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Conditions and Evolution of Employment and Wages in Mexico

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Periodically, TJSGA publishes essays of relevance for The Living Wages North and South Initiative (LISDINYS). This essay reviews the wage conditions in Mexico and exposes their miserable state vis-à-vis the strategy followed by the government for the opening of the economy since the 1980s, which focuses on the offering of very low labour endowments. The author considers that, contrary to the expectations generated by the North American Free Trade Agreement (NAFTA), Mexican wages have not only shown a consistent widening of their historical gap with those of industrialized countries, but, additionally, wages in the most dynamic, productive and open sectors of the economy have clearly tended to equalize –downwardly– with those in the less open sectors. This situation reveals a highly level of precariousness in the strategy pursued until now. Nonetheless, the author considers that there is strong potential to increase real wages, particularly in the activities most opened and with the highest growth in productivity. Thus, the author considers of utmost urgency to perform an in-depth review of the economic strategy followed, with its excessive export orientation, and proposes the design of explicit actions and negotiations, so that the most exporting and productive sector reverts its trend and applies a strategy of substantial real-wage increases, which in turn pivots upwardly the wages and domestic demand of the other sectors. In this way, in the same way The Jus Semper Global Alliance has been proposing, a fordist strategy is proposed to support domestic demand through gradual wage equalization by applying instruments such as the purchasing power parities.

Lastly, given the adverse climate to close wage gaps among multinational and domestic companies, the author considers that two not mutually-exclusive instruments have strong potential for persuasion. First, there is the power of pressure, under the threat of boycott, of North and South consumers. In the same way, there is the opportunity to take advantage of the growing call for global governance, in a process where joint policies of both public and private sectors are designed to confront the business strategies that reject the closing of the wage gap.

□ Introduction

During the past few years, The Jus Semper Global Alliance has made an important effort to analyze the existing wage gaps at the international level and with special emphasis on “North-South” relations. Its estimates –based on World Bank’s purchasing power parities data or PPP for the manufacturing sector– expose, generally, a deepening of the manufacturing wage gap in Mexico relative to the industrial countries between 1975-2001. As shown in Graph 1, countries such as Germany and South Korea substantially reduced this wage gap with the U.S. during the period, whilst Mexico increased it by 11.60%. That is, Mexican manufacturing wages amounted to 11.51% of U.S. wages in 2001 whilst they amounted to 23.11% in 1975.

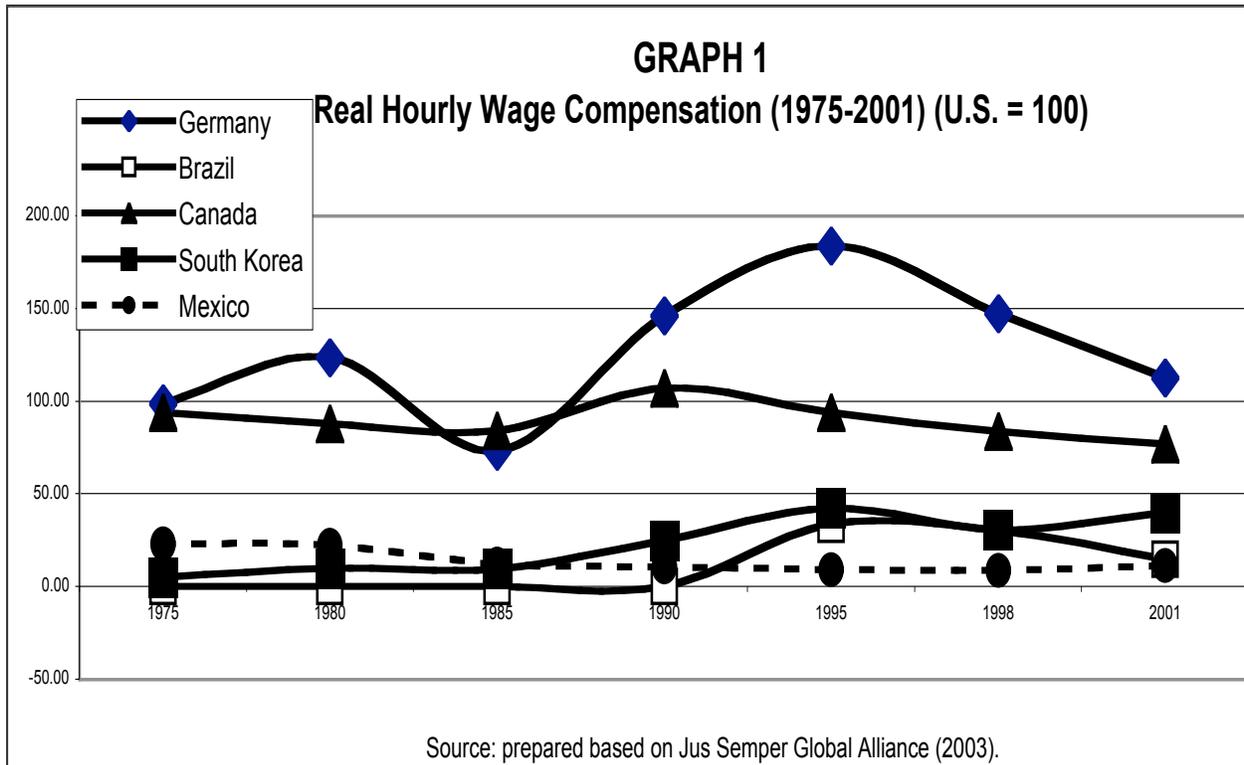
Summary

- Introduction
- The new strategy pursuit in México since 1988 and NAFTA
- Employment and real wages in Mexico (1988-2003)
- Conclusions and policy proposals

Following, the document will analyze in greater detail the causes of this evolution. That is, this is an analysis of the widening of the wage gap with the U.S. and of various conditions and challenges facing employment and wages in Mexico. The first part briefly elaborates about the strategies

parts from a series of fundamental aspects, including:¹

- Macroeconomic stabilization would induce a process of microeconomic and sectorial transformation and transition. That is, most



pursued in Mexico since 1988 and up to 2003, while the second part examines in greater detail the features of the labour market and with emphasis on wages in Mexico. The brief ends with some succinct conclusions and proposals to the problem.

The new strategy followed since 1988 and NAFTA in México

Since 1988, and after several decades of a process of import-substitution-industrialization policies (ISI), a variant of export-oriented industrialization (EOI) –with the signing of the first Economic Solidarity Pact in December 1987 and the new Carlos Salinas administration in January 1988– is imposed, which we define as liberalization strategy (Dussel Peters 2000). This new strategy, and in direct contraposition to the ISI strategy,

sectorial and specific policies would be abolished in favour of “neutral” or “horizontal” policies. In addition to the reduction of distortions, important savings in the federal budget were expected.

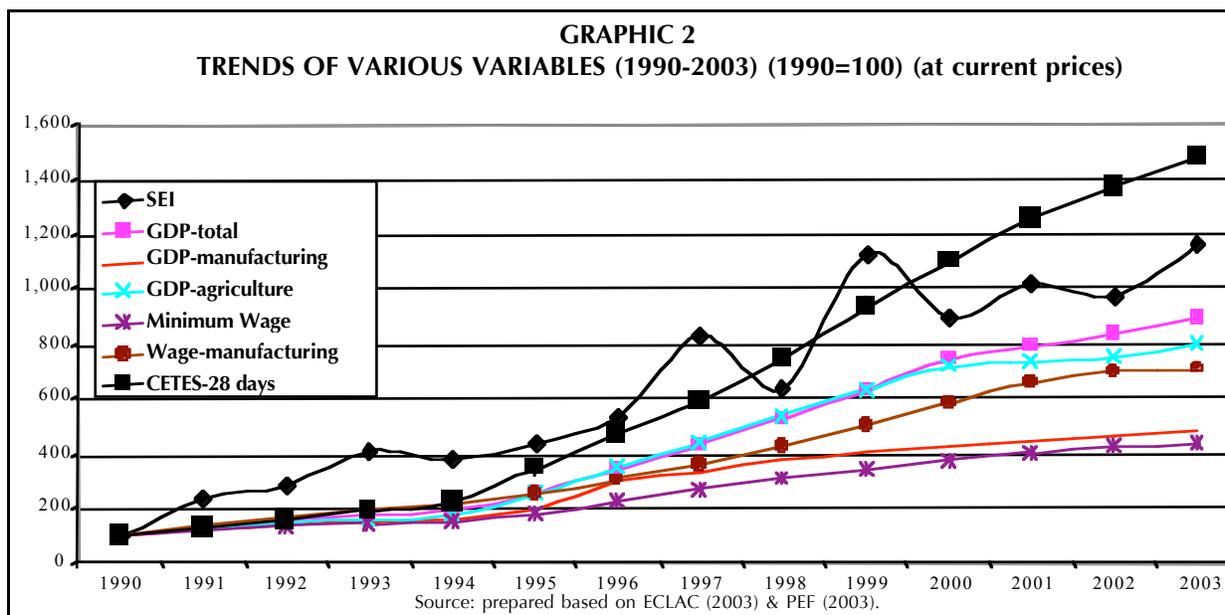
- The government’s main economic priority is to achieve macro stability. Since 1988 the government has understood macroeconomics as inflation (or relative prices) and fiscal deficit control, as well as the attraction of foreign investment, supported by the Bank of Mexico’s restrictive monetary and credit policies.
- The nominal exchange rate was put into practice as “inflationary anchored”. That is, since inflation control has been the main macroeconomic priority, the strategy would not

¹ For a detailed analysis, see: Aspe Armella (1993) y Dussel Peters (2000).

allow for devaluations, with the subsequent negative effects in inflation levels through greater prices in import contents.

- Through the re-privatisation of the banking and financial system since the mid 1980s, and the privatisation of state companies, the private sector would increase its weight in the economy and would specialise in export manufacturing; the North-American Free Trade Agreement (NAFTA) plays a significant role from this perspective. Thus, trade liberalisation, and particularly the reduction of import tariffs, becomes one of the main mechanisms to promote an export-oriented economy.
- Public policies aimed at unions were significant. As it was echoed in the Pacts since 1987, only a small group of unions were admitted by the government to negotiate collective bargain agreements with businesses, whilst the rest were declared, for the most part, illegal. This process, with violent repressions in multiple cases during the eighties and nineties,

In general terms, a substantial reorientation of GDP is observed since the eighties towards new socioeconomic sectors and social classes. Exports relative to GDP increase from less than 10% in the eighties to more than 25% since the end of the nineties, albeit imports increase even more. Moreover, it should be pointed out that the wage-earning and productive sectors –and particularly the manufacturing and agricultural sectors– have been the main losers during 1990-2003, whilst investment sectors in the financial sector and in the stock exchange have increasingly appropriated GDP output. Graph 2 clearly exposes these trends: measuring all variables at current prices, the gap between Mexican Treasury Certificates at 28 days (CETES) and the Mexican Stock Exchange (BMV) index (SEI)² significantly increase with respect to all other variables in the Mexican economy. Savers of CETES were able to increase their investments almost 15 times between 1990-2003, whilst minimum wages did it only 4.4 times. GDP growth, particularly in agriculture and manufacturing, experienced dynamics dramatically below those for CETES and the SEI.



allowed *ex-post* wage negotiations and indexations and controlled the main cause of inflation, from the perspective of this strategy.

This strategy has been implemented coherently by both the Salinas, Zedillo and Fox administrations, at least until late 2003 (PEF 3003).

² The SEI is the indicator of the development of the stock market as a whole, based on price behaviour for a balanced selection of stocks, weighted to adequately reflect price behaviour for all stocks in the BMV. Base is 30 October 1978=100.

Employment and real wages in Mexico (1998-2003)

Formal employment generated –jobs registered in the Mexican social security system (IMSS)– increased annually during 1991-2003 by 524,000 jobs, or 31.09% of the growth of the economically active population (PEA)³. That is, 68.91% of the PEA had to make use of various degrees of informal employment and/or of migration to the U.S. to earn an income. Besides the generation of low skilled employment –particularly in economic sectors with lower wages than in the rest of the economy, such as in construction (Dussel Peters 2003/a)–, it stands out that real minimum wages account in 2003 for only 30% of their value in 1980, whilst manufacturing real wages in 2003 are equivalent to about 84% of their 1980 value. By the same token, the IMSS/PEA rate has dropped considerably since 1991, from 36.3% to approximately 34.6% in 2003. The preceding trends turned even worse between 2001-2003, since only 573,000 jobs were created between December 2000 and October 2003, or less than 20% of PEA growth. Lastly, it also stands out that real wages in the in-bond industry barely increased 10% between 1990-2003, whilst productivity, estimated as exports over employment, increased by more than 115%. In this way, besides minimal job creation relative to those required by the population –and the PEA increase–, the jobs created concentrated in low-skilled areas by Mexican economic standards.

With the intention of deepening, with the public data available, into the effects of the opening process on the Mexican economy, a classification by branches according to INEGI's national accounts system (SCN) is performed.⁴ The degree

³ Calculations based on INEGI (National Institute of Statistics, Geography and Computing) (2003) and PEF (2003). The open unemployment rate (tda) is not relevant in Mexico's socioeconomic and institutional context, considering that the definition of the tda refers to the entire PEA having worked more than an hour per week during the last two months and having looked for employment. In cases such as in the Mexican economy the concept has no use, since there is no unemployment insurance.

⁴ The SCN is formed by 73 branches; 1-10 belong to the agricultural sector, 11-59 to manufacturing and 60-73 to services. This classification includes the in-bond export industry and exports include only their gross value, which is not disaggregated by branches.

of trade liberalisation was defined –in the same way done by most bibliography available on the subject (Dussel Peters, Galindo and Loría 2003)– as the sum of imports and exports over GDP. In this way, with the purpose of presenting the economic branches that have been affected by the trade opening process, the difference of this coefficient between 2001 and 1988 was defined as the initial selection criterion (see table 1). Additionally, three groups were formed based on the degree of difference in the trade opening coefficient between 1988-2001: the first group with a difference of more than 100%, a second group with a difference between 0% and 99.99%, and a third group with a negative difference. From this perspective, and irrespective of various actions taken –tariff and non-tariff, promoting and supporting policies, among others– the first group constitutes the economic activities where the opening has had a very significant impact on its respective GDP, whilst the third group experienced a drop of its respective coefficient between 1988-2001. Based on this classification the existing variables in the SCN for the same period are analyzed.

The classification stands out from multiple angles including: a) Group 1 is formed exclusively by manufacturing branches; that is, as expected, the rapid process of trade opening substantially affected the branches of tradable goods; b) an enormous aggregated differential between the three groups; that is, a 1988-2001 average coefficient of 230.59% for Group 1 and of –1.63% for Group 3; c) the fact that sectors traditionally considered as the most successful in terms of international trade –such as electronics, textiles and apparel and automotive parts, among others– were not included in Group 1, with the exception of automotive. This shows that, in dynamic terms, an additional group of sectors –the 15 of Group 1–, had presented an evolution significantly superior to that expected, and d) that practically the entire service sector –branches 60-73– falls into Group 3, given their scarce share of international trade. Additionally, Group 3 is conformed of 10 farming and manufacturing activities, which decreased in their coefficients during 1988-2001.

The results from the exercise and the typology are many and reflect the complexity and depth of the process of integration of the Mexican economy into the world market and of the trade opening since 1988. Based on the classification of table 1, the main effects of the opening process and between the main characteristics of the groups defined that stand out are:⁵

- The differences in the degree of liberalisation between the entire economy and the branches of Group 3 are enormous relative to manufacturing and particularly to Group 1: in 2001, for example, Group 1 presented a coefficient of 346.63%, whilst Group 3 was of a mere 4.65%. It is interesting that the coefficient increases in the groups, with the exception of Group 3. That is, the dynamics of the 22 branches of Group 3 are the opposite of what was expected in trade liberalisation terms and vis-à-vis the rest of the economy.

- Group 1 stands out for its spectacular performance in terms of international trade and as a result of the classification criteria as well: its share of total exports during 1988-2001 increased from 29.74% to 48.98%, representing in 2001 139.90% of its GDP. In contrast, the branches from Group 3 reduced their share of exports and imports both relative to the total as

TABLE 1
CLASSIFICATION OF THE MEXICAN ECONOMY BASED ON DEGREE OF OPENING (1988-2001) ^a & ^b

	Opening coefficient
TOTAL	10.44
MANUFACTURING	79.10
GROUP 1	230.59
36 Fertilizers	649.76
51 Non-electric equipment & machinery	488.65
55 Electronic appliances	304.69
41 Rubber products	241.43
24 Spun textiles - soft fibers	240.16
34 Basic petrochemicals	233.92
37 Synthetic resins and artificial fibers	220.28
56 Automobiles	214.97
33 Oil and derivatives	214.64
35 Basic Chemicals	184.73
59 Other manufacturing	173.34
48 Metallic furniture	133.04
52 Electric machinery	126.18
47 Non-ferrous metals	117.52
50 Other metallic except machinery	114.46
GROUP 2	36.02
26 Other textile industries	86.55
40 Other chemical products	83.86
25 Spun textiles - hard fibers	82.27
46 Iron & steel	76.02
28 Leather & shoes	75.99
20 Alcoholic beverages	74.66
05 Carbon, graphite and derivatives	74.13
54 Electronic devices	66.55
31 Paper & cardboard	59.86
53 Household electronic appliances	59.30
29 Wood mills, wood derivatives	57.34
43 Glass & glass products	49.43
27 Apparel	41.97
18 Animal feeds	41.50
39 Soaps, detergents, cosmetics	36.81
08 Non-ferrous non-metallic minerals	33.81
42 Plastic products	32.72
58 Transportation equipment	30.97
38 Pharmaceutical products	28.93
23 Tobacco	28.70
49 Structural metals	28.27
30 Other wood and cork products	27.13
32 Printing and publishing	26.18
17 Eatable oils and fats	25.27
12 Fruits and vegetables	22.78
21 Beers and malts	22.72
01 Agriculture	22.71
45 Products of non-metallic minerals	16.34
04 Hunting & fishing	11.32
13 Wheat mills	10.95
61 Electricity, gas and water	10.66
22 Soft drinks and carbonated products	4.01
11 Meats and dairy products	3.21
09 Quarries, sand, gravel and clay	2.45
03 Forestry	1.41
14 Corn mills	0.21
GROUP 3	-1.63
06 Crude oil & gas	0.00
60 Construction	0.00
62 Commerce	0.00
63 Restaurants & Hotels	0.00
64 Transports	0.00
65 Communications	0.00
66 Financial services	0.00
67 Real estate leasing/rental	0.00
69 Educational services	0.00
70 Medical services	0.00
72 Other services	0.00
73 Public administration and defense	0.00
71 Leisure services	-0.13
68 Professional services	-0.27
07 Iron mineral	-3.06
02 Cattle raising	-3.27
19 Other food products	-13.95
44 Cement	-18.45
15 Coffee mills and processing	-36.17
10 Other non-metallic minerals	-37.35
16 Sugar	-41.35
57 Motors and automotive parts	-57.41

^a Based on the difference of the exports and imports coefficient over GDP (as a percentage) for 1988-2001.
^b Includes the export in-kind industry, in case of exports, only its gross aggregates.
Source: Prepared based on INEGI (2003).

well as to its own GDP. This tendency nonetheless –and the structural change of the Mexican economy and particularly in manufacturing–, shows imports increasing more than exports for all groups, including Group 1. The coefficient of net exports –exports minus imports– over GDP shows that in all groups as well as in manufacturing and in the economy as a whole, is negative and with a tendency to increase substantially from 1988 onwards. It is of special relevance that the branches in Group 1, those with the greatest liberalisation during 1988-2001, obtain the greatest negative trade balance/GDP coefficients. That is, the sector most affected by the trade opening is the greatest generator of trade deficits relative to GDP.

- Group 1's activity branches present a complex dynamic relative to labour productivity, employment generation and GDP. On the one hand, its minimal share of employment and GDP in the Mexican economy stand out, accounting for only, in a decreasing trend during 1988-2001, 2.87% and 5.05% respectively in 2001. On the other hand, there are enormous disparities that stand out as well relative to labour productivity between the groups and their respective tendencies. While Group 1 shows a substantial increase in productivity vis-à-vis the whole economy and the manufacturing sector –showing in 2001 levels above 100% and almost 50%, respectively– Group 3's productivity stalls during 13 years. From another angle, Group 3

⁵ For an analysis of all the variables, including GDP, exports and imports, gross fixed capital formation, among others, see Dussel Peters (2004).

increases significantly its share of employment and GDP during the period in question –to account in 2001 for 71.67% of employment⁶ and 82.3% of GDP–, albeit its productivity barely increased by 4.04% during 1988-2001, and with a declining trend relative to the economy during that period. The preceding trends reflect opposing dynamics relative to employment generation: Group 1 barely generated 1.78% of employment during 1988-2001 while Group 3 accounted for 93.28%.

- The preceding performance, particularly with respect to productivity, commercial specialisation and polarisation, as well as employment and GDP, have significant implications in the quality of employment and in the structure of real wages. On the one hand, all the groupings show increases in real wages during 1988-2001. Nonetheless, it is Group 1's branches – with the highest absolute real wages– those showing the smallest real increases, of only 4.15% during the period. On the other hand, Group 3's branches, those experiencing a drop in their opening coefficient, generated the biggest real wage increases, of 25.15% during the period. This event is paradoxical: all the groups, as well as manufacturing and the economy as a whole, with the significant exception of Group 3, show a negative difference between real wages and productivity: in Group 1's case, for example, the difference accumulated to -46.98% during 1988-2001; that is, the dramatic increases in productivity were not distributed via wages in the branches with the greatest liberalisation. In contrast, Group 3 is the only one to increase real wages above productivity, with minimal increases in productivity. The outlook on this type of specialisation is complex and leaves no room for simplistic assertions: the sector most affected by trade liberalisation, Group 1's branches, shows a downward trend in real wages in absolute terms, thus, closing the gap with the lower wages in the rest of the economy. This downward trend in relative real wages of the branches most opened to trade,

contrary to expectations, is reinforced as a result of the minimum share of Group 1's activities in employment and GDP. In contrast, Group 3's branches, with lower real wages, have closed the wage gap relative to the rest of the economy and considering the previously analyzed dramatic fall of real wages since 1980.

Conclusions and policy proposals

The omens and estimates regarding NAFTA nonetheless, international wage data since the seventies attest to a widening of Mexico's wage gap relative to practically all industrialised countries, and particularly with the U.S. The analysis seeks to reach into the causes of these trends: in the Mexican case, and as a result of the new socioeconomic strategy followed since 1988, employment generation has been well below socioeconomic needs –expressed in the increase of the PEA–, and with a diminishing trend in quality (or wages). The preceding trend contradicts the expectations generated for the strategy since 1988 and around NAFTA –expecting more jobs of greater quality–, for the productive and trade pattern generated ever since allows for the understanding of the profound challenges in the labour and wage markets of Mexico: the branches most opened to trade –and, it was expected, with the greatest employment generation– were those generating the greatest dynamics in terms of productivity, exports and imports, among other variables, albeit rendering negative dynamics in employment and wages. These branches of the Mexican economy, integrated in Group 1, have a minimal share in employment, and their dynamics were well below those for the economy as a total, thus reducing even further their share. Furthermore, the activities most opened to free trade practically maintained their wage levels during 1988-2001, and, in contrast with the activities less oriented to the exterior, these branches of Group 1 are those with the greatest gaps between productivity and real wages increases. In this way, one of the main paradoxes of the strategy sought in Mexico is a reduction in the domestic wage gap –that is, wage levels between branches tend to equalise–, albeit with a downward tendency for the economy as a whole. That is, the activities most opened to free trade, and with the highest absolute wage levels, converge with the inferior wages of other

⁶ The substantial increase of Group 3's share of total employment, by more than 7% during the period, reflects that, contrary to expectations, the non-tradable goods sectors have surprisingly been the main generators of employment since Mexico's opening process.

activities. This process reflects a high degree of precariousness of the strategy followed.

The trends in this classification reflect, additionally, that there is strong potential to increase real wages, and particularly in the activities most opened to trade and with high productivity growth. In this way, a series of policy proposals emerge within the framework of the subject matter developed.

First of all, an in-depth review of the strategy followed since 1988 is necessary, since the costs of maintaining low inflation rates, controlling fiscal deficits and attracting FDI have been too high in terms of GDP growth and the limited generation of employment, as well as the worsening of its quality. The export orientation of the productive apparatus has deepened these difficulties.

In second place, it is necessary to carry out explicit actions and negotiations so that particularly those sectors with the greatest degree of opening, and with high rates of productivity growth, substantially increase real wages in absolute terms and with respect to the rest of the economy, so that they in turn pivot upwardly the remaining activities and, in the same way, domestic demand. The automotive sector is an excellent example: although employment grew by 40.1% during 1988-2001, real wages decreased by 17.3% and productivity increased 213.2%. This vision notwithstanding, –developed in greater detail by The Jus Semper Global Alliance– is closely linked to the first issue addressed: the need to rethink the export-based strategy, which has completely abandoned Mexican domestic demand and its potential socioeconomic effects. Already in the twentieth-century seventies, a group of authors had pointed out the relevance of the “fordist equation”, through which, during the golden era of the industrialised countries –particularly in the post-war era until the beginning of the seventies– their economies had achieved an important process of economic sustainability, based on the institutional negotiations between the increase of productivity and the increase of real wages. This process allowed, from an economic perspective, for the “fruits of productivity” be distributed both in earnings for business as well as in an increase in

the quality of life of wage earners, based predominantly on their respective domestic markets (Glyn et. al. 1990). With the purpose of achieving a “virtuous circle” under these terms, the following challenges should be addressed in Mexico at the very least: a) the generation of employment in terms of the PEA’s annual increase, since, otherwise, the informal sector will continue to negatively pressure formal sector wages, b) that those sectors and business entities with the greatest productivity truly “redistribute” the fruits of productivity through greater real wages. In this last respect, transnational enterprises (TNEs) take on a role of the utmost relevance to “pull” the rest of the branches of the Mexican economy and, thus, effectively enable a dynamic in the domestic market and the aforementioned “virtuous circle” between productivity, real wages and consumption, and business earnings. To be sure, Mexico’s domestic market, under this dynamic, would also result in great interest and relevance for the TNEs, despite its great contrast with the deep process of polarisation and exclusion generated since the end of the eighties in Mexico.

In third place, it would be too complex for export oriented enterprises to effectively increase their labour endowments in the short term, for, besides the threat to transfer their activities to other territories in case of wage and/or social pressures, they have set up shop in México in many cases precisely to exploit the differentials and options. Two aspects are deemed relevant to this respect. On the one hand, in line with the analysis of The Jus Semper Global Alliance, motivating and pressuring the enterprises, including the TNEs, to reduce their wage gaps between “North-South” countries in order to gradually equalize real wages using the purchasing power parities as the criterion for a long-term plan of thirty years. The power of North and South consumers and the creation of conscience and sensibility towards the benefits of a process of this scope may be persuasive vehicles with business, albeit also the threat of a diversity of mechanisms (including boycotts). On the other hand, a diversity of authors and groups, have pointed out, to this respect, the need for a process of “global governance” (Maggi and Messner 2002) where joint policies between the private and public sectors, among others, confront the strategies of

corporations. Under this scenario, running in parallel to the first, the public sector plays a crucial role also in generating the conditions for greater dynamics in the domestic market through its budget and actions to generate sensibility, but also by including legislation for the generation of quality employment and not for the continuation of the process of downward wage equalisation, just as it has occurred since the end of the eighties in Mexico. The support of small business entities, the linkage between exporting sectors and large corporations with established suppliers in Mexico, as well as the management, through the use of resources and specialised personnel, of regional-sectorial systems that promote the use of innovation and technologies may be some of the programs to be implemented to this respect. Global cooperation and coordination –also positioned as “global governance”– is of the greatest priority in pursuing the end in the short, medium and long-terms of savage competition and of the greatest degree ever of employment precariousness in Mexico.

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