burns, "Reinventing Retirement Income in America," NCPA Policy Report No. 248, December 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

The Looming Elderly Entitlement Crisis

Because the payroll tax revenues that fund Social Security and Medicare currently exceed the amount paid in benefits, these two programs are generating annual budget surpluses. However, by the time the first of the baby boomers begin to retire, they will begin paying out more in benefits than they collect in payroll tax revenues. As a result, taxes will have to rise if the government keeps its promises to people entering the labor market today.

- Spending on Social Security and Medicare Part A combined will swell to 23.8 percent of payroll by the time today's teenagers reach retirement age in 2050, according to the Social Security Administration's intermediate forecast.

- Federal subsidies for Medicare Part B and other health care benefits for the elderly will increase the mid-century tax burden to 32 percent.

Nor is this the worst that can happen. According to the pessimistic assumptions:

- When today's 18-year-olds reach retirement age, Social Security spending will equal 21.7 percent of payroll — more than twice the current burden.

- When Medicare and other elderly health programs are included, spending in 2050 will equal 54.4 percent of taxable payroll.

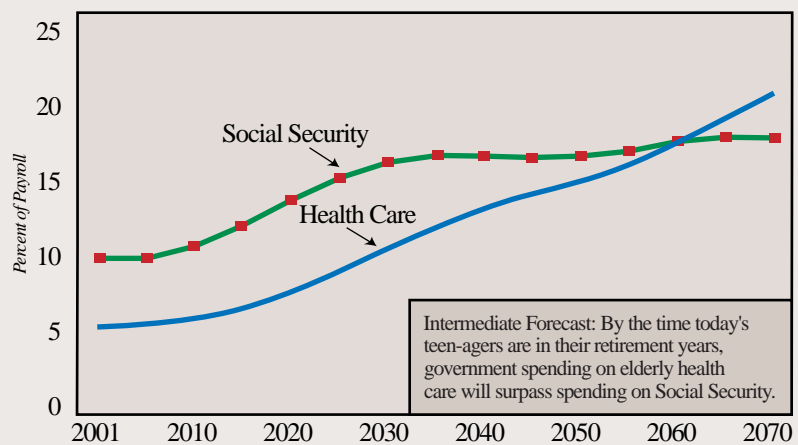
Despite all the recent attention to Social Security's long-term fiscal insolvency, health care spending is an even bigger problem.

The reason for the financial crisis is that the elderly retirement programs are based on pay-as-you-go finance. When today's workers reach the retirement age, their benefits will be paid only if higher taxes are collected from the next generation of workers.

If the current system were replaced now with a funded system, worker benefits would not be dependent on the willingness of future generations to pay taxes. Instead, each generation would pay its own way.

Source: John C. Goodman and Matt Moore, "Government Spending on the Elderly: Social Security and Medicare," NCPA Policy Report No. 247, November 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

GOVERNMENT SPENDING ON ELDERLY ENTITLEMENT PROGRAMS (Intermediate Projections)



The NCPA Plan for Social Security Reform

The National Center for Policy Analysis has proposed a Social Security reform plan that combines the most attractive features of plans developed by both Republicans and Democrats over the past several years. It would solve the system's long-term financial problems and make it possible for the federal government to fulfill its promises to younger workers without raising payroll taxes by the time today's 20-year-olds retire.

The NCPA "hybrid" plan would allow workers to put 2 percentage points of their payroll taxes into personal retirement accounts (PRAs). These funds would be invested in broad-based portfolios (70 percent stocks/30 percent bonds). Individuals would be free to choose their PRA manager once their accounts reach a minimum level, but could not select more risky or less risky portfolios.

According to the plan:

- The federal government would guarantee every worker the same benefits promised under the current Social Security system.

- Retirees would receive two monthly benefit checks: one from their PRA and another from the government, equal to the promised benefit level.

- If a worker died early, dependents

could inherit the PRA funds, provided they are not needed to pay any dependent's promised benefits.

- To eliminate inequities currently faced by working women and divorcees, married couples would be required to divide their PRA funds equally when contributions are made; each spouse would also be guaranteed currently promised minimum benefits.

Administrative costs would be held to 0.2 percent by:

- Having the Social Security Administration (SSA) bear the costs of collection, deposit and record keeping;

- Having private investment companies manage PRA deposits under contract with the SSA.

- Allowing employers (and the self-employed) to directly deposit employee PRA funds with the investment companies (similar to 401(k) arrangements), provided the employer is willing to bear any excess administrative costs.

At the time of retirement, an individual's PRA funds would continue to be invested in a balanced portfolio. Benefits would be paid by an annuity whose payout rate might vary from year to year, or by an investment company that pays benefits according to a schedule prescribed annually by the Secretary of the Treasury.

Source: John C. Goodman, President of the National Center for Policy Analysis, testimony before the President's Commission to Strengthen Social Security, October 18, 2001.

U.S. Trade Laws Conflict with WTO Commitments

The United States has restrictive trade remedy laws that have sparked intensified controversy with its international trading partners on two fronts.

- Many foreign countries have made the reform of the U.S. antidumping law a major priority for future trade negotiations.
- The trade laws themselves have been challenged in the World Trade Organization (WTO) as being inconsistent with U.S. commitments to open markets.

The laws are widely defended in this country as necessary for ensuring domestic political support for trade liberalization, and thus as actually strengthening the U.S. commitment to the WTO. But more than any other country, the United States is being

challenged for failure to abide by the multilateral rules that govern antidumping, countervailing duties and “safeguards” — all providing for duties or trade barriers to prevent foreign goods from selling at “less than fair value” and competing unfairly with domestic goods.

The U.S. is being challenged for failure to abide by multilateral rules on fair international trading.

The WTO Dispute Settlement Body has handed down a number of key decisions finding the U.S. government in violation of its international obligations. Among them:

- The U.S. Commerce Department was found to violate acceptable methods of calculating “net” prices necessary to determine dumping in a case involving a Korean steel company.

- The WTO ruled that the Commerce Department violated agreements by imposing special duties to “counter-vail” the government subsidies to a state-owned company in the United Kingdom even though the company had been privatized and the subsidy eliminated.

A review of the disputes and rulings makes clear that U.S. laws in their current form and U.S. support of negotiated trade liberalization are not complementary but rather antagonistic and even incompatible. U.S. policy-makers face a choice between defending U.S. trade laws in their current form and defending the U.S. commitment to the WTO.

Source: Lewis E. Leibowitz, “Safety Valve or Flash Point? The Worsening Conflict between U.S. Trade Laws and WTO Rules,” Tax Policy Analysis No. 17, November 2001, Cato Institute, 1000 Massachusetts Avenue, N.W., Washington, D.C. 20001, (202) 842-0200.

NAFTA Myths and Realities

The North American Free Trade Agreement (NAFTA), implemented in 1994, has benefited Americans substantially, according to U.S. government data. Yet critics of free trade continue to assert that NAFTA has resulted in fewer exports, cost American jobs and jeopardized the environment. The data refute these claims.

Myth: NAFTA has diminished U.S. exports.

Reality: Exports to NAFTA partners Canada and Mexico increased 104 percent between 1993 and 2000, while U.S. trade with the rest of the world grew only half as fast.

Myth: NAFTA has cost thousands of good-paying American jobs.

Reality: NAFTA has led to more higher-paying jobs for Americans.

- The Commerce Department estimated after a five-year analysis that U.S. exports to Canada and Mexico support more than 600,000 more jobs now than in 1993, and found that jobs supported by exports pay 13 to 16 percent more than other U.S. jobs.

- The Bureau of Labor Statistics says total employment in the U.S. motor vehicle industry has grown five times faster since NAFTA than prior to the Agreement.

Myth: NAFTA is not environmentally friendly.

Reality: NAFTA’s side agreements on the environment have focused public attention on environmental problems and have helped to finance solutions.

Source: Sara J. Fitzgerald, “The Effects of NAFTA on Exports, Jobs and the Environment: Myth vs. Reality,” Heritage Foundation Backgrounder No. 1462, August 1, 2001, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.

Executive Alert®

PublisherJohn C. Goodman

EditorDorman E. Cordell

Assistant Editor.....Joe Barnett

Contributing Editors Barry Asmus

David R. Henderson

EXECUTIVE ALERT is published bi-monthly by the National Center for Policy Analysis, a nonpartisan, nonprofit research institute.

The NCPASM is a research and education organization operating under Section 501(c)(3) of the Internal Revenue Code. You can contribute to our effort by mailing your donation to our Dallas headquarters or logging on to our web site at www.ncpa.org, and clicking “Join Us.”

Address all correspondence to the National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272. e-mail: ncpa@ncpa.org.

Internet home page: <http://www.ncpa.org>