

# PARA EL DEBATE CIENTÍFICO



## Inequality and minimum wage policy: Not even talking, much less walking in Mexico

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### Abstract

This paper examines the evolution of economic inequality in Mexico in the last three decades, both in terms of the personal distribution and the functional distribution of income, partly exploring the question of how much of its evolution is determined by economic or social policies. The second purpose of our paper is to analyze the relation between the evolution of the functional distribution of income and labor policy, with special emphasis on minimum wage policy. Finally our third objective, closely linked to the previous two, is the examination of the institutional context as well as the ideological and political economy considerations that have marked minimum wage policy in Mexico in view of the successful attempt to bring the debate back to the forefront of the political agenda. As such, our analysis will pay special attention to events since May 1st 2014, when the Chief of the Government of Mexico City launched a national discussion on the urgent need, ways and means to renovate minimum wage policy in Mexico. In our view, this debate is perhaps the only recent expression in Mexico of the current re-found concerted focus on inequality on a global scale, an expression that has woken up fierce opposition from key sectors of the Mexican elite and highly placed government officers in the current administration.

**Key words:** inequality, income distribution, minimum wage, Mexico.

**JEL Classification:** D31, E24.

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### Resumen

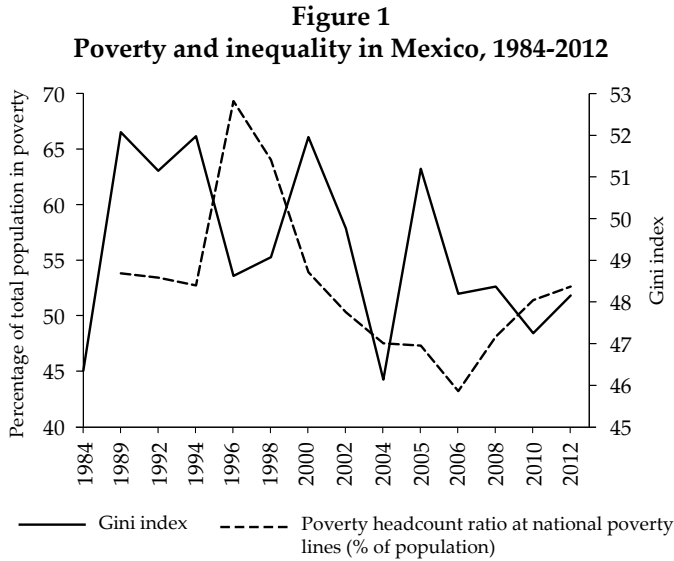
El artículo examina la evolución de la desigualdad en México en las tres décadas recientes, tanto en términos de la distribución personal como funcional del ingreso, explorando parcialmente sus raíces en la conducción de las políticas económicas y sociales. El segundo propósito del trabajo es analizar la relación de la evolución de la distribución funcional del ingreso con la política laboral, en especial con la de salarios mínimos. Finalmente, un objetivo adicional —ligado a los previos— es el de examinar el contexto institucional e identificar consideraciones ideológicas y de economía política que han marcado la política de salarios mínimos en este país a partir del debate nacional detonado el 1° de mayo de 2014, que exitosamente logró colocar como urgente necesidad revisar la política de salarios mínimos para cumplir el mandato de la Constitución de 1917 sobre el derecho de todo mexicano que labore a tener un salario que le permita tener una vida digna. Este debate ha sido quizá la única expresión concreta reciente en nuestro país, por colocar —como se está haciendo en otras naciones— a la desigualdad como preocupación central de la agenda de desarrollo. Esta nueva lucha por colocar al salario mínimo en una senda de recuperación significativa y sustentable ha encontrado fuerte oposición de grupos poderosos de la élite mexicana y de funcionarios públicos de alto nivel.

**Palabras clave:** desigualdad, distribución del ingreso, salario mínimo, México.

### INTRODUCTION

Since the mid 1980s Mexico has embarked on a process of radical macroeconomic reforms aimed —as the government has tirelessly stated— at eliminating the acute distortions in resource allocation brought about by decades of State intervention, trade protection and non-focalized poverty programs. As is well recognized, this strategy has failed to secure a path of high and sustained robust economic development. In recent years there has been a revival of empirical studies on the evolution of inequality in Mexico that follow up on the literature pioneered time ago by R. Cordera and C. Tello, F. Cortés, R.M. Ruvalcaba, E. Hernández Laos, M. Székely and G. Esquivel, N. Lustig and L.F. López-Calva, N. Samaniego and Economic Commission for Latin America and the Caribbean (ECLAC), inter alia. As recent studies have shown, the share of wages in Mexico's Gross Domestic Product (GDP) has steadily and acutely declined, at the same time that some of the richest men in the world are Mexicans, it is the country with the second highest number of billionaires in Latin America (after Brazil) (Alexander, 2014), and where the richest 1% hold the highest share of GDP, (Tello, 2010; ILO, 2013; Escobar, 2014; Samaniego, 2015; Oxfam, 2015).

Figure 1 shows the evolution of the percentage of the population living under the poverty line and of inequality according to the Gini coefficient in Mexico from the 1980s until 2012. A number of stylized facts can be deduced from these crude data. Firstly, poverty is still pervasive in Mexico.



Source: authors' elaboration based on data from LIS (2015).

Considering that the country, with a GDP of US\$ 1 178 billions, ranks as the 14<sup>th</sup> largest economy in the world (World Bank, 2014), it is a disappointing result that after decades of economic stabilization cum focalized anti-poverty programs over 52% of the population remains poor. Moreover, notwithstanding its extraordinary boom in exports of manufactures, in 1980-2014 the economy expanded at such a slow pace that the gap of Mexico's GDP per capita *vis-à-vis* that of the United States is larger today than in the early 1980s, a ratio actually similar to the one prevailing in the 1950s. It should not be surprising then that today more than 55 million Mexicans live in conditions of poverty. The figure also shows that, despite some advances in the late 1990s and early 2000s, since 2006 poverty has been on the rise again. Recent data from Consejo Nacional de Evaluación de la Política de Desarrollo Social (CONEVAL, various years) confirms that the incidence of poverty and of extreme poverty —measured in the traditional form of comparing income to poverty lines— increased from 2012 to 2014.

Secondly, inequality remains outrageously high, independently of small changes over the turbulent past quarter century. Unfortunately, for decades in Mexico like in many developing countries, inequality was of little interest for government officers, and also for the majority of economists. Typically, it was recognized more as a challenge for social policy makers than as a key element that could have any important influence on economic growth. Those that were concerned with equality conceived it as a by-product of the specific developmental stage which countries underwent in line with Kuznets' inverted-U path.

Given Mexico's traditional fiscal weakness—a tax burden under 12% of GDP, among the lowest in Latin America—inequality and poverty were tackled through income transfers and public expenditure on health, social security and education. This approach to poverty and inequality marked the radical neo-liberal reforms put in place since the mid 1980s to reduce State's intervention in the economy and open domestic markets to foreign competition under the assumption that economic growth and focalized cash transfer programs would *pari passu* ensure systematic poverty and inequality reduction. Also here we must note that in recent years, inequality is on the rise again.

Thirdly, inequality and poverty do not necessarily move in tandem. While poverty levels fluctuate significantly, our inequality line remains strangely flat. This implies that the strategy of attempting to improve the income distribution via poverty reduction alone—even when the latter is effective—may not necessarily be sufficient recipe for success. For instance, the late 1990s saw a massive increase in poverty with a parallel decrease in inequality, while in the mid 2000s increases in inequality went hand-in-hand with a decrease in poverty. Clearly, therefore, explicit anti-inequality policies would be required as well, which so far have not been on the policy agenda in Mexico.

It seems thus that the goals of poverty reduction and of achieving high and robust economic growth have been very elusive in Mexico. Progress has been limited and far from sustained. Judging the evolution of inequality, on the other hand, requires taking a closer look at the distribution of the gains through GDP growth over recent years. This is what we set out to do in this paper. Its aim is thus threefold. The first is to examine the evolution of economic inequality in Mexico in the last three decades, both in terms of the personal distribution and the functional distribution of income (Section 2). For this purpose we build and analyze alternative indicators, among them the Gini coefficient, the 'Palma' ratio, as well as the share of wages relative to rents/profits. The second purpose

is to analyze the relation between the evolution of the functional distribution of income, employment and labor policy, with special emphasis on minimum wage policy (Section 3). Finally our third objective, closely linked to the previous two, is to examine the institutional context as well as the ideological and political economy considerations that have marked the recent struggle to raise the minimum wage to a level sufficient to at least meet basic needs, as stated by the Mexican Constitution of 1917 (Section 4).

### THE EVOLUTION OF INCOME INEQUALITY IN MEXICO IN THE LAST THREE DECADES

Let's first consider the personal distribution of income.

**Table 1**  
**Income per capita in Mexico, 2012**  
(in local currency units)

<i>Deciles</i>	1	2	3	4	5
Income (MXN)	461	887	1 180	1 488	1 843
Share (%)	1.5	2.8	3.7	4.7	5.8
Distance to decile below (%)	-	52.0	75.2	79.3	80.7
<i>Deciles</i>	6	7	8	9	10
Income (MXN)	2 216	2 742	3 505	4 906	12 412
Share (%)	7.0	8.7	11.1	15.5	39.2
Distance to decile below (%)	83.2	80.8	78.2	71.4	39.5
D1-D4 (%)	12.69				
D5-D9 (%)	48.14				
D7-D9 (%)	35.25				
D10/D1	26.92				

Note: the Gini coefficient for 2012 was 0.49, the 'Palma' indicator —*i.e.* the ratio of the top 10% income earners to that of the bottom 40%— was 3.09; the mean income was Mx\$ 3 164 and the median one Mx\$ 2 030.

Source: Krozer and Moreno Brid (2014).

Today, there is an almost 27-fold difference between the average incomes of the top and the bottom deciles in Mexico. This difference is in stark contrast with the average ratio of 10 to 1 in the Organization for Economic Co-operation and Development (OECD) countries (OECD, 2014). More worrying, the top

1% of Mexico's distribution has an average annual income 47 times that of the poorest 10% (del Castillo Negrete Rovira, 2012). How has this relation been affected by the far-reaching reforms of the last three decades? Mapping out the income share of the top 1% against that of the bottom 40% (see Figure 2), we find that both the bottom 40% and the top 1% maintain the same share of total household income in 2010 as they had in 1984. Thus, any potential increases in returns to education, or transfer income, for the lower income groups must have been matched by income increases in the top, keeping inequality levels high. Moreover, it is remarkable how close the top and bottom dynamics mirror each other, *i.e.* when the top percentile gains in share, it is to the detriment of the bottom group, while increases in the bottom translate into losses at the top.

**Figure 2**  
**Income shares bottom 40% and top 1% in Mexico, 1984-2010**



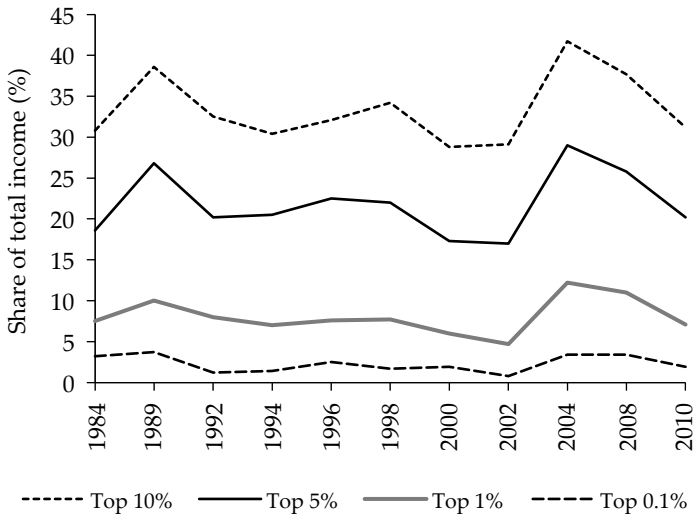
Source: authors' elaboration based on data from LIS (2015).

Zooming in even closer (see Figure 3), it becomes apparent that the dynamics at the high-end are driven by changes at the very top; the richest decile essentially amplifies the underlying movement of the super-elite, the richest promille, like a wave approaching the shore.

The data show that since the early 2000s, and particularly after the financial crisis in 2008, the highest decile lost some ground relative to its peak of holding almost 42% around 2004 (though never falling below 30% of total income, three times the size of their population share and a level already obtained in the

1980s). However, the loss that the very top promise had to endure was much less significant. Equally, the large changes during the last decade need to be considered against the backdrop of the official discourse of the time, stressing decreasing inequality in the country due to the spread of education and conditional income transfer programs mainly but also as a, say, aftermath bonanza of the economic liberalization, market opening and privatization having taken place in the two decades before.

**Figure 3**  
**Top income groups in Mexico, 1984-2010**



Source: authors' elaboration based on data from LIS (2015).

Recalling the “flat” line in Figure 1, however, it seems that the indicators used to corroborate that narrative—primarily the Gini coefficient—were unable to pick up on the more subtle movements at the very extremes. This is not the indicator’s fault but due to the ready acceptance by a wider audience of a useful narrative of economically and politically cheap policy spreading the goods of globalization and technological change to the masses, trickling down from the productive top to the persistently existing bottom by themselves—told and propagated by an elite proud of their own enrichment.

Even if there had indeed been a slight reduction of inequality in the years up to 2010, it is far from significant and the levels may be rising again. All in all, the

reduction has been, in our view, insufficient. Indeed, by 2012 the overall picture depicts an economy where income is highly concentrated, and the bottom 40% not only holding essentially the same income share as three decades earlier, but also receiving only a third the size of the share going to the top decile. Recent estimates by Esquivel and Campos trying to correct for the underestimation of income at the highest levels, suggest that in Mexico the share of the richest decile actually increased in the last ten to fifteen years (see Oxfam, 2015).

### **Functional distribution of income**

We consider now the functional distribution of household incomes, which might give some insights as to the underlying drivers of this persistence in inequality. For that, we divide household income into its labor, capital and transfer components. Obviously, the distribution of capital incomes is vastly more unequal than that for labor incomes, which again is more unequal than that of transfers. Overall, the total household disposable income distribution resembles that of labor income, because this factor is by far the largest source of income for all units, with the exception of the bottom decile, where transfers are important (over 60% in 2010, up from just over 20% in 1984). Again excluding the bottom decile, in which there are numerous cases of “de-saving”, labor income on average amounts to over 76% (in some years close to 100% for some groups) of total income, compared to transfer income reaching 20%, whereas capital lies between 0.6-1.5% up to the 9<sup>th</sup> decile (rising to 7.5% when the top promille is considered).

Although this general pattern is maintained, and, as Table 2 shows, the Palma index for transfer and capital income is slightly lower in 2010 compared to 1984 —*i.e.* the related distributions are slightly more equal— it is preoccupying that the distribution for labor income is considerably more unequal now than 25 years ago, both in terms of the Palma index and its derivative Palma v.2 (dividing the income share of the top 5% to that of the bottom 40%’s).

In combination with consistently low Mexican unemployment numbers (below 5%), this means that wages —the major source of income for most of the population— must increase faster at the top than at the bottom. Thereby, labor earnings are increasingly accruing to the top end of the income distribution, leaving the poor to struggle with ever smaller shares of the income pie.



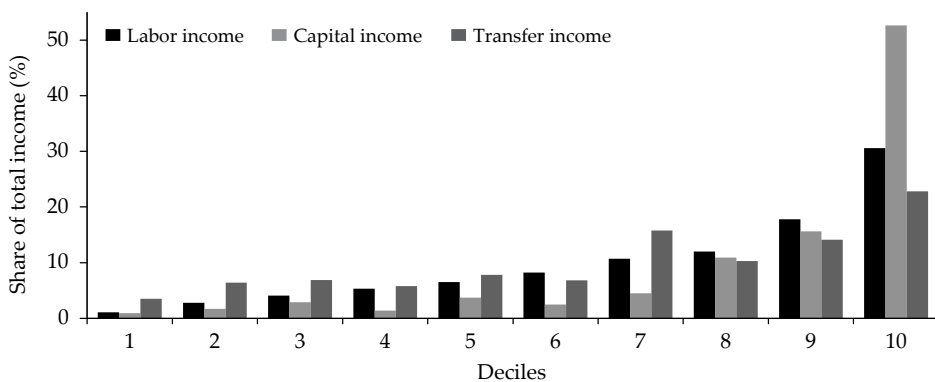
**Table 2**  
**Income shares and Palmas in Mexico, 1984 and 2010**

2010	<i>Bottom 40%</i>	<i>Top 10%</i>	<i>Top 5%</i>	<i>Palma v.1</i>	<i>Palma v.2</i>
Disposable income	13.3	31.2	20.2	2.346	1.519
Labour income	10.5	32.4	20.9	3.086	1.990
Capital income	7.6	52.5	39.1	6.908	5.145
Transfer income	26.5	24.4	15.1	0.921	0.570
1984	<i>Bottom 40%</i>	<i>Top 10%</i>	<i>Top 5%</i>	<i>Palma v.1</i>	<i>Palma v.2</i>
Disposable income	13.5	30.8	18.6	2.281	1.378
Labour income	13	30.6	18.1	2.354	1.392
Capital income	6.8	52.6	40.8	7.735	6.000
Transfer income	22.3	22.8	14.3	1.022	0.641

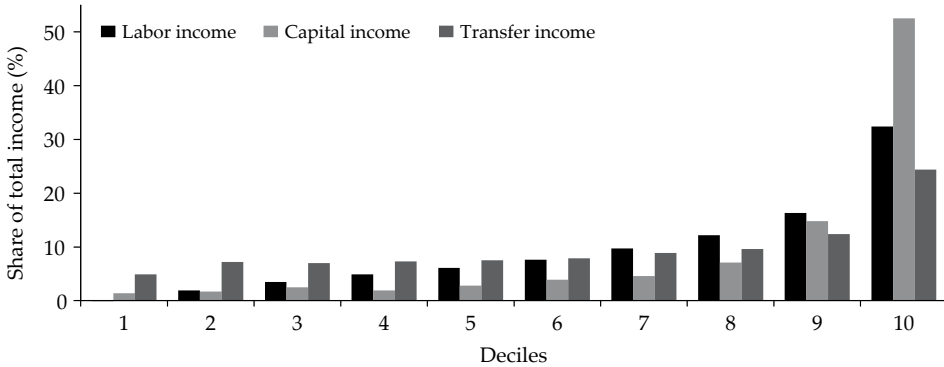
Source: authors' elaboration based on data from LIS (2015).

How is factor income divided among the population? When ordering the factor shares according to population groups in Figure 4, we can see that the bottom decile virtually stops featuring in the labor income share all together (in fact, in 2010 it became negative 0.1%), while the top decile gains ground. The other two groups losing share are the second and second-to-last deciles. Interestingly, the distribution of transfers is much flatter in 2010 compared to 1984—the first and fourth deciles receive a somewhat larger share, but so does the highest decile.

**Figure 4a**  
**Functional income distribution in Mexico, 1984**



**Figure 4b**  
**Functional income distribution in Mexico, 2010**



Source: authors' elaboration based on data from LIS (2015).

Thus, while both transfers and capital income are slightly more equally distributed in 2010 compared to 1984 (though inequality is still very high), labor income is more unequal now than three decades ago. Moreover, the bottom decile, which allegedly benefited most from the transfer programs, has seen its share of total income deteriorate continuously over the past three decades, to a 2010 level of but 0.8% of total income, according to LIS (2015) dataset.

### **INTERACTIONS BETWEEN INEQUALITY DYNAMICS, MINIMUM WAGE AND OTHER KEY POLICIES**

The loss of labor income share of the bottom two deciles can be directly linked to the evolution of wages in the country, and particularly to trends in the minimum wage. Although Mexico has been historically unequal, the current distribution is by no means an outcome of a force of nature or a necessary consequence of its colonial legacy.<sup>1</sup> Yes, Mexico was unequal in Pre-Hispanic times, and perhaps even more so during the 300 years of Spain's colonial reign. Equality was an inspiration for independence and subsequent struggles. More economic equality for peasants and workers was a key demand of the Mexican Revolution in 1910. There have been periods towards greater equality in Mexico. For example, prior to 1976, there was a relatively stable relationship between

<sup>1</sup> The following part is partially based on Krozer and Moreno Brid (2014).

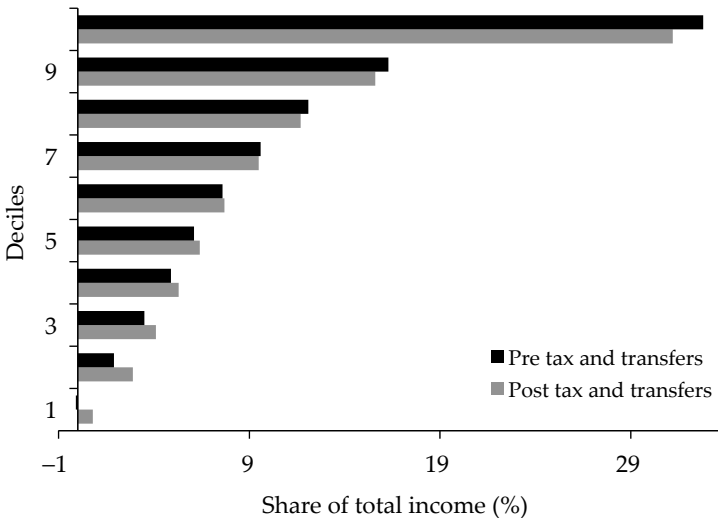
productivity growth and wage growth in manufacturing (Palma, 2011). Their subsequent delinking under trade liberalization meant that increasing export competitiveness had little effect on living standards (*ibid.*). In fact, by the end of the 1990s, the average wage was only just recovering to its 1976 level, although productivity had increased by about 80% in the meantime; in the same period, the real minimum wage fell 80%, and the share of wages and salaries in GDP fell from 40% to 18.9%. Profit margins greatly increased. And, all this coupled with several economic crises weakened organized labor's bargaining power. According to Palma (2011), this "liberalization package" decoupling wages and productivity is the result of political-ideological change in the 1980s. In addition, the abrupt economic slowdown in the aftermath of the oil crisis vastly deteriorated the labor market.

Thus, two decades of deep reforms aligned with the Washington Consensus—the 1980s and 1990s—contributed to stabilize a tendency to reduce the share of wages in national income. The political transition from its traditional one-party ruling authoritarian regime towards a more consolidated electoral democracy has not altered this. To the contrary: as Figure 4 shows, the distribution of labor income is even more unequal today than in the early 1980s.

A number of social programs were created targeted to poor population to compensate for their lack of sufficient labor incomes. The star among them has been *Oportunidades* (now *Prospera*), a pioneer conditional cash transfer program to poor households in return for obligatory schooling and health checks. There are other programs, akin to non-contributive pension schemes such as "Seventy and More" and the Universal Elderly Pension in Mexico City to benefit the elderly. As indirect targets, they include the improvement of the income distribution; their primary and direct focus remains on poverty reduction. These programs do have a progressive, albeit small, influence on income distribution. However, their partial success seems to have managed to distract from the disaster of the wage share declines at the lower bound evidenced above. There is an ancient consensus that this decline is to a certain extent related to the specific policy by the Mexican government—in particular since the mid 1980s—to use the minimum wage as a tool of anti-inflationary policy that has resulted in its acute reduction in real terms. Such pattern of decline in the minimum wages has tended to drag down average real wages at low scales of the labor market where labor remuneration tends to be—explicit or implicitly—set in terms of multiples of the minimum wage.

Contrasting with these programs is the fact that tax policy in Mexico fails to have a significant influence on income redistribution. Indeed most OECD countries, with not markedly dissimilar pre-tax income distributions to Mexico's, manage to almost halve the Gini coefficient in the post-tax income distribution. However, Mexico's redistributive capacities through taxes are significantly less effective. Indeed during the last two decades, on average they have been unable to lower in any conspicuous matter, the country's Gini *vis-à-vis* its pre-tax levels (Krozer and Moreno Brid, 2014). As Figure 5 shows, overall fiscal policies today are ill-suited to change this picture to any significant degree: the difference, *i.e.* progressive impact, between the pre- and post-tax and transfer distribution is only above 1% for the highest decile (reaching 1.6%) —although if the top 5% are considered instead, this difference shrinks to 1.1% again (0.9% for the bottom decile).

**Figure 5**  
**Direct impact of fiscal policy on income distribution in Mexico, 2010**



Source: authors' elaboration based on data from LIS (2015).

In short, despite the shift in the Presidency from the Partido Revolucionario Institucional (PRI) to the Partido Acción Nacional (PAN) and back, the massive increase in social spending as a share of GDP—including conditional cash transfers and other programs targeted to the poorest—, decades of low inflation and

fiscal budgets, the implementation of North American Free Trade Agreement (NAFTA)<sup>2</sup> and of a series of radical market reforms, Mexico has neither been able to significantly reduce its high concentration of income nor to boost its long-term rate of economic expansion.

There are certainly historical roots that explain the magnitude of the challenge but, in our view, the main reason behind the prevalence of such stark inequality is the lack of political will by relevant actors to change the situation. For some this reflects the assumption that economic growth will by itself alleviate poverty and inequality. For us it seems more likely that the economic and politically powerful ones—say at the top 1%, 0.1% or even lower percentages—refuse to lose in any significant way their economic and social privileges, and thus block any fiscal reform or policy measure oriented towards a significantly more progressive distribution of income.

Indeed, this may be illustrated by the focus, adopted by the business sector, key officers in the Federal Government and certain analysts, in the debate around minimum wages arguing that Mexican productivity levels did not allow for higher minimum wages. This argument can be conclusively debunked with one look at the development of labor productivity and minimum wages, respectively (see Figure 6).

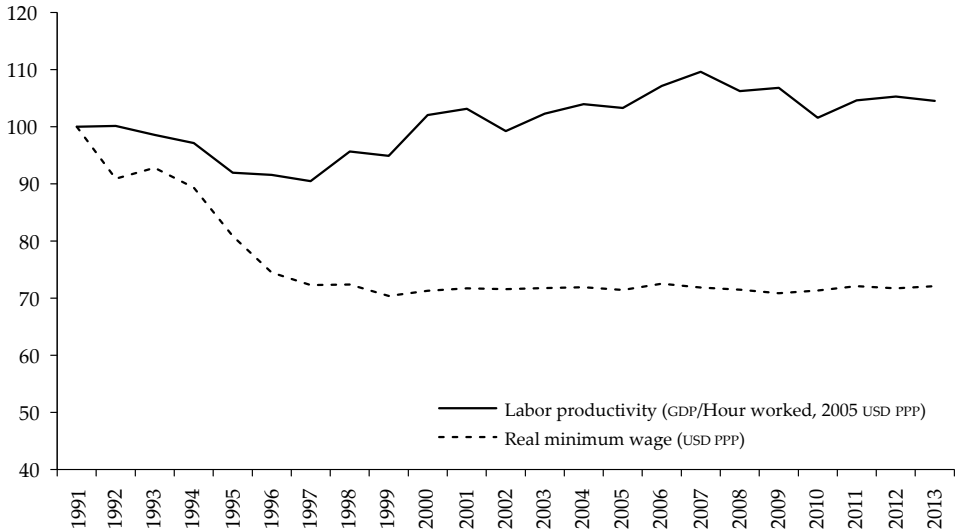
As such, rather than being an inevitable and unescapable consequence, there are political, ideological and economic considerations behind the fact that labor policy in Mexico has allowed—or actually pushed for—the persistent and major deterioration in minimum wages to the extent that their value in real terms is today 70% lower than in 1980 and way below the line of absolute poverty. Looking at the average wages in the low segments of the informal sector—like house cleaners, menial workers and taxi drivers—it is safe to say that the minimum wage in Mexico currently stands below (not above) market level. Thus its existence does not create an excess supply—as in 101 textbooks—of job seekers. It instead produces a downward force that drags down their improvement in purchasing power in real terms.

Clearly, the evolution of labor productivity in the last decades, though far from spectacular, would have allowed for the minimum wage to remain constant or even rise somewhat in real terms. Moreover, when comparing minimum wage

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2 NAFTA signed in 1993. Mexico is one of the most open economies in the world, having signed over 40 free trade agreements.

**Figure 6**  
**Real minimum wage and labor productivity in Mexico (1991 = 100)**



Source: Moreno Brid and Garry (2014).

and labor productivity levels in Latin America it is striking that Mexico is one of the countries with highest productivity levels (second only to Chile) but also one with the lowest minimum wages ahead only of Bolivia and Nicaragua; two countries significantly poorer (Moreno Brid and Garry, 2014). Analogously, it has been stressed by key representatives of the private sector that raising the minimum wage would be irresponsible as it would undermine Mexico's macro-economic stability and trigger inflation. However, the proposal to raise it was never put as an immediate three fold hike! It was put as an invitation to raise it soon to its subsistence level (circa 20%+ raise) and to think about alternative options to put it in a path of long-term sustainable recovery. Moreover, none of the opponents to the revision of the minimum wage policy as put forward in the document "Política de recuperación del salario mínimo en México y en el Distrito Federal. Propuesta para un acuerdo" prepared by the academic taskforce appointed by the Mexico City's Government (see GDF, 2014) have responded to the arguments there put forward, beyond finally admitting the need to revise the legislation that links the minimum wage to a number of other prices and variables not relevant to the labor market.

The debate showed that significantly more attention needs to be placed to the highly ideological and political content of the adverse reactions to changes in minimum wage policy as opposed to technical objections. Considering the applicability of a new labor policy that would put the minimum wage on a long-term sustainable route of recovery—as recommended by the technical group behind the Mexico City’s Government’s initiative— among other measures in the labor market for income equality, the main reason behind the reluctance and failure to apply equalizing policies is the lack of will by key political actors and the economic elite to reduce income inequality in any way that may affect their privileges.

### **THE POLITICAL ECONOMY OF MINIMUM WAGE SETTING IN MEXICO**

Since the 2008-2009 international financial crises, the external market lost its impetus as an engine of growth of the Mexican economy. Moreover, not even in the period 1994-2008 when its manufacturing exports boomed, was Mexico able to achieve high and sustained rates of economic expansion. On the one hand a vast proportion of its manufactured exports increasingly consisted of assembly products, highly intensive in imported inputs. On the other, trade liberalization coupled with the dismantling of industrial policies and an appreciated exchange rate, weakened backward and forward linkages in Mexico’s industrial matrix in favor of imported intermediate goods. Thus exports, notwithstanding their dynamism, were unable to pull the Mexican economy in a path of robust and high expansion. In any case, strengthening its domestic market has become a requisite to stimulate Mexico’s economic expansion. Such goal is tantamount to the reintroduction of industrial policies and of a new development agenda deliberately oriented to have a more inclusive economy; to have a more progressive distribution of income and wealth. However, until May 2014, when the discussion on the minimum detonated, labor or wage policies oriented to reduce income inequalities were a non-topic in Mexico.

It was originally Mexico City’s Mayor, Mr. Mancera who, in May 2014 proposed to increase the minimum wage to comply with Article 3 of the Mexican Constitution (Melín, 2012).<sup>3</sup> Since then, the initiative gained such momentum

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3 Although Mancera’s was the first initiative to formally propose an increase of the minimum wage, in late 2013 the PRD’s parliamentary group in Congress had promoted the dissolution of Comisión Nacional de los Salarios Mínimos (CONASAMI), the federal Minimum Wage Commission. According

that, as the journalist Carmen Aristegui expressed, it can hardly be considered an idea championed by leftist or opposition parties only. Instead, forces from across the political spectrum, in apparent agreement, participated in a race to see which of them could take most credit for bringing the topic back onto the public agenda (CNN, 2014). The right-wing PAN, who designed an alternative proposal shortly after Mancera's,<sup>4</sup> since then made a constant effort to claim the originality of the proposal, allegedly in line with the party's founding principles. The party's leader, then Gustavo Madero, declared that the PAN had not "stolen" the idea from the Partido de la Revolución Democrática (PRD), (Padilla, 2014),<sup>5</sup> but had in fact contemplated it much earlier and at least since 2012, when it was "included in the PAN's electoral platform". In the recent mid-term electoral campaign, PAN was perhaps the party with most advertisements advocating minimum wage increase.

In this process, the ruling party —PRI— had to fight off allegations accusing it of joining the campaign for a higher minimum wage only belatedly. Notwithstanding, the party's president in Mexico City, Mauricio López Velázquez, denied that the PRI's or Federal Government's entrance to the discussion was overdue; on the contrary: according to him, President Peña Nieto (a PRI member) had been committed from the beginning of his administration to an "income increase for Mexican families". Mexico's Secretary of Finance and Public Credit, in turn stated in August 2014 that the "government's stand on the issue was very clear: [to] support the debate on an increase of the minimum wage, as long as [this is not] politicized" (Gómez, 2014). All this makes for a peculiar political landscape: How often in this country does something that can be highly controversial as an increase of the minimum wage go eventually uncontested by any of the major political parties?<sup>6</sup> It should be noted that, the PRI and the PAN were not the first

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to congressmen Miguel Alonso and Alfonso Raya the minimum wage was "such a mockery" that CONASAMI should have ceased to exist (Melín, 2012).

- 4 The PAN differed from the PRD in suggesting that a popular referendum be carried out; this, the party argued, because of their lack of a majority in congress, leaving them no alternative but to seek popular support to avoid a veto from the majority party, the PRI.
- 5 "Let no one say that we are improvising or borrowing ideas from other parties", said Gustavo Madero, the party's leader. Later on he would also say that the idea of a dignified wage was part of his party's doctrine since 1939.
- 6 Of course, there was some dissent within political parties. In the case of the PRI, Abraham Zamora from the Finance Ministry insisted that it is through a rise in productivity of capital and labor that workers would see sustained increases in their wages, not through decrees. Within the PAN, one notorious party member and former Secretary of Labor, Javier Lozano, called the initiatives a "trendy occurrence" or the "fad of the moment".



to open the debate on this issue. Actually for some observers, they seemed to have jumped on this bandwagon once it was clear that a substantial critical mass of analysts and public opinion converged on the idea that the minimum wage was unacceptably low at a level far below the Constitution's dictum on this matter. Arguably most of them had an interest in joining the discussion of a higher minimum wage in the face of the forthcoming June 2015 elections. As Javier Lozano, former Secretary of Labor and a PAN member put it: "Who wouldn't want or support a higher salary?" As such, the struggle to raise the minimum wage implied, among other things, political capital.

This becomes the more apparent when considering the moment that President Peña Nieto chose to get involved in the discourse himself. On November 27<sup>th</sup> 2014, at the two-month anniversary of the disappearance of 43 students from Ayotzinapa in the state of Guerrero (who remain unfound to this day), he disclosed a proposal to be submitted to the Legislative Powers for the de-indexation of the minimum wage, which in Mexico is tied to a plethora of administrative measures, such as the level of fines and political parties' allotments, among others. The current indexing system means that any change in the level of the minimum wage automatically brings about rises in the level of these other items as well, creating widespread discomfort among many different sectors of the population. Peña Nieto's speech on that day was intended to reassure people and guarantee justice and security after one of the worst crises of the current federal administration, but then incorporated the by then already popular demand for tackling the minimum wage issue. Eventually, despite disagreements on the particularities of how to carry out an increase of the minimum wage in practical terms, all parties seemed to rally around the need for its de-indexation (Barrios Fuentes, 2015). This administrative-cum-legal measure is needed so that the discussion on the raise of the minimum wage could be held without the pressure generated by its coupling with other legal dispositions.

Along with a first proposal designed by scholars from Mexico's public universities, Universidad Nacional Autónoma de México (UNAM), Universidad Autónoma Metropolitana (UAM), Colegio de México (Colmex) and the Centro de Investigación y Docencia Económicas (CIDE), there were three further initiatives presented to the Legislative Power to delink the minimum wage. One presented by the Executive in December, another, from the parliamentary groups of four parties (PAN, Movimiento Ciudadano, Partido del Trabajo, and PRD) in September, and the last one, proposed by Congressman Julio César Moreno of the PRD. The lower House of Congress approved de-indexation on December 10<sup>th</sup> 2014,

borrowing from and modifying the proposals of the President, parliamentary groups and that of Julio César Moreno (Cámara de Diputados, 2014). The Senate, however, failed to vote the initiative on December 15<sup>th</sup>. The formal reason was the departure from the House of Senators from the PAN, as a sign of protest—albeit for reasons unrelated to the minimum wage—. Another more deep reason may be the rejection of the elite to approve policies that favor a more equal distribution of income.

The support for the minimum wage was contested, however. There was some rejection, such as the one predictably expressed in August 2014 by J.P. Castañón, president of the Mexican Employers' Confederation, as well as that from J.M. Chaparro, a member of the Mexican Chamber of Industry (Cámara Nacional de la Industria de Transformación, Canacintra). Their arguments echo those expressed by most opponents: “If the goal is to improve the income of workers and employees, this should be attained through productivity (...). We industrialists are more consenting of productivity as a means for the betterment of wages than doing so by political decree” (Luna, 2014). Others expressing similar and antagonistic views include the Governor of the Bank of Mexico, who said that “non-economic solutions” to low salaries, such as an increase of minimum wage by decree, could lead to inflation, unemployment and more informal labor. Interestingly enough, from its very first days of existence, the minimum wage in Mexico is periodically fixed by a decree of the CONASAMI.

Meanwhile the chief of the Mexican Taxation Authority (Servicio de Administración Tributaria, SAT), Mr. A. Nuñez, stated that, to improve workers' incomes though an increase of the minimum wage would be futile, since “the only way we can obtain this is through more productivity and profitability, because if the worker manages to be more productive, and the employer acknowledges it, there will be an incentive to raise his salary” (Verdusco, 2014). We have seen above that this has not been the case: reluctance to increase the minimum wage continues despite the growth in productivity.

However, the most surprising thing about the recent political struggle concerning the minimum wage in Mexico is the fact that the debate has so far evolved with virtually no conspicuous manifestations of support from the working classes. Just a number of civic organizations have openly backed it.<sup>7</sup>

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7 Some statements can be found in the press, like a headline that reads “We will double our struggle to obtain a better minimum wage: CTM”. Notwithstanding, public manifestations and rallies, have so far been an exception, if not completely absent.

Indeed, the struggle has been carried almost in its entirety by prominent members of the political class, and a group of academics with growing support from independent experts, and even some analysts of major financial institutions. Perhaps the most startling evidence of this is the fact that, in August 2014, the country's Secretary of Labor, along with Mexico's important trade union and entrepreneurial leaders, made a stand against Mancera's proposal and signed a joint pronouncement that stated:

It is necessary for this country to undergo sustained economic growth and to remedy the problem of poverty and low income through productivity and the reduction of informal labor (...) we salute the public discussion of an increase to worker's incomes and particularly to the minimum wage but would like to make it perfectly clear that (...) this discussion must necessarily consider the increase of productivity and its benefits (...) this is the only way we can prevent the reoccurrence of certain past mistakes that taught the country, its employers and workers painful lessons.<sup>8</sup>

Among those signing the statement were the leaders of the most prominent and important labor unions of the country, including the Confederación de Trabajadores y Campesinos (CTC), the Confederación Regional Obrera Mexicana (CROM), the Confederación Revolucionaria de Obreros y Campesinos (CROC), and the Confederación de Trabajadores de México (CTM).

This political curiosity becomes even more bizarre when looking at the related public assertions by other prominent individuals of the private sector. The influential founder of conglomerate Grupo Bimbo and one of the country's multi-millionaires, Lorenzo Servitje, for instance, is known for his previous critical positions towards left-leaning policies and the working class (Monsiváis, 2006). Nevertheless, in July 2014 Mr. Servitje wrote in a newspaper column that the Mexican minimum wage was “ostensibly low and insufficient to satisfy the needs established by the Constitution—an unfair situation that should be corrected as a moral obligation”, concluding that it would be both timely and fortuitous to further explore the option of raising its level by a fixed nominal amount (Servitje, 2014). In fact he explicitly proposed a gradual raise in the minimum wage, not in terms of percentage but in terms of a fixed amount of

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<sup>8</sup> Alfonso Navarrete Prida, Secretary of Labor in Mexico, would reiterate these views on March 30<sup>th</sup> 2015 in the national newspaper *La Jornada* (See Navarrete Prida, 2014).

pesos to the daily wage, an image taken up by the PAN thereafter in its campaign called “dignified salary for workers” (*salario digno al trabajador*).

Other unlikely figures, such as C. Capistrán, chief economist of Bank of America-Merrill Lynch in Mexico, declared that an eventual increase of the minimum wage was “probably inevitable”, although he also warned of the risks that augmenting its level might pose for inflation and unemployment rates (Miguel Tenorio, 2014). Finally, economists from the Spanish-owned bank BBVA Bancomer presented a document entitled “Considerations of BBVA Research concerning the Minimum Wage” (BBVA Bancomer, 2014), where they concluded that, although “the only way to increase worker’s wages continuously is through better productivity, it is advisable, based “on ample international evidence”, not only to increase the minimum wage but to do so in a single occasion, as opposed to a gradual, periodic, increase. Indeed, BBVA Research’s head economist, considered in a press conference that the Mexican economy not only had the capacity to raise minimum wages without affecting job creation or causing a surge in inflation, but could use it as a tool to combat poverty (Carbajal, 2014).

This cross-cutting panorama of support and resistance to changes in the minimum wage policy beyond the traditional positions (including, prominently the lack of support by unions, at least at first) is peculiar, considering the fact that Mexico’s minimum wage is among the lowest in Latin America. As stated above, in 2011 its monthly rate in dollars (US\$ 112) was similar to Nicaragua and Bolivia (US\$ 117), and equivalent to only one-third that of Brazil, Chile, Uruguay and Ecuador (Moreno Brid and Garry 2015). This corresponds to only 15% of Mexican GDP per capita—the lowest proportion in nearly all of Latin America, and far from the 30% of GDP per capita in Chile and Brazil and the nearly 50 % of GDP per capita in Peru, Colombia and Costa Rica (*ibid.*)—. Moreover, Mexico is the only country where at the end of the previous decade, the value of the minimum wage is underneath the poverty line (ECLAC, 2014), and according to the International Labor Organization’s (ILO) *Global Wage Report 2013*, below market levels, even for unskilled workers.

## CONCLUSIONS

Mexico’s quest for high and sustained economic growth during the last three decades has been elusive. As we showed in this paper, Mexico’s income gap *vis-à-vis* the United States is wider today than three decades ago, poverty affects

a substantial proportion of the population, and inequality has not declined in a significant way from its alarmingly evident levels. In this regards the market reforms put in place in the aftermath of the oil bust in 1982 have been a success in stabilization, leading to a low inflation and a small fiscal deficit—but a complete failure in boosting Mexico's long term economic growth—. The slowdown in foreign trade and growth in the OECD brought about by the international financial crisis of 2008-2009 poses a major challenge to Mexico development and, actually, for Latin America in general. Indeed, given such a weak external demand, Mexicans cannot expect that an export-led growth strategy has any probability of success unless it is complemented by a strategy to expand and exploit the domestic market. This option is simply out of the question in societies with such an acutely unequal distribution of income and wealth. However, the ruling elite in Mexico is reluctant to face this reality, and seems unwilling to put in place policies explicitly oriented to have a more progressive distribution of income. Moreover, the country's institutional system has been marked for some time by the remarkable capacities of the ruling classes to co-opt union leaders away from any political movement or even fiscal initiative to create a more equal economy and society. They have so far succeeded in the last 17 months in blocking the de-linking initiative on the minimum wage. Such result is sadly regretted on social, ethical and economic grounds too.

Raising the minimum wage significantly would have been a great step towards placing inequality as a major concern, as a key priority in Mexico's policy making agenda. Sooner or later this will have to happen if Mexico's struggle for growth and equality is to materialize. One would like to think that now that the mid-term elections have taken place in Mexico, the Senate House will finally approve the minimum wage initiative and start tackling seriously the enormous challenge that inequality poses for our future as a civilized society and for our economy in its struggle to have a strong engine of growth on its domestic market. Time may be running out to just wait and see.

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