Asymmetric study on unemployment in the T-MEC nations

Estudio asimétrico sobre desempleo en las naciones integrantes del T-MEC

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Abstract

The present investigation touches a fundamental topic in the economic activity of the nations that are members of the T-MEC, the unemployment that people face, whether it is the incorporation to the labour activity or people that for different reasons lost their job, being considered the economically population the individuals that are in working age and are apt for a job. In the United States (US), an economically powerful nation in which international migration participates, this circumstance has an impact on full employment, considering a limited margin of unemployment in US society. This article analyses the causes of unemployment and the impact of employment on the pandemic crisis in the T-MEC nations. Starting from the conceptual framework of unemployment behaviour.

Resumen

La presente investigación toca un tema fundamental en la actividad económica de las naciones integrantes del T-MEC el desempleo que enfrentan personas ya sea de incorporación a la actividad laboral o personas que por diferentes motivos perdieron su empleo, siendo considerada a la población económicamente los individuos que se encuentran en sedad de trabajar y de ser apto para un puesto laboral. En los Estados Unidos (EU) nación poderosa económicamente en donde participa migración internacional esta circunstancia incide en el pleno empleo considerando un margen de desocupación acotado en la sociedad estadounidense. En este artículo se analizan las causas del desempleo y la repercusión del empleo en la crisis de la pandemia en las naciones integrantes del T-MEC. Partiendo del marco conceptual del comportamiento del desempleo.

Unemployment, Employment, T-MEC

Desempleo, Empleo, T-MEC

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Introduction

Unemployment is explained under the economic approach of economic growth which analyses the expansion of the economy in the long run. Economic growth is an increase in potential output in the long run (Samuelson, 524: 2010). The factors that affect the growth of a country can be divided into 4 points: Natural Resources (Improvement in farming technique). Human Resources: (Advances in the educational system, Increase in employment). Capital: (Improvement of physical capital, progress in road construction). Technical Progress: (Improvement in the technical knowledge of physical capital) (Samuelson, 525: 2010). This is what influences the growth of a nation, in the United States (US) the great scientific advances in information systems as it was in the eighties the great development of the computer in offices and homes led to a technological revolution, in the nineties the development of broadband (internet) made a change in the American Union and later to the whole world. These great changes make the displacement of technical progress of a nation as in the time of the nineteenth century railways, the steam engine, in England. At the beginning of the 20th century, the creation of the automobile and road infrastructure led to the development of nations. There is no doubt that technical progress leads a nation to economic growth, all factors are related and imply progress in the economy.

Structural unemployment appears when the structures of supply and demand do not match, either because the supply does not meet the characteristics required by the demand, or because the demand cannot absorb the characteristics offered by the labour force (Yarce, 91:2000). In a depressed labour market, the probability of finding another job is low. The bargaining power of workers is very limited. Thus, they would be willing to accept lower wages, close to their reservation wages. On the contrary, if the labour market is more flexible, the agreed wage will be higher than the reservation wage (Triana, 19:2015). The problem of unemployment in modern society is aggravated by the continuous economic, social and environmental crises and by the advances towards an era in which new technologies mark the path of productivity and consequently the labour factor is modified, i.e., this produces a reduction in the labour force (Bustamante et al., 776: 2020).

Unemployment as a generic term refers to an occupational status in which people who would like to work cannot find a corresponding job (Bustamante et al., 775: 2020).

Analysis of Unemployment Behaviour in the T-MEC Nations

In the United States there is unemployment among Americans despite being a nation that has a lot of international migration due to the strong absorption in the level of employment. Latin Americans, Asians and people from different parts of the world migrate. It is an economy that has an almost total level of employment even though there are levels of unemployment. So it is important to ask the following question: What is the consequence of unemployment levels in the US? In the US economy, of course, in times of economic crisis, unemployment increases, as in the real estate crisis of 2007-2008, and in times of stability, such as the Obama period, it is reduced. There is a direct relationship between economic growth and employment. When there is growth there are increases in employment and vice versa (see graph 1).
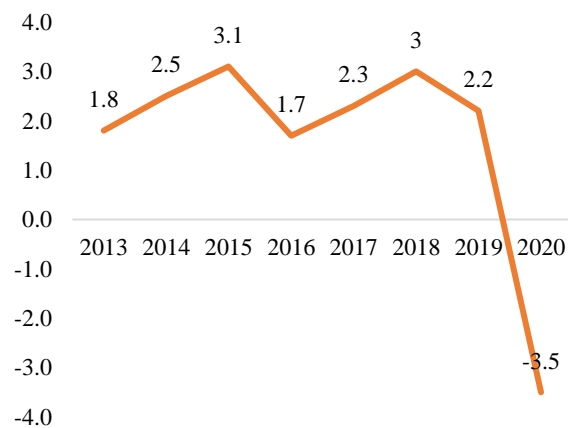

Graphic 1 Real economic growth in the United States, 2013-2020, (percentages)
Source: United States Bureau of Economic Analysis

In the US nation with an expansion in the level of employment in the decade of 2010-2019 led to declining levels of unemployment, but unemployment levels remain. The reasons for unemployment can be many, as there is an important social factor that causes it to exist. The unemployed are all those people who are looking for work in a given period and are eligible for employment, in the EU it is counted per week and people who have looked for work in the last 4 weeks according to (Krugman, 2014: 214).

Considering the economically inactive population to whom the survey can be applied, but because they are not looking for a job they do not belong to the circle of unemployed, such as retired people, students, and people with disabilities. Out of a population of more than 320 million by June 2021, 201.814 million are employed and the rest belong to the economically inactive population and a small proportion are unemployed. In other words, more than 100 million Americans belong to the economically inactive population, almost the population of Mexico in total more than 120 million.

The trend in the US is a decrease in unemployment rates since 2010 year by year until reaching a minimum point of 3.7% in 2019. It should be noted that Barack Obama was in office in 2010 and finished his term in 2016, where unemployment decreased during his administration due to economic growth averaging 2%. It is important to note that during the presidency of Donald Trump there was a decrease in unemployment, which decreased to the minimum point in 2019 and then increased during the crisis of the COVID-19 pandemic, due to the isolation of people in their homes and the decrease of companies in their activities, which led to an increase in unemployment to 2010 levels (see graph 2). (see Graphic 2).
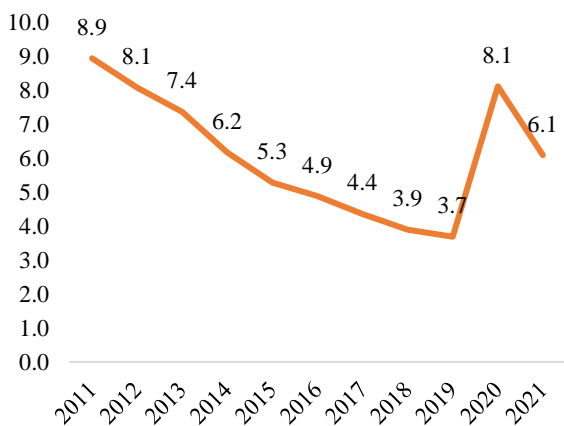
Graphic 2 Unemployment in the United States, 2010-2021 (percentages)
Source: United States Bureau of Labor Statistics

Unemployment rate

The unemployment rate is the ratio of the number of unemployed to the total labour force and is a ratio of less than 1, or it can be 100%, in other words, it is a percentage. With information from macro-data expansion in April 2020 it is 14.8% the highest even than the whole decade following high months 13.3%, 11.1% and 10.2%, May, June and July respectively. If we make a comparison with respect to developed countries in Germany the unemployment rate fluctuates between 4% in 2020 obtaining the highest level of 4.6%, this means that unemployment rates in the US are higher than those in the German nation. While the UK's highest rate in 2020 was 5.1% compared to the US, it is much lower than the US rate in April 2020. In the Netherlands in August 2020, it was 4.6%, the highest rate in August 2020 is much lower than the American rate in April 2020. Japan also has an average unemployment rate of 3%, much lower than the US. It can be said that similar nations have a lower unemployment rate than the US, so the unemployment rate in the US is higher than in developed countries.

Unemployment insurance

Unemployment insurance was created in 1935 by the Social Security Act, which consists of collecting taxes and establishing social benefits for individuals so that when they need insurance they can resort to this benefit, in which the Federal State and the States of the Union create the conditions for unemployed individuals to resort to insurance (Abrizio, 2017: 2). In the US, unemployment insurance coverage exists if we look at the State of California, the requirement is to have received a salary in the last 18 months. Unemployment insurance can be obtained for up to 2 weeks and can be extended for up to 53 weeks by entering training courses through the Pandemic Unemployment Training Program (PEUC). (California, 2021). In the state of California the payment can range from $40 to $450 and can be extended up to $600 due to the Coronavirus Economic Security Relief and Economic Security Assistance Act (CARES, 2021).

In general, in all states of the United States the requirements are similar, being unemployed and the cause of unemployment must not be justified in order to obtain the insurance, they ask for the salary of the last 18 months, no matter if it is from one job or from several jobs. If you are self-employed or a contractor you have to declare your income after tax and in general that you are available for work. Considering half of your last gross weekly wage up to 53 weeks with extensions if you attend training courses or enter a Coronavirus programme.

Reasons for unemployment

Krekre 2021, argues that economists have long considered unemployment insurance to be an important automatic stabiliser, but should it also serve as a discretionary tool to stabilise short-term fluctuations? The US Bureau of Labor Statistics (BLS) in June 2020 the workers who lost their jobs the most were job losers (who had jobs involuntarily lost their jobs) and temporary job completers 14,283 and in June 2021, 5,787 with a decrease -8,496, with a slight increase in the temporarily unemployed in the period June 2020-June 2021 there was a decrease of 8,795 (see table number 1). Also permanent job losers and job leavers from June 2020 to June 2021 increased by 331, 371 respectively and persons who completed temporary jobs decreased by -32 belonging to not in temporary lay-off (see table 1).

Persons leaving work increased by 371 due to unsatisfactory job expectations or excessive workloads or pay increases in another similar position (see table 1).

	June 2020	June 2021	Difference
Job losers and completers of temporary jobs	14283	5787	-8496
In temporary unemployment	10606	1811	-8795
Not in temporary layoff	3676	3976	300
Permanent job losers	2856	3187	331
Persons who completed temporary jobs	821	789	-32
Job leavers	571	942	371
Re-entrants	2334	2298	-36
New entrants	557	494	-63

Table 1
Source: US Bureau of Labor Statistics

Employment

Employment in the US had a period of expansion during the last decade and increasing year by year and covering periods of Barack Obama and Donald Trump the expansionism is due to the economic growth of an average of 2% per year during that period. In 2010 employment is 130,336 million until reaching the year 2019 with 150,900 million, its maximum of the past decade to subsequently fall to similar levels of 2015, due to the crisis of the pandemic of covid-19, which resulted in job losses to belong to the leisure and hospitality services.

The 2020 drop in employment is 8.648 million with respect to 2019, ending an era of employment expansionism in the US, due to factors already mentioned. The previous decade saw an increase in employment of 20.563 million by 2019 with the subsequent fall (see graph 3).
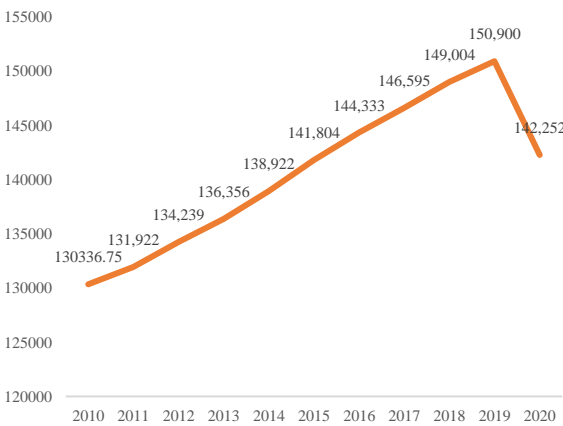
Graphic 3 Employment in the United States, 2010-2020 (thousands)
Source: United States Bureau of Labor Statistics, Current Employment Statistics Survey

In industry in percentage terms the activities that were drastically decreased by the pandemic in 2020, from February to April in manufacturing a decrease of -10.8% was observed, construction by -14.6%, retail trade -15.2%, education and health services -11.6%, leisure and hospitality -48.6%, professional and business services -11.1%, other services -23.7%. (see table 2).

In the period April to December 2020 leisure and hospitality increased by 51.1%, other services by 20.8%, retail trade by 14.5%, construction by 13.2%, manufacturing increased by 7.2%.

Industry	February-April	April-December
Mining and logging	-9.9	4.0
Construction	-14.6	13.2
Manufacturing	-10.8	7.2
Wholesale trade	-6.9	2.4
Retail trade	-15.2	14.5
Transport and warehousing	-9.9	8.0
Utilities	-0.7	-0.9
Information	-9.6	1.0
Financial activities	-3.1	2.1
Professional and Business	-11.1	7.7
Education and Health	-11.6	7.0
Leisure and hospitality	-48.6	51.1
Other Services	-23.7	20.8
Government	-4.4	-1.7

Table 2 United States. Annual change in total non-farm employment, by industry, seasonally adjusted (February-April, April-December, 2020)
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics Survey.

Looking at annual growth rates, employment fluctuates between 1.22% and 2.07% with a declining trend in the Donald Trump era and a precipitous drop in the 2020 pandemic crisis of -5.73%. The most powerful nation in the world had such a brutal fall as well as several economies worldwide persisted the downward trend (see graph 4).
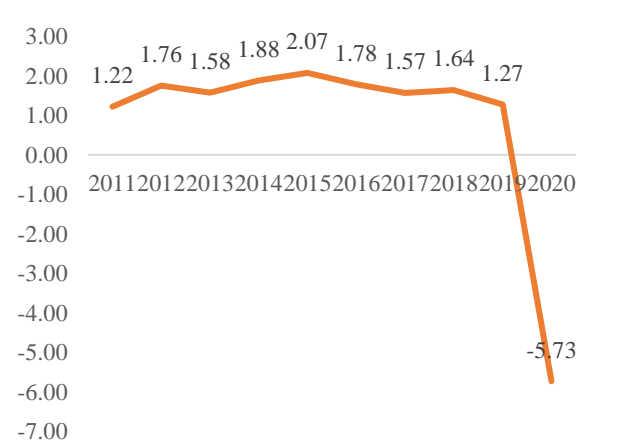
Graphic 4 Annual growth rates, 2011-2020 (percentages)
Source: United States Bureau of Labor Statistics, Current Employment Statistics Survey. Prepared by the authors.

In summary, employment increased over the past decade to 2019, declining in the pandemic crisis and largely affecting leisure and hospitality services, retail trade, construction, manufacturing, education and health services as well as professionals and service businesses.

Employment of the Latin American population.

There is a tradition of emigration from poor countries to rich countries in 18th century England, emigration to industrialised cities both internally and to external nations. Therefore, to the United States they migrate from Latin America to the United States, where since the beginning of the independence of the USA, people of all nationalities have migrated to the USA. At the beginning of the 20th century, the emigration of Europeans to North America increased. After World War II, there was an agreement between Mexico and the United States to accept migrants to the United States. Hence, there is a tradition of emigration to the US from Latin American countries. A fundamental factor for emigration is the high level of income compared to Latin American countries. In the USA, Mexicans earn five to six times more than in Mexico. Currently, Germany has a lot of Arab migration due to the income level which is much higher than in Arab countries. Europe has constant African migration due to the high level of income compared to Africans, as well as Japan compared to Asian countries. Social security programmes that protect workers against adverse shocks occupy a substantial share of public spending (Landais and Spinnewijn 2021:19). While Okun's law (1962) expresses an inverse relationship between the unemployment rate and output, i.e. a low level of output can lead to a high unemployment rate or vice versa (Ramos and Alvarez 2020:8).

In June 2020 the Latino unemployed are 4,212 and in June 2021 they are 2,162 thousand where there is a reduction in the level of employment of 2,158 thousand where these workers are in the leisure and hospitality sector obtaining an increase in employment due to the decrease of the pandemic.

Unemployment decreases in the Latino population from June 2020 to June 2021 from 14.5%, 7.3% to almost half. The one that had an increase was the non-institutional labour force of 289 thousand. Much of this labour force is found in US households doing housework, gardening, cleaning, childcare, etc. (see table 3).

Employment status	Not seasonally adjusted	
	June 2020	June 2021
Non-Institutional Population	44,132	44,857
Civilian labour force	29,006	29,442
Participation rate	65.7	65.6
Employed	24,794	27,280
Unemployed	4,212	2,162
Unemployment rate	14.5	7.3
Not in the labour force	15,126	15,415

Table 3 Employment status of the Latin American population
Source: United States Bureau of Labor Statistics United States

In sum, the Latin American population represents 30% of the labour force, which represents almost a third of the total labour force, where this labour force is involved in many activities of the US economy.

Neighbours of the American Union

Canada and Mexico share a common border with the US, to the north with Canada and to the south with Mexico, separated by the Niagara and Bravo rivers respectively. The three nations signed a North American Free Trade Agreement (NAFTA) in 1992 and its inception was in January 1994. Today, it is known as T-MEC, the Treaty of Mexico, the United States and Canada, which was updated in the era of Donald Trump, Enrique Peña Nieto and Justin Trudeau. Canada is a developed nation that is among the most powerful economies in the world. In terms of economic growth, the average annual growth rate from 2010 to 2019 was 5%, with two drops in 2012 and 2015 of 1.8% and 0.7% respectively (see graphic 5).

Figure 5 Canada: Real Gross Domestic Product growth, 2010-2020 (annual change)
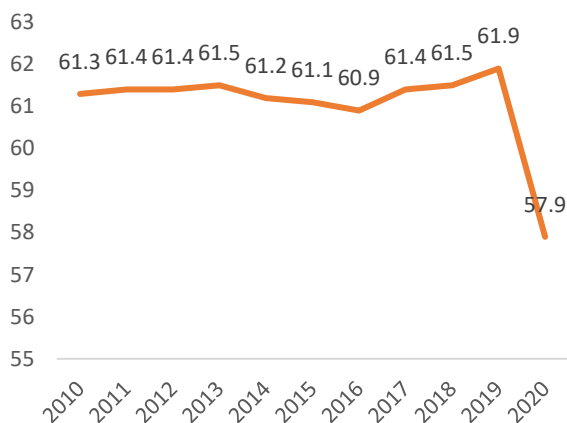*Source: Knoema, world data atlas*

Figure 5 shows the huge drop in GDP in Canada due to the pandemic crisis, and the same processes were followed around the world by the implementation of social distancing. The drop is -5.4% in 2020, a shocking drop compared to the growth of the Canadian economy which had positive signs of growth during the decade, i.e., it never exceeded zero growth or deficit growth.

Unemployment in the Canadian nation is high throughout the decade with a minimum of 5.7% and a maximum of 8.1% at the beginning of the decade, also the Canadian nation has international immigration from different parts of the world. But for people who qualify for unemployment insurance, they get it. A fundamental factor for unemployment in Canadian society is that unemployment insurance exists like in the US. This is the reason for its high unemployment rates (see graphic 6).
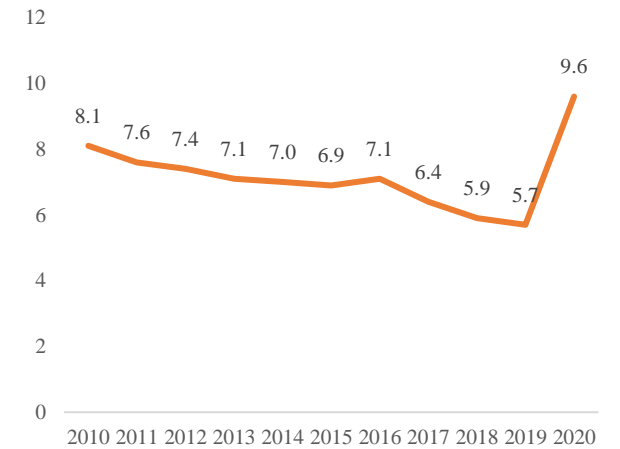
Graphic 6 Canada: Unemployment 2010-2020 (percentages)
Source: Knoema, World data atlas

In Canada, when economic growth falls, it is reflected in high levels of unemployment. As Figure 6 shows with an unemployment rate of 9.6%. Although there is unemployment in boom periods, unemployment persists due to the factor analysed, unemployment insurance. This means that employed personnel can suffer a loss of employment with minimal needs. In the United States as well as in Canada, unemployment insurance exists, providing protection to employed people who for various reasons leave their jobs. The employment-to-population ratio averaged 61% during the decade 2010-2020 with 39% of the population not employed. During the period 2010-2020 it tends to have a stable employment-to-population ratio (see graph 7). Out of a population of 38 million, more than 60% are employed in 2020.

Graphic 7 Canada: Employment-to-population ratio, 2010-2020. (percentages)
Source: Knoema, World Data Atlas.

Mexico

In Mexico, the Mexican nation has lower levels of unemployment than the two mentioned powers, when there is no comparison in economic terms that developed nations are superior to a developing nation such as Mexico. The controversy over the Natural Rate of Unemployment (NER) has continued throughout the existence of the concept, to the point that today, people do not usually talk about the NER, but about the hypothesis of the NER. However, it should be noted that most of the controversy has not been focused on the theoretical definition, but on the scarce empirical evidence. (Ramos and Álvarez 2020:79).
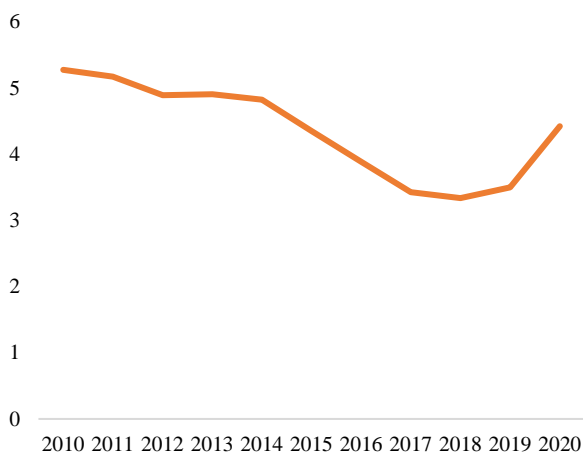

Graphic 8 Unemployment in Mexico, 2010-2020 (percentages)
Source: National Occupation and Employment Survey, INEGI

Unemployment in Mexico fluctuated between 3% and 4%, these levels of unemployment are lower than in the US and Canada. Unemployment is lower in Mexico because many people go to the informal sector and remain employed in that sector.

In other words, they remain employed in the informal sector, which increases in times of crisis (see graph 8). Informality is an important factor in employment, which is why when the survey is carried out there are lower levels of unemployment, as we have seen in the last decade. Unemployment insurance exists in Mexico, but it is minimal and is not available throughout the country, but only in some cities, such as Mexico City. Moreover, it is not enough to cover a week's supply and if the insurance is allocated monthly, the economic amount received does not cover the needs of people without jobs, unlike the powers of the USA and Canada.

The application of unemployment insurance is seen as an instrument to mitigate fluctuations in the Gross Domestic Product (GDP), because of the impact it has on consumption. However, unemployment insurance negatively affects the unemployment rate as argued in (Dornbusch et al., 1994). Employment in Mexico is growing during the study starting at 48, 717,789 to 56, 991,196 from 2010 to 2019, a fundamental factor is the expansion of the economy in a slow way, but generating an increase in employment, another factor being the expansionism of the American Union that has repercussions in Mexico with advances in the occupational sector, see graphic 9.
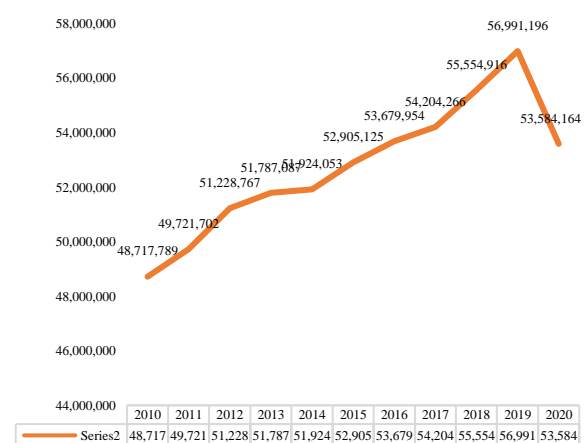
Graphic 9 Mexico: the Economically Active Population, 2010-2020
Source: National Survey of Occupation and Employment, INEGI

As shown in Figure 9, employment declines in the pandemic crisis hitting all non-formal sectors, restaurants, self-employment, tourism and accommodation.

Conclusions

The economic theory that explains the functioning of employment and unemployment is economic growth. It has a direct relationship with employment and vice versa with unemployment. If economic growth decreases, unemployment increases and employment decreases, economic growth increases, unemployment decreases and employment increases.

In a powerful nation like the United States, unemployment exists and the fundamental factor for it to exist is unemployment insurance where high levels of unemployment are obtained. The unemployment rate is the ratio of the number of unemployed to the working population and is higher in the United States than in similar developed nations.

Unemployment during the pandemic crisis affected job losers and temporary job completers as well as the temporarily unemployed. The US employment expansion from 2010-2019 declined in the pandemic crisis and affected mainly leisure and hospitality, to a lesser extent construction, retail trade, manufacturing, education and health, and professional and business.

The Latin American population represents almost 30% of the working population in the US, increasing the employment of the Latino population in June 2020 to June 2021 by 725,000 also had high unemployment rates of 14.5% but a large proportion depends on leisure and hospitality activities. Therefore, the US and Canadian economies have high levels of unemployment due to the existence of unemployment insurance, which has had an impact on the pandemic crisis with a decrease in employment and an increase in unemployment. However, in Mexico, unemployment levels are lower than in the US and Canada, and informality in the Mexican economy is a fundamental factor.

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