

# Labor Market Integration: as a response to goods market failure to adjust



**LINK CONFERENCE 2005: DISCUSSING THE WORLD FOR THE FUTURE**

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**MEXICO, MAY 2005**

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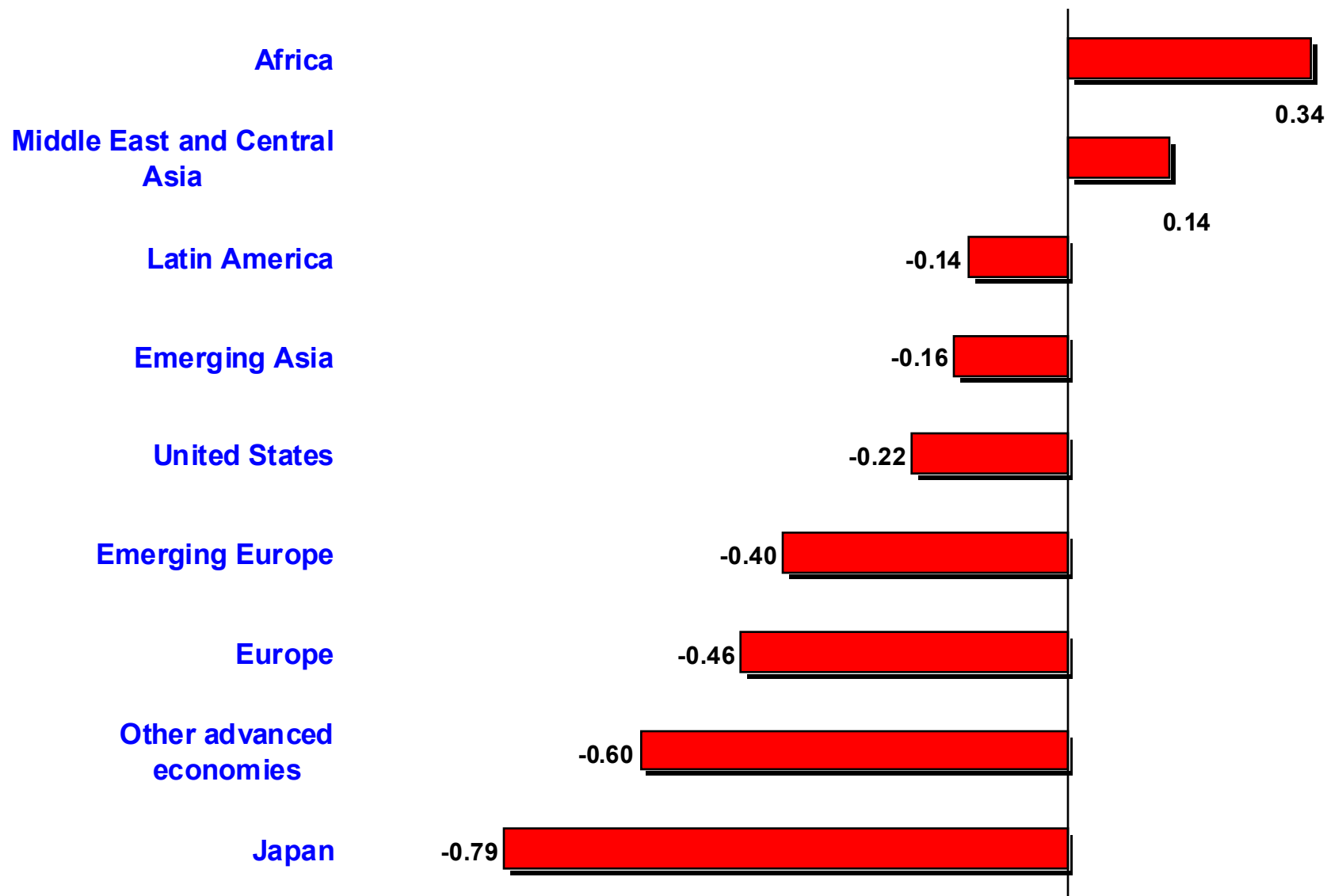
- **Basic model of adjustment**
- **Labor Market basic features**
- **Expected trade effects on integration**
- **Labor market specialization: the role of integration**
- **The role of integration on productivity**
- **Labor market scenarios**

# Traditional model of adjustment

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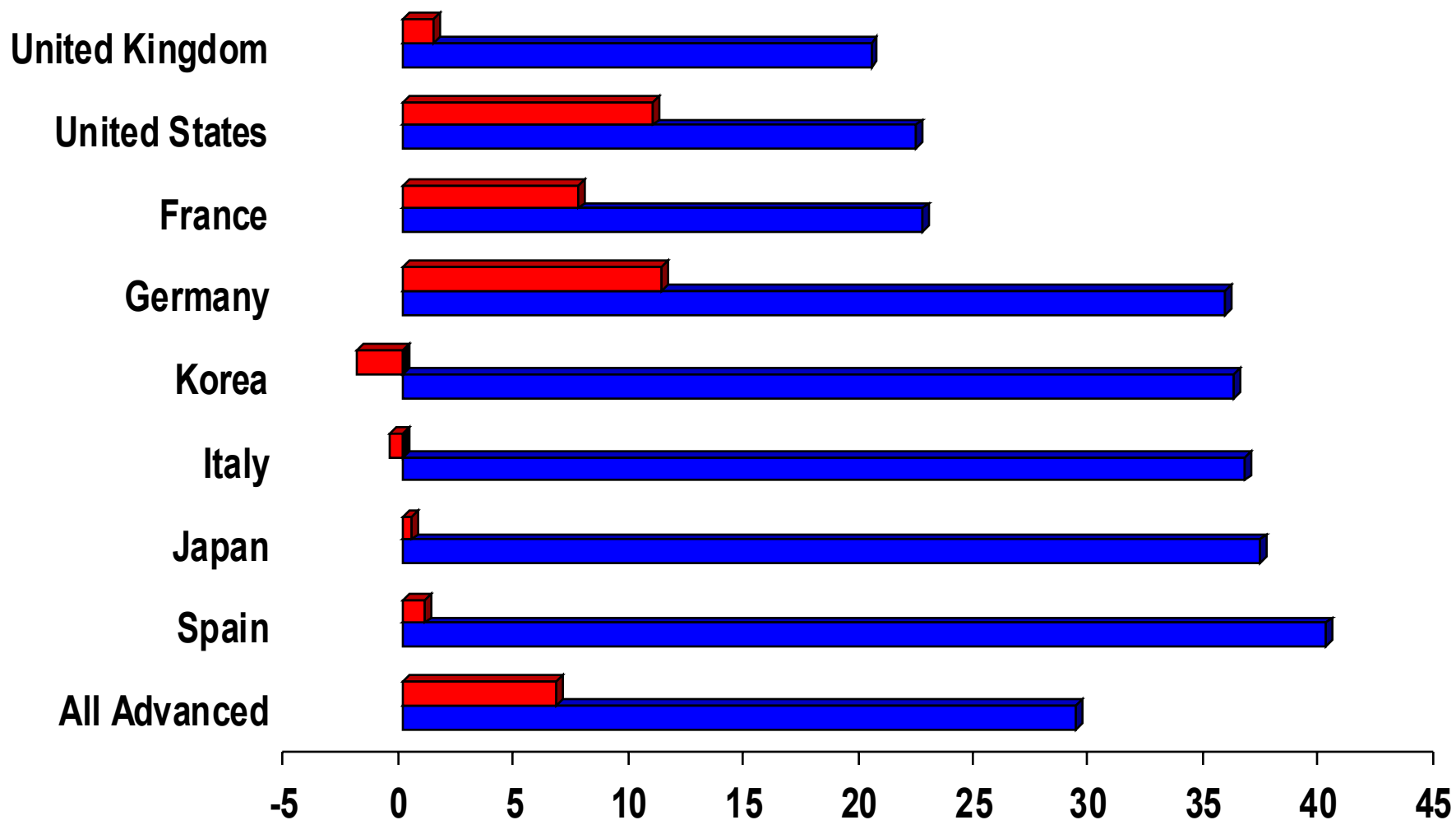
- Adjustment in the traditional model gives as result unemployment
- Some modern models have introduced the concept of waiting to work (Akerlof, Rose and Yellen 2003)
- For developing countries theory has introduced the concept of segmented labor markets, bringing in the informal labor sector
- But up to date, all models assume closed labor markets, little research has been developed regarding open labor markets, where labor mobility has an impact on the performance of home and host economy, through migration.

## World Economic Outlook 2004 introduced the question: how will demographics affect the global economy?



## Immigration (percent of end of period total population)

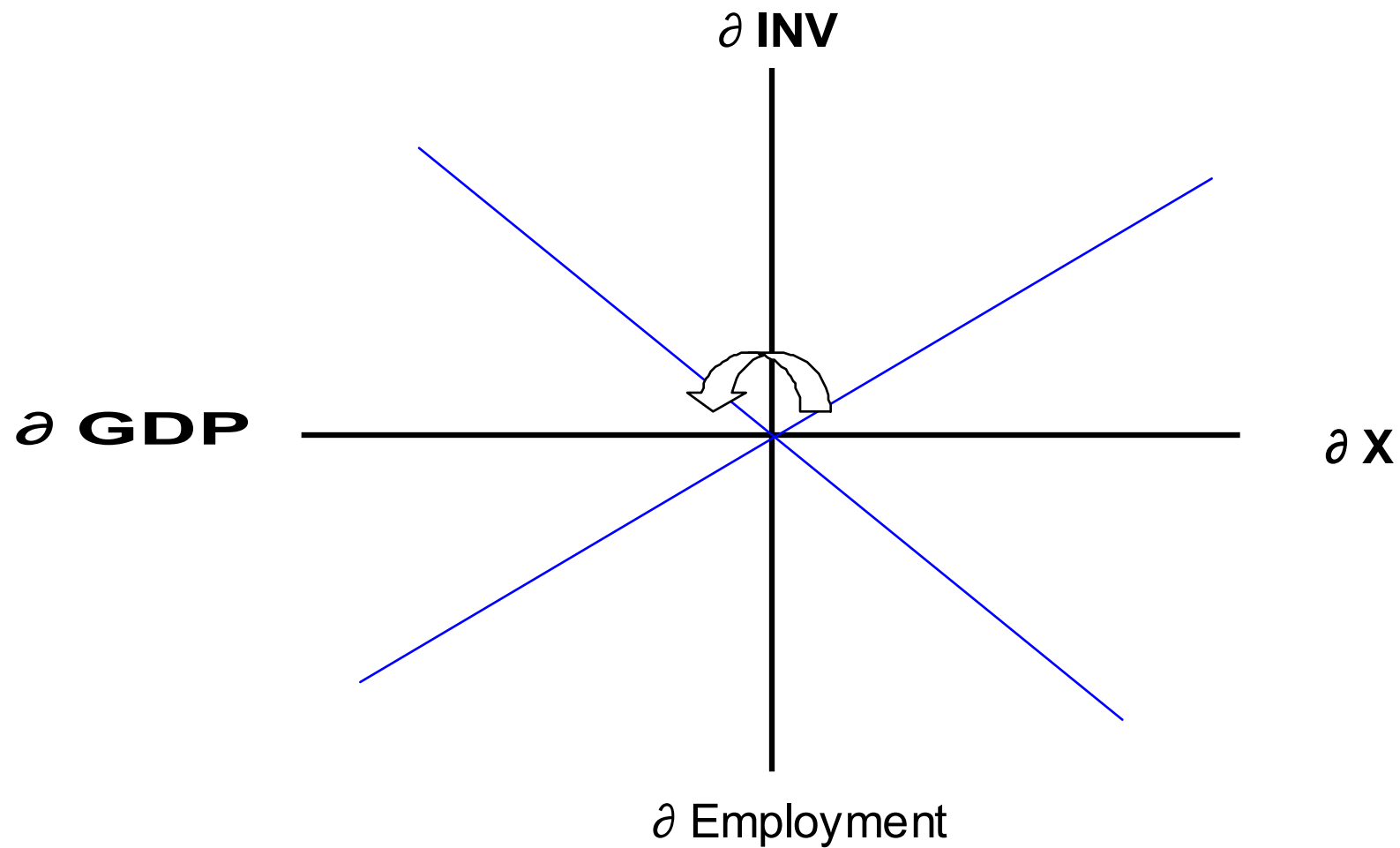
■ Migration 1960-2000  
■ Migration Necessary for constant Labor Force to Total Population Ratio in 2050



## **NAFTA: expected results of trade integration**

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## North America: expected outputs

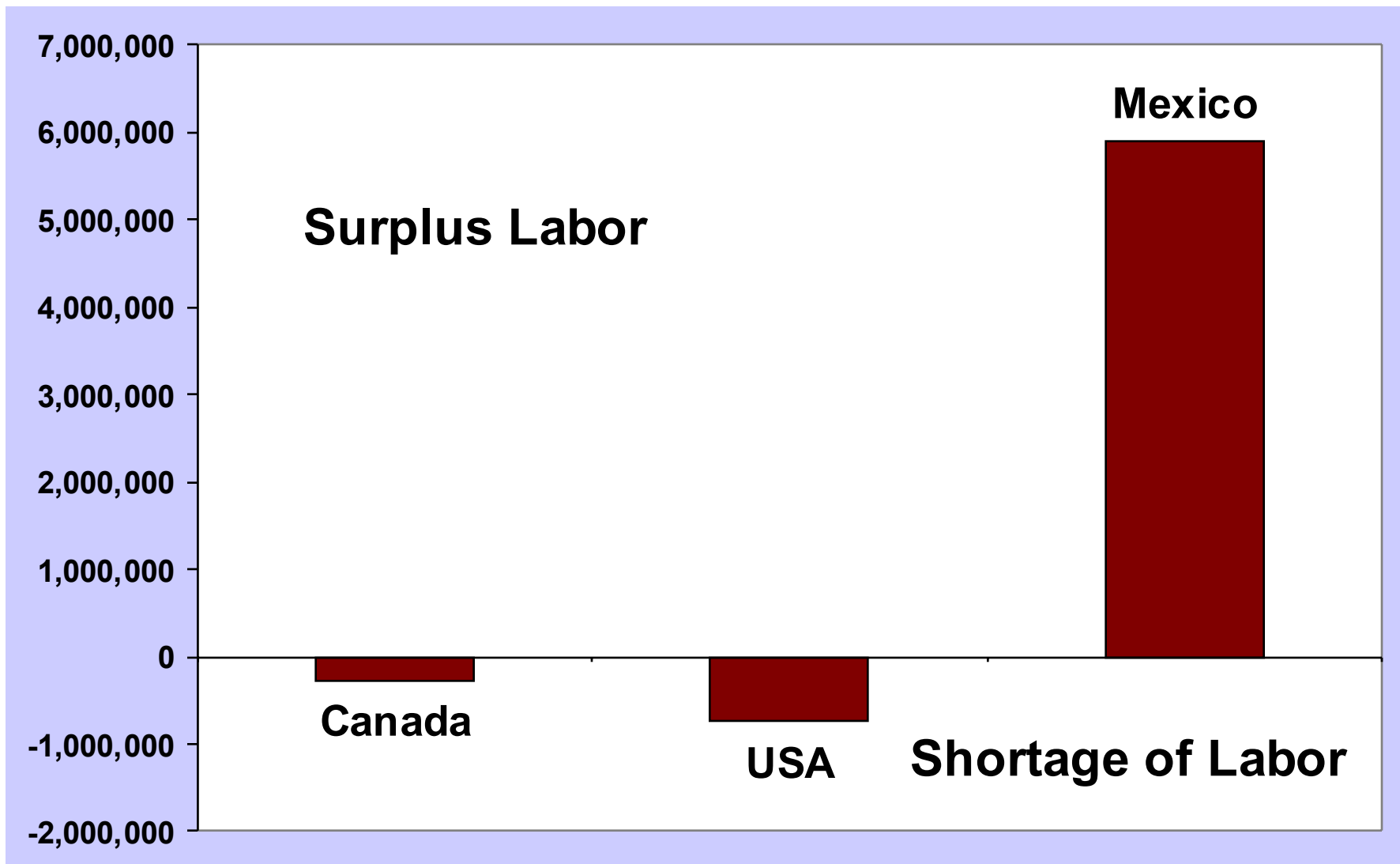


<b>Changes in investment position of NAFTA countries in the region was positive ( millions of dollars)</b>			
	<b>Canada</b>	<b>USA</b>	<b>Mexico</b>
<b>Year 2003</b>			
Canada	-	102,255	n.as.
USA	192,409	-	61,526
Mexico	n.d.	6,680	-
<b>Year 1994</b>			
Canada	-	41,219	n.a.
USA	74,221	-	16,968
Mexico	n.d.	2,069	-
<b>Change in investment position</b>			
Canada	-	61,036	n.d.
USA	118,188	-	44,558
Mexico	n.d.	4,611	-
<b>Source: BEA web page September 2004</b>			

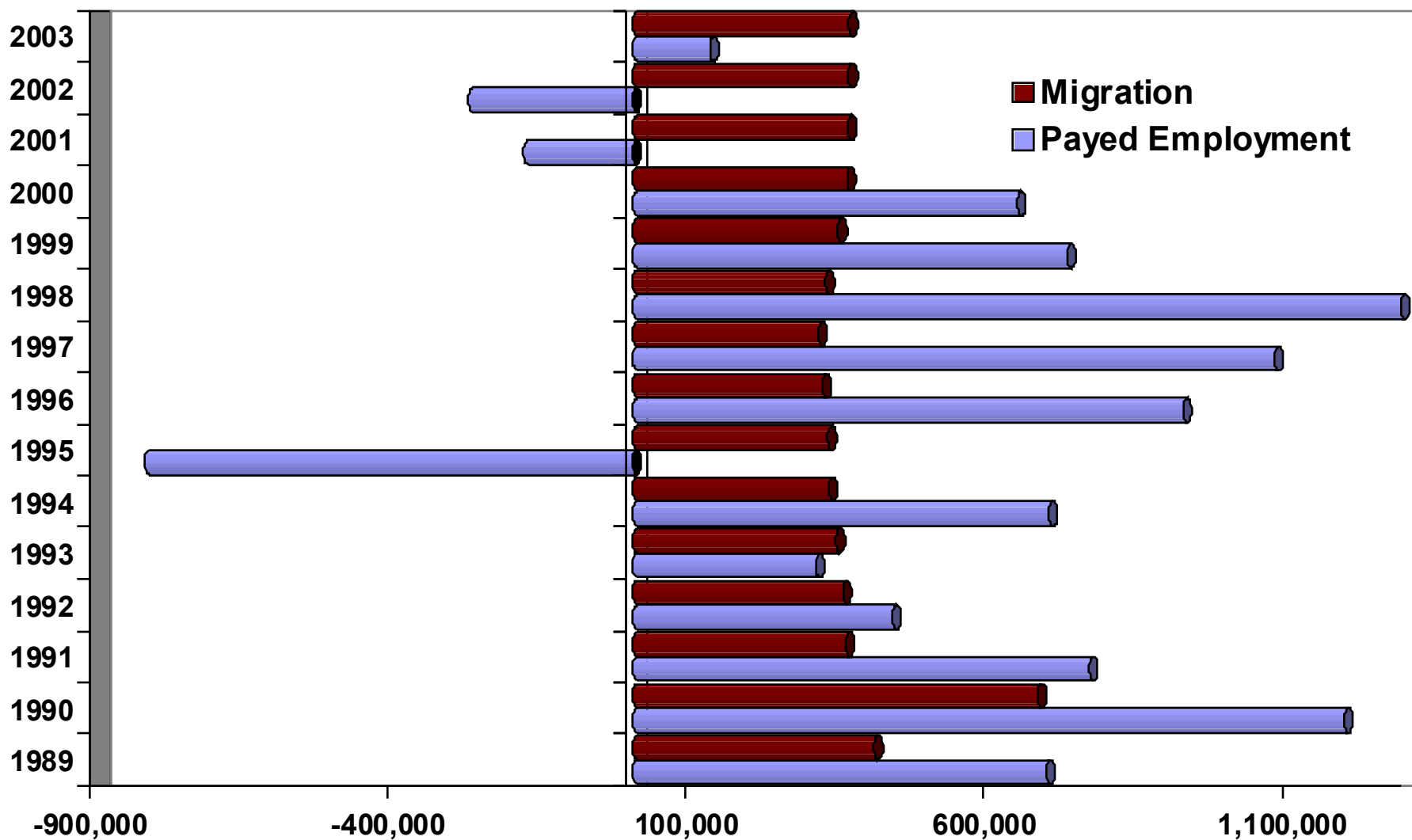


<b>NAFTA trade had the expected exports behaviour but not in the imports side</b>			
	<b>Intraregional Exports Share of Total Exports</b>	<b>Intraregional Imports Share of total Imports</b>	<b>Net integration effect</b>
	<b>A</b>	<b>B</b>	<b>C= A - B</b>
<b>1992</b>	<b>0.44</b>	<b>0.36</b>	<b>0.08</b>
<b>1993</b>	<b>0.46</b>	<b>0.37</b>	<b>0.09</b>
<b>1994</b>	<b>0.48</b>	<b>0.37</b>	<b>0.11</b>
<b>1995</b>	<b>0.46</b>	<b>0.38</b>	<b>0.08</b>
<b>1996</b>	<b>0.47</b>	<b>0.39</b>	<b>0.08</b>
<b>1997</b>	<b>0.49</b>	<b>0.40</b>	<b>0.09</b>
<b>1998</b>	<b>0.51</b>	<b>0.40</b>	<b>0.11</b>
<b>1999</b>	<b>0.54</b>	<b>0.40</b>	<b>0.14</b>
<b>2000</b>	<b>0.56</b>	<b>0.40</b>	<b>0.16</b>
<b>2001</b>	<b>0.55</b>	<b>0.39</b>	<b>0.16</b>
<b>2002</b>	<b>0.57</b>	<b>0.38</b>	<b>0.18</b>
<b>Source: Own estimates based on WTO web database September 2004</b>			

## North America: Employment Gap 1994 - 2003



## MEXICO: employment creation vs. Migration flows

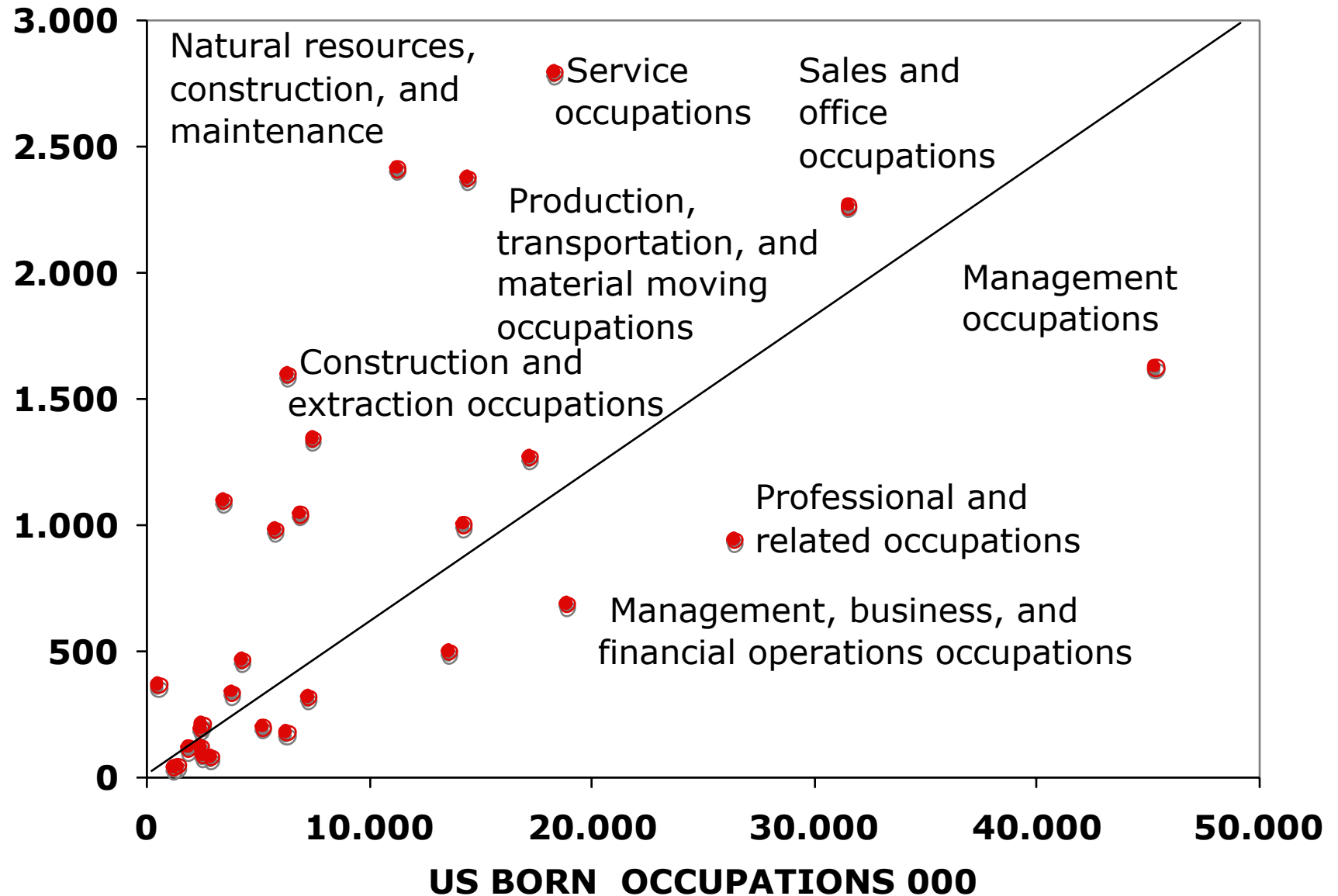


**Migration as adjustment to productive disequilibrium**

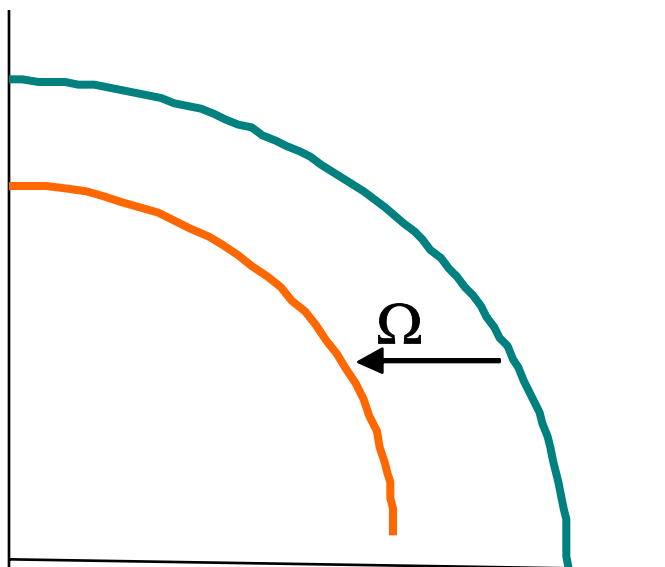
Year	Total Migration to USA (millioins of persons)	Mexican Migration (millions)	Canadian Migration (millions)	North American Migrants to USA (millions)	% of total migration	US population growth (millions)	Migration as % of US population growth (%)
1989	1.091	0.405	0.012	0.417	38.3		
1990	1.536	0.679	0.168	0.847	55.1	2.79	30.4
1991	1.827	0.946	0.014	0.960	52.5	3.36	28.6
1992	0.974	0.214	0.015	0.229	23.5	3.40	6.7
1993	0.904	0.127	0.017	0.144	15.9	3.36	4.3
1994	0.804	0.111	0.016	0.127	15.8	3.18	4.0
1995	0.720	0.090	0.013	0.103	14.3	3.12	3.3
1996	0.916	0.164	0.016	0.179	19.6	3.11	5.8
1997	0.798	0.147	0.012	0.158	19.8	3.24	4.9
1998	0.654	0.132	0.010	0.142	21.7	3.20	4.4
1999	0.647	0.148	0.009	0.156	24.2	3.18	4.9
2000	0.850	0.172	0.215	0.386	45.5	3.04	6.2
2001	1.064	0.205	0.030	0.235	22.1	2.69	8.5
2002	1.064	0.217	0.027	0.245	23.0	2.65	9.0
2003	0.706	0.115	0.017	0.132	18.6	2.37	5.6
Per'od 1989 a 2003	14.557	3.871	0.590	4.461	30.6	42.703	9.3

Source: Own estimates based on US. Department of Homeland Security, Office of Inmigration Statistics "2003 Yearbook of Inmigration Statistics. Septermber 2004" Table 2. Inmigration by region and selected country of last residence fiscal years 1820 - 2003; and US Census Bureau "Statistical Abstract of the United States 2003" Table 2. Population 1960 to 2002, Pãgina 8.

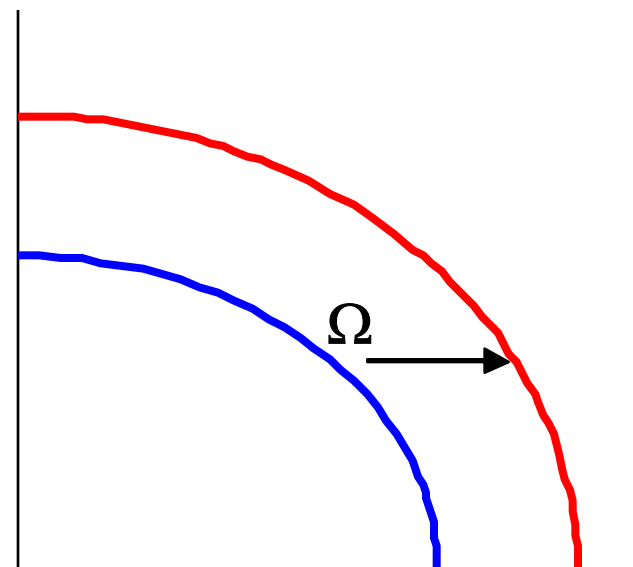
## SUSTITUIBILITY OR COMPLEMENTARITY



## MIGRATION FLOWS EFFECTS ON PRODUCTION



HOME ECONOMY



HOST ECONOMY

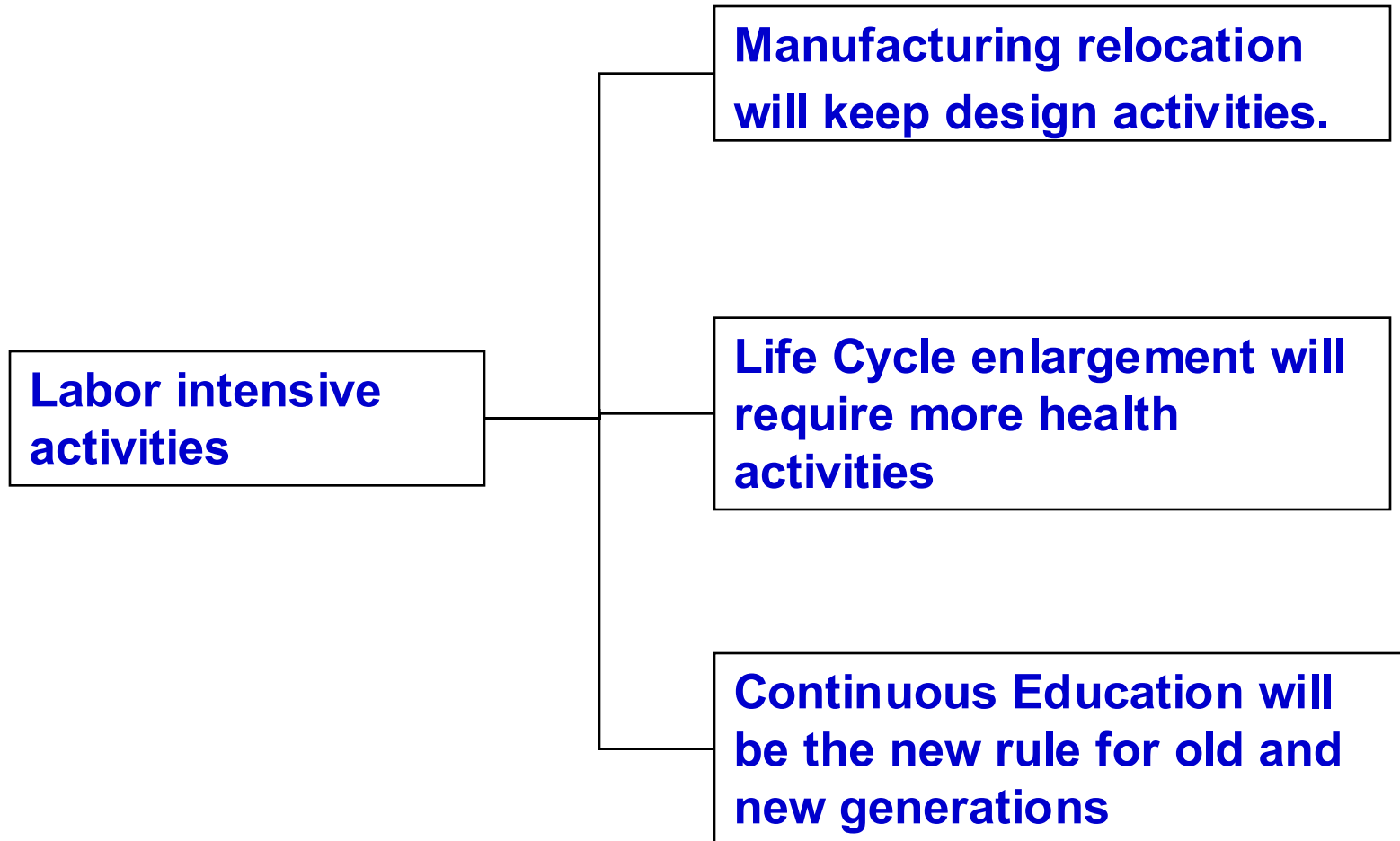
Preliminary estimates show that 8% of US GDP comes from Mexican Migrants and that migration reduces in 27% the Mexican GDP

# **Second Stage Adjustment Labor Market Trends**

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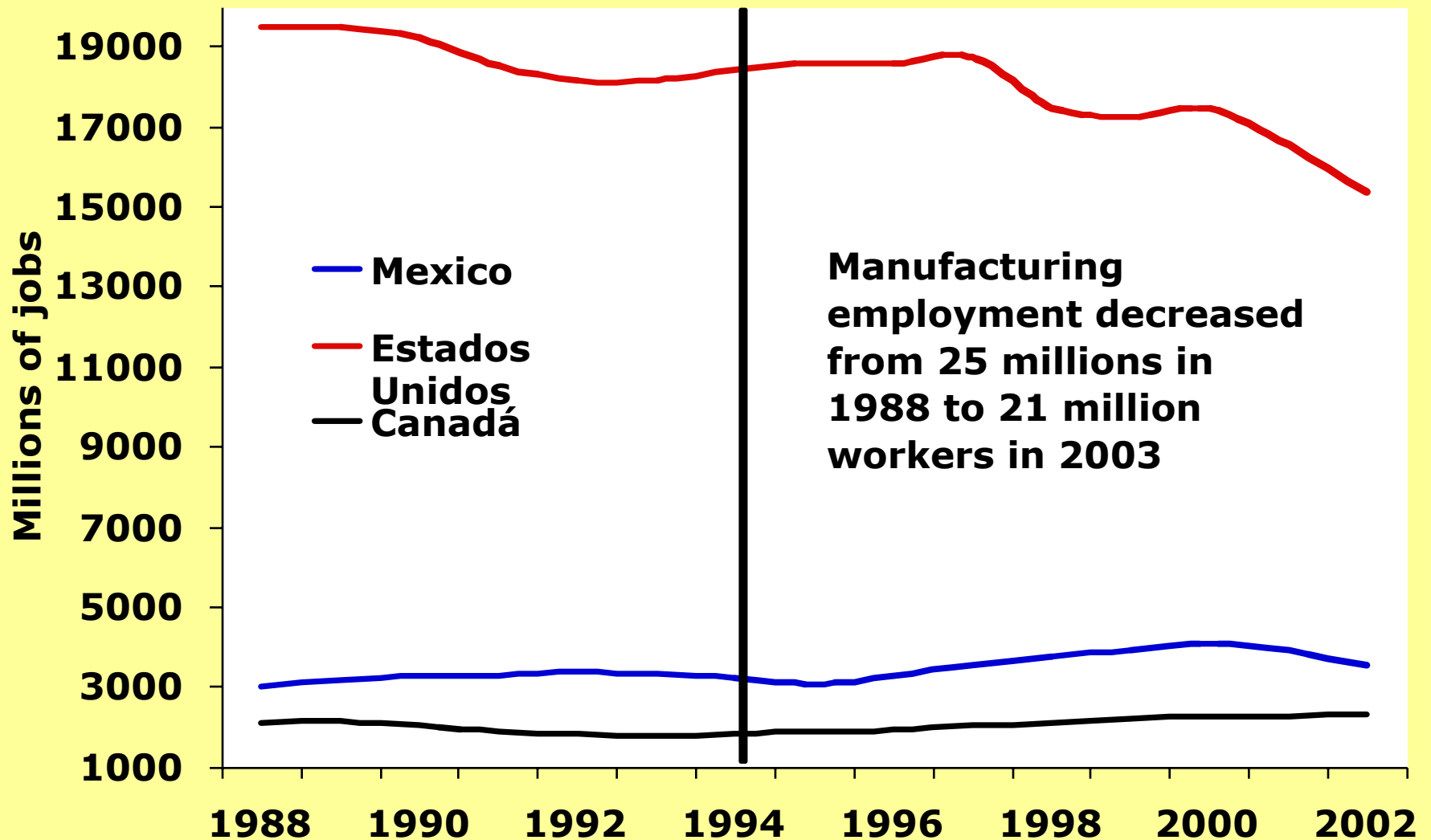
# **North America will become more labor intensive**

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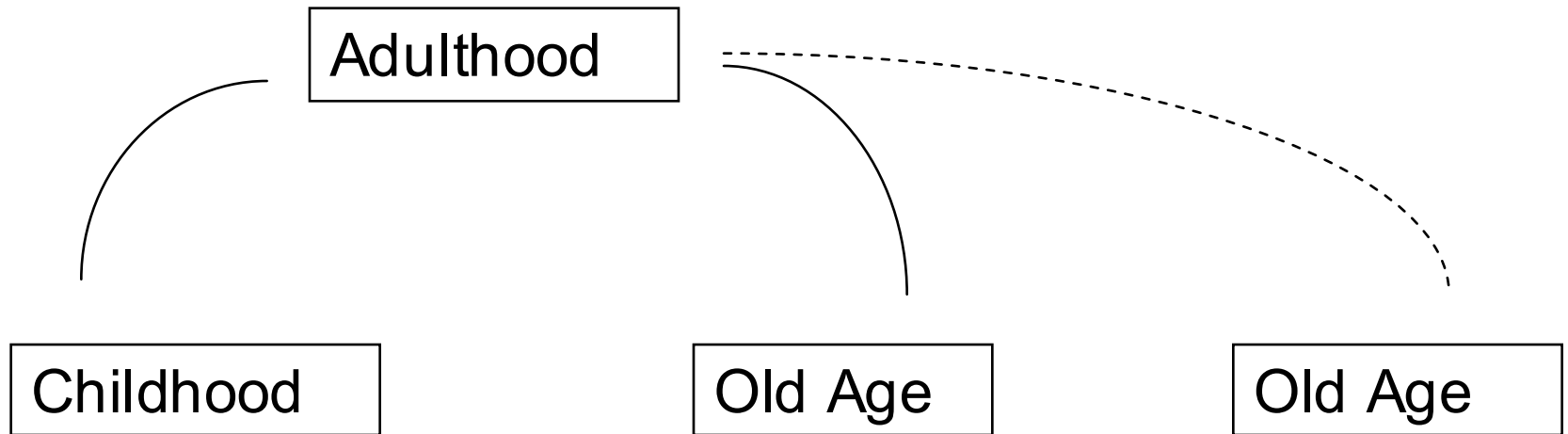


Relocation of manufacturing outside the region is pushing down employment in the sector, transferring it to the service sector



## Life cycle changes will create new employment niches

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New professions and new employment niches will emerge as life expectancy increases: health and education will be more demanded

# **Impact of Labor Market Integration in Productivity**

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<b>North America Productivity Evolution 1994 to 2000</b>						
	<b>CANADA</b>	<b>US</b>	<b>MEXICO</b>	<b>CANADA</b>	<b>US</b>	<b>MEXICO</b>
	<b>1994</b>			<b>2000</b>		
<b>TOTAL</b>	0.6878	1.0	0.2365	0.6398	1.0	0.2334
<b>Goods Producing Sectors</b>	0.7029	1.0	0.1400	0.7251	1.0	0.1376
<i>Agriculture, forestry, and fishing</i>	0.5698	1.0	0.0505	0.7772	1.0	0.0409
<i>Mining</i>	0.6532	1.0	0.1875	0.5123	1.0	0.1064
<i>Electric, gas, and sanitary services</i>	0.7464	1.0	0.1287	0.6597	1.0	0.1109
<i>Construction</i>	0.7232	1.0	0.3393	0.6839	1.0	0.3199
<i>Manufacturing</i>	0.7103	1.0	0.3142	0.7187	1.0	0.3231
<i>Durable goods</i>	0.7397	1.0	0.3625	0.6319	1.0	0.3095
<i>Nondurable goods</i>	0.6904	1.0	0.3362	0.5888	1.0	0.3116
<b>Service Producing Sectors</b>	0.6625	1.0	0.4354	0.5087	1.0	0.3564
<i>Trade</i>	0.7991	1.0	n.d.	0.6212	1.0	n.d.
<i>Wholesale trade</i>	0.6004	1.0	n.d.	0.4599	1.0	n.d.
<i>Retail trade</i>	0.4841	1.0	0.2875	0.4241	1.0	0.3250
<i>Transportation,communications, and</i>	0.6910	1.0	0.6399	0.5971	1.0	0.4361
<i>Finance and insurance</i>	n.d.	1.0	0.9530	n.d.	1.0	0.4570
<i>Real estate</i>	n.d.	1.0	0.2558	n.d.	1.0	0.2318
<i>Professional services, scientific and</i>						
<i>technical; business assistance and</i>	0.7912	1.0	0.9205	0.4282	1.0	0.7353
<i>Educational services</i>	1.3151	1.0	0.3868	1.0168	1.0	0.3782
<i>Health and social services</i>	0.5493	1.0	0.3964	0.5791	1.0	0.4354
<i>Information, culture and recreation</i>	1.0288	1.0	0.8573	0.8757	1.0	0.8941
<i>Hotels and other lodging places</i>	0.4802	1.0	0.3773	0.6363	1.0	0.5712
<i>Other Services</i>	0.2605	1.0	0.1015	0.6499	1.0	0.1895
<i>Government</i>	0.9705	1.0	0.2450	0.9647	1.0	0.2703

# **Labor Market Scenarios 2005 - 2050**

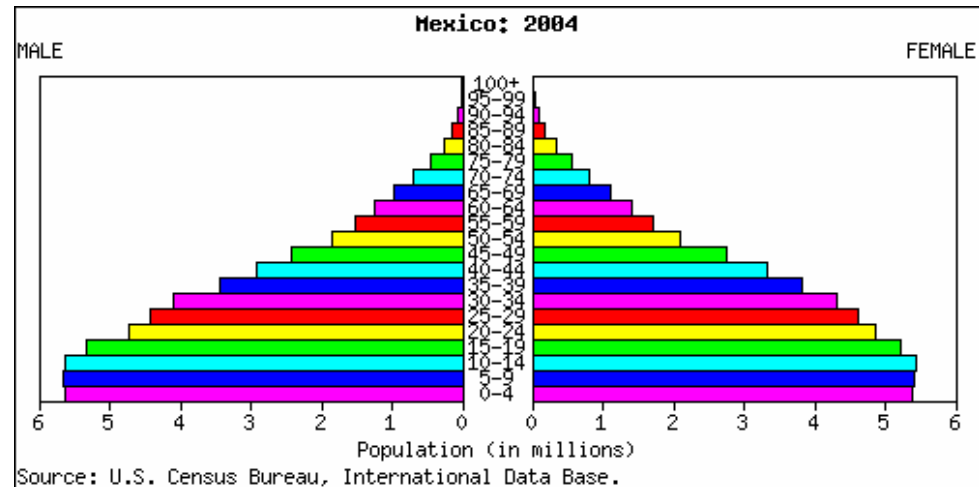
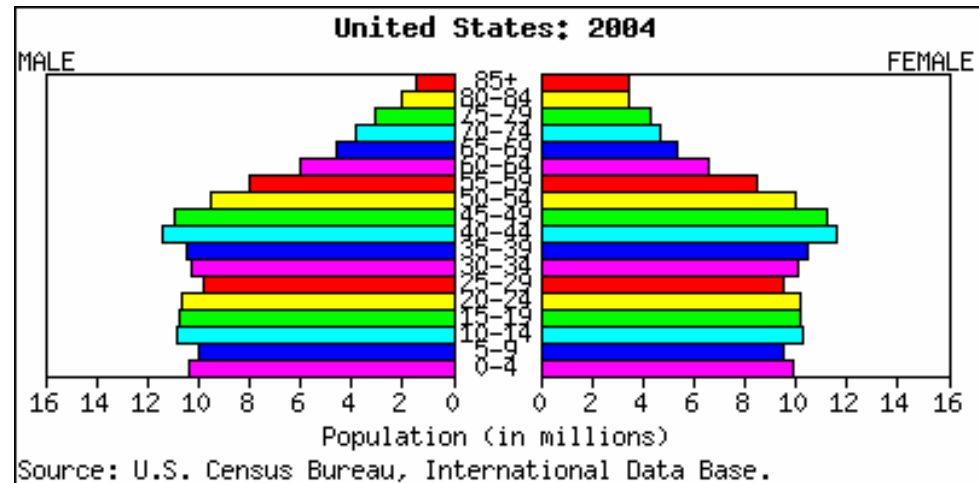
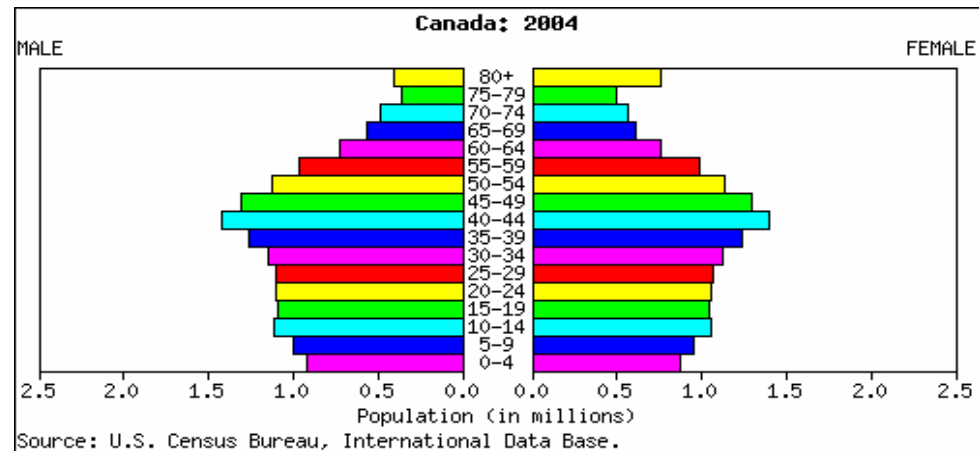
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## Scenario 2003 to 2012

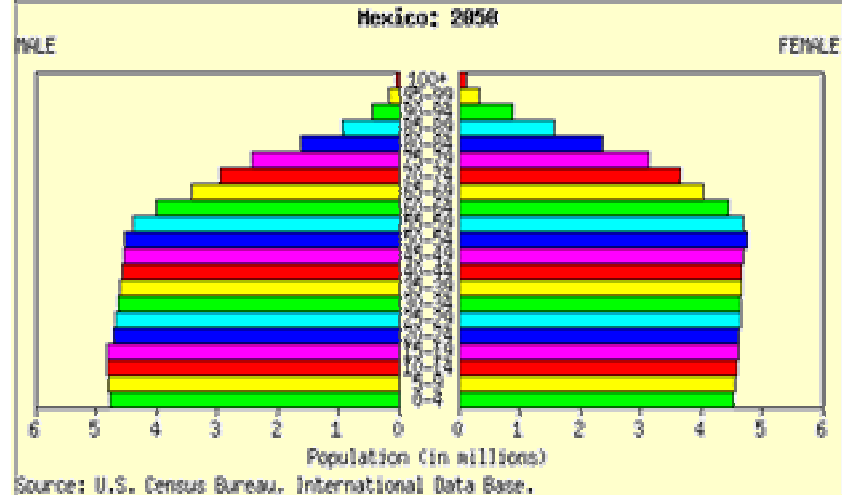
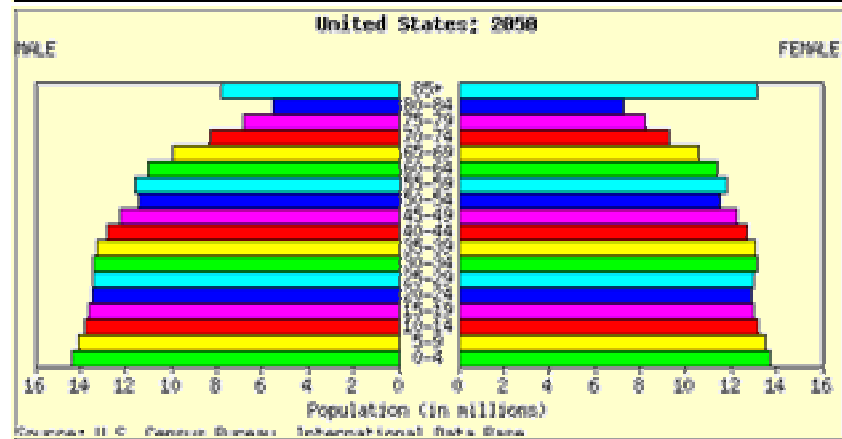
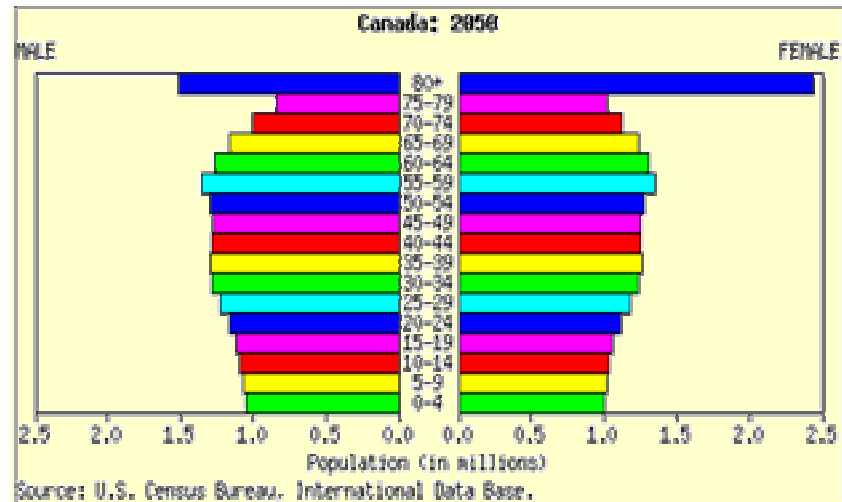
- Estimates shows that population in the region will increase by 38 million between 2003 and 2012, if participation rates remains as today, labor force will increase by 18 millions, that will mean an average of 1.97 million a year..

Labor force scenario 2003 to 2012					
	Canada	Mexico	USA	North America	Growth
2003	32,207,113	103,718,062	290,342,554	426,267,729	
2012	34,818,515	114,975,406	314,508,098	464,302,019	38034290
Labor Force					
2003	16,522,249	41,072,353	143,429,222	201,023,824	
2012	17,861,899	455,530,261	155,367,000	628,759,160	427735336

# North America: Labor Market Integration



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## **An agenda for discussion**

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- If you US and Canada requires to increase to grow at their potential rate, they will require to maintain open migration policies, and get a new migrant agreement with what we can call NAFTA II.
- US and Canada requires to recognize the positive benefits of migration and academics in the region should work on precise estimates of what are the effects of migration.
- Mexico should recognize that migration is a loss of human capital and of potential growth, so investment requires to be increased to take advantage of the growth of labor force.