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[invecon@servidor.unam.mx](mailto:invecon@servidor.unam.mx)

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Moreno Brid, Juan Carlos; Krozer, Alice

Answer to comment by René Cabral

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# DISCUSIÓN

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## **Answer to comment by René Cabral**

Juan Carlos Moreno Brid and Alice Krozer

We thank René Cabral for his comments and suggestions on our paper *Inequality and minimum wage policy: Not even talking, much less walking in Mexico* (2015). It seems to us that although Cabral does identify some omissions in our paper, in general terms he agrees with most of our main conclusions. These are that the high inequality in Mexico is socially and economically inefficient; that it is indispensable to further study the links between inequality and minimum wages in Mexico; that this relationship, as well as the very low levels of minimum wages in Mexico, might have something to do with the less-than-optimal growth records of recent decades; that the chances for the legal delinking (*desvinculación*) of minimum wages to other non-labor related variables as well as the implementation of a new policy to increase them in a significant and sustainable way in the country —fiercely opposed by some sectors of the Mexican elite— will depend to a large extent on politics.

In his comment, Cabral raises three issues that he finds sidelined in our paper: regional differences in wage levels in Mexico; international trends in minimum wage policies; and the need for a more thorough theoretical discussion on the pros and cons of minimum wage increases.

We agree with Cabral on the importance of all three issues and, therefore, we find his comment to usefully complement our analysis. A more profound analysis of the regional wage differences constitutes an interesting additional insight into the debate. Incidentally the CONSAMI has recently announced that in

the very near future there will only be one minimum wage prevailing in the whole nation, as the two geographical areas currently existing A and B will be integrated. However, we believe that such consideration would not alter our main conclusions. As Cabral points out in his informed comment, differences in minimum wage levels across the country are small, and, if anything, the vast regional differences in actual wages are a further determinant of inequality in the country.

Another important point stressed by Cabral is to what extent do formal sector wages and minimum wages show similar trends in their trajectories. This points to an important signaling, or effect, of minimum wage increases to the salaries of other employees and workers receiving implicit or explicitly, amply documented for the U.S. *e.g.* in Dube, Giuliano and Leonard (2015) and Autor, Manning and Smith (2015). Such effect implies that Mexico's policy of reducing the minimum wage in real terms has had the effect of pulling down formal wages too, that may be either explicitly or implicitly negotiated in terms of multiples of the minimum wage! Thus even if the minimum wage is lower than, say, the average market wage in the formal sector,<sup>1</sup> Mexico's use and abuse for decades of the minimum wage as anti-inflationary tool is a cause of increasing concentration in the functional distribution of income. It is important to note too that the average wage cited in Cabral's comment hides precisely those important regional (and interpersonal) wage differences that both —he and we— acknowledge that prevail in Mexico. Cabral's observation of potential regional wage divergence is therefore extremely important. We find this “beacon” issue to merit an analysis in its own right in the future. Cabral is certainly right to point to the importance of extending the debate on minimum wages beyond the capital city to the rest of the country. Here, a more thorough analysis of regional wage differences will be necessary. An interesting point will be to analyze whether the yawning gap observed at the national level between the evolution of, on the one hand, labor productivity, and on the other hand, minimum and average wages is more evident in some regions.

Considering Cabral's point about international comparisons, we agree that it would be very interesting to study minimum wage trends in other countries compared to the Mexican case. CEPAL has actually done so, and the study by

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1 On the issue of the minimum wage being below the market wage in the formal sector in Mexico see the discussion in the report by GDF (2014).

the Government of Mexico City in which some of us collaborated amply documents it. One might want to add the case of the UK to those of the U.S. and Germany suggested by Cabral. Such an analysis would complement the discussion on the national level, and actually might raise additional arguments in favor of implementing a new minimum wage policy if Mexico's quest for more equality and a dynamic economic expansion is to be successful in the not distant future. Such a comparison is a complex undertaking though, since wage setting *e.g.* in Germany works very differently in Mexico. The tripartite wage councils including state, employers, and union representatives that fix sectoral wages in Germany have long offered an alternative model of *de facto*-minimum wage setting. In any case, we acknowledge that lessons learned from other countries' experiences would be very informative also to the Mexican case. Curiously enough, recently Ms. Lagarde of the IMF stated that one of the reasons behind the acute concentration against labor in the functional distribution of income is the prevalence of weak trade unions.

Cabral's third issue is linked to the second one. We do agree that, as he argues, we were erroneously irresponsible in our comment on the, say, absence of theoretical foundations to support the struggle for minimum wages. This is an omission and mistake we acknowledge. There are many theoretical arguments in favor of such raise, especially in cases like Mexico where the minimum wage is conspicuously below the poverty line and also below the market clearing wage in the formal sector. Our fault. Moreover, the modern, elaborate theoretical work on labor markets does bring about important arguments in favor of raising minimum wages in Mexico to comply with the Constitutional Mandate. We are thus grateful for the most useful comments of Professor Cabral and by the bibliographical inputs he provided for our analysis with key works like those of Guerrero de Lizardi and Lomelí Vanegas. The complementary comments by Cabral point to important avenues for further research on the topic at hand, and support most of the arguments we made with his valuable insight.

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