

# POLICY BRIEF

## Are Mexican and U.S. Workers Complements or Substitutes?

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### STATEMENT OF ISSUE

Since before the enactment of NAFTA, there have been fears in the U.S. that Mexican and U.S. workers are substitutes. If the workers are substitutes, it would mean that reducing trade barriers would cause U.S. workers to lose their jobs to Mexican workers. New trade theory relies on intra-industry trade and outsourcing which shows that product specialization may mean that Mexican and U.S. workers are in fact complements. Which theory better matches the data from the NAFTA period? Does intra-industry trade and specialization mean that U.S. and Mexican workers are complements? A closer look at the NAFTA period using “new” trade theory suggests that U.S. and Mexican production workers are, in fact, complements and are part of the same production process.

### KEY FINDINGS

- Using wage and employment data from a wide range of matched U.S. and Mexican manufacturing industries, this study finds that rising U.S. production worker wages generally decreases the demand for Mexican production workers, meaning that U.S. and Mexican production workers are complements.
- Pre-NAFTA these results are reversed. U.S. production and Mexican nonproduction workers were substitutes while U.S. production and Mexican production workers were complements. This changes after the implementation of NAFTA.
- The U.S. and Mexico work like a single production unit instead of competing units. The economies of the two countries are closely tied together, and Mexico acts like an economic partner, not like a competitor.

### POLICY RECOMMENDATIONS

- Encouraging and supporting integrated industries, rather than discouraging them, will boost the U.S. manufacturing sector.
- Putting up barriers between the U.S. and Mexico hurts U.S. production. It is important to refrain from putting up more barriers.
- Encouraging trade between the U.S. and Mexico will help to boost U.S. manufacturing.
- The new NAFTA should facilitate rather than discourage trade. A strong NAFTA helps U.S. workers, because an increase in trade ultimately boosts U.S. manufacturing.

### SOURCES AND FULL PAPER



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