

DISCUSIÓN

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Inequality and minimum wage policy in Mexico: A comment

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While its structure is not that of a typical research paper, this work by Krozer, Moreno and Rubio (2015) makes a contribution to the recent debate about raising the minimum wage in Mexico. The paper provides a comprehensive account of the evolution of income distribution in Mexico as measured by the Gini index, poverty headcount, income per capita across deciles, top and bottom income shares, and, most importantly, the functional distribution of household income (labor, capital and transfer income components). In general, in this policy-oriented paper the authors argue in favor of a minimum wage raise and advocate in the conclusions for a minimum wage initiative approval in the near future.

A number of interesting results emerge from the analysis presented by the authors. In Figure 2, for instance, the comparison of the top 1% and the bottom 40% of the distribution in general, and following the financial crisis in particular, is striking. While some more work needs to be done on this matter, somehow the figure might suggest that economic growth in Mexico is pro-rich rather than pro-poor. Despite all the interesting findings in Krozer, Moreno and Rubio (2015), there are caveats and facts that are missing from the authors' outline. In this comment I would like to bring three issues to the attention of the readers.

The first of the facts left aside by Krozer, Moreno and Rubio (2015), and many others in the debate about the minimum wage, is that of the regional differences

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that exist across Mexico. While wages in Mexico differ across the country, there are only two official geographical wage areas, A and B, recognized by Comisión Nacional de Salarios Mínimos (CONSAMIN).¹ The differences between the two official rates are very subtle. In order to appreciate the true difference of wages across Mexico, the use of other wage measures is more appropriate. In Figure 1 we observe the daily wage received by permanent and temporary formal workers affiliated to Instituto Mexicano del Seguro Social (IMSS) during July 2015.² The first striking fact to notice is that, at nearly 300 pesos, the average national salary is way above the minimum. There is roughly a five-fold difference with respect to the minimum wage of \$70.1 and \$68.28 pesos in areas A and B, respectively. Second, even though the IMSS salaries are for workers in the formal sector, the difference between the extremes is remarkable. The daily salary in Campeche is 80% higher than in Yucatán; in Querétaro 52% higher than in Sinaloa.³ Third, in Distrito Federal, the salary is 51% and 58% higher than in the neighboring states of Hidalgo and Tlaxcala, respectively. Indeed, other factors like the differences in workers' skills and education play a role in the unequal distribution of wages across Mexico.

Interestingly, the evolution of the IMSS formal sector wages and the minimum wage is not radically different. Figure 2 plots both the minimum wage and IMSS formal wage rates, from 1994 to 2015 in pesos of 2010. It is clear in this graph how both wage rates were heavily hit by the 1994 peso devaluation and subsequent recession in 1995. However, following this shock, IMSS real wages started to recover slowly, reaching a real higher level than in 1994 only by the beginning of 2015.⁴ Meanwhile, the minimum wage has stabilized below its 1994 level and under \$60 real pesos since 2003.

1 A third area, Area C, was eliminated in 2012. This was the area with the lowest wages.

2 A number of studies have used the IMSS real wages to explore regional differences and income convergence across Mexican states, see for instance, Cabral, Mollick and Faria (2010) and Mollick and Cabral (2015).

3 As we notice later, due to its reliance on oil production, Campeche is frequently described as an outlier in the analysis of regional differences across Mexican states. Yucatán is also an interesting state because it is large and very unequal on its own. Its capital, Mérida, observes significantly higher wages than the rest of the state.

4 Notice, however, that this recovery might be momentary if by the end of 2015 inflation exceeds the increase in real wages for this year.

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