

Forget Me, Forget Me Not: Productivity and the minimum wage in Mexico*

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It has been just over one hundred days since the *Gobierno del Distrito Federal* (GDF) ignited the [debate on the minimum wage in Mexico](#). This renewed interest in the minimum wage and its economic and social impacts is not unique to Mexico. In fact, for some time now, minimum wage policy debates have been held in various developed economies, among them, Germany, the United States, and England, in addition to the European Commission, as well as in emerging economies such as Uruguay and Brazil. The debate has intensified with the increasing participation of journalists, national and international academics, high-level officials—including the Governors of the Bank of Mexico, the Chief of the *Servicio de Administración Tributaria* (SAT) and the Ministers of Finance and Labour—as well as representatives of workers' and employers' organizations.

In Mexico the discussion continues around important themes such as the minimum wage's effect on employment, informality and inflation. Nevertheless, the debate seems to have converged on three points. The first is to decouple the minimum wage as a reference in multiple transactions that are external to the workplace including fines, financial operations, pensions and the assignment of government funding to political parties. The second is that the minimum wage has experienced a sharp deterioration in real terms since the 1980s. So much so, that its current level of 67 pesos per day is far from achieving the level of "sufficient compensation to meet the normal material, social and cultural needs of a head of household, and to provide for the compulsory education of one's children," established by Article 123, Section 6 of the [Constitution](#). The third point of consensus is that the performance of productivity cannot be forgotten in any initiative to sustainably improve the real minimum wage in the medium and long term. It should be emphasized, however, that the consensus on the importance of productivity does not necessarily extend to its role in policy design. For some, reforming the national minimum wage policy is required, and productivity is only one element to consider. For others, modifying the minimum wage policy is unnecessary, or even harmful to macroeconomic stability, and what is required is raising productivity.

To shed some light on the matter, the performance of labour productivity and the minimum wage in Mexico will be examined, both in comparison with the rest of Latin America and their historical evolution over the last 20 or 30 years. As has been stated in many recent forums and publications, Mexico's minimum wage is among the lowest in Latin America, irrespective of the measure used to quantify it. In 2011 its monthly rate in dollars (US\$ 112) was similar to Nicaragua and Bolivia (US\$ 117), and was equivalent to only one-third of that of Brazil, Chile, Uruguay and Ecuador. It was equal 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. Its amount was 19% of national average earnings; one of the lowest percentages in the region. Thus, the International Labour Organization's (ILO) [Global Wage Report](#) notes that in Mexico, "The minimum wage is below market levels, even for unskilled workers." Furthermore, according to

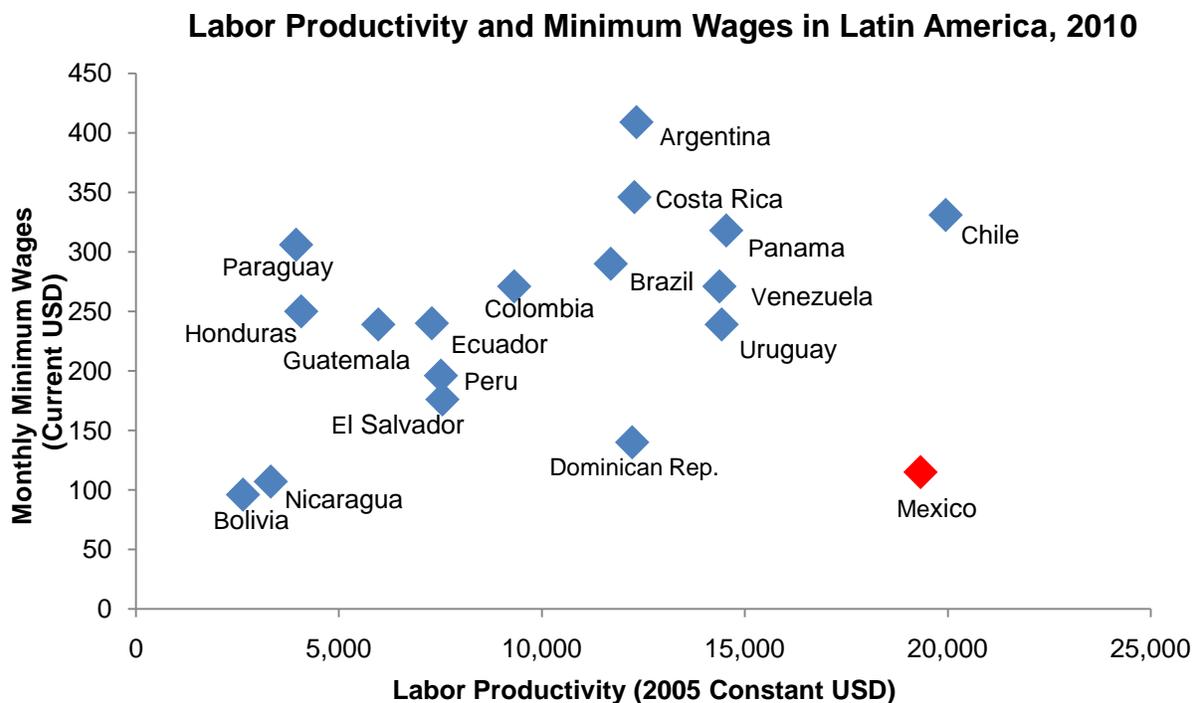
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ECLAC, "Mexico is the only country where at the end of the previous decade, the value of the minimum wage is below the per capita poverty threshold."

Given the lagging position of the Mexican minimum wage relative to the rest of Latin America, and the emphasis in the current debate on its dependence on productivity, one would expect that the latter has performed relatively poorly in comparison to other countries in the region. However, this is not the case. The contrast, in fact, is rather surprising. Data from ILO's Key Indicators of the Labour Market show that for more than 20 or 30 years, the average labour productivity in Mexico—in constant US dollars—has been and remains one of the highest in Latin America. In 2011, it was the region's second highest performer, with productivity only 3% less than that of Chile, and widely surpassing levels in Uruguay (by 30%) and Brazil (by 60%). Mexican labour productivity remains nearly double that of the majority of rest of the countries in the region.

Figure

1.



Source: ILO and Key Indicators of the Labour Market (KILM) Database, 2013. Data for Argentina for productivity refer to 2006, the last year available in the source.

The difference in the comparative regional performance of Mexico, at one extreme in its minimum wage, and the other in its labour productivity, is evident in Figure 1. Mexico's minimum wage in US dollars is similar to Bolivia and Nicaragua—countries whose labour productivity is the lowest in Latin America—but average productivity in Mexico is four times higher. In Chile, a country with similarly high levels of labour productivity, the minimum monthly salary of 366 US dollars is more than triple that of Mexico. All of this opens relevant unknowns in the current debate in Mexico. Why does Mexico have one of the lowest minimum wages in the region, even though its labour productivity is among the highest? Why at the regional level is there an association between the level of labour productivity and the given minimum wage? And why does Mexico appear to be virtually the only exception?

To answer these questions, let us now examine the co-evolution of labour productivity and the real minimum wage in Mexico over the last 20 or 30 years. We take into account two relevant sources. The first is the joint statement of the workers' and employers' organizations, together with the government of the Republic that was delivered a few days ago. The first phrase affirms, "In the last 30 years Mexico has had an average annual growth rate of 2.4% of GDP, as well as an annual decline in productivity of 0.4%... ". This decline in productivity, which is most certainly worrisome, means that over this period, productivity was reduced by 11.3%. However, over those same 30 years, the real minimum wage fell by 70%, a rate six times higher! If we focus on its performance since 1990 the divergence is even more acute.

Figure 2.



Source: Authors' own elaboration based on OECD data.

As Figure 2 illustrates, average labour productivity in Mexico from 1990-2013 has performed poorly. After falling throughout much of the 1990s, productivity began to weakly recovery in 1998. From that point until 2013 it recorded a cumulative increase of 15%, leading to an overall 4.5% increase above 1991 levels. This is disappointing, no doubt, and reflects the sluggishness of gross fixed capital formation, both public and private, in the country. But how has the real minimum wage performed since 1990? In short, even more disappointingly. The real minimum wage fell throughout the 1990s, continuing the downward trend that began in the previous decade. From 2000 the rate began to stabilize, and in 2013 recorded a cumulative increase of 2.6% over this period. However, this still remains 30% below the 1991 level.

While both variables have demonstrated poor performances over the recent two or three decades, the evolution of labour productivity and the real minimum wage in Mexico are not closely correlated; rather, they stand in contrast. Actually, Mexico spent years highlighting its high labour productivity, which is among one of the most dynamic in the region. The minimum wage, however, is among the lowest in all of Latin America. As for their historical evolution, their patterns are also very different, as evidenced above. In fact in the sub-period from 1998-2013 when productivity rose by 15%, the real minimum wage remained stagnant. In 2013 labour productivity was 4.5% higher and the real minimum

wage was 30% lower than their respective levels in 1990. If over these years the real minimum wage would have grown at the same rate as labour productivity in Mexico, today it would be 50% higher, registering roughly 100 pesos per day.

In summary, in the recent experience of Mexico in the periods in which labour productivity has fallen, the real minimum wage has plummeted even more sharply. In the periods in which labour productivity has risen, the benefits transferred to the minimum wage have been zero, or very scant in real terms. In other words, the gains in labour productivity—minimal, but real— have not spilled over given the existing institutional and operational framework of minimum wage policy, and have rather been focused on other factors of production or different occupational strata.

What can we conclude from their contrasting patterns? It would be erroneous to conclude that in the Mexican case the performance of labour productivity is irrelevant to the evolution of the real minimum wage. But the same time, it is equally wrong to think that a rise in labour productivity, by itself—and when it occurs—will guarantee that the real minimum wage will recover significantly and in a sustainable manner. So far, this has not occurred, and it is difficult to foresee future action to this effect without a reform in the minimum wage policy. This new policy should take into account the findings of the ILO's [Global Wage Report 2012-2013](#) (p.42), which highlights, "In Mexico..., minimum wage policy has been strongly influenced by efforts to achieve fiscal balance (given that the minimum wage impacts many social security benefits) and increase export competitiveness. As a result, the minimum wage is below market levels, even for unskilled workers."

Put another way, although it is important to not forget the relevance of productivity in the discussion of the minimum wage, it is equally or more important in the design of economic policy to not forget that the transfer of labour productivity benefits to minimum wage workers is far from automatic or guaranteed, unless special measures are taken. In this sense, a concrete step toward democratizing productivity could be to adopt a new minimum wage policy that—in addition to de-indexing the minimum wage as an accounting unit—would raise it rapidly and significantly, and above all, set it on a path of real and sustained recovery, aligned with the mandate of Article 123 of the Mexican Constitution.

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