

# NAFTA and US employment

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# Questions

- Any one of you thinks NAFTA has affected US employment?
- Any one of you thinks the effect is negative?
- Any one of you thinks the effect is positive?
- Anyone has personally been affected by NAFTA?
  - Would you like to share your story?

# NAFTA

- North American Free Trade Agreement
- Involves 3 member countries
- To remove trade barriers and facilitate cross-border investment
- Enacted in 1994
- 15-year phase-in period
  - Roughly half of North American trade was liberalized immediately upon the agreement taking effect while the remainder of existing tariffs were phased out over 5, 10 and 15 year periods.

# Major Concern of NAFTA

- Job displacement

“Growth of the US **trade deficit** with Mexico displaced 903,200 jobs 1993-2013” – Robert Scott, Economic Policy Institute, D.C.

- Some flaws in such calculations

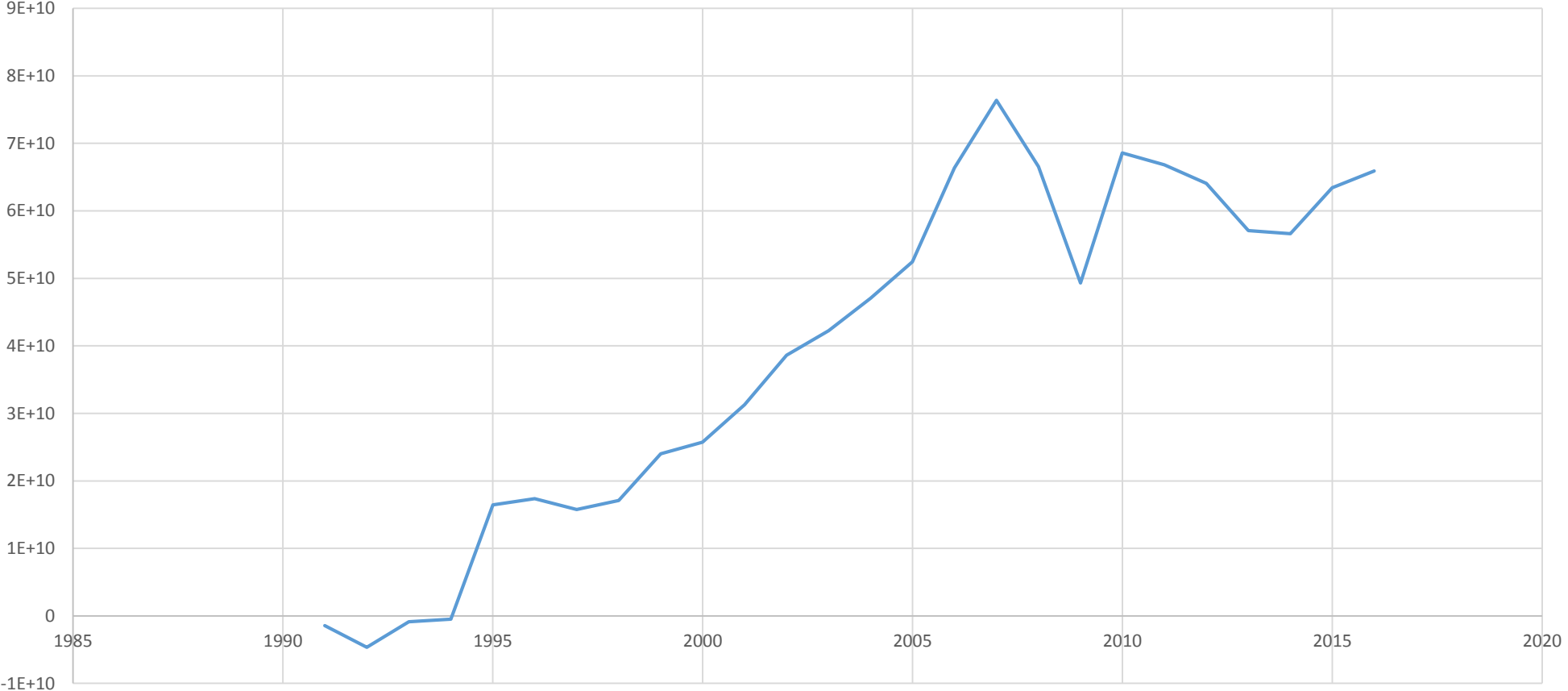
- Consider: Increase in purchasing power
- Consider: Intermediate goods become less inexpensive for some domestic producers

- Is NAFTA responsible for the whole trade deficit?

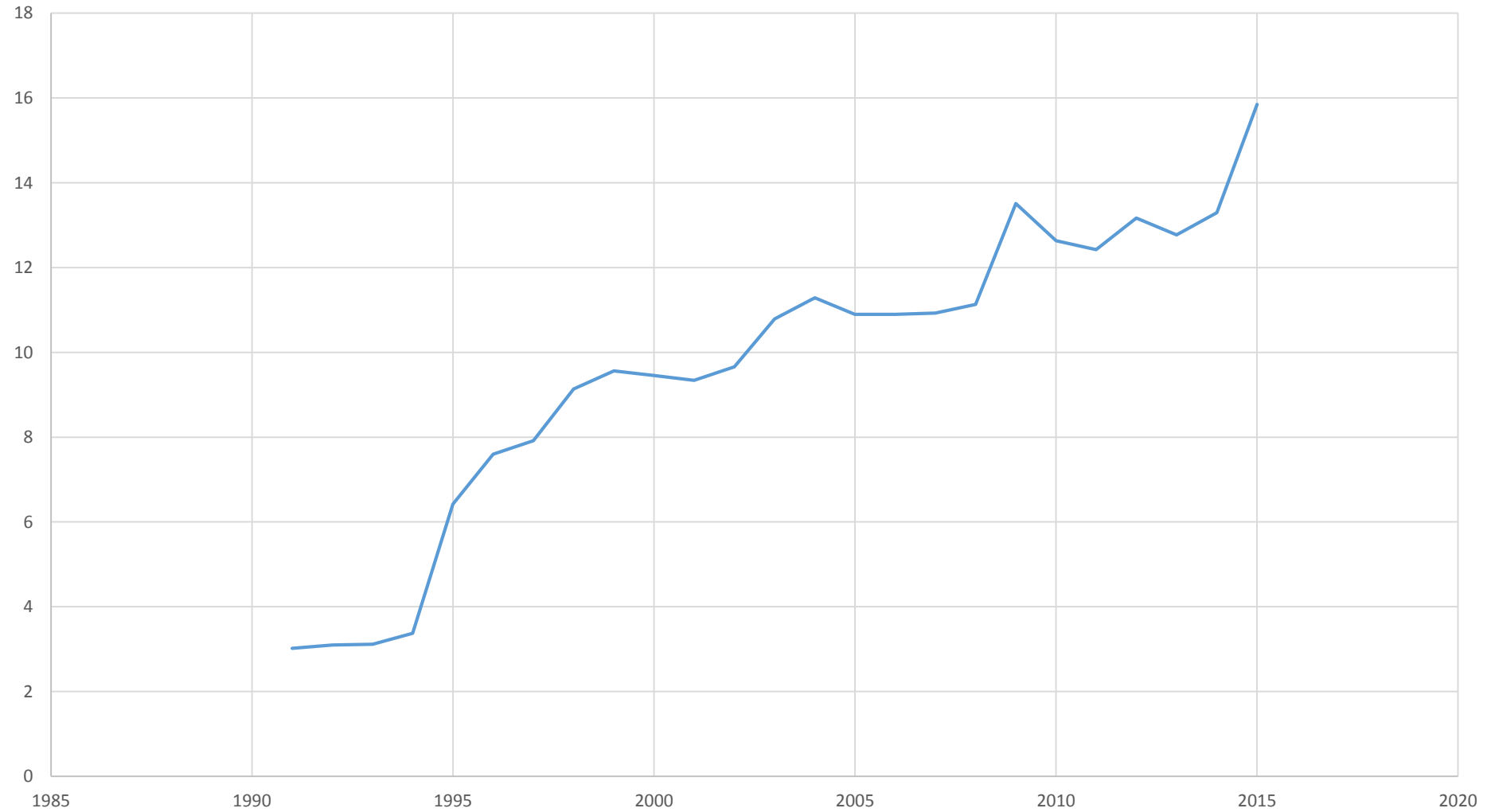
- In 1986, Mexico became a member of GATT (predecessor of WTO)
- Peso depreciation since the peso crisis in Dec 1994

- Let's look at some data

# Trade deficit with Mexico



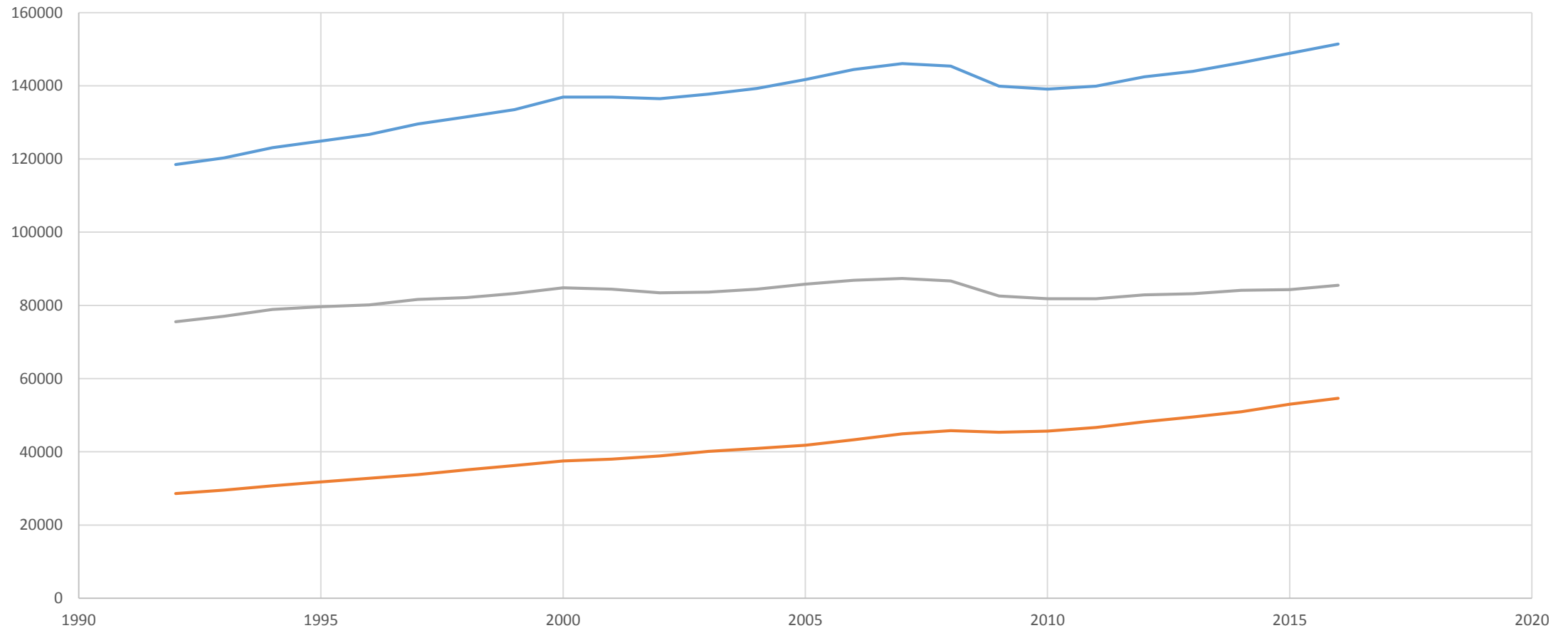
# Exchange rate peso/\$



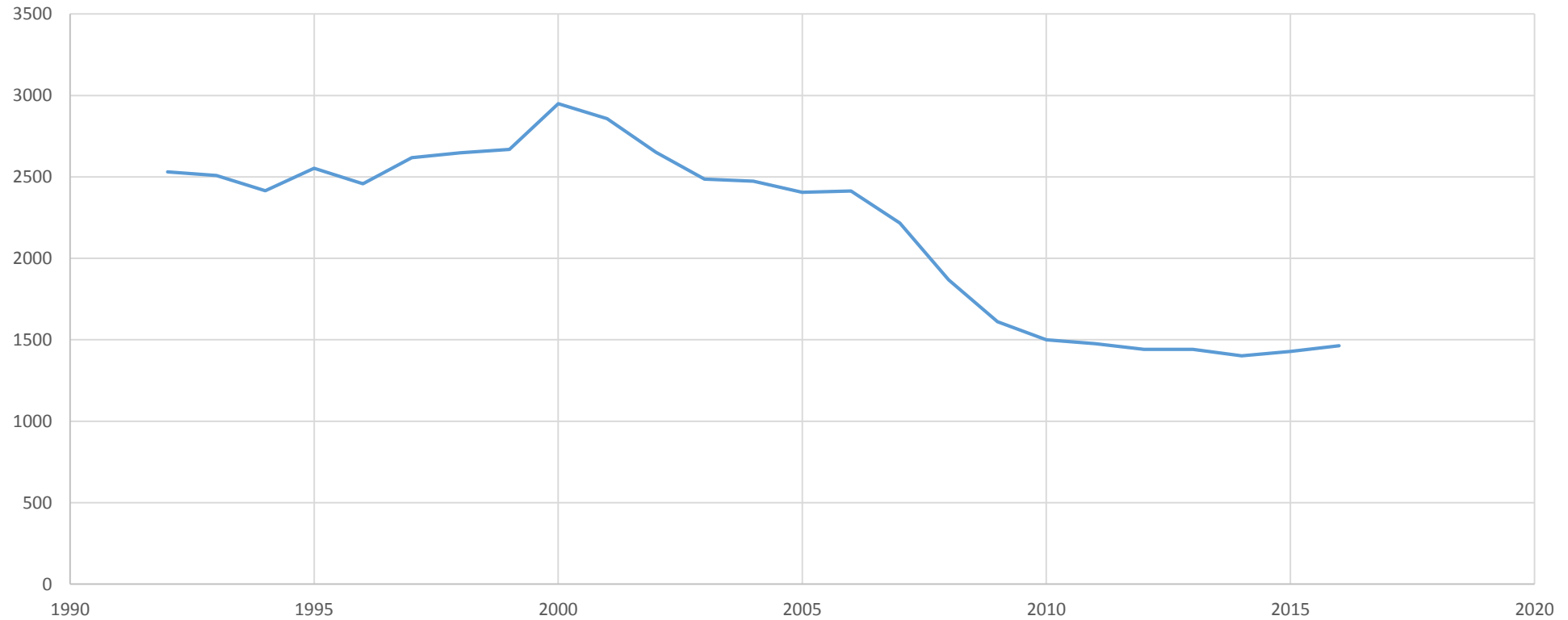
Total employment (blue line)

Employment for people with intermediate education (grey line)

Employment for people with advanced education (red line)

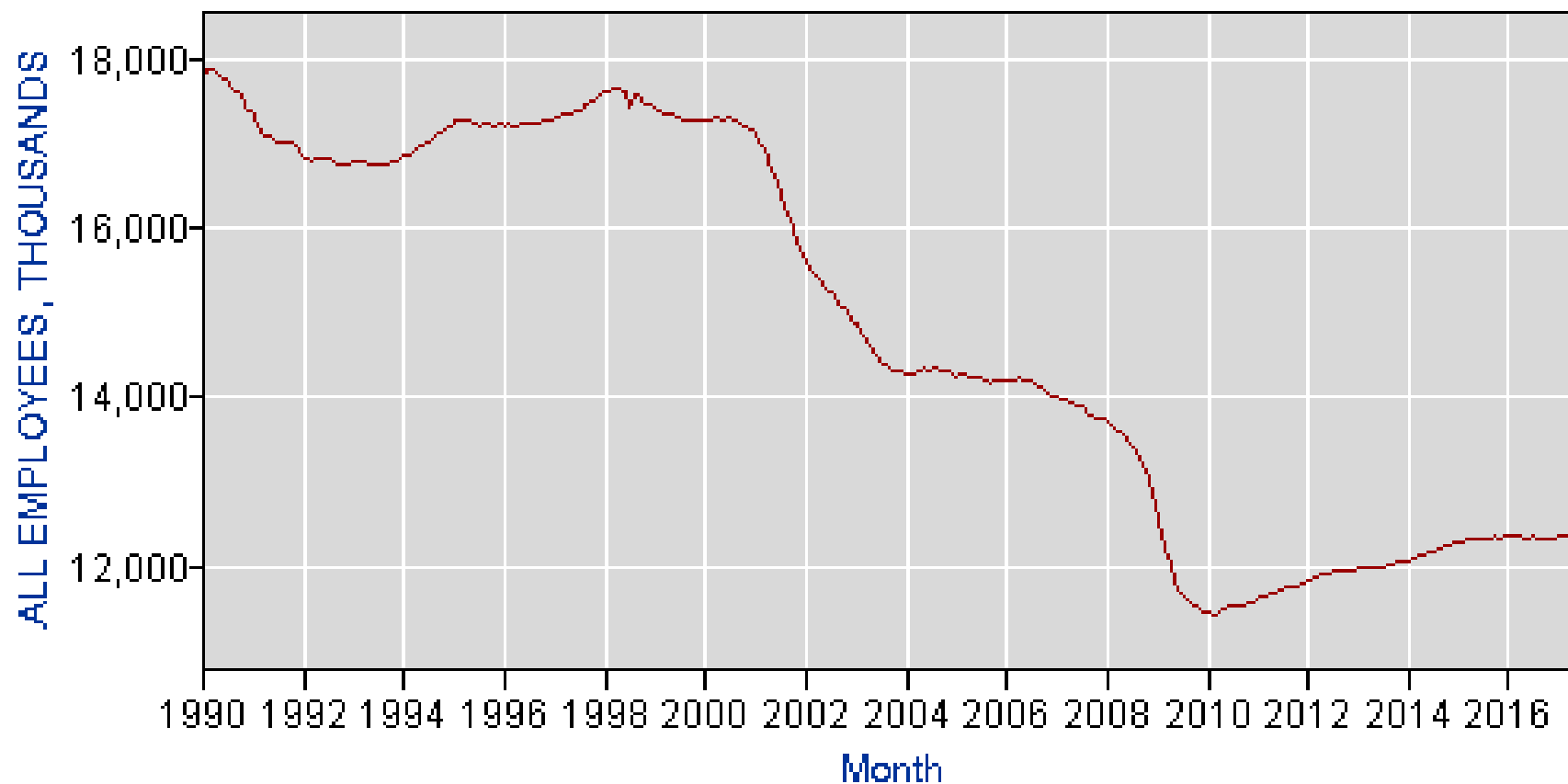


# Employment for people with basic education

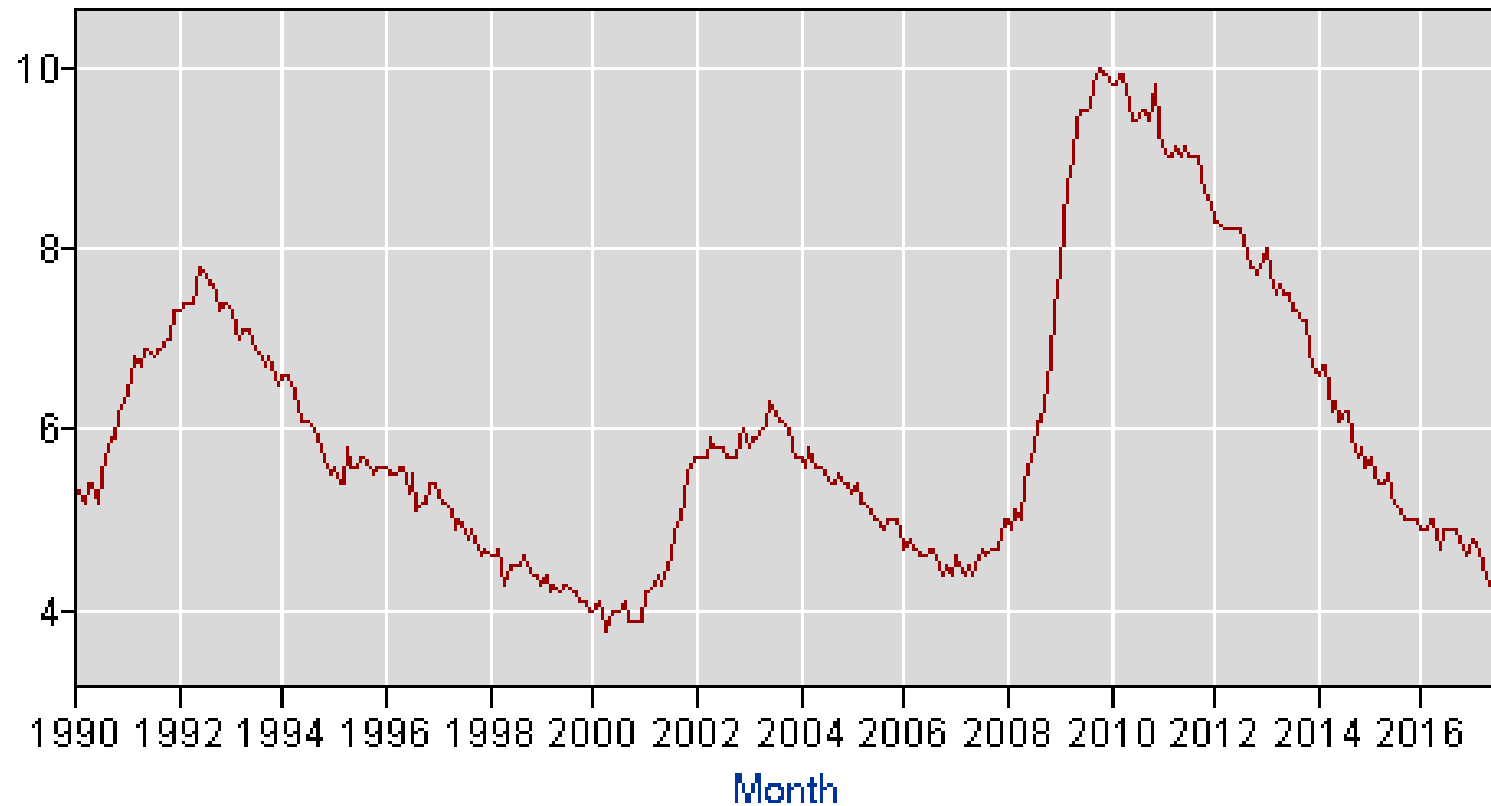




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Seasonally Adjusted  
Series Title: All employees, thousands, manufacturing, seasonally adjusted  
Super Sector: Manufacturing  
Industry: Manufacturing  
NAICS Code: -  
Data Type: ALL EMPLOYEES, THOUSANDS



Series Id: LNS14000000  
Seasonally Adjusted  
Series title: (Seas) Unemployment Rate  
Labor force status: Unemployment rate  
Type of data: Percent or rate  
Age: 16 years and over



# Trade Theory (Heckscher-Ohlin)

- H-O theorem states that a country will export goods that use its abundant factors intensively, and import goods that use its scarce factors intensively.
  - Different countries have different factor (resource) endowments.
  - Different industries use different factor-use intensity
  - Comparative advantage: lower cost of producing a good
- E.g. A capital-abundant country will export the capital-intensive good, while the labor-abundant country will export the labor-intensive good.
- Mexico has lower wage rate, does it mean that it has lower cost in producing everything??

# Trade Theory (Heckscher-Ohlin)

- Various effects on various industries
  - Employment and wage rates in export-oriented industries
  - Employment and wage rates in import-competing industries
  - The practice of multinational enterprises
- Location effects (Youngstown effect)
  - Locations concentrated with import-competing industries
  - Wage rates in non-tradable sectors will be affected too!
- Long-run effect on employment and real income
  - Owner of the abundant resource earns a higher real income
  - Owner of the scarce resource earns a lower real income
  - Take a look at the employment figures again
- Free trade always benefit some and hurt some others.
- Trade Assistance Programs

# The positive effects

- Lower import price, raises purchasing power of US people, creating more demand
- Lower import price on intermediate goods means lower input price for some producers, increasing competitiveness
- Production networks improves production efficiency and creates jobs
- A stronger Mexican economy boosts US exports
- Overall welfare gains?

**Thank You!**