



The Ius Semper Global Alliance



I O L W

INTERNATIONAL OBSERVATORY
OF LIVING WAGES

A Collaborative Research Project



Mexico's Wage Gaps

Wage rates for all employed in manufacturing

2019 Report

Manufacturing wage gaps for Mexico vis-à-vis
selected developed and “emerging”
economies, with available wage and PPP data
(1996-2017)

(see definitions and sources at the end of report)

Manufacturing wage gaps for Mexico vis-à-vis selected developed and “emerging” economies, with available wage and PPP data (1996-2017).

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Web portals: www.jussemper.org/ — <https://lasalle.mx/>

E-mail: informa@jussemper.org



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Political economy argumentation for wage equalisation using Purchasing Power Parities (PPPs)

▪ Classic Problem Scenario

- With market liberalisation, MNCs sell their products in both the host countries and in all other markets where they are active, including their home country, at the same or at a very similar sales price,
- They achieve maximum profitability when the manufacturing process in their developing countries' operations is at par in quality and production efficiency with the standards used in their home operations but their cost of labour is dramatically lower,
- The MNCs' markets and their manufacturing and marketing operations are *globalised* but their labour costs remain strategically very low in order to achieve maximum competitiveness and shareholder value at the expense of the South's workers,
- The resulting situation is one where MNCs get all the benefit. Sometimes the salaries that they pay are higher than the legal minimum wage in the host country. Yet, these wages still keep workers in dire poverty. A minimum wage does not make a living wage even in the most developed economies,
- What has occurred, with market globalisation, is the dramatic widening of the gap between wages in the North and in the South,
- While the standard of living of a worker in the North provides the basic means to make a living and afford a basic standard of comfort, a worker working for the same company, doing the exact same job with the same level of quality and efficiency, lives in a shanty town in a cardboard house with no sewage, water and legal electricity,
- In this way, the huge differential in labour costs is added to the profit margin, keeping the part (the surplus value) that should have provided the worker with an equivalent standard of living to that enjoyed by the same workers in the North. This surplus value from the labour factor is the part rightfully belonging to workers, and that they should have received from inception, as their fair share of the income resulting from the economic activity.

Political economy argumentation for wage equalisation using Purchasing Power Parities (PPPs)

■ The Argument

- In true democracy the purpose of all governments is to procure the welfare of every rank of society, especially of the dispossessed, with the only end of all having access to a dignified life in an ethos where the end of democratic societies is the social good and not the market. The market is just one vehicle to generate material wellbeing,
- In this ethos, and with markets globalised, workers performing the same or an equivalent job for the same business entity, in the generation of products and services that this entity markets at global prices in the global market, must enjoy an equivalent remuneration,
- This equivalent remuneration is considered a living wage, which is a human right,
- A living wage provides workers in the South with the same ability to fulfil their needs, in terms of food, housing, clothing, healthcare, education, transportation, savings and even leisure, as that enjoyed by equivalent workers in the North, which we define in terms of the purchasing power parities (PPP) as defined by the World Bank and the OECD,
- The definition of a living wage of The Jus Semper Global Alliance is as follows: *A living wage is that which, using the same logic of ILO's Convention 100, awards "equal pay for work of equal value" between North and South in PPPs terms,*
- The premise is that workers must earn equal pay for equal work in terms of material quality of life for obvious reasons of social justice, but also, and equally important, for reasons of long-term global economic, environmental and social sustainability.

■ The Argument

- The argument of an equivalent living wage is anchored on three criteria:
 - ➔ Article 23 of the UN Universal Declaration of Human Rights on the following points:
 - a. Everyone, without any discrimination, has the right to **equal pay for equal work**,
 - b. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
 - ➔ Article 7 of the UN's International Covenant of Economic, Social and Cultural Rights of 1966: (i) Fair wages and equal remuneration for work of equal value without distinction of any kind, in particular women being guaranteed conditions of work not inferior to those enjoyed by men, with equal pay for equal work; (ii) A decent living for themselves and their families;
 - ➔ ILO's Convention 100 of "**equal pay for work of equal value**", which is applied for gender equality, but applied in this case to North-South equality, using PPPs as the mechanism,
- The proposal is to make workers in the South earn living wages at par with those of the First World in terms of PPPs in the course of a generation (thirty years),
- There will not be any real progress in the true sustainability of people and planet –reversing environmental degradation and significantly reducing poverty– if there is no sustained growth, in that period, in the South's quality of life, through the gradual closing of the North –South wage gap; attacking, in this way, one of the main causes of poverty, and pursuing concurrently sustainable development –rationally reducing consumption in the North and rationally increasing it to dignified levels in the South, thus reducing our ecological footprint on the planet,
- Just as the International Labour Organisation's Decent Work Agenda states, the decent work concept has led to an international consensus that productive employment and decent work are key elements to achieving poverty reduction,
- The material quality of life in Jus Semper's The Living Wages North and South Initiative (TLWNSI) is defined in terms of purchasing power, so that equal pay occurs when purchasing power is equal,
- Purchasing power is determined using purchasing power parities (PPPs),
- Purchasing power parities (PPPs) are the rates of currency conversion that eliminate the differences in price levels between countries.

Political economy argumentation for wage equalisation using Purchasing Power Parities (PPPs)

▪ Concept of Living Wage Using PPPs

- The concept of a living wage using PPPs is straightforward. To determine real wages in terms of the purchasing power of any country in question, the PPPs of this country are applied to nominal wages. These are the real wages for each country,
- Purchasing power parities reflect the amount in dollars required in a given country to have the same purchasing power that \$1 US has in the United States; e.g.: if the PPP index in one country is 69, then \$0,69 are required in that country to buy the same that \$1 buys in the US; thus, the cost of living is lower. If the PPP were to be higher than 100, say 120, then \$1,20 is required in that country to buy the same that \$1 buys in the US; the cost of living is, thus, higher,
- To calculate a living wage, the real wage of a specific category of US workers is used as the benchmark, and the PPPs of a country in question are then applied to the US wage,
- This provides the equivalent living wage that a worker in the country in question should be earning in order to be at par in terms of purchasing power to the material quality of life enjoyed by the equivalent US worker. This is the equalised wage in terms of purchasing power,
- In this way, the comparison between the actual real wage of the country in question exposes the gap, in real terms, between the current real wage of the worker of the country in question and the living wage it should be earning, in order to be equally compensated in terms of PPPs,
- In practice, since the PPPs vary annually, due to the dynamics of economic forces, the pace of the gradual equalisation of wages, through small real-wage increases, needs to be reviewed annually.
- It must be pointed out that this rationale does not even take into consideration that the neoliberal paradigm of staunch support for supply-side economics has consistently depressed for three decades the purchasing power of real wages in the US, the benchmark country for wage equalisation. This has been attempted to be resolved by women joining the work force and, fictitiously, through over indebtedness, which eventually has brought us down to the great implosion of capitalism in 2008. In this way, this equalisation analysis is made in the context of a course set forth during three decades of global depression of real wages in favour of international financial capital.

Political economy argumentation for wage equalisation using Purchasing Power Parities (PPPs)

A Classic Example in 2017

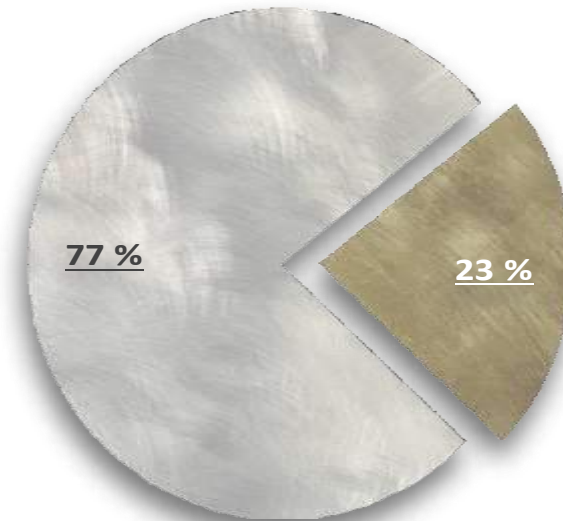
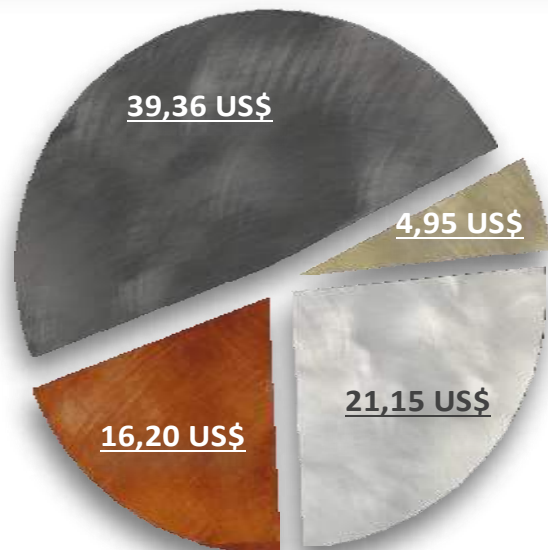
- Equivalent manufacturing workers in Mexico and Brazil earn only 23% and 33%, respectively, of what they should be making in order to be compensated at par with their US counterparts in terms of purchasing power,
- US Workers earn \$39,36/hour whilst Mexican and Brazilian workers earn only \$4,95/hour and \$9,13/hour, respectively,
- Since costs of living in PPP terms in Mexico and Brazil are \$0,54 and \$0,70, respectively, for each \$1 US dollar, equivalent Mexican and Brazilian manufacturing workers should be earning instead \$21,15/hour and \$27,41/hour, respectively, in order to enjoy equal purchasing power compensation,
- The difference is the wage rate gap that employers actually rob to increase profits,
- Canada, in contrast, has a much smaller gap with its US counterparts, since its nominal wage rate (\$33,63) is 83% of the equivalent wage rate (\$40,63) needed to be at par, with a PPP of \$1,03 per each \$1 US dollar.

Nominal, Real and Equalisation Wage Rate for All Employed in Manufacturing by Using Purchase Power Parities (PPPs) Benchmark					
	Nominal Hourly	PPP	PPP	Equalised Nominal Hourly	Equalisation
2017	<u>Wage Rate</u>	<u>2017</u>	<u>Real Wage Rate</u>	<u>Wage Rate</u>	<u>Index</u>
United States	39,36 US\$	100	39,36 US\$	39,36 US\$	100
Canada	33,63 US\$ 85 %	103	32,58 US\$ 83 %	40,63 US\$ 103 %	83
Mexico	4,95 US\$ 13 %	54	9,21 US\$ 23 %	21,15 US\$ 54 %	23
Brazil	9,13 US\$ 23 %	70	13,11 US\$ 33 %	27,41 US\$ 70 %	33
Sources:					
	International Observatory of Living Wages 2019.				
	The Conference Board, International Labor Comparisons program, February 2018.				
	Data base of World Bank's World Development Indicators, 1975-2017, (private consumption PPP indicator)				

Political economy argumentation for wage equalisation using Purchasing Power Parities (PPPs)

■ A Classic Example in 2017

- From a graphic perspective, the first pie chart shows the U.S. real wage rate for all employed in the manufacturing sector, which is always the benchmark. In the case of Mexico, the pie chart exhibits the nominal wage rate earned, the nominal wage rate equalised with the U.S. wage rate –always in purchasing power parity terms, and the difference retained inappropriately (deliberately).
- The nominal equalised wage rate of \$21,15 is what all employed in Mexico’s manufacturing sector should earn to be equally remunerated (in purchasing power terms) for performing an equivalent task (because Mexico’s PPP cost of living is 54% the cost in the U.S.). Yet, workers only earn \$4,95 instead of \$21,15, thus the employer deliberately retains \$16,20, which constitutes the greater part of the surplus value that legitimately belongs to Mexican workers, according to TLWNSI’s concept.
- In this way, the second pie chart shows how the employer retains inappropriately 77% of labour’s surplus value, or labour share of income, by only allocating to the worker 23% of what he/she is entitled to.



- Nominal wage rate earned
- Equalised nominal wage rate
- Difference inappropriately retained by the employer
- U.S. equivalent wage rate (benchmark for equalisation)

- Nominal wage rate earned
- Difference inappropriately retained by the employer

Domestic Perspective

Mexico's fraudulent government, fixated on the precarisation of Mexican society, deliberately contained real wages in manufacturing and across all economic sectors as a core matter of its economic policy for nearly 36 years. This appears to begin to change.

- **Context:** The carefully designed labour policy—since the early 1980s—of Mexico's mafia-like governments continued unabated for over three decades until 2016. During this period, Mexican governments consistently implemented supply side neoliberal policies that deliberately pauperised Mexico's labour force and plundered all natural resources. In our previous reports we had no choice but to expose every year the nefarious consequences on the real wages of manufacturing workers and the huge wage gaps with equivalent workers in the US. Ironically, the government's survey data improved in 2016 to include all manufacturing units. This caused indices to drop 25% on average. For instance, 2014 was recalculated from a 27 index to a 19 index. The wage gaps appear to be much greater than what was anticipated. This puts Mexico's labour compensations from a global perspective in the worst possible situation. China's data cannot be used to make direct comparisons, but nominal wage rates in Mexico appear to be now lower than or as low as in China, with the big difference that China has been increasing real wages steadily. With Mexico there has been virtually no change in equalisation terms for the entire twenty-year period. This makes Mexico, barring the Philippines and perhaps India, the country with the worst living-wage equalisation position of the 41 countries in our living-wage gap assessments. The illegitimate and robber-baron nature that accurately portrays the Mexican state, imposed an ethos of modern-slave-work, of near labour bondage that drags the country back to conditions prevailing a century ago. There appears to be a yet-to-be-confirmed change of policy, which would gradually recover real wages—if proven successful—and that we present and assess in the following pages. If it materialises, it would replace the supply side neoliberal labour policies that have prevailed with demand-side policies that would seek to recover real wages. As for the wage policies of the neoliberal period, these are its most conspicuous features:
- Every year, labour policy maintained the minimum wage at its lowest level by blocking any increase above inflation, although real wages have been pulverised consistently since the early 1980s. This is possible because the consumer price index (CPI) for the basic goods consumed by working families is much higher than the inflation index for the entire economy. This wage erosion trend is consistent with the data reporting on the wages of all employed in manufacturing since 1996. Mexico's equalisation index has barely changed between 1996 and 2015 between a low of 19 and a high of 21. Thus, virtually it did not move, unlike the case for most countries, which have shown marked improvements in equalisation. Furthermore, when we use wage rate data that goes back to 1975, the picture is far more clear, because the greater part of the erosion of real wages took place before 1996 both for general wages and manufacturing wages.
- As a result, labour's share of income in Mexico is extremely low even when compared within the region. In the latest report of the Economic Commission for Latin America and the Caribbean, Mexico shows the second lowest wage share of income vis-à-vis the GDP. In 2016, the share of wages in total income for Mexico was only 26,7%. By comparison, Costa Rica, Brazil, Honduras and Argentina, all recorded shares between 46,8% and 42,8% (ECLAC: Social Panorama of Latin America • 2018, page 51.) Thus, Mexico stands out as one the most unequal economies. ECLAC asserts that Mexico leads the list of countries in Iberian America with the greatest concentration of wealth in a few hands (Dora Villanueva: México, país de AL donde se concentra más la riqueza: Cepal, La Jornada, 15 January 2019). ECLAC also reports that Mexico's poverty rate is 15% higher than the region's average (Mathieu Tourliere: Pobreza en México, 15% superior al promedio de América Latina: Cepal, Proceso, 15 January 2019). Indeed, the ECLAC report explains that although the Gini index is 0,50, the Gini index was 0,69 for the value of dwellings and 0,78 for contracts in brokerage firms (value of investment in financial assets), which is the worst in the region (ECLAC: Social Panorama of Latin America • 2018, page 19). A 0,0 Gini means perfect equality.

Domestic Perspective |

- To accomplish this, the state unleashed a policy of labour rights violation. The repression centred on the destruction of trade unions, the harassment of their leaders and the blatant violations of labour law, given the state of absolute impunity prevailing in Mexico, with the full international support of the governments of “partner” countries. The ILO’s core conventions, ratified decades ago by the Mexican state, are violated customarily. Miners, energy workers and farm day labourers endured one of the most systematic repressions. A 2015 series on Mexico’s labourers published by the Los Angeles Times provides a vivid and accurate account of sheer labour bondage as the standard enjoyed by employers in Mexico, with the full support of the state (<http://www.latimes.com/la-bio-richard-marosi-staff.html>). NAFTA is a true disaster, but the real losers are the Mexican workers, who subsidise US wages and consumer prices with modern-slave-work wages, with millions losing their livelihoods, and many forced to migrate to the US, in contradiction with Trump’s government propaganda. (See: [Felicity Lawrence: Trump is right: NAFTA is a disaster. But US workers aren’t the big losers. The Guardian, 18 November 2016](#)). The Mexican State effectively betrayed Mexico by imposing predatory trade agreements, well aware beforehand that such agreements would destroy the social fabric, surrender natural resources and convert the vast majority of the population into a huge mass of Guy Standing’s “precariat”. For further detail, see our presentation delivered on October 2019 at California Lutheran University explaining [the underlying causes of immigration from Mexico to the US](#) from an economic perspective. This clearly exposes the pauperisation of wages and labour rights, particularly since NAFTA took effect.
- As a consequence, the country has suffered a terrible transformation in the components of job generation, for it is estimated that at least 58% of the economically-active population worked in 2015 in the informal sector according to the government’s own data (INEGI – BOLETÍN DE PRENSA NÚM. 207/18 16 DE MAYO DE 2018) and to the OECD, which estimates that up to 63% of total employment is informal (Employment Outlook 2011 – How does Mexico compare? OECD, 2011). To be sure, wages and other labour compensations of those making a living in the informal sector occur in much worse conditions than those prevalent in the manufacturing sector addressed in this assessment. Moreover, a labour law reform was passed in 2012 to impose the sheer flexibilisation of hiring and lay off practices, on top of the daily minimum wage losing 73% of its real value by 2015.
- The situation became so dramatic and social pressure was so intense that in the last two years of the Peña administration (2012-2018), the minimum wage was increased for the first time in real terms (above CPI inflation) since 1981. The new government (2018-2024) is the first to push demand side economics since the mid 1970s and campaigned to recover real wages with gradual minimum wage increases and the replacement of an ethos that guaranteed full control of trade unions through corrupt labour leaders that worked as corporate agents for the employers. In 2017, Mexico’s minimum wage amounted to \$4,27. (P \$73,04) for an 8-hour shift. This is equivalent to about \$0,53/hour or 7,4% of the US minimum wage, despite the fact that México PPP for private consumption is 54% of the US, which would require Mexico’s minimum wage to be of \$3,92/hour to be at par in purchasing power with the US minimum wage; something that does not even take into consideration that the US minimum wage is also far from being a living wage. Clearly, Mexico’s minimum wage is of a labour-bondage compensation nature.

To put TLWNSI's living wage equalisation concept in a local context we look at the state of the minimum wage and hourly manufacturing wage rates in real terms relative to inflation rates for the consumer price index or CPI.

- **Minimum wages 1975-2019.** First we look at the record of minimum wages for the period 1996-2019. Minimum wages are set by the federal government every year. We assess the behaviour of minimum wage policy against the CPI for the period 1996-2019. We chose this to keep it in line with the data available for wage rates for all employed in the manufacturing sector, which cover the 1996-2017 period. When we look at the record, as observed in the chart on [page 16](#), the minimum wage consistently erodes by increasing at a lower rate than the CPI. 1996, two years after NAFTA took effect, is the benchmark year. We can easily observe that the wage rate loses 23-25% of its 1996 position within a period of five years. Then it remains at the same plateau for fifteen years until 2016, when it begins to close the gap with the CPI. This represents a clear policy of wage containment by keeping the minimum wage in line with the CPI between 2001 and 2015, after it had already been eroded 25% since 1996. Then the federal government increased the minimum wage above the CPI for the first time in 2016 at twice the rate (2,7% vs 5,6%). For the 2017, given the extremely dire situation of wages in Mexico, the government finally devised a way to not look so bad. So it devised a concept to slightly recover the real value of the minimum wage. In a poorly explained press release, the minimum wage for 2017 was increased arbitrarily by MX \$4,00, as a result of a so-called "Independent Recovery Amount" (MIR in Spanish) and then 3,9% was applied to offset its estimated GDP inflation rate. In this way, the minimum wage increased by 9,58% from MX P\$73,04 to Mx P\$80,04 per day (Comisión de Salarios Mínimos: Boletín de Prensa: http://www.gob.mx/cms/uploads/attachment/file/170367/2016DICIEMBRE01-FUACION_2017.pdf). The same criterion was applied for 2018, with an "Independent Recovery Amount of P\$5 plus another 3,9% increase to account for GDP inflation. In this way, the 2018 minimum wage is of P\$88,36. For 2019, the new government kept the MIR increase, albeit not as high as it proposed during its campaign (15,6% + inflation) it applied a MIR of 11,2% plus an estimated 5% to account for inflation for a total increase of 16,2%. In this way, the 2019 minimum wage was raised to P\$102,68.
- Nonetheless, the picture changes dramatically, when we look at minimum wages since 1975. As observed in the chart on [page 20](#), minimum wages increased in real terms between 1975 and 1983, gaining 56% in real terms against the CPI. Then, from 1984 forward, minimum wage policy deliberately plunders wages in real terms, losing 78% of its 1983 value by 1996. So the 23-25% erosion we first observed in the 1996-2019 period on [page 16](#) is only the last phase of the attrition policy imposed by the government to plunder real wages. Between 1983, the best position of the minimum wage in real terms and 2015, the erosion is a dramatic 83% This explains the explosion of poverty, inequality, lost of wage share in the economy, making Mexico the country in Iberian America with the lowest minimum wages for many years.
- **Hourly manufacturing wage rates 1975-2017.** If we perform the same assessment for manufacturing wages, we observe similar behaviour but not as dramatic. As shown in the chart on [page 17](#), the manufacturing hourly rate between 1996 and 2017 also shows a gap that indicates a loss of 12% in real terms in just one year and remains the same until 2000. Then it recovers slightly and remains at a 90-94% of CPI band until 2016 when it appears to start recovering and actually recovers and gains 15% over its 1996 level. It should be noted, however, that for 2016 and 2017 we are using two methodological criteria, because The Conference Board (TCB), our source for hourly compensation costs in manufacturing, did not issue a 2017 report. The TCB suggested that we use its productivity indices as the basis to estimate 2017 hourly rates in manufacturing as an alternative. If we use this criterion, instead of a gain there is only a slightly recovery by 2017, but still 3% below the 1996 level vis-à-vis the CPI, as shown in the chart on [page 18](#). The second criterion is to use the reports from Mexico's federal government statistical institute that compiles this data (INEGI). This is exactly the same source used by TCB for Mexico, the ENIM survey. So if we apply the ENIM results for 2017, there is an actual gain of 15% versus a 3% gap against the CPI, from the 1996 levels when using the first criterion. This is further illustrated in the chart on [page 19](#). However, if we observe the behaviour of manufacturing hourly rates since 1975 in the chart on [page 20](#), we will observe a very similar behaviour to that observed with minimum wages. The hourly rate achieves its best position in 1982 by gaining 57% over its 1975 level in CPI real terms. Then it also plummets from 1983 until 1990 when it stabilises at a plateau that hovers in the mid 70% of 1975 in CPI terms. Then, from 1983 forward, the hourly rate loses 61% of its 1982 value by 1994. So the 10-12% erosion we first observed in the 1996-2015 period on [page 17](#) is only the last phase of the loss recorded. Between 1982, the best position of the hourly rate in real terms against the CPI and 2015, the erosion is a dramatic 57%, very consistent with minimum wage trends but with a loss significantly smaller (57% versus 83% respectively).
- It should be noted that the hourly rates in manufacturing for the 1975-1995 period are for production-line workers, whereas the rates for the 1996-2017 period correspond to all employed in manufacturing, which incorporates administrative workers. The hourly rates for the latter are 16% higher on average than the former in US dollars, which is not significant for this assessment. As shown on [page 20](#), this explains the increase from a 62% in 1994 to a 74% in 1996, but then the sustained erosion of real wages continues for the whole period until 2015. This finding is further reinforced by its consistent behaviour when measured against equivalent hourly wage rates in the US in terms of equalisation as shown in the chart on [page 29](#).

Minimum wages and manufacturing wage rates in Mexico vis-à-vis a Living Wage

Domestic Perspective |

- **The Indispensable Basket of Goods/Living Wage.** To put TLWNSI and the IOLW living wage equalisation concept in a local context we also look at the state of the minimum wage and hourly manufacturing wage rates in real terms vis-à-vis “the indispensable basket of goods” IBG, which is considered the minimum necessary for a household of four to enjoy a dignified quality of life, which is tantamount to a living wage. Mexico’s 1917 Constitution determines that the minimum wage of the head of household must provide a life worthy of human dignity to all the members of his/her household. The IBG provides the living wage standard to assess the quality of minimum wages and all wages in the economy. The IBG is an academic standard developed to measure the purchasing power of wages and as a reliable indicator to assess poverty.
- **IBG and Minimum Wage.** In the past we used the IBG from the “Wage Observatory Centre” of Universidad Iberoamericana (UIA), which dates back to 2014. However, Jus Semper and Universidad La Salle, Mexico City campus, have joined efforts to create the International Observatory of Living Wages (IOLW). As part of this endeavour, we have committed to assess on an annual basis the cost of the IBG. As a result, we have just completed our first IBG assessment for the Mexico City metropolitan area, assessing its cost with November 2019 prices in a variety of consumer shopping options. The IBG is composed of a food-items basket, a non-food-items basket and the cost of preparation and conservation of the food basket for a household of 3,75 members. The methodology for this basket will be made available as soon as we upload a specific site for the Observatory in January 2020. Our IBG is designed to determine not the minimum necessary to be above the poverty line or the bare minimum necessary for the reproduction of the workforce. Instead, we have designed a basket to determine the minimum necessary to enjoy a dignified quality of life. This is equivalent to the amount necessary for a wage to be regarded as a living wage. Typically, this assessment is performed against Mexico’s minimum wage. In the IOLW assessment, the combined monthly cost of the three components of the IBG in 2019 is P\$25.356,11. Given that the monthly minimum wage is P\$3.080,40, it affords 12,2% of the IBG. In other words, in order to buy the IBG, the equivalent of 8,2 minimum wages after taxes are needed. In 2014, the IBG from Universidad Iberoamericana determined that the minimum wage could afford 12,3% of the cost. Hence the relationship has not changed in five years.
- **IBG and Manufacturing Wages Rates.** When measuring the affordability of the indispensable basket of goods by workers in the manufacturing sector, which are typically the best paid workers in the economy, we regress the estimated CPI for 2019 and 2018 to bring back the cost of the IBG to 2017 prices, and we obtain an estimated cost of P\$22,603. The hourly direct pay (not counting taxes, social or company indirect benefits) of all employed in manufacturing in Mexico is 70,2% of the gross pay. Using the ENIM rate data, the hourly direct pay in dollars for 2017 is then \$3,47 and in pesos is P\$65,68. If we convert this into a monthly income at 48 hours per week, we get a net monthly wage rate of \$13.661,33, which shows that not even the best paid workers in the economy were able to afford the IBG in 2017, for they could only buy 60,4% of it, as illustrated in the chart on [page 21](#) in US dollars. As for the 2017 monthly minimum wage of P\$2.421,90, which is a net income, the affordability of the same IBG at 2017 prices was 10,7%, less than the 12,2% of 2019—as illustrated on [page 21](#)—resulting from the gain in real terms previously mentioned.
- However, according to INEGI, the government’s statistics institute, 74% of all salaried workers earned five minimum wages or less, only 4% earned more than five minimum wages and 14% did not disclose their income in 2018, as illustrated on [page 22](#) (INEGI: Indicadores estratégicos de ocupación y empleo, ENOE 2018). Thus we can very conservatively assert that at the very least 85% of all salaried workers could not afford the IBG in 2017 or 2018.

- **A deliberate predatory and plundering economic policy.** It must be clear that the dire results rendered in the labour's share of income are not due to a failure in economic management but to a deliberate economic policy of plundering. Since 1981, when production-line wage rates achieved their highest index in Mexico, they initiated a constant erosion in PPP terms—vis-à-vis their equalisation with the purchasing power of equivalent US wage rates—dropping to half of its 1981 equalisation index by 1995, one year after NAFTA became effective. This is possible due to the full support of employers by the state through its customary policy of pauperisation and trade union coercion and intimidation. This allowed the state to maintain the vast majority of workers under modern-slave-work conditions.
- **Outlook for Mexico's wage policy under the new government.** With the victory of López Obrador in 2018, conditions are planned to only change marginally for the better for workers, for there are no plans to replace the current structures of exploitation. In the new Government's Plan, the minimum wage would have been increased by 15,6% annually, plus inflation, until reaching P\$171,00 by the end of 2024 (Proyecto de Nación 2018-2024, page 227, available at: <https://drive.google.com/file/d/11B0aNBuVpHB7GDVXhCKdyvVKw7D7Ta-x/view>). This is a plan similar to Lula's plan in Brazil, and precisely what we have been proposing for over a decade, with the big shortcoming that, to reach the P\$171 plateau, the government would need to increase the minimum wage by 15,6% annually for the first four years and then by only 8,37% on his fifth year (2023), not counting what it adds to account for inflation, or around 20% annually including inflation.
- **Professional minimum wages rates.** This is no longer the case because the government increased the general minimum wage by 16,2% including inflation, but did not increase in real terms the tier for professional minimum wages. Mexico's minimum wage has a "general minimum wage" and a "professional minimum wage" tier. The latter is the minimum wage for 59 specific "professions, trades and special jobs". A minimum wage in Mexico refers to a tier of 59 specific activities that do not require a university degree but refer to some degree of skill to perform the work. These activities range from drivers for public transportation service, electricians, plumbers, construction workers, carpenters, painters, welders, office clerks and seamstresses, among others. The minimum wage rates for these activities are always about 25% higher for the lowest-pay activity than for the general minimum wage rate. However, all 59 activities were strictly increased by 5%, the estimated CPI inflation rate, which means that they actually lost value, because the inflation rates of the basic basket of goods and services are always higher than the CPI for the entire economy (for a full assessment of the new government's policy on minimum wages in 2019 see: [Mexico's Wages 2018 - 2024: To Change So That Everything Remains The Same](#)).

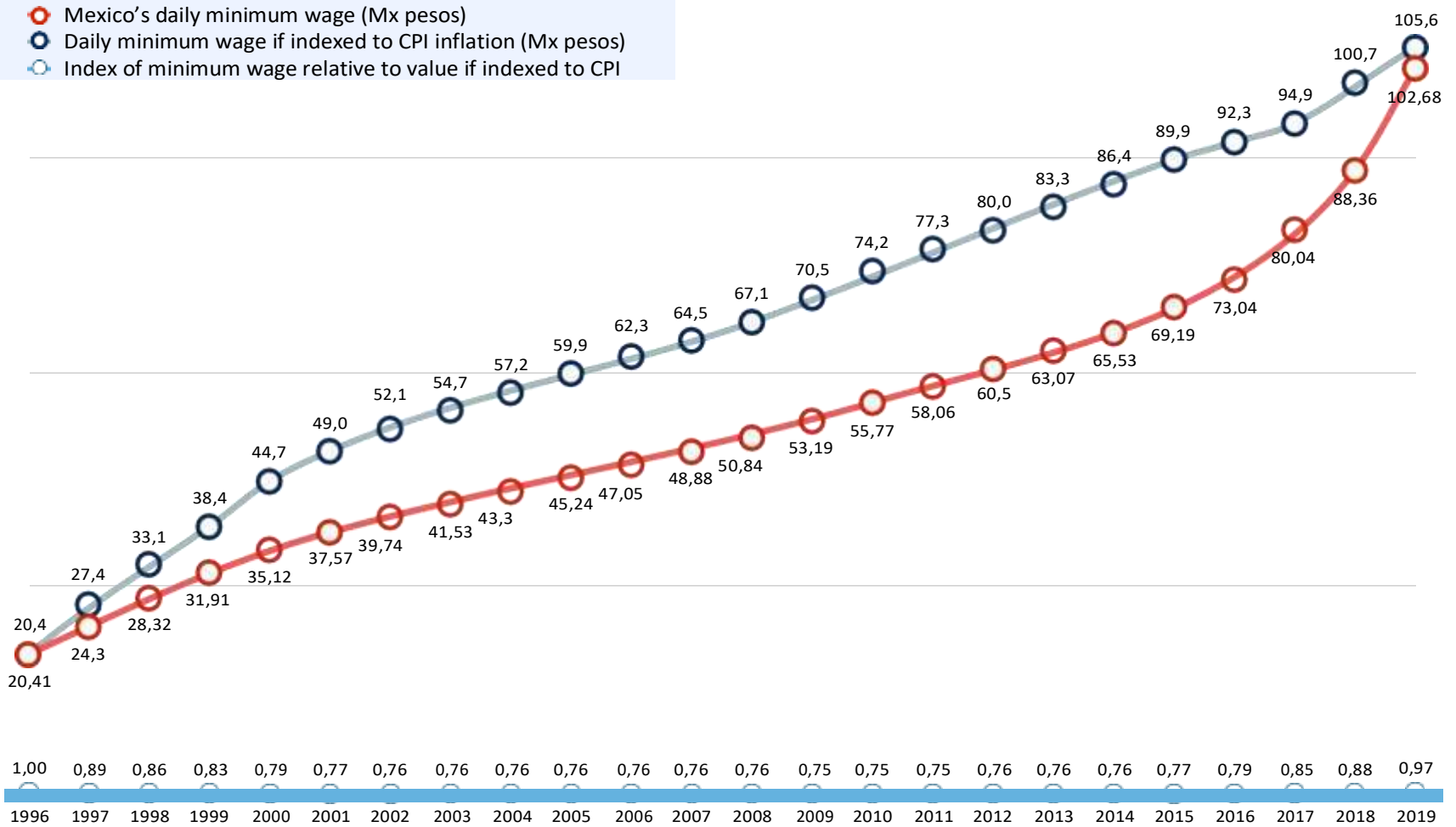
Wage rates for the 59 tier must be increased in line with the general minimum wage. Otherwise, besides being completely unfair, it would represent a rather negative trade off, for most workers in the formal economy are compensated by more than one minimum wage. According to INEGI's third quarter 2019 employment survey, only 15,5% of all workers earned up to one minimum wage (INEGI (2019), Encuesta Nacional de Ocupación y Empleo (ENOE), tercer trimestre de 2019). If this stark incongruence is not fixed, the general minimum wage will catch up with professional minimum wages. Given that professional wages were only increased 5% and the general minimum wage increased 16,2%, the latter will eventually catch up with wages that are paid to people who perform work requiring more specific and higher qualified skills. The general minimum wage may eventually surpass the rates for professional minimum wages, and, thus, wage policy would not seek to reduce poverty. Even if the general minimum wage policy continues to increase its value in real terms in subsequent years, what will the government do with the 59 professional minimum wages? Would they be eliminated and thus have a single minimum wage for all activities?

- The picture for minimum wage policy is far from clear, because concurrently with the increase to the general minimum wage by 16,2%, the government's new wage policy included a truly unprecedented increase of 100 percent to the general minimum wage in all the municipalities of the six states that are located on the Mexico-U.S. border. This raises the daily general minimum wage to P\$176,72 for 42 municipalities as published in the Federation's Official Gazette. In this case, the 59 professional minimum wages were increased also to put them at par with the general minimum wage at P\$176,72. These municipalities account for 6,5% of the total population of Mexico, according to INEGI's 2015 inter census count. The rationale conveyed for this sharp increase is to make these border municipalities a special free zone with the goal of closing the gap with the municipalities/counties on the US side of the border.

Minimum wage rates in Mexico in nominal and real terms (CPI) 1996-2019

Domestic Perspective |

The general minimum wage consistently erodes in since 1996 until 2016 when it begins to grow above the CPI index, but by 2017 it is still 3% below its 1996 value in real terms.

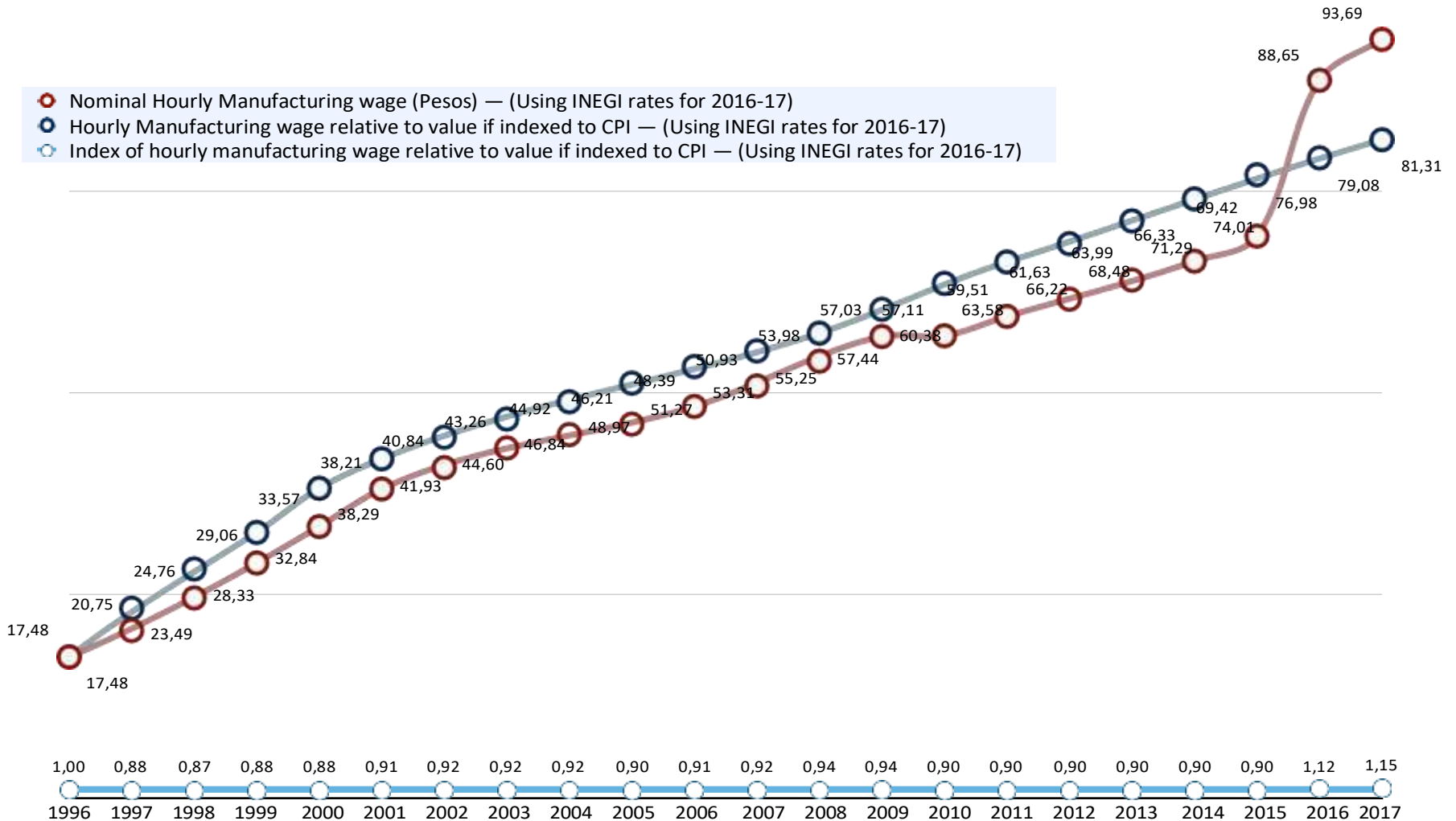


Sources: WB, U.S. BLS, TCB, IOLW, INEGI

Manufacturing wage rates in Mexico in nominal and real terms (CPI) 1996-2017

Domestic Perspective |

Manufacturing hourly wage rates consistently erode since 1996 until 2016 when they begin to grow above the CPI index and by 2017 end up 15% above their 1996 value in real terms.

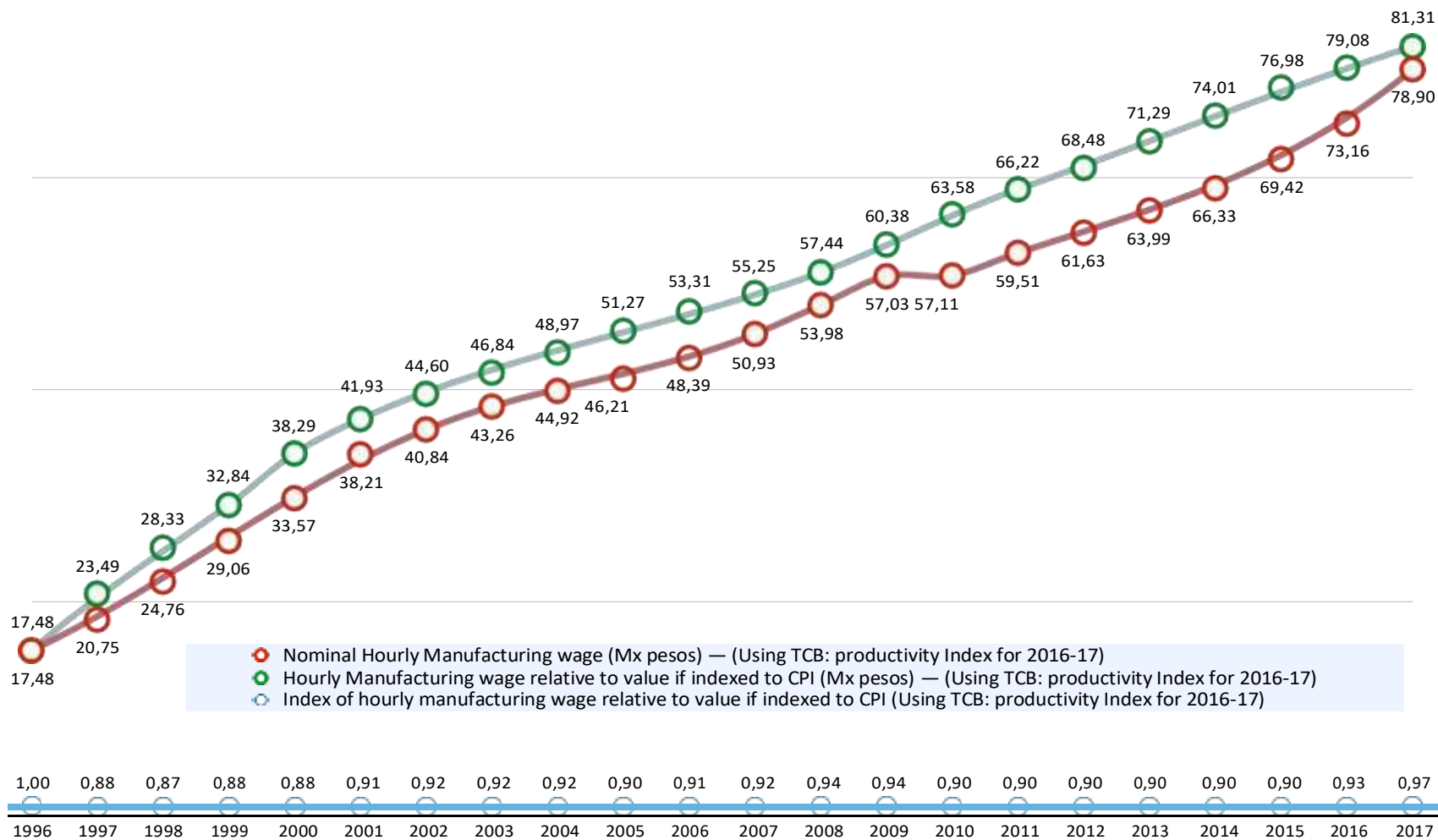


Sources: WB, U.S. BLS, TCB, INEGI, IOLW

Manufacturing wage rates in Mexico in nominal and real terms (CPI) 1996-2017 (using TCB indices)

Domestic Perspective |

When using productivity indices for 2016 and 2017, manufacturing hourly wage rates consistently erode since 1996. Then they begin to grow above the CPI index but by 2017 they are still 3% below their 1996 value in real terms.

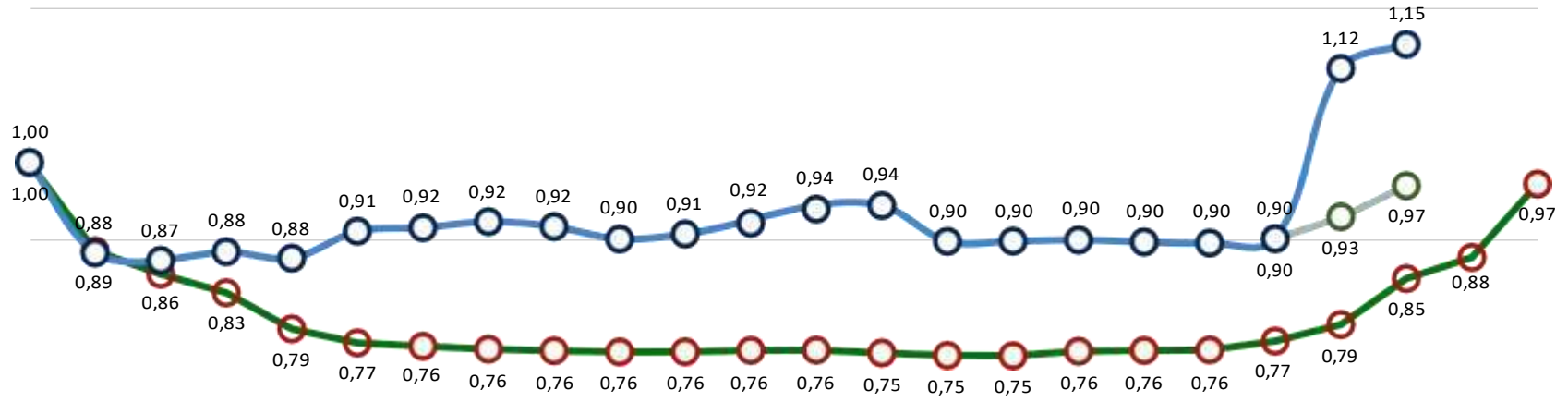


Sources: WB, U.S. BLS, TCB, IOLW, INEGI

Minimum and Manufacturing wage rate indices in Mexico in real terms (CPI) 1996-2019

Domestic Perspective |

Both the minimum wage and manufacturing hourly rates behave similarly for the entire period. The chart also shows a performance difference for 2016 and 2017 for manufacturing hourly rates between TCB: productivity indices and INEGI rates.



- Index of hourly manufacturing wage rate versus CPI — (Using INEGI rates for 2016-17)
- Index of hourly manufacturing wage rate versus CPI (Using TCB: productivity Index for 2016-17)
- Index of minimum wage rate versus CPI

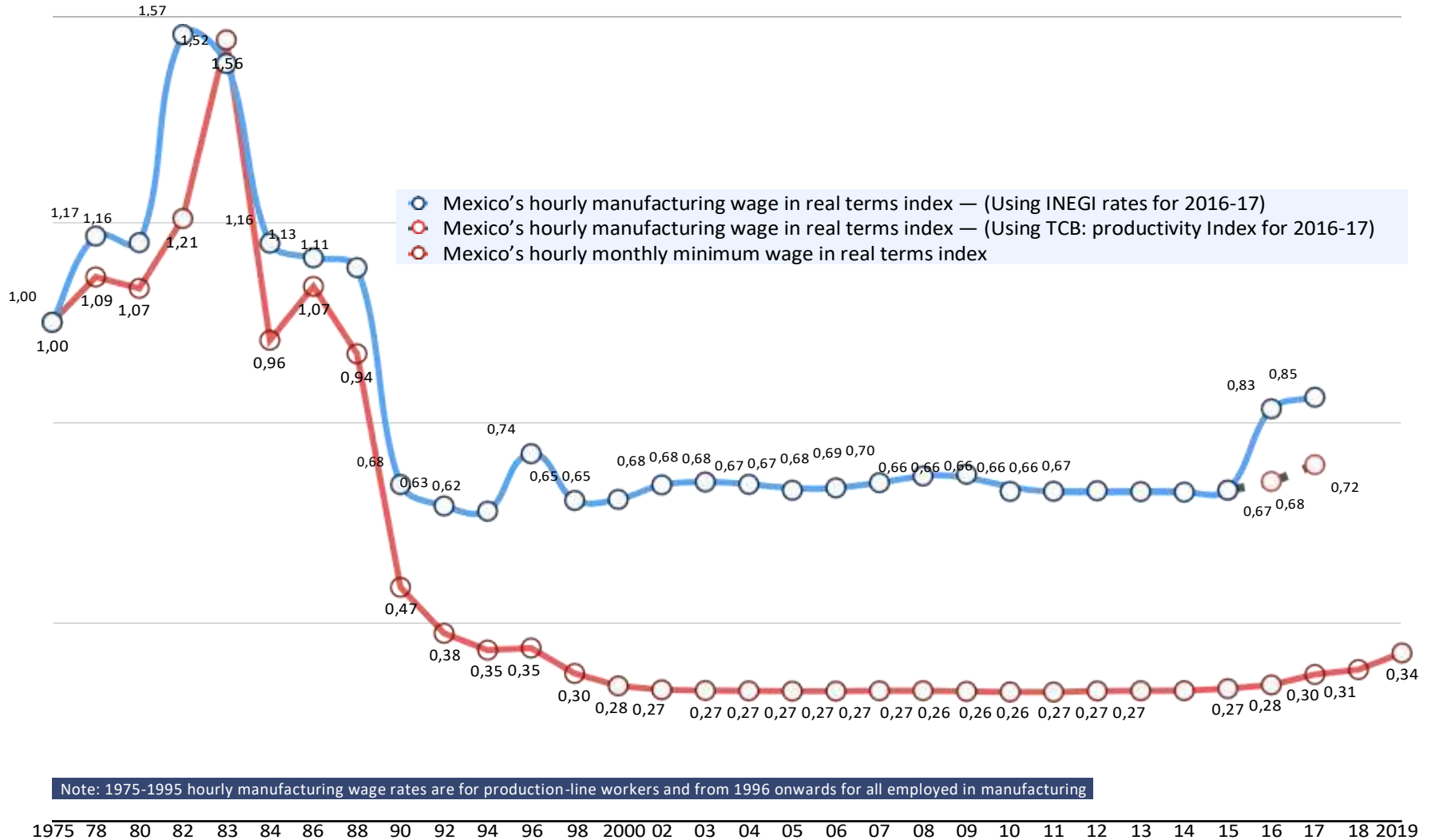
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

Sources: WB, U.S. BLS, TCB, INEGI, IOLW

Minimum and Manufacturing wage rate indices in Mexico in real terms (CPI) 1975-2019

Domestic Perspective |

Observing the behavior of minimum wages and manufacturing hourly rates from 1995 instead of 1996, shows that the greater part of wage erosion in real terms occurs between 1982 and 1996, to then stabilise at plateaus significantly lower. Both indices behave similarly, but the erosion of manufacturing hourly rates is not as drastic as of minimum wages.



Note: 1975-1995 hourly manufacturing wage rates are for production-line workers and from 1996 onwards for all employed in manufacturing

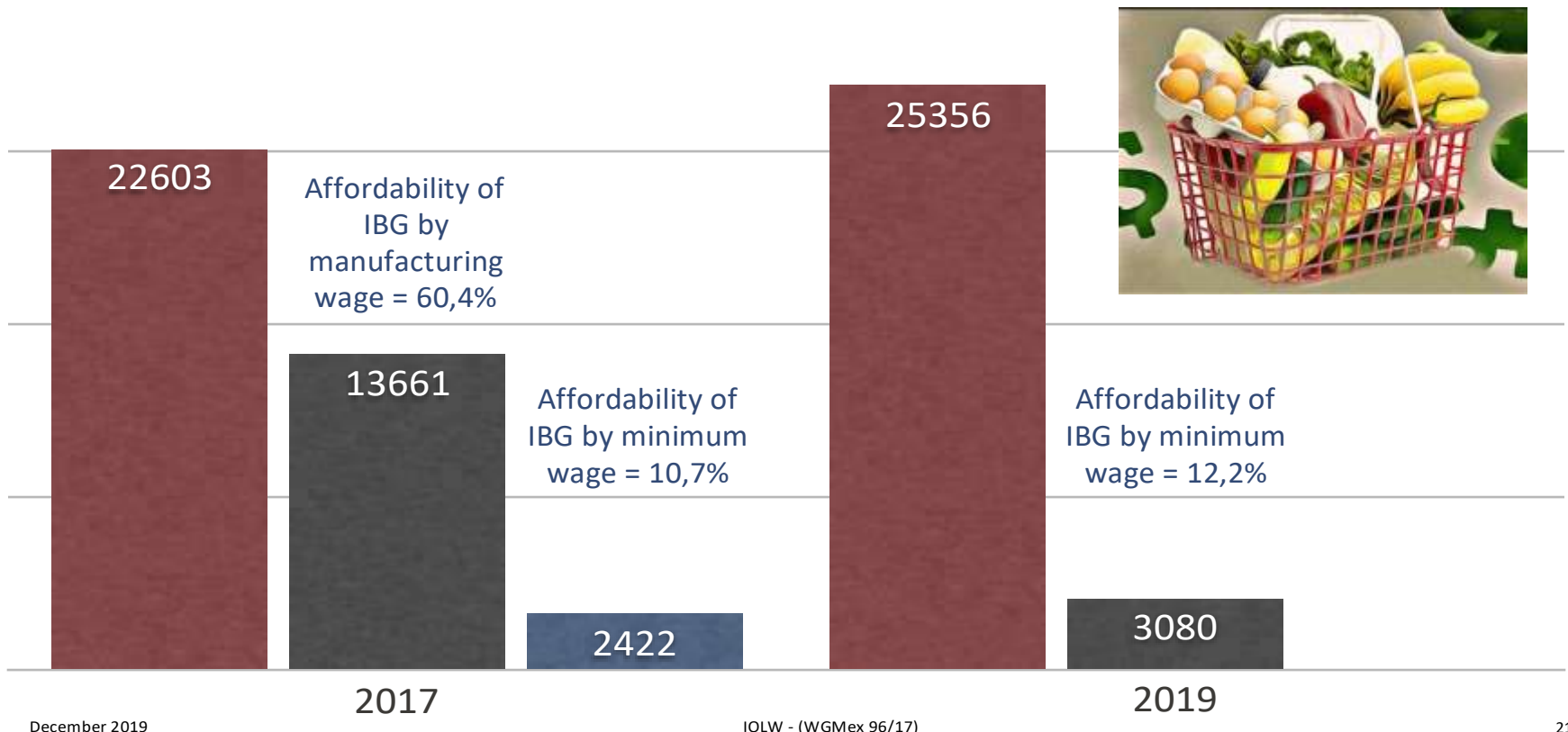
Sources: WB, U.S. BLS, TCB, IOLW, INEGI

Domestic Perspective | Minimum and Manufacturing Wages

Value of wages from a domestic perspective in Mexico
(versus the minimum necessary to enjoy a dignified quality of life)

- Indispensable Basket of Goods (IBG) (monthly cost in Mx pesos)
- Monthly manufacturing wage rate after taxes and SS
- Monthly General Minimum wage (in Mx pesos)

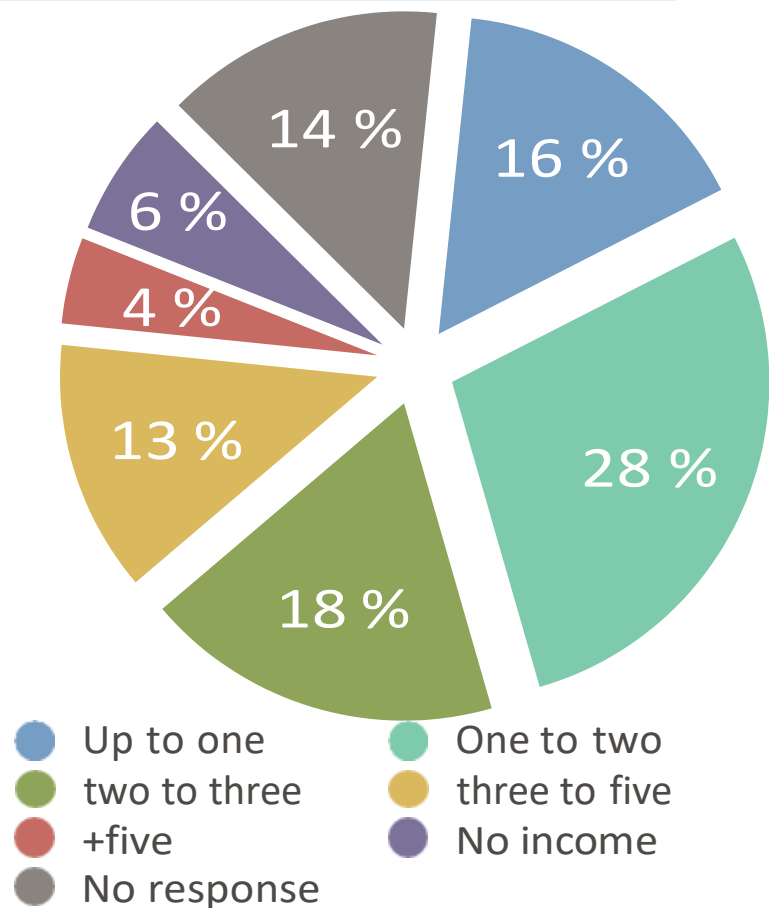
Source: IOWL (ULSA-Jus Semper)



Domestic Perspective |

Distribution of wage earners in Mexico by # of minimum wages (2018)

- ❖ According to the Mexican government, 74% of all employed persons earned not more than five minimum wages, but it takes +8 minimum wages to afford the basket.
- ❖ Our estimate is that not more than 15% earned enough to buy the basket in 2018.



Sources: INEGI

Global Perspective

Global Perspective | Manufacturing and Agriculture

Effects of NAFTA 1.0 in the in-bond plants sector of the Global Commodity Chains in place in Mexico and in the agricultural sector

- **NAFTA 1.0** For Mexican workers, NAFTA has been disastrous for workers in the manufacturing and agricultural sectors, the two major sectors participating in NAFTA. The agreement has been particularly pernicious for workers in in-bond plants of the global commodity chains that developed as a result of the trade agreement. These are its main features:
 - ➔ In 1976, before NAFTA, the sector had 448 plants employing 74,500 workers;
 - ➔ In 2017, after NAFTA, the sector reported 6,166 plants employing almost 2,9 million workers, at modern slave-work prices;
 - ➔ The level of exploitation, labour and human rights violations, and workplace hazards and insecurity is the worst in the entire industrial sector;
 - ➔ This includes the murder or disappearance of thousands of female maquiladora workers in Ciudad Juarez and many cities along the border;
 - ➔ As could be expected, the main reason for offshoring into Mexico is, once again, cheap labour costs that allow employers to maximise return on investment and shareholder value.
- As for the **agricultural sector**, NAFTA's rather pernicious effects destroyed or reduced the quality of life of millions of people in the three countries, particularly in the agricultural sector due to agribusiness. But it was in Mexico where the greatest damage was inflicted. As a result:
 - ➔ NAFTA liberalised corn and many other products such as sugar and beans;
 - ➔ Agribusiness corporations (Cargill, ADM...) flooded the market with subsidised products at prices below production costs in Mexico;
 - ➔ By 2006 over two million agricultural jobs, including 1.7 million small farmers, were lost and workers, farmers and their families were forced to leave the countryside.
 - ➔ Because two million lost their jobs, eight million lost their livelihoods, as the average Mexican family has four members

The plundering of quality of life in Mexico forced Mexicans families to leave their towns with three choices:

- ➔ move to the slums of Mexico's big cities and seek work, mostly in the underground economy, at modern slave work wages;
- ➔ migrate to the US;
- ➔ or join the ranks of people working for the drug cartels and other forms of organised crime.

The potential effect of the upcoming NAFTA 2.0 on Mexican wages

NAFTA 2.0 represents the deepening of the structures that were created to benefit exclusively global corporations and their domestic partners in Mexico. Once again, the agreement was discussed behind closed doors as opposed to in an “Open Parliament” as demanded by many organised groups of civil society. Yet it incorporates two new major labour provisions, one potentially positive and one potentially negative

✓ **A potentially positive new labour provision if enforced:**

- ➔ Mexico’s new labour reform has incorporated ILO’s Convention Nr.98;
- ➔ With its ratification by Congress, Mexico has ratified the Eight Fundamental Conventions: Nr.87: Freedom of Association, Nr. 98: Right to Organise and Collective Bargaining, Nr. 29: Forced Labour, Nr. 105: Abolition of Forced Labour, Nr. 138: Minimum Age, Nr. 182: Worst Forms of Child Labour, Nr. 100: Equal Remuneration Nr. 111: Discrimination (Employment and Occupation). But if they are not enforced, as they have usually not been, they become meaningless.
- ➔ In line with convention 98, NAFTA’s 2.0 text includes modest but meaningful labor standards gains. The key one is: the “Rules to end wage-suppressing “protection contracts” in Mexico”;
- ➔ If this is enforced, this could make a real difference over time to raise Mexican wages, which also would cut incentives to outsource jobs to Mexico;
- ➔ BUT, so far NAFTA’s 2.0 text lacks the monitoring or enforcement terms necessary for the rules to make a difference for workers. If this changes and the new rules are enforced, it would be very positive.
- ➔ The Mexican Congress has already ratified the new agreement, and awaits US ratification where the Democratic Party controls its approval.
- ➔ Democrats are skeptical that, as has customarily been the case, enforcement will be lacking. They have demanded specific guarantees that the Mexican government will be prepared to comply with the enforcement. The Mexican government provided a letter in October 2019, committing to materialise the provisions in the Mexican government's budget that would underwrite the policy changes and included promises to uphold labor rights and boost the Mexican minimum wage.
- ➔ Democrats welcomed the letter but as, of November, are still deliberating on their support of the agreement for its ratification in the US Congress.

The potential effect of the upcoming NAFTA 2.0 on Mexican wages

■ A potentially rather negative new labour provision if it materialises — A new Rules-of-Origin provision for the motor-vehicle industry - Article 7:

- ➔ Parties agreed on a labour value content (LVC) of 40 percent for passenger vehicles and 45 percent for light and heavy trucks;
- ➔ 40/45 percent of the value of cars and light and heavy trucks must be produced by workers paid \$16/hour to qualify as “originating” in North America for zero trade tariffs;
- ➔ First problem is that it is rather difficult to calculate its real effect, because only auto firms know precisely where each element of their product is made and so far there is no process in place to assess this effect.

The much bigger problem is the potential of a double-edged sword:

This could well be very positive by pressuring corporations to increase wages in Mexico, but it can also be a Trojan horse from the Trump Administration against Mexico;

- ➔ In 2016, the hourly total compensation costs in the automotive industry were: Mexico \$4.68/hour, US \$48.97 and Canada \$34.19.
- ➔ The gaps on real PPP wages in manufacturing, and specifically in the automotive industry, are so enormous that it would take at the very least two decades to fully close them (from \$4,68 to \$26,54 not even counting for inflation)

A potential positive scenario:

- ➔ The new Mexican government committed to recover real wages and has already increased the minimum wage in 2019 by an unprecedented 16,2%;
- ➔ Even if we make a simplistic assumption and apply the actual increase for 2019 of 16,2% to motor industry wages and we project to achieve a nominal wage of just \$16/hour, it would take roughly eight years to reach the motor-vehicle threshold if all assumptions (inflation, PPPs, exchange rates) materialise;

The effect of NAFTA on labour compensations in Mexico

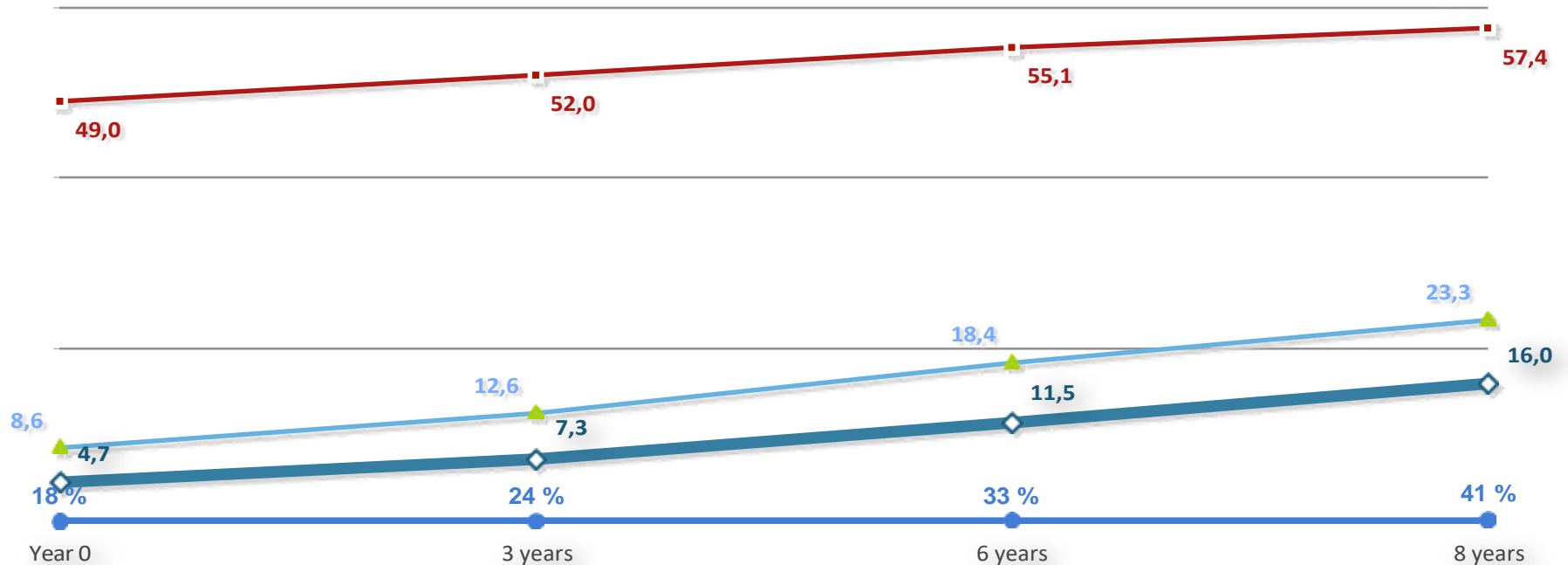
Global Perspective | Manufacturing

The potential effect of the upcoming NAFTA 2.0 on Mexican wages

A potentially positive effect on putting pressure to raise Mexican wages in the automotive industry with NAFTA 2.0 can turn into a double-edged sword with Trump.

- o Knowing Trump, if he is still in power for another term, he could easily demand that a chunk of motor vehicle production from Mexico be transferred to the US because the LVC of \$16/hour was not met in Mexico.

Eight-year projection of Mexico's hourly wage rates (total compensation costs) of motor-vehicle workers in Mexico – (average annual increment of 16,2% until reaching the \$16/hour motor-vehicle threshold in NAFTA 2.0)



◇ Mexico's nominal wage (\$) –Average increment. 16,2% annually ■ US wage ▲ Mexico's PPP real wage

○ Rate of equalisation reached

PPP equalisation of manufacturing wage rates in Mexico vis-à-vis equivalent US and selected countries rates

Global Perspective | Manufacturing

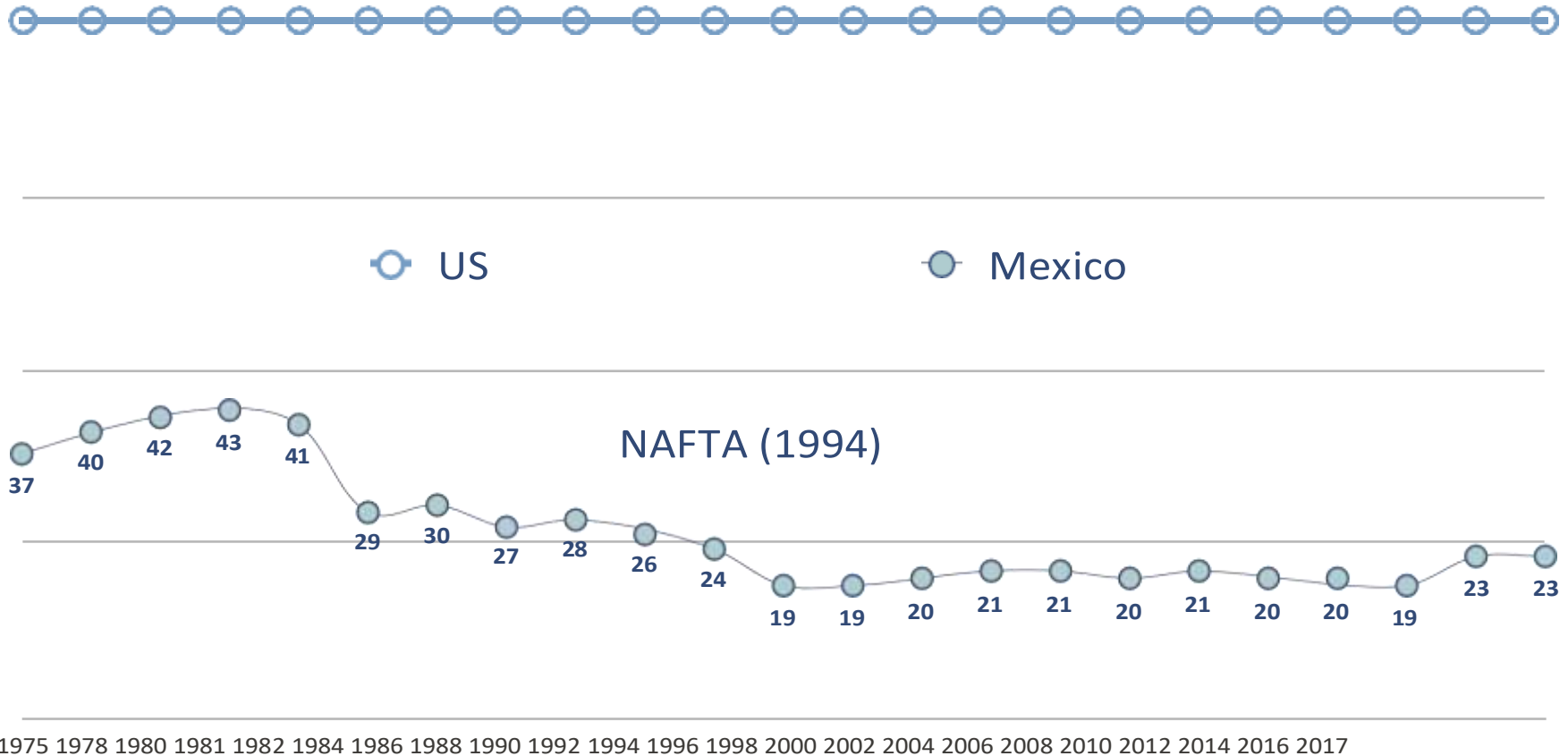
- **Wage rate equalisation track record since 1975.** As shown in the chart on [page 29](#), Mexico's Eq-Idx between 1975 and 2017 for production-line workers in manufacturing reaches its best position in 1981 with a 43 index and then starts rapidly eroding until it reaches a plateau by the time NAFTA comes into place in 1994 to then remain as a flat line until 2016-17 when it appears to be recovering, (using the ENIM survey data). Starting in the 1980s the Mexican state surrenders to the guidelines of the World Bank and the IMF, the institutions in charge of imposing the Washington Consensus of privatisation and markets deregulation to—evidently undemocratic—governments wishing to obtain legitimacy through their recognition by the metropolises of global capitalism. With this, Mexico's manufacturing real wage rates endure a systematic policy of erosion that gradually makes them lose more than half their value. In 1996—two years after NAFTA and the debacle of the economic policies of the state—real wage rates dropped to their worst level since 1975, with an equalisation index of barely 19 with their US counterparts. Subsequently, for production-line workers (PL), (shown in the chart only up to 1994), PL wage rates recovered slightly (27) to then drop again to 24, 25 and 23 for 2005, 2007 and 2009 respectively. In this way, from a 43 index in 1981 to 23 of 2009, Mexican production-line wage rates lost 47% of their already meagre purchasing power equalisation with the wage rates of their US counterparts. Hourly wage data published by the US Department of Labour for production-line workers is not available for subsequent years.

In the case of all workers employed in the manufacturing sector—since we can no longer track wage rates for PL workers—their wage rates continue to show the exact same trend. The data available only goes as far back as 1996, but it is clear that wage rates for all employed in manufacturing have eroded at even a worse pace than those for PL workers, even if we lack the data to use 1975 as the historic indicator. This is a realistic assumption given the fact that the gap between PL and all employed in manufacturing wage rates has been diminishing downward. While in 1996 the hourly wage rates of all employed in manufacturing was 61,3% higher than for PL workers, in 2000 it dropped to 55,6%, in 2006 to 50,8% and by 2009 it had dropped to 49,6%. Thus there is a consistent erosion of the wage rates of all the workers not employed in production. This erosion is causing their wage rates to gradually and downwardly close in with those of the workers employed in the production area of the manufacturing sector. To make it worse, the government's survey data was expanded in 2016 to include all manufacturing units. This caused indices to drop 25% on average. Consequently the wage gap is actually much greater than what was being reported, and it is now as low as in China, with the difference that China has been increasing real wages steadily.

- **Comparison with South Korea.** The case of South Korea, included in [pages 30 and 31](#), clearly shows the great difference in the performance of the wage rates for all employed in manufacturing in their equalisation with those of their US counterparts vis-à-vis Mexico's wage rates. Yet, because they only go back to 1996, their performance is not nearly as dramatic as that for production line-wage rates in past reports, which start in 1975. For production-line workers, South Korea's outcome could not be more divergent with Mexico's, for its equalisation index in 2009 was almost three times greater than Mexico's (65 over 23), whilst in 1975 South Korea's equalisation index was barely 30% of Mexico's (11 vs. 37). The contrast was even more dramatic before the crises, for in 2007 the relationship was more than three times in favour of South Korea (83 over 25).

This contrast becomes even more evident when comparing the mutual proportion of PPP real wage rates of both countries between 1975 and 2009. In 1975 Mexico's production-line real wage rates were 3,5 times South Korea's. By 2009 we observe an inverse relationship, for South Korea's wage rates were 2,9 times Mexico's. As for all employed in manufacturing, in 1996 Mexico's real wage rates were 40% of South Korea's, but by 2017 they were down to only 34% ([page 31](#)). This exposes how a state committed to social wellbeing can make real wages reach the ranks of those of the major economies. Instead of surrendering its labour market to the guidelines of the Washington Consensus to apply a modern-slave-work model, South Korea chose endogenous development by strengthening its domestic market's aggregate demand and opening competitive economic sectors only, which led South Korea to become competitive in global markets too. (Alice H. Amsden: *Asia's Next Giant: South Korea and Late Industrialisation*, Oxford University Press, 1989) and Álvaro J. de Regil: [South Korea's tortuous road towards a living-wage ethos](#), A TLWNSI Living Wage Assessment, The Jus Semper Global Alliance, October 2013.

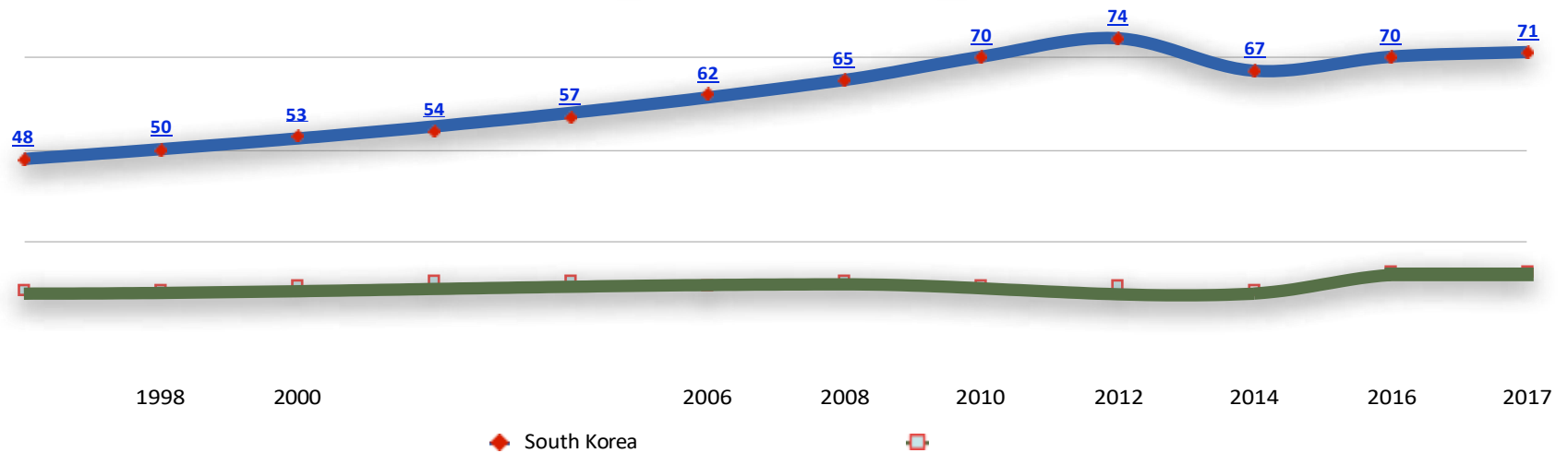
Hourly wage rates equalisation indices in the manufacturing sector



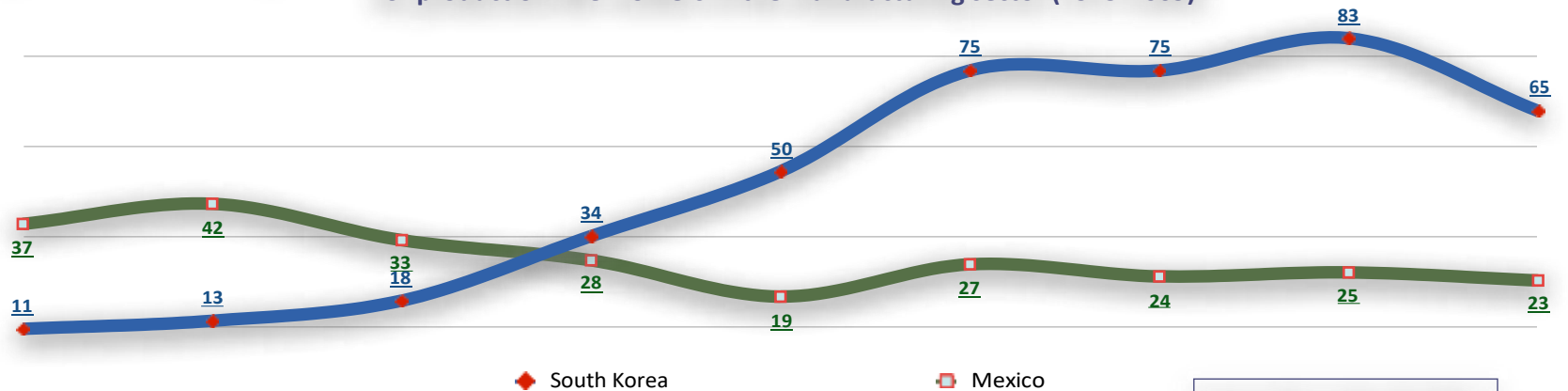
Notes: 1975-1995 hourly manufacturing wage rates are for production-line workers and from 1996 onwards for all employed in manufacturing. If we use the TCB productivity indices, the Eq-Idx would remain at 19. We believe that the ENIM survey data used in the chart—the same source used for all previous years—is the far more realistic indicator.

Sources: WB, U.S. BLS, TCB, IOLW

Equalisation index comparison in PPP terms of hourly real wage rate with equivalent US hourly wage rate of Mexico and South Korea for all employed in the manufacturing sector (1996-2017)

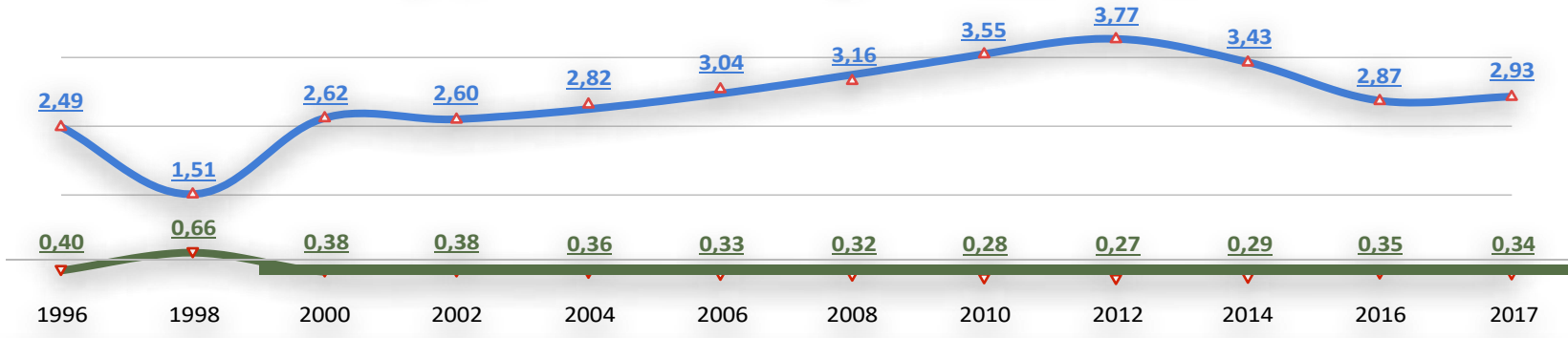


Equalisation index comparison in PPP terms of hourly real wage rate with equivalent US hourly wage rate of Mexico and South Korea for production-line workers in the manufacturing sector (1975-2009)



Sources: WB, U.S. BLS, TCB, IOLW

Mutual proportion comparison of PPP real wage rates between Mexico and South Korea for all employed in the manufacturing sector (number of times)



Mutual proportion comparison of PPP real wage rates between Mexico and South Korea for production-line workers (number of times)



Sources: WB, U.S. BLS, TCB, IOLW

PPP equalisation of manufacturing wage rates in Mexico vis-à-vis equivalent US and selected countries rates

Global Perspective | Manufacturing

- **Comparison with Argentina.** Argentina's case exhibits once again the decay of Mexican wage rates and the exploitative nature of Mexico's Mafia state. There is no data for production-line wage rates in Argentina, but the data for all employed in manufacturing is quite eloquent in exposing the demise of Mexico's wage rates. This is true despite the fact that Argentina is once again in the middle of a deep crisis. Yet, wages have recovered and surpass their Eq-Idx held before past crises. In 1996 Argentina's equalisation index with the US was relatively higher than Mexico's (32 vs. 19). During its deep economic crises of 2002, Argentina's equalisation index gap with Mexico's index was even smaller (30 vs. 21). Yet by 2012, Argentina's real wage rates were 2,96 times those of Mexico, whilst Mexico's were barely 34% of Argentina's ([pages 33 and 34](#)). Since 2002, when Argentina's equalisation index was at its lowest point (30) and its PPP real wage rates were only 44% above Mexico's, nominal wages increased dramatically, clearly above inflation, until the change of government ended demand-side policies. There was much controversy about Argentina's official inflation rate during the Fernández government. Hence we used the "Billion Prices Project" from MIT, which gauged real inflation for 2015 to be at 26,8%. Yet, this is still less than the 30,6% nominal rate increase of the manufacturing wage rate recorded in 2015. This makes the PPP, based on real inflation estimates, to be around \$1,02 in 2015. That would make the wage equalisation index a 54 instead of around 80 if we take the official rate. The controversy notwithstanding, Argentina's wage rates in the manufacturing sector increased, between 2010 and 2015, 58,2% nominally and 10,8% in PPP real terms (in US dollars). This produced a 3 point increase of its Eq-Idx for the same period. In this way, Argentina's manufacturing hourly wage rate improved dramatically its equalisation with the equivalent rate in the US, since 1996, for it increased 69% (from 32 to 54) using realistic inflation estimates.
- In great contrast, Mexico's wage rates in the manufacturing sector dropped between 2010 and 2015 by -8,6% nominally and increased 12,4% in PPP real terms (in US dollars), with its Eq-Idx losing one point for the period. As a result of a deliberate economic policy, Mexico's manufacturing hourly wage equalisation index has had almost no change in twenty years. It is only in 2016 and 2017 when it begins to apparently increase in real terms and in equalisation with US wage rates. The contrast in the results are dramatic and clearly exhibit the stark divergence in labour policy. The above notwithstanding, as soon as Macri's new Argentinian government took power, sheer neoliberal policies were resumed, switching to a complete supply-side paradigm. This has triggered a clear regression of Argentina's living-wage equalisation performance. As we assess in detail in Argentina's report, its Eq-Idx has gone down, recording a 50 index in 2017 and is already in a downward trend that will drop drastically in 2018 and 2019. Argentina's track record provides clear evidence that the gap between real and living wages and in terms of equalisation—under the aforementioned principle of equal pay for equal work of equal value—is a direct result of the political will, or not, of governments to support the labour share of income. As has been exposed for over half a century in economic analysis, contrary to capitalist economic theory, wages as well as income or indirect taxes, constitute the remuneration of the factors that are established in an independent or institutional manner; to be sure in a way exogenous or outside of the economic realm of supposedly supply and demand, to produce a very unequal exchange (Arghiri Emmanuel (1969) : *L'échange inégal*).
- **Mexico's labour share of income.** Another metric that confirms the deliberate policy of pauperisation of wages is México's labour share of income, which is by far the lowest among OECD countries since inception. In 2011, Mexico's share of income as a percent of total value added was 28%, whilst the average for all countries was 49,9% (Norma Samaniego Breach: *La participación del trabajo en el ingreso nacional — El regreso a un tema olvidado*, CEPAL - Serie Estudios y Perspectivas – México – N° 157, ONU/CEPAL Naciones Unidas, noviembre de 2014).

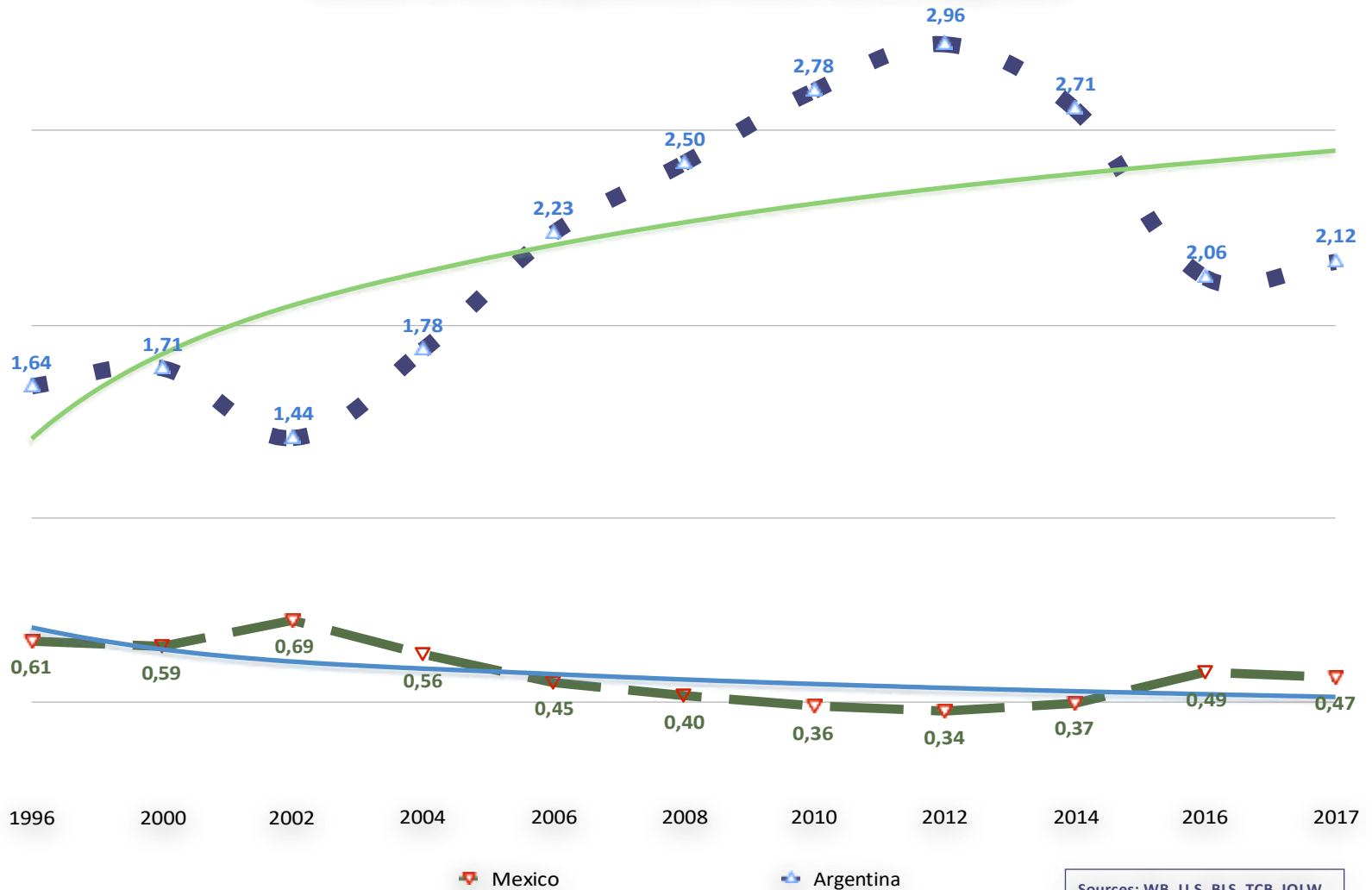
Estudios y Perspectivas – México – N° 157, ONU/CEPAL Naciones Unidas, noviembre de 2014).

Equalisation index comparison in PPP terms of hourly real wage rate with equivalent US wage rate of Mexico and Argentina (using unofficial inflation rates for Argentina)



Sources: WB, U.S. BLS, TCB, IOLW

Mutual proportion comparison of PPP real wage rates between Mexico and Argentina (number of times using unofficial inflation rates for Argentina)



Sources: WB, U.S. BLS, TCB, IOLW

PPP equalisation of manufacturing wage rates in Mexico vis-à-vis equivalent US and selected countries rates

Global Perspective | Manufacturing

Wage rate gap comparisons for selected economies

2017 is the first year in the 22-year span in this report that US hourly wage rates dropped (0,9%). This enabled the vast majority of countries to reduce their comparative wage gaps or increase their surpluses in their manufacturing wage equalisation index (Eq-Idx) or at least keep their position (For full details see Table T5, starting in [page 53](#)).

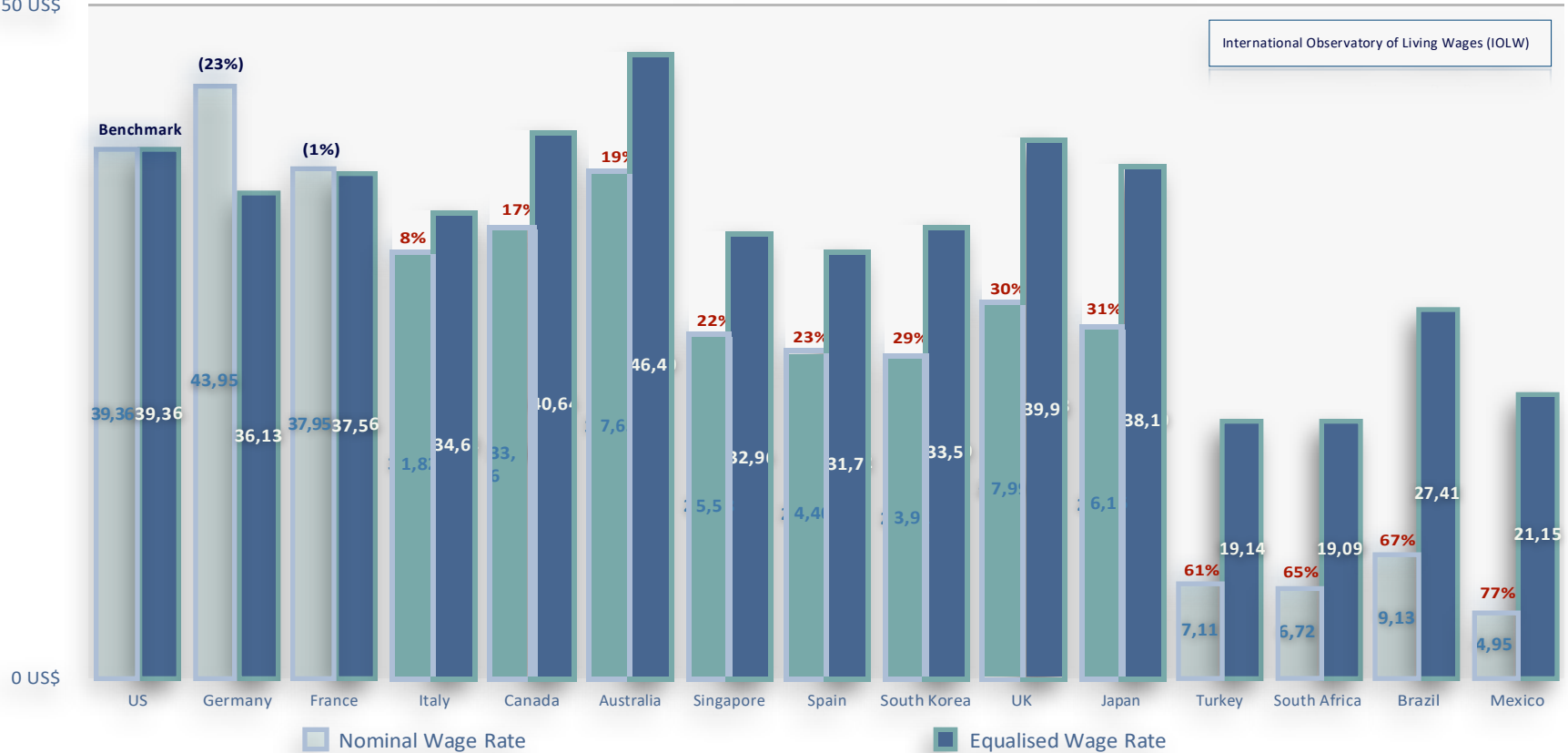
- Mexico's track record since 1996 exposed a deliberate state policy of maintaining modern-slave-work real wages between 1996 and 2015. However, wage policy appears to have changed in 2017 after the execution of consistent supply-side policies over more than three decades. For the first time the federal minimum wage was increased above inflation in 2017 and 2018. Through a so-called "Independent Recovery Amount", the minimum wage for 2017 was increased arbitrarily by 9,6%, including 3,9% to offset the estimated CPI inflation rate. The same criterion was applied for 2018, for a total minimum wage increase of 10,4%, including a 3,9% increase to offset CPI inflation. In 2019, Mexico's new government, touting to implement a strong minimum wage recovery policy, increased the minimum wage by 16,2%, including a 5% increase to offset inflation. All of this seems to have a direct positive impact on manufacturing wages in real terms and on its equalisation with comparative US wages. Between 2014 and 2017 the hourly rate in local currency increased 41,2%, but the peso experienced a steep devaluation of 29,8%. Thus the hourly rate in US dollars decreased slightly by 0,8%. However, due to the devaluation of the Mexican peso and low inflation, the PPP conversion factor dropped 23,6% for the same period. This allowed the Eq-Idx to gain four points, to 23, both in 2016 and 2017, the highest recorded index in the 22 year span of time. Yet, Mexico continues to have one of the widest living-wage gaps among the 41 countries included in all our reports, just ahead of China, India and the Philippines.
- After Brazil widened its manufacturing wage gap in 2014 and 2016, due to the devaluation of its currency since 2010 under a sustained recession, it managed to remain stable in 2017, despite the fact that the neoliberal government of Michele Temer passed a law that put a freeze on public spending effectively ending compliance with the minimum wage appreciation law. Minimum wage policy serves as an indicator for all other wages and directly influences manufacturing wages. Consequently, with a 2,1% inflation rate in 2017, the manufacturing hourly rate increased 1,4% in local currency units, effectively dropping in real terms. However, the appreciation of Brazil's Real and the drop of the US hourly manufacturing rate, allowed its equalisation index to remain at 33. Hourly rates and the Eq-Idx are bound to drop in 2018 and 2019, given that Bolsonaro's new government is deepening the anti-labour policies initiated by the Temer government.
- In 2017 Japan has reversed the downward trend in living-wage equalisation (Eq-Idx) that began in 2013, increasing its Eq-Idx by three points, to a 69 index. This is the result of the combination of the drop of the US hourly rate, an increase of Japan's hourly rate in local currency and the drop of PPP cost of living, despite a decrease of its hourly rate in US dollars. South Korea sustained the growing trend of its Eq-Idx that resumed in 2014 after a brief downturn in 2013, and it is now at 71, three points below its highest index in 2012. This is the result of the combination of the drop of the US equivalent rate, an increase of the local currency rate, and a currency revaluation that produced a 4% increase of its hourly rate in US dollars. South Korea has also been able to remain ahead of Japan's Eq-Idx. A strong drop of Singapore's hourly rate in local currency produced a 1 point loss in its Eq-Idx.
- In the euro zone, Spain, Germany and France stopped their downturn that began in 2012, after steady and stronger growth of the US hourly rate vis-à-vis the growth of their comparative hourly rates in euros. In the case of France and Germany, they recovered some ground in their equalisation due to the revaluation of the euro in 2017 and no change in their PPP cost of living, despite the drop of their hourly rates in local currency. In the case of Spain the revaluation of the euro combined with a +2% growth of its hourly rate in euros and again no growth of the PPP cost of living, enabled it to gain four points in its Eq-Idx. In contrast, Italy's drop of its hourly rate of almost 4% in local currency and 2% in US dollars, produced further erosion of its Eq-Idx that began in 2014.
- The United Kingdom reversed the sustained erosion of its Eq-Idx that began in 2008 and gained four points from its 2016 position. This resulted from the devaluation of its currency and a drop of its PPP cost of living, combined with a 2,2% growth of its hourly rate in local currency and the nearly 1% drop of the US rate. In contrast, Australia continued to decrease its Eq-Idx that began in 2014, with 4,4% drop of its hourly rate in local currency and a 1,9% increase in the PPP cost of living. In the case of Canada, the combination of its hourly rate increase in Canadian dollars of 9,4%, its currency revaluation of 2,2% and the 0,9% US rate decrease, produced an 11,8% increase of its hourly rate in US dollars between 2016 and 2017. This enabled its living wage equalisation index (Eq-Idx) to grow 10,2%, from 75 to 83, its highest since 2010. South Africa is a new economy incorporated into this report, showing a steady increase of its Eq-Idx since 2004, the earliest year with available data. But little growth of its hourly rate in local currency (1,9%) combined with strong inflation that pushed up its PPP cost of living almost 14% did not allow it to sustain its Eq-Idx growth in 2017, despite the fact that a strong currency revaluation increased its hourly rate +12% in US dollars. Extremely strong growth of hourly rate in local currency (41%) at a much higher rate than strong currency devaluation (17%) produced a strong 31% increase of Turkey's Eq-Idx, the highest of all economies included in our reports.

PPP equalisation of manufacturing wage rates in Mexico vis-à-vis equivalent US and selected countries rates

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2017 gaps between nominal and equalised wage rates with US wage rates using PPPs for private consumption
(Total hourly manufacturing compensation costs in US dollars – US is benchmark)

50 US\$



Gap between Nominal and Equalised wages rates in terms of purchasing power parities

- 1) If lighter bar is greater than darker bar= Nominal wage rate is superior to rate required to be at par with U.S.
 - 2) If darker bar is greater than lighter bar= Nominal wage rate is less than wage required to be at par with U.S.
 - 3) If both bars are in equilibrium= Nominal wage is equivalent to nominal wage in U.S. in terms of purchasing power
- (The size of wage gap is expressed in percentages. If negative, there is a wage advantage instead of a wage gap for nominal wage rate is superior to rate required to be at par with U.S.. Comparisons are in terms of hourly compensation costs as explained in T5.)

Sources: The Jus Semper Global Alliance analysis using the sources below. (Sources with X indicate that some of their data is directly incorporated in the table:)

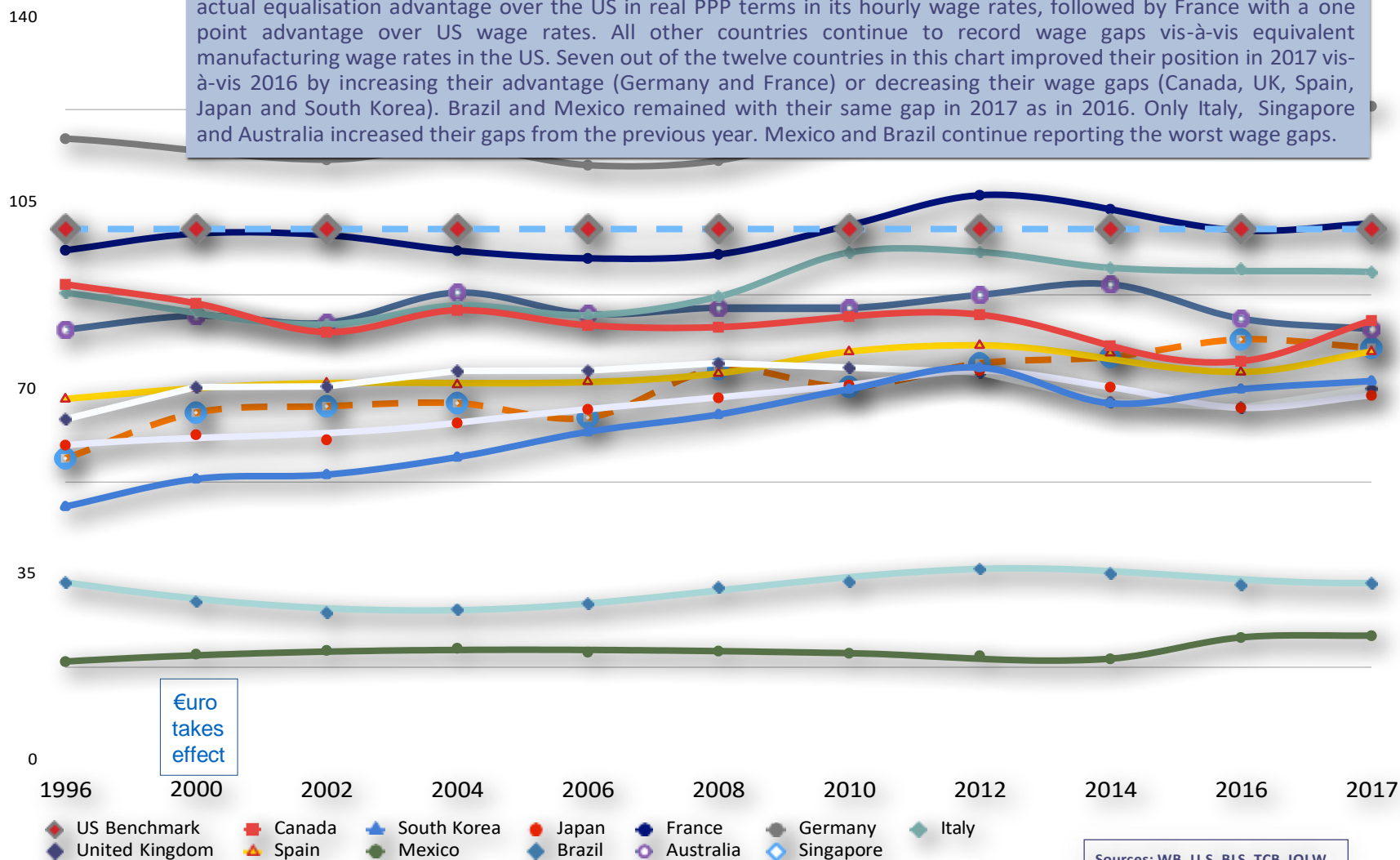
- o The Jus Semper Global Alliance: Living Wage Gaps Analysis in the manufacturing sector using:
- o The Living Wages North and South Initiative (TLWNSI) using "Equal Pay for Work of Equal Value" Methodology.
- x Database of World Bank's World Development Indicators, 1975-2017.
- x U.S. Bureau of Labor Statistics, August 2013 and The Conference Board (TCB), International Labor Comparisons Program - Manufacturing Hourly Compensation Costs, February 2018.
- x The Conference Board (TCB) — International Comparisons of Manufacturing Productivity and Unit Labor Costs 2017, July 2018
- Purchasing Power Parities and Real Expenditures of World Economies. Summary of Results and Findings of the 2011 International Comparison Program. World Bank 2014.

PPP equalisation of manufacturing wage rates in Mexico vis-à-vis equivalent US and selected countries rates

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Equalisation Index with US Manufacturing Real Hourly Wage Rates via PPPs

Of the twelve economies in this report with data since 1996, Germany continues to have the best position with an actual equalisation advantage over the US in real PPP terms in its hourly wage rates, followed by France with a one point advantage over US wage rates. All other countries continue to record wage gaps vis-à-vis equivalent manufacturing wage rates in the US. Seven out of the twelve countries in this chart improved their position in 2017 vis-à-vis 2016 by increasing their advantage (Germany and France) or decreasing their wage gaps (Canada, UK, Spain, Japan and South Korea). Brazil and Mexico remained with their same gap in 2017 as in 2016. Only Italy, Singapore and Australia increased their gaps from the previous year. Mexico and Brazil continue reporting the worst wage gaps.



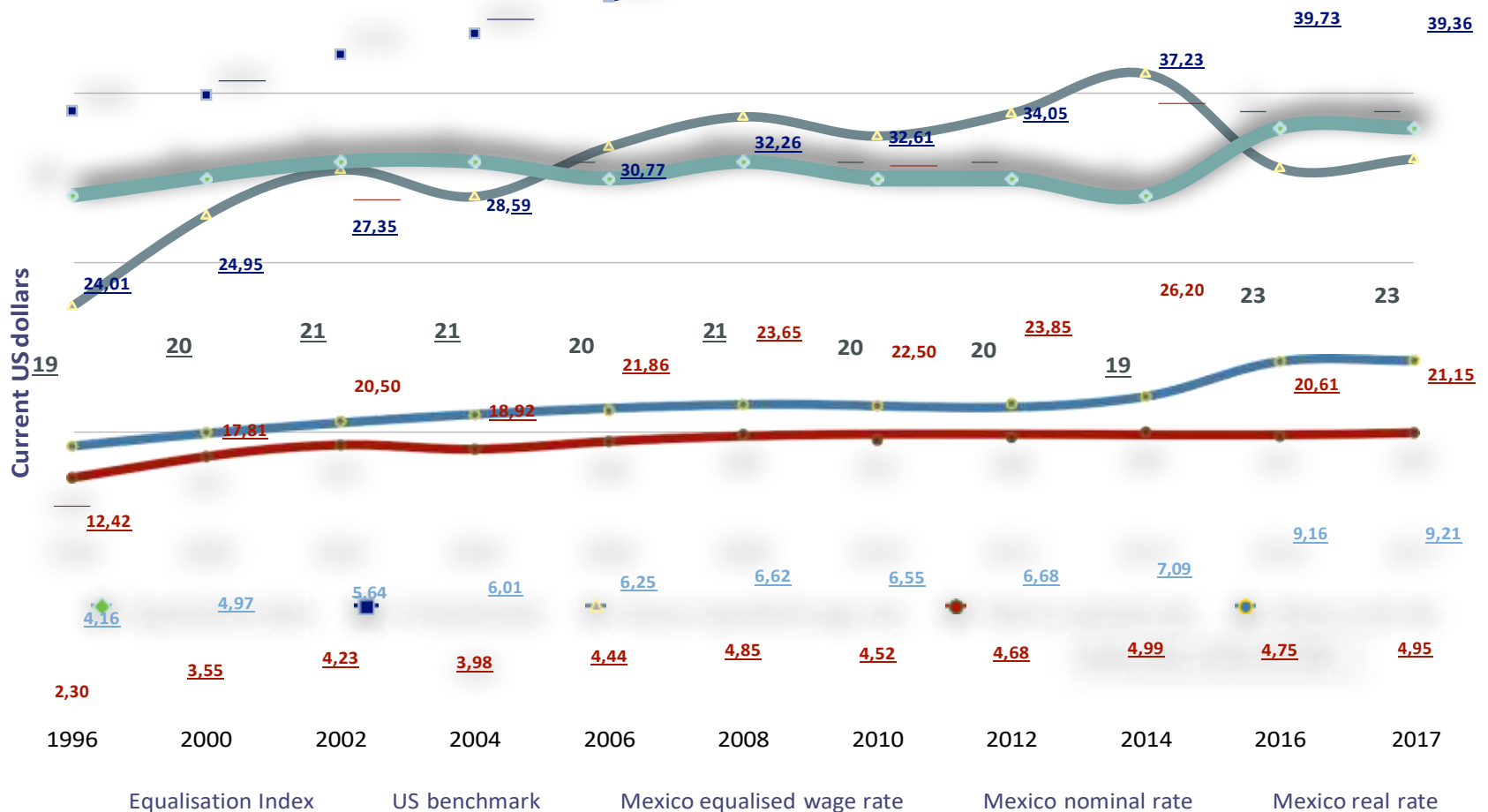
Sources: WB, U.S. BLS, TCB, IOLW

Main features of PPP equalisation of manufacturing wage rates in Mexico vis-à-vis equivalent US rates

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The chart below provides a complete illustration of the behaviour of Mexico's wage rates for all employed in manufacturing vis-à-vis equivalent US wage rates since 1996. Equalised wage rates increased as nominal US wage rates sustained their annual growth up to 2016 to then drop in 2017. Mexico's Equalisation Index (Eq-Idx) remains a flat line since 1996 up to 2015, hovering between a 19 and a 21 index as the direct result of a deliberate economic policy to plunder wage rates and then contain them at the same level. Mexico's rates then appear to increase in real terms in 2016 and 2017. This event combined with the drop of the US rate in 2017 allowed the Eq-Idx to increase to 23 in 2016 and remain at that level in 2017, despite a nearly 30% devaluation of the peso since 2014.

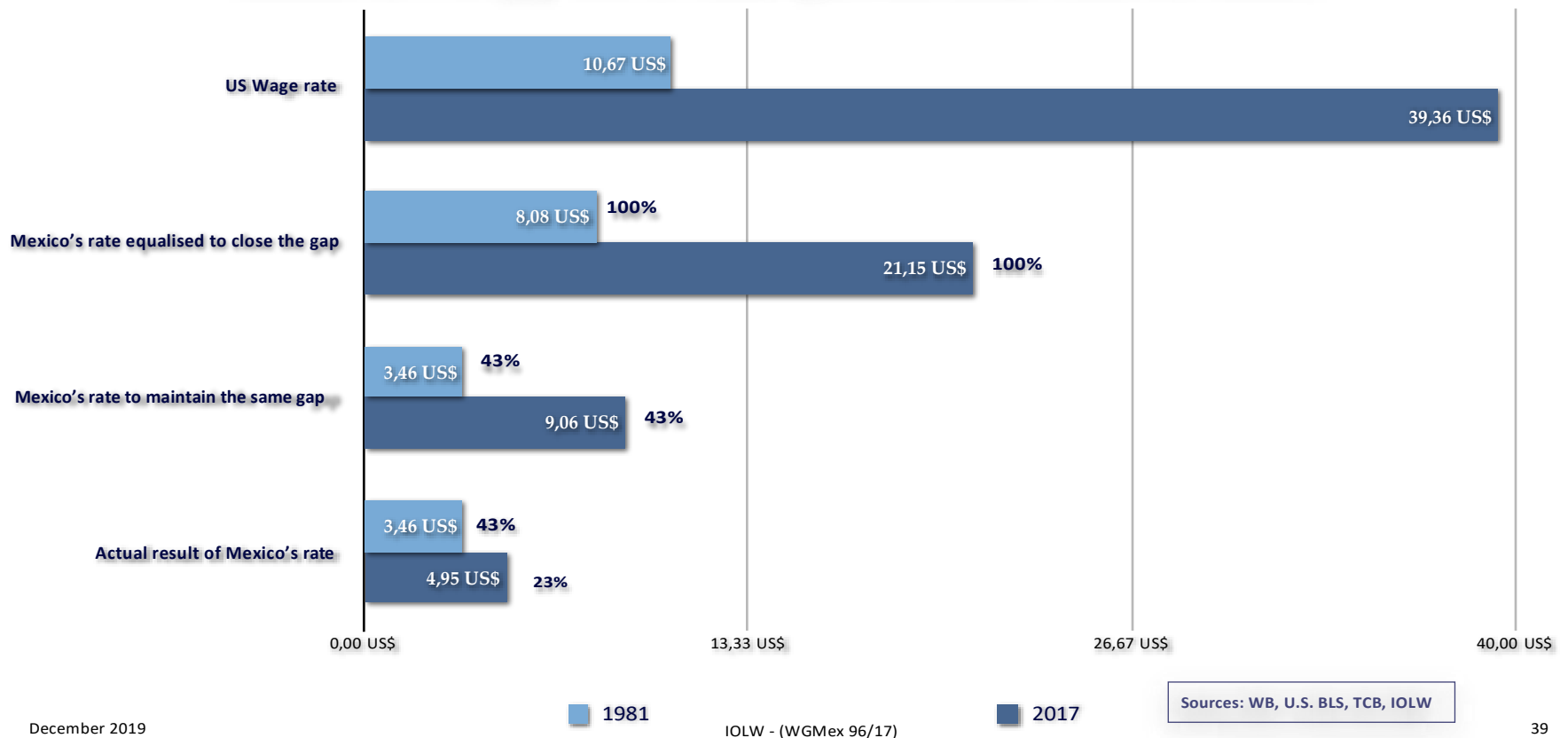
Gap between manufacturing hourly wage rate and PPP equalisation index with real US wage rate



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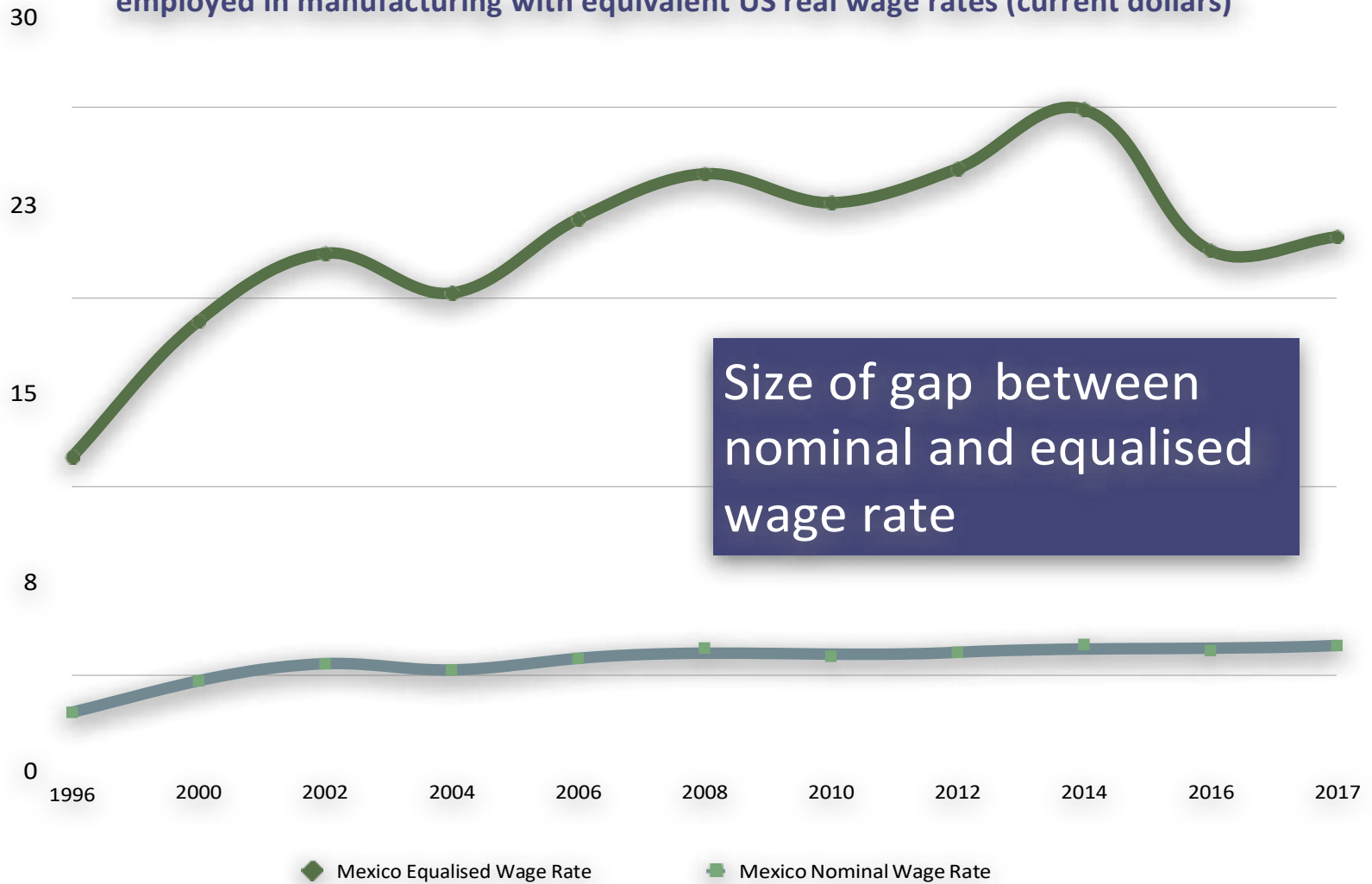
The chart below further illustrates the policy of wage rate containment followed by Mexico with production line workers and all employed in the manufacturing sector combined. Mexico's equalised PPP nominal wage rate in 1981 needed to be \$8,08 to be at par with the US wage rate of \$10,67. Since the US wage rate has climbed to the level of \$39,36 in 2017, Mexico's equalised PPP nominal rate needed to climb to \$21,15. Yet, if the policy would have been to maintain the same equalisation gap recorded in 1981, Mexico's nominal wage rate of \$3,46 needed to increase only to the level of \$9,06. The actual increase of the nominal wage rate by 2017 was of \$4,95 using INEG data. Thus the gap now is much wider, for the Eq-Idx was 43 in 1981 and it went down to 23 in 2017 as illustrated bellow.

Comparison of nominal hourly wage rates of Mexico's manufacturing workers to close the gap or maintain the 1981 gap with US counterparts and actual results (US dollars)



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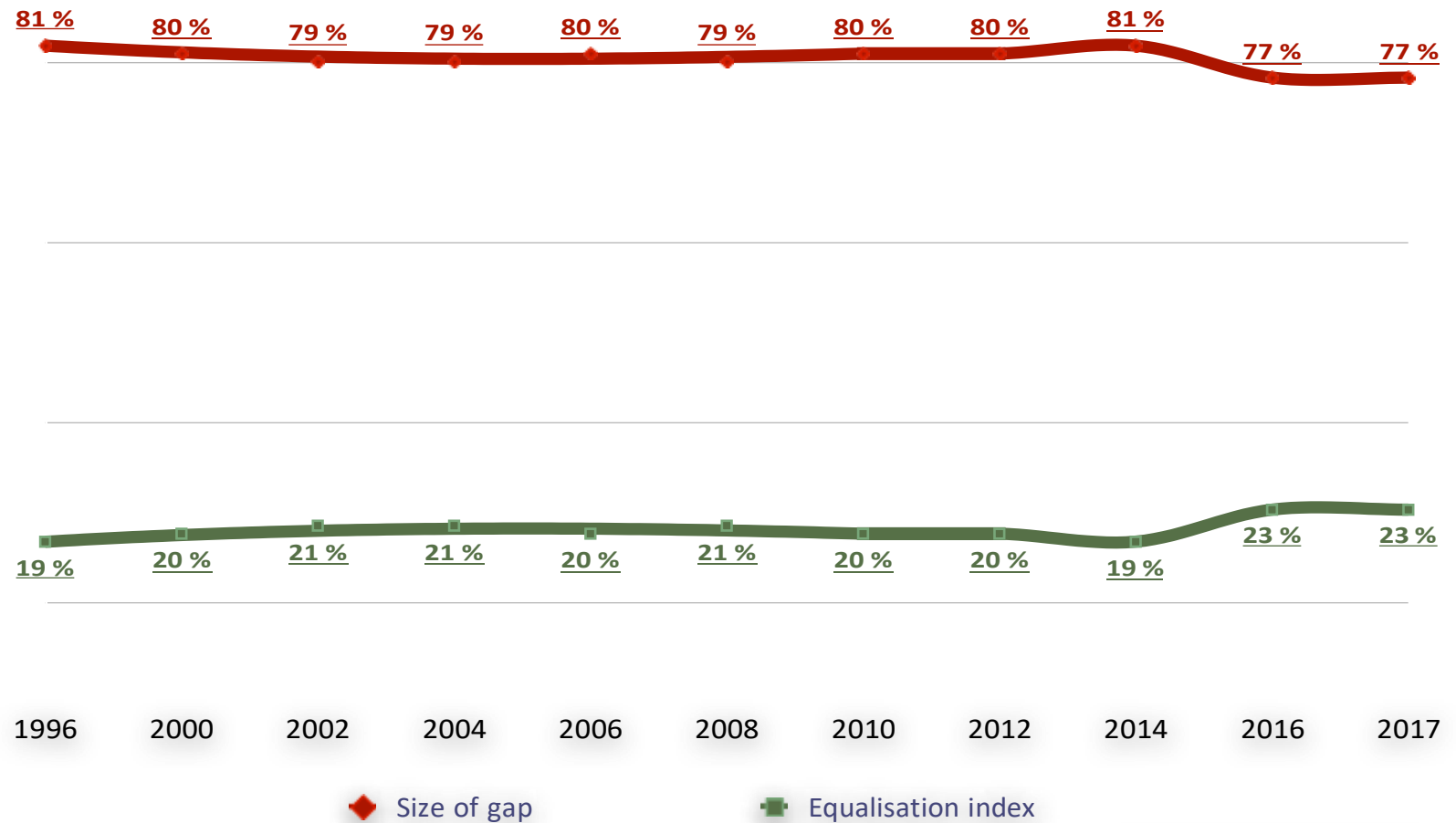
Gap between hourly nominal and equalised wage rates in PPP terms for all employed in manufacturing with equivalent US real wage rates (current dollars)



Sources: WB, U.S. BLS, TCB, IOLW

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Gap between equalisation index and size of manufacturing hourly real wage rate gap in Mexico vis-à-vis US real wage rate



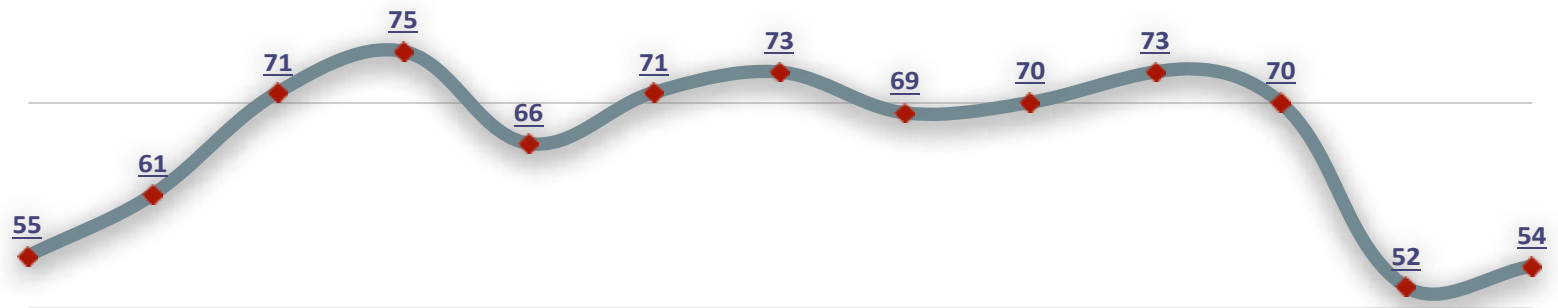
Sources: WB, U.S. BLS, TCB, IOLW

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- **The Performance of equalisation indices of Mexico's PPP manufacturing hourly real wage rate vis-à-vis the behaviour of Mexico's purchasing power parity indices, exposes the deliberate containment of real wages as a matter of economic policy.** In the following chart it is clearly observed that in the case of Mexico—in great contrast with all the other countries—there is no relationship between wage equalisation and PPP indices. If in 1996 the equalisation index was 19 and then, between 2000 and 2014, the PPP cost of living averaged little more than 70, it made no difference relative to the Eq-Idx of hourly manufacturing rates. Regardless of significant changes in the PPP cost of living, the Eq-Idx barely changed between 19 and 21. The PPP is based on surveys of the consumer price index to assess inflation for private consumption from a global perspective. From a domestic perspective, as this report has shown, the cost of the IBG (indispensable basket of goods) of the ILWO—developed by La Salle University—is unaffordable for the vast majority of workers, including those employed in manufacturing ([pages 14 and 21](#)).
- The assessment of the behaviour of the PPP and the Eq-Idx shows that, regardless of surges of the PPP or its drop since 2014, the Eq-Idx has remained constant at an extremely narrow band of 19-21 for twenty years. This is explained by the fact that, as a public policy, real wages have remained deliberately at practically the same Eq-Idx. This is because this is the level of Eq-Idx that is deemed by governments and employers to be competitive in global markets for the benefit of shareholder value at the expense of workers who are deliberately doomed to permanently endure modern-slave-work wages.
- This does not hold true in the relationship between the same indicators for most countries as can be observed in Table T5 on [pages 53 to 56](#). Barring Mexico, the PPP and Eq-Idx curves cross their path, meet or at least approach for all countries, keeping a more logical relationship in the context of economic fluctuations. Indeed, in Mexico the lines of both indices never approach or cross patterns as shown in the next page. In Mexico's case, the Eq-Idx draws a flat line for the entire twenty-year period, irrespective of the sharp increase of the PPP until 2016, when the Eq-Idx appears to start improving for the first time in decades.

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Performance of 1) equalisation indices of Mexico's PPP manufacturing hourly real wage rate vis-à-vis US counterparts, 2) behaviour of Mexico's purchasing power parity indices (cost of living in PPP terms – US=100) and index of 2 over 1 (1=100)



Year	1996	1998	2000	2002	2004	2006	2008	2010	2012	2013	2014	2016	2017
PPP to Eq-Idx Ratios:	289	321	355	357	314	355	348	345	350	384	368	226	235

◆ 2) Mexico PPP Living Cost ■ 1) Equalisation Index

Sources: WB, U.S. BLS, TCB, IOLW

Projections

Domestic Perspective |

Projection of Mexico's closing of the gap between the monthly "General Minimum Wage" and the estimated monthly cost of the Indispensable Basket of Goods (IBG) assessed by the International Observatory of Living Wages (IOLW).

- **Background.** As we did in our previous report, with the change in many decades to a Mexican government that appears to pursue demand-side economic policies with a particular emphasis on recovering the general minimum wage, we are projecting the estimated time that it will take to close the gap between the minimum wage and the IBG. In the past, we relied on an IBG designed and assessed in 2014 by Universidad Iberoamericana, Puebla Campus, extrapolated to bring it to 2016 prices. This time we are relying on our own IBG we have just completed last month for the Mexico City metropolitan area, for the average Mexican household of 3,75 members. The team of the International Living Wage Observatory (ILWO) at Universidad La Salle, Mexico City campus performed the design, data gathering, analysis and assessment of the IBG. The ILWO is a joint project of collaboration between La Salle and Jus Semper. Our commitment is to make it a permanent project and update the IBG at the very least annually.
- **Purpose.** To assess the time line necessary to close the gap between nominal minimum wages and the cost of the IBG based on several assumptions that reflect the current situation of general wages in Mexico and the specific minimum wage policies of Mexico's new government. Closing this gap would make the minimum wage a living wage for the first time in history, in line with article 123 of the Mexican Constitution, but it will take at least five six-year terms to reach such goal. The benchmark used is the monthly cost of P\$ 25.356,11. The IBG is composed of the "Basic Nutritional Basket" (monthly cost of P\$ 9570,04), the "Cost of Preparation and Refrigeration for Consumption" of the nutritional basket (monthly cost of P\$ 643,60), and the "Non-nutritional Basic Basket" (monthly cost of P\$ 15.142,47).
- We prepared this basket as opposed to the baskets designed by the Mexican Government's INEGI, CONEVAL and COPLAMAR, among others to determine the net worth of the living wage. The IOLW basket defines a nutritional intake that seeks to achieve the right balance between calories and proteins to provide a dignified, diverse and healthy diet. Furthermore, in contrast with the aforementioned baskets, our basket includes the items needed to prepare the meals for the household, such as oil and gas. Last, the IBG includes a non-nutritional basket to comply with the right to enjoy the basic goods and services necessary in the daily life of a household to enjoy a dignified standard of living, including leisure time, such as moviegoing attendance at sports events.
- In contrast with the baskets that have been designed to assess inflation and various poverty lines, the design of our IBG is deliberately directly linked to the minimum wage, which must be enough to provide a dignified quality of life for the household, in line with the Mexican Constitution. The other baskets may also include non-nutritional baskets, but are not as comprehensive because they are designed to define inflation or the poverty lines and the segments of the population meeting the profile of enduring extreme poverty. CONEVAL's nutritional and non-nutritional baskets, for example, defined in 2009, refer to the minimum thresholds of average household expenditures that are used to compare with INEGI's National Survey of Household Income and Expenditures, in order to assess poverty percentages. Their thresholds are not designed to assess the required income to enjoy a dignified quality of life.
- Furthermore, one minimum wage must be enough to provide a dignified standard of living to a Mexican household, which currently averages 3,75 members. The CONEVAL's metric focuses on the entire household income, which could be composed of more than one income earner. Their income metrics are designed to assess the percentage of households that fall below this poverty line. They do not seek to determine the real value required by one minimum wage to provide a dignified quality of life for the entire household as our Indispensable Basket of Goods (indispensable to enjoy a dignified quality of life) seeks to do.

Domestic Perspective |

▪ Criteria used in the projection:

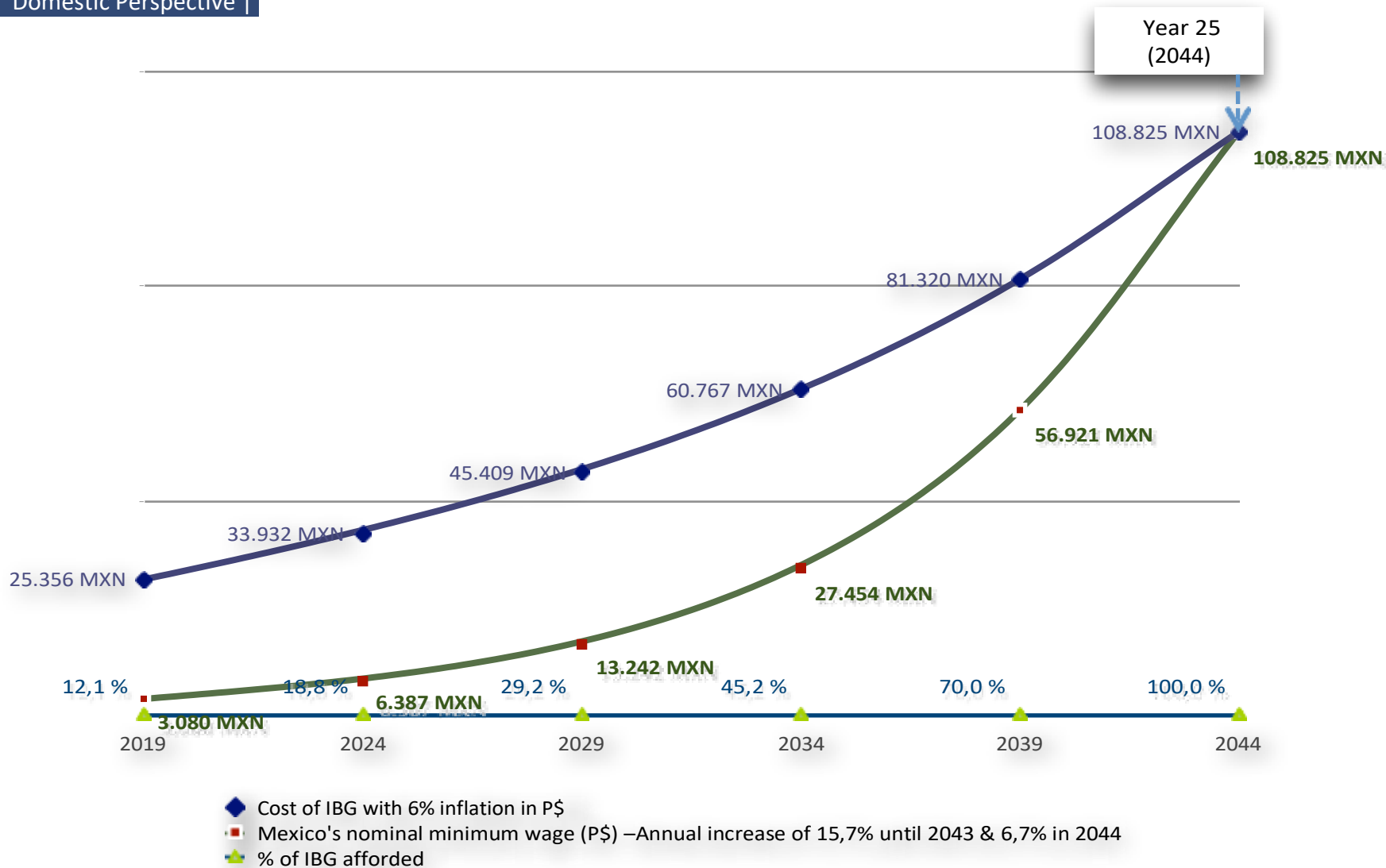
- ➔ The benchmark is 2019 and the projection starts in 2020.
- ➔ The minimum wage for 2020 is assumed to replicate the 2019 increase to the general minimum wage, which is composed of an 11,2% + the CPI inflation rate.
- ➔ CPI inflation is arbitrarily estimated at an average of 4,5% annually for the entire projection (average Mexican Consumer Price Index (CPI) was 4,08% between 2001 and 2018). This is incorporated into the minimum wage rate increases.
- ➔ The price of the IBG is estimated to grow at an average of 6% annually based on previous measurements. Typically, the prices of these baskets consistently increase substantially more than the CPI for the entire economy. For example, a basket of 100 items, mostly food items, at its lowest retail price increased 5,8% in 2016 (EL INPC: Canasta básica mexicana 2018), whereas INEGI's CPI inflation rate was only 2,8% (COMUNICADO DE PRENSA NÚM. 391/18 23 DE AGOSTO DE 2018 PÁGINA 1/5). The ratio of increase of this specific basket of goods more than doubles the increase of the CPI. However, we chose a conservative increase of only 47% greater than the average CPI of 4,08 for the 2001-2018 period. Nonetheless, since the arbitrary CPI applied in the projection is 4,5% and the arbitrary average increase of the IBG is 6%, the incremental gap in prices between these two metrics is only a conservative 33%.
- ➔ The benchmarks –and starting point– used in this projection are an IBG monthly price of P\$ 25.356,11 and the monthly minimum wage of P\$ 3.080,40 (P\$ 102,68 daily) for 2019.
- ➔ In line with the new government's increase in 2019, the minimum wage is increased annually \$11,2% plus an average of 4,5% to account for inflation, for a total average annual increase of 15,7%.
- ➔ An optimistic assumption is made that after the López Obrador six-year term, subsequent governments will continue to apply the same minimum wage recovery policy until it entirely closes the gap between the cost of the IBG and the minimum wage in nominal and real terms.

▪ Results of the twenty-five year projection:

- ➔ This projection at no time pretends to forecast what would be the inflationary indices or the rates of minimum wage increases that will occur in Mexico in the future. For this projection, the average behaviour of these indicators has been established in a discretionary manner—based on the new government's minimum wage appreciation policy—with the only purpose of projecting the time frame required under these assumptions to illustrate the closing of the gap between the minimum wage and the IBG, using reasonable assumptions. Parting from the assessment of the minimum wage policy of the new government, the probability that this projection materialises under the López Obrador six-year term is high, unless he decants on his campaign promise that he specifically put in writing in his document “National Project 2018-2024”. However, the probability that the same policy will continue in subsequent governments is strictly contingent on two factors: 1) that the minimum wage recovery policy works and diminishes the gap meaningfully during the 2018-2024 period, keeping inflation successfully in check, and 2) that subsequent governments elected pursue to materialise the same political economy philosophy. If subsequent governments, for whatever reason, pursue supply-side, predatory neoliberal policies, as has happened for the last 36 years, the probability that the real value of the minimum wage and wages in general drops significantly is very high.
- ➔ The chart on the next page shows the behaviour of the IBG and the minimum wage over a twenty-five year period, starting in 2020, showing that it will take until year 2044 to close the gap between the minimum wage and the IBG, for a total of twenty-five years (2020-2044).
- ➔ The price of the IBG was increased 6% annually.
- ➔ Nominal wage rates in Mexico were increased an average of 15,7% (11,2% + 4,5%) annually until 2043, assuming a 4,5% inflation rate. For 2044, the minimum wage needed to increase only a total of 6,7% to reach the same level as the IBG of P\$ 108.825,00. This would constitute a 100% equalisation between the IBG and the minimum wage. A nominal average increase of 6% would be required thereafter to neutralise the assumed average inflation of 6% for the IBG.

Twenty-five year projection to close the gap between General Minimum Wages and the Indispensable Basket of Goods (IBG) from IOLW, at an average nominal growth rate of 15,7% (11,2% real terms) for 24 years and of 6,7% (0,7% real terms) on year 25

Domestic Perspective |



Not a forecasting analysis. This projection at no time pretends to forecast what would be the inflationary indices or the rates of minimum wage increases that will occur in Mexico in the future. For this projection, the average behaviour of these indicators has been established in a discretionary manner –based on the governments minimum wage appreciation policy– with the only purpose of projecting the time frame required under these assumptions to illustrate the closing of the gap between the minimum wage and the IBG, using reasonable assumptions.

Sources: IOLW

Projection of real wage rate equalisation in the manufacturing sector for all employed in manufacturing between Mexico and the United States in the term of +/- twenty-nine years

- Using the wage rate for all employed in manufacturing in the US in 2017 as the benchmark, the following chart ([page 50](#)) illustrates what happens if we apply a 10% increase to the nominal hourly rates for all employed in manufacturing in Mexico. In stark contrast with previous governments since 1982, the new government appears to change to a demand side economic policy and increase the minimum wage by 11,2% plus 5% for inflation for a total of 16,2% in 2019. Given that the minimum wage acts as the benchmark for all other wages, it is realistic to assume that manufacturing wages will also increase.
- The average nominal increase to the manufacturing hourly rate for the 2001-2017 period in US dollars was 2,2% However, considering the government's new policies, the legislation to end the "protection contracts" and the pressure that NAFTA 2.0 should exert on wages in the automotive industry, a 10% nominal increase is deemed realistic. Yet, even if it does not materialise, the projection allows to illustrate how long it would take to equalise wages with equivalent wages in the US under the principle of "equal pay for work of equal value" in the supply chains of global corporations.
- We use the 2017 hourly wage rates as the benchmark to project the time required to close the hourly real wage rate gap of these Mexican workers with their US counterparts, in PPP and dollar terms starting in 2018, given that we do not yet have data for 2018 and 2019. Hence, we start with the hourly real wage in PPP terms of \$9,21 for Mexico and \$39,36 for the US.
- The projection is made assuming a context of stable global economic conditions. This would be reflected in relatively low inflation rates for Mexico and the US. This would assume a sustained growth of Mexico's economy in line with the US economy, averaging 3%, which is less than ideal for a middle-income country, due to its total dependency on the US economy. The assumed average inflation rate of 4,5% is higher than the 4,08% experienced between 2001 and 2018. It may be an optimistic assumption given the inherent instability of the global system as well as of the administration of the state proper.

▪ **Criteria used in the projection:**

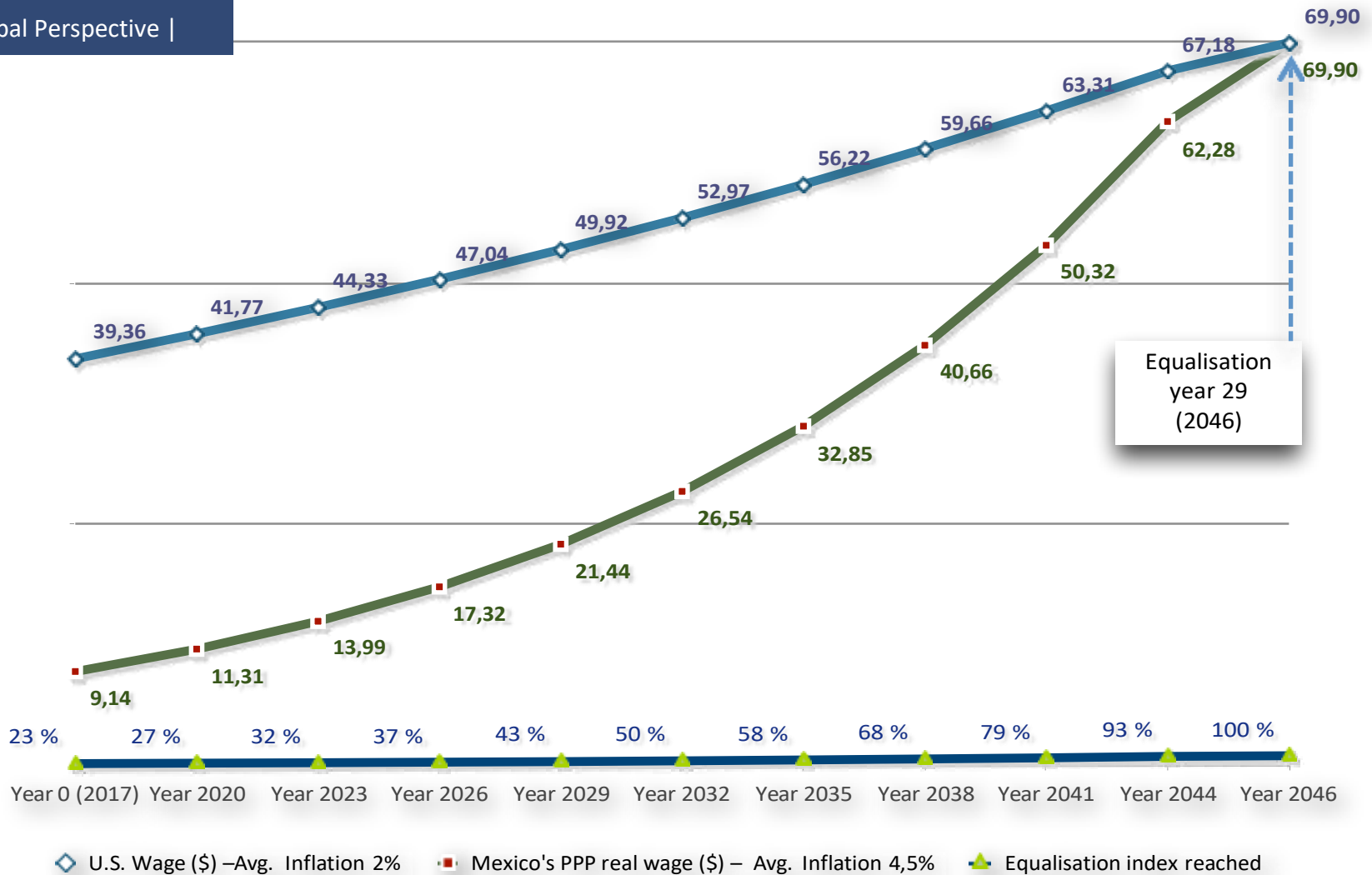
- ➔ The benchmark is 2017 and the projection starts in 2018.
- ➔ Average US CPI (inflation): 2% (average of 2,06% between 2001 and 2017).
- ➔ Average Mexican CPI: 4,5% (average of 4,08% between 2001 and 2017).
- ➔ Mexico's exchange rate with the US dollar is the recorded rate of P\$ 19,24/ US \$1 for 2018 and \$19,53/ US \$1 for 2019. Subsequently, it is assumed to erode 4% thereafter. The average devaluation rate between 2001 and 2019 is 3,7%.
- ➔ Real value of wage rates in the US remains constant, increasing nominally by 2%, annually, to neutralise inflation.
- ➔ Nominal hourly wage rates in Mexico are increased 10% and 5,5% in real terms, after the 4,5% CPI inflation is applied.
- ➔ World Bank indicators recorded a PPP for private consumption of \$0,537433296 for Mexico, equivalent to 53,7% of the US cost of living in 2017.
- ➔ The benchmarks –and starting point– used in this projection are the PPP manufacturing hourly real wage rates (total compensation cost for both economies for 2017): (US: \$39,36 and Mexico: \$9,21; and nominal wage rates: \$39,36 and \$4,95 respectively).
- ➔ Real wage rate figures are shown at constant prices, reflecting future purchasing power after adjusting for inflation.
- ➔ The projection is estimated in US dollars. Inflation is accounted for through the World Bank's PPPs conversion factor for private consumption, and then projected to increase an annual average of 4,5% in US dollars. PPPs are the rates of currency conversion that eliminate the differences in price levels between countries.

➔ **Results of the twenty-nine year projection:**

- ➔ This projection at no time pretends to forecast what would be the inflationary indices, exchange rates or the wage rate increases that will occur in Mexico or the US in the future. For this projection, the average behaviour of these indicators has been established in a discretionary manner—based on the data recorded since 1975—with the only purpose of projecting the level of nominal wage increases required under these assumptions to illustrate the closing of the living wage gap in Mexico. Parting from the assessment of wage policy reflected in the behaviour of real wages in Mexico's manufacturing sector since 1975, the probability that this projection materialises, in the last 36 years was zero. However, with the new government, which has already implemented a policy to recover the general minimum wage above inflation, breaking with a 36-year precedent, this may change dramatically. To keep wages in the manufacturing sector competitive, the market will have to increase the hourly rates in response to increases to the general minimum wage and the pressures of NAFTA 2.0, and even more so in the automotive sector, with the \$16/hour threshold regulation. If the US government forces this sector to transfer production to the US or Canada from Mexico, for not complying with this new standard, the labour cost would increase several hundred percent instantly and its competitiveness would drop drastically. For this reason, a nominal increase of 10% in this projection becomes realistic. Since 2001, the hourly rate was increased nominally an average of 5,2% in local currency and 2,2% in US dollars. In the new aforementioned context a 10% increase becomes realistic, albeit a bit optimistic. At a 10% rate, our projections shows that it would take 29 years to close the wage gap with US equivalent wages.
- ➔ The chart on the next page shows the behaviour of real wage rates for both the US and Mexico over a 29-year period, starting in 2018.
- ➔ Nominal wage rates in Mexico were increased an average of 10% (5,5% + 4,5%) annually until equalisation was achieved, assuming a 4,5% inflation rate. Results indicate that closing Mexico's wage rate gap at a rate of 10% annually, under the above criteria, would allow manufacturing wage rates to achieve 100% equalisation on year 29 with an increase of only 7,08% in that year. A nominal average increase of 4,5% would be required thereafter to neutralise the assumed average inflation of 4,5% and to keep equalisation with US wage rates under their assumed average 2% nominal annual increase.
- ➔ Closing the wage rate gap would cover the 2018 to 2046 span of time.

Twenty-nine year projection of Mexico's equalisation of hourly real wage rates of all employed in manufacturing with wage rates of its US counterparts, at an average nominal growth rate of 10% (5,5% real terms) for 28 years and of 7,08% (2,58% real terms) on year 29

Global Perspective |



Not a forecasting analysis. This projection at no time pretends to forecast what would be the inflationary indices, exchange rates or the wage rate increases that will occur in Mexico or the US in the future. For this projection, the average behaviour of these indicators was established in a discretionary manner – based on the data recorded since 1975– to project the nominal wage increases required under these assumptions to illustrate the closing of the living wage gap in Mexico. Parting from the assessment of wage policy, reflected in the behaviour of real wages in the Mexican manufacturing sector since 1975, the probability that this projection materialises, under current State policy, is realistic as rationalised in the previous page.

Sources: WB, U.S. BLS, TCB, IOLW

For the first time in more than three decades, real wages across the entire economy may change for the better if the new government applies in a rationale manner its minimum wage recovery policy already implemented for the general minimum wage for 2019. This is yet in doubt for two reasons:

- ◆ **General Minimum wage – Consistency in compliance.** First, the increase to the general minimum wage for 2020 must confirm the government’s commitment to its pledge to recover the minimum wage by consistently increasing it in real terms in line, if not higher, than the increase for 2019.
- ◆ **Professional minimum wages – Readjustment to recover net worth differential.** The second reason is that the 59 professional minimum wages regulated by the executive branch, were not increased at all in real terms in 2019 and, thus, they must increase even more than the general minimum wage to compensate for the ground lost by such a decision. Subsequently, they must increase in line with all future increases to the general minimum wage. We must note it that professional minimum wages were not increased in 2017, 2018 and 2019 in line with the “Independent Recovery Amount” or MIR of the preceding administration applied to the general minimum wage. This is particularly worrisome when the Secretary of Labour stated that the increase to the general minimum wage must not be used as a reference to determine the wages for the rest of all salaried people; in her definition: *the workers and business sectors reiterate that the increase in the general minimum wage, both in what corresponds to the Independent Recovery Amount and the percentage of increase in wage fixing, should not be the reference to define the increases of the other salaried workers of the country and that negotiations of contractual wages must be carried out in the greater freedom of the parties, within the specific conditions of each company, in such a way that the increases granted to the minimum wages in the present wage setting are not the ceiling or floor for determining the wages of Mexicans* (Secretaría de Trabajo y Previsión Social: Nueva Política de Salarios Mínimos). This contradicts economic logic, for any increase to the minimum wage is used as a reference and benchmark to determine all other wages in any economy. In Mexico there are many union contracts in which wages are indexed to the minimum wage. In this way, if the minimum wage increases, the wages in the contract increase at the same rate. This is common in the maquiladoras and assembly plants at the Mexico-U.S. border. Otherwise, if other wages increase at significantly lower rates than the minimum wage, the latter may eventually reach the same level as the wages paid to people performing work that requires skills that are compensated at higher rates and surpass them. Consequently, the general minimum wage will catch up with professional minimum wages if wage policy is not amended. Furthermore, limiting the increase to the general minimum wage restricts the benefit to only one-sixth of salaried workers. Quoting INEGI’s third quarter 2019 survey (INEGI (2019), Encuesta Nacional de Ocupación y Empleo (ENOE), tercer trimestre de 2019), only one-sixth of all salaried people earn one minimum wage or less. Lastly, professional minimum wages were not increased by 100% as the general minimum wage was in the free zone municipalities in the Mexico-U.S. border, but to be at par with the border area general wage rate of P\$176,72. This is an unambitious policy that cannot be construed as a radical wage policy change. It signals the intention to leave professional minimum wages at the mercy of employers for it appears that professional minimum wages will be scaled down to be at par with the general minimum wage nationally. The government must readjust them to recover their net worth differential.
- ◆ **Manufacturing.** The purported goal of the government with the general minimum wage is to bring it up to a living wage standard, yet to be defined, but that we are already defining with our IBG along with other efforts in the academic sector. If it is followed through, it is a marginally positive policy. Yet, professional wage rates and wage rates in higher skilled sectors in manufacturing and particularly in the automotive sector must be increased for reasons of social justice —“equal pay for equal work of equal value”—, economic logic and political factors such as the special rule of NAFTA 2.0 for the automotive industry. Among other things, it addresses to the greatest extent the underlying causes of immigration and the enormous social problems that are pushing Mexico into a failed state ethos, with many regions currently controlled by organised crime.
- ◆ It remains to be seen if the new government follows this path or resumes abiding by supply-side criteria. Mexico has the worst wages in Iberian America. We have observed 36 years of a deliberate policy of wage pauperisation that has forced a huge population to join the ranks of the precariat. So we will shortly learn, in a matter of weeks, when the new minimum wage policy for 2020 will be determined, if there is real change or if everything will remain the same.
- ◆ If the government complies with its campaign promises, it will take decades to both achieve a living-wage ethos and closing the gap with equivalent wages in the manufacturing sector, under the equal pay principle. Thus, it will depend, at the very least, five six-year terms to fulfil this expectation. However, it is of the utmost importance that the current government sets the path and materialises the progress that can be achieved by 2024, as illustrated in our projections.
- ◆ The above notwithstanding, we must become aware that we are running out of time globally, because the capitalist system is completely unsustainable and we are already on the brink of being unable to secure the sustainability of a planet where all living things, including our species, can survive. Consequently, it is indispensable that the citizenry in Mexico and elsewhere become fully aware about the need to permanently get involved in the public matter to make future governments work for the benefit of society and not for the owners of the market and their very private interests, as the vast majority of governments enthusiastically pursue in most countries today. Mexicans must increase their involvement in the public matter to ensure that those they choose to govern work in pursuit of the welfare of people and planet and NOT the market. Given this ominous situation, demand-side, living wage, equal pay, and other socially-oriented policies will lose any meaning as we reach a tipping point of no repentance and no return when future generations will no longer have a chance, as the planet increasingly reacts in ways that no longer provide the conditions indispensable for life as we know it. We must realise that we must not try to fix, but replace, through a tectonic social movement, the current structures that have put in peril the sustainability of life in our planet.

***Definitions:**

- PPPs stands for Purchasing-Power Parities, which reflect the currency units in a given currency that are required to buy the same goods and services that can be purchased in the base country with one currency unit. This analysis uses the U.S. and the U.S. dollar as the benchmark and assumes that the U.S. wage is a living wage.
- The hourly manufacturing wage rate is the "hourly compensation cost" as defined by the U.S. Department of Labour, Bureau of Labour Statistics: This includes (1) hourly direct pay and (2) employer social insurance expenditures and other labour taxes. Hourly direct pay includes all payments made directly to the worker, before payroll deductions of any kind, consisting of pay for time worked and other direct pay. Social insurance expenditures and other labour taxes refers to the value of social contributions incurred by employers in order to secure entitlement to social benefits for their employees.
- PPP conversion factor, (private consumption) in country currency express the number of country currency units required to buy the same goods and services a U.S. dollar can buy in the U.S.
- Exchange rate is nominal exchange rate.
- PPP conversion factor, private consumption in U.S. dollars expresses the U.S. dollar units required in a given country to buy the same goods and services a U.S. dollar can buy in the U.S. If the PPP is less than 1, a U.S. dollar can buy more in the country in question because the cost of living is lower, and viceversa.
- The PPP for private consumption, expressed in national currency, reflects the exchange rate in comparison with the market exchange rate, which does not reflect the ratio of prices.
- Equalised PPP nominal wage rate is the hourly U.S. dollar nominal rate required to equally compensate a worker in a country, in purchasing power terms, for equal work rendered, as the equivalent U.S. worker is compensated. This analysis assumes the U.S. wage to be a living-wage. A living wage is a human right in accordance with Article 23 of the UN Universal Declaration of Human Rights. ILO's Convention 100 of "equal pay for equal work", for men and women is hereby applied in a global context.
- Actual PPP Real wage rate is the hourly wage paid in a given country in purchasing power terms.
- Actual Nominal wage rate is the nominal hourly wage paid in a given country.
- Compensation deficit expresses the wage gap between the hourly nominal wage rate paid (4) and the equalised PPP hourly rate that should be paid for equal work (2).
- Compensation equalisation index expresses the ratio of actual nominal pay to equalised PPP hourly pay (4 between 2); or the ratio of actual real pay (3) to the hourly nominal pay benchmark (1) (3 between 1).
- *India and China data gathered by the BLS and TCB are not fully comparable to the rest of countries due to some inconsistencies in methodology. However, given that in both cases the BLS argues that this work does not substantially affect the hourly compensation estimates, rough comparisons can still be made. For further reference on the description of each country see TCB's [Country Notes](#)
- Note: Variations in previous years are due to revisions made by the sources, including the World Bank's new 2011 PPP benchmarks, which replaced the previous 2005 benchmarks.
- Since 2010 the international comparison of hourly compensation costs (hourly wage rates) between the U.S. and selected developed and "emerging" markets refers to all employed in the manufacturing sector and no longer will be available for production workers only. Production-line wage rates are on average 20% below wage rates for all employed in manufacturing, including production workers, for the 1996-2009 period, for all countries included in the assessment. For further reference see wage-gap assessment of trends and differences between production-line and all employed in manufacturing in compensation cost terms here:
<[Wage Gap Analysis of PLW versus All employed 1996-2009](#)>

Sources: The Jus Semper Global Alliance analysis using the sources below. (Sources with X indicate that some of their data is directly incorporated in the table:)

- o The Jus Semper Global Alliance: Living Wage Gaps Analysis in the manufacturing sector using:
- o The Living Wages North and South Initiative ([TLWNSI](#)) using "Equal Pay for Work of Equal Value" Methodology.
- x Database of World Bank's World Development Indicators, 1975-2017.
- x U.S. Bureau of Labor Statistics, August 2013 and The Conference Board (TCB), International Labor Comparisons Program - Manufacturing Hourly Compensation Costs, February 2018.
- x The Conference Board (TCB) — International Comparisons of Manufacturing Productivity and Unit Labor Costs 2017, July 2018
- Purchasing Power Parities and Real Expenditures of World Economies. Summary of Results and Findings of the 2011 International Comparison Program. World Bank 2014.

Note regarding the new 2011 PPC round:

The International Comparison Program (ICP) released new data showing that the world economy produced goods and services worth over \$90 trillion in 2011, and that almost half of the world's total output came from low and middle income countries.

Under the authority of the United Nations Statistical Commission, the 2011 round of ICP covered 199 economies - the most extensive effort to measure Purchasing Power Parities (PPPs) across countries ever. ICP 2011 estimates benefited from a number of methodological improvements over past efforts to calculate PPPs.

The ICP's principal outputs are PPPs for 2011 and estimates of PPP-based gross domestic product (GDP) and its major components in aggregate and per capita terms. When converting national economic measures (e.g. GDP), into a common currency, PPPs are a more direct measure of what money can buy than exchange rates.

Limitations in the use of the data

PPPs are statistical estimates. Like all statistics they are subject to sampling errors, measurement errors, and errors of classification. Therefore, they should be treated as approximations to true values. Because of the complexity of the process used to collect the data and calculate the PPPs, it is not possible to directly estimate their margins of error. Therefore, small differences in the estimated values between economies should not be considered significant.