WHY NOT NAFTA: UNEMPLOYMENT AND REDUCED WAGES

Name:

Institution:

Instructor:

Course title:

Date of submission:

**Introduction**

In 1994 the governments of US made a strong move making their states, free trade states using the NAFTA, this helped their economies grow up until 2018 when CUSMA came in. Though the benefits were numerous there were some problems too, this paper analyzes the problem of unemployment as a result of NAFTA and how CUSMA has addressed the problem.

**Argument against NAFTA: Movement of companies**

The NAFTA eliminated the effect of Tariffs in the three countries involved. The countries were therefore able to establish their production companies wherever they saw fit. In the US companies moved to Mexica where labor is cheaper to evade the high cost of production in USA. Since the activation of NAFTA in 1994 until 2010, US has had $97.2 billion worth of trade deficits with Mexico. During this period about 683000 jobs that would have gone to American citizens went to the Mexicans. About 116000of these jobs can be attributed to the 2007-2008 financial crisis, where companies in US had losses going up to 80%, to recover most of the affiliated companies migrated to Mexico. The American workforce also faced suppression of Wages. The bluff of moving production to Mexico was used to neutralize union organizations for workers (Kimberly 2020). Employees were leveraged to joins companies without registering to any unions, there their salaries could be suppressed without them being able to resist. In 1999 these pattern had rate of 71%.

**Overall effects of the concern**

Some of the common effects of loss of employment and reduced income on the trading activities include; a lower expenditure by the consumer which lead to lower demand for the income-elastic commodities. Having to economize their budget consumer usually opt for cheaper, low quality and inferior products, with a high labor force being unemployed, those employed receive suppressed income since supply of labor is high. Unemployment is associated with job insecurity which deters motivation, leading to poor performance. Crime, which is another effect of unemployment may also affect the trading sector, there is also loss of industrial skills and a lower staff turnover. Unemployment also negatively impacts the economy as the government has to pay for more unemployment benefit (Robert 2020). The income tax collected also reduced since fewer citizens are paying tax.

**How the concern was addressed in CUSMA**

Through the CUSMA agreement US is expected to have a rise in GDP by 0.35%, employment is also expected to rise by 176000 vacancies and a corresponding rise in wages by 0.27%. These is what is expected on the assumption that implementation of CUSMA is 100% successful. According to the CUSMA agreement Mexico did to adopt a new form of labor legislation set to improve the rights of labor. The Mexican union salaries are to rise by about 17%. These changes are expected to increase the US wages which alleviates the problem of suppression of salaries. Chapter 8 of the ITC report claims where the committee estimates the collectively bargaining legislation which is expected to cause a rise in the ionization rates and wages in Mexico (Robert 2019), the expected reaction to this is an increase in US output and corresponding rise in employment.

**Conclusion**

The NAFTA had some impactful benefits to the US. The economy grew as production was cheaper and returns were higher. The US citizens and the economy ended up paying a price. The price was reduced income level for the general economy and loss of employment. If successful implementation of CUSMA happens, the employment rate is expected to rise and a corresponding rise in wages.

**References**

Kimberly, A 2020, ‘Six problems with NAFTA’, retrieved March 24, 2020, <https://www.thebalance.com/disadvantages-of-nafta-3306273>

Robert, E 2019, ‘Vanishing benefits for US workers in NAFTA- 2,(CUMSA) deal’, retrieved March 24, 2020, <https://www.epi.org/blog/now-you-see-them-now-you-dont-vanishing- benefits-for-u-s-workers-in-nafta-2-usmca-deal/>

Robert, S 2013, ‘the high price of free trade: NAFTA’s failure has cost the United States jobs across the nation’, retrieved March 24, 2020, <https://www.epi.org/publication/briefingpapers\_bp147/>