

Increase to the minimum wage in Mexico

Benefit for the employees?

On Tuesday, December 16th, 2020, the Mexican Government announced the increase in the minimum wage by 15%. This news generated controversy in the business sector in the country as it was considered unfair and an attempt against the economic and productive sector in Mexico. The main business leaders voted against this reform that mainly affects the segment of MSMEs, which have not yet managed to compensate for the damage caused by the pandemic.

Throughout this article we will learn about the background to the increase in the minimum wage in Mexico in recent years, the opinion of the business sector in the country regarding such a decision; moreover, we will explain the economic effects mentioned by the experts in the field; and finally, we will return to the most important points in the form of final reflections and a conclusion.

Background

In recent years, Mexico has evolved in the increase in the minimum wage that workers receive, going from \$67.29 in 2014 to \$123.22 in 2021. This increase is summarized in \$55.93 pesos in 7 years (as shown in graph 1.1).

Graph 1.1. Minimum wage in Mexico



Own elaboration with data from: (CONASAMI, 2020)

As can be seen, it is from the year 2017 when a substantial increase in the minimum wage is shown with two considerable increases. The

first occurred in the year of 2019, increasing from \$88.36 to \$102.68 pesos.

The second increase was at the beginning of the year (2020) going from \$102.68 to \$123.22 pesos.

Starting next January 1st, 2021, the adjustment to the minimum wage will go from \$123.22 pesos in 2020 to \$141.7 pesos. For its part, the Free Zone of the North Border of the country goes from \$185.56 to \$213.19 pesos.

This means that since 2018, the minimum wage in Mexico has been increased by \$53.34 pesos.

This measure helps people who earn the minimum wage in Mexico, which is equivalent to 12.5 million workers as reported by INEGI in the first quarter of the year.

Opinion of the business sector in Mexico

In the last two years, the minimum wage underwent a considerable increase compared to the previous seven years. This situation

could be considered positive for the Mexican economy due to the increase in the purchasing power of employees and greater competitiveness for business activities, but the reality is different.

The current situation the world is experiencing makes us question the measures taken by the Mexican Government to combat the crisis. While it is true that an increase in the minimum wage could be a solution to the problems, the truth is that it is an increase beyond dimensions that might worsen the national crisis.

The opinion of business leaders is a complete rejection of the percentage imposed by the Mexican Government, which could be the last nail of many small and medium-sized companies in Mexico, which together with the pandemic, the current economic crisis and the factor of living from day to day, leaves them defenseless against measures such as the increase in the minimum wage.

Let us remember that in Mexico more than 90% of the total number of companies operating are MSMEs, which employ more than 60% of the total population and represent the country's productive engine.

For this reason, the business sector in unison is questioning this decision, which instead of a benefit, could represent a major problem, as mentioned by the president of the Employers' Confederation of the Mexican Republic, Gustavo de Hoyos: "With the lack of government support and now an irrational increase to the minimum wage, without gradualness or logic, increases the risk that 700 thousand more companies will disappear in the next three months".

Likewise, Carlos Salazar of the CCE (Business Coordinating Council), mentions that they are "willing to an increase that is reasonable and in line with the current economic reality of the country. But an increase such as the one proposed would not only complicate the generation of those new jobs, but would put the preservation of current jobs at risk".

Clearly, these two positions show us the concern of the most important business leaders in Mexico regarding this decision that goes against the economic progress of the country. The data shows that the health crisis caused by the COVID pandemic has caused the closure of 1 million 10 thousand 857 micro, small and medium-sized companies throughout the country, which will aggravate their situation due to the impossibility of paying this increase to their workers.

Furthermore, specialists in economic issues showed their position at this juncture. Gabriela Siller, director of economic-financial analysis at Banco Base, says: "Without an increase in productivity they only generate a gradual worsening of the labor market." Likewise, Jesús Garza, from EGADE Business School, says: "it should have been agreed with the industrial sector and companies, but it was not done".

As a consequence of this action by the Government, experts point out that the main factors are in place to present a significant increase in the number of companies and people that move to informality. For this to happen, the Government shows insensitivity to entrepreneurs who have to circumvent laws such as the prohibition of outsourcing, the increase in the contribution by employers to workers' Afores (retirement funds), lack of fiscal incentives or support to the productive

sector and the aforementioned increase in the minimum wage, resulting in an inevitable closure of companies and a direct impact on jobs.

Consequences for the Mexican economy

The consequences of this reform in economic matters are explained in the following points:

1. Increase in the closure of MSMEs, which are mostly family businesses that live from day to day. In order to mitigate the expenses of increasing the salary of their employees, they will have to cut expenses, lay off staff and, most seriously, some will have to close down.
2. This reform has a high probability of generating a negative impact on the country's recovery. Forecasts point to a fall of 9.1% for this year (the largest drop since the 1932 crisis) and a recovery of just 3.29% by 2021. If the problem of recovery worsens, it will take a long time to return to the levels before the pandemic.
3. Inflation is another factor that could be affected, since experts consider that this increase to the minimum wage could lead to an inflationary effect between 7.3% and 8.5% by 2021, affecting people's purchasing power, just the opposite of the reform's objective.
4. Among the sectors considered that could be most affected by this increase are commerce, services, tourism, construction, restaurants and retailers.

Final thoughts

It is important to mention that the business sector in Mexico is not opposed to an increase in the minimum wage; what they consider insensitive of the Government is the way to do it, in the face of one of the worst crises that can be remembered in recent years.

The proposal of the sector was to increase 6%, including 10% with the help of the Government and in a tripartite scheme (Government, employer, employee), but this proposal was rejected immediately. In addition, they had the intention of talking in order to reach an agreement that would benefit all parties involved, but again, they were not listened to.

We will see the outcome of this situation with the hope of a minimal negative impact, at best.

Conclusion

Entrepreneurs are not against increasing the minimum wage, on the contrary; but they consider that an increase of more than 10% like the one approved this year damages the business structure that continues to suffer the ravages of business closures and the health pandemic.

This article emphasizes the importance of entrepreneurs in the Mexican economy, because it is due to them that thousands of jobs are generated. However, actions such as those carried out by the Federal Government make it impossible for them to continue their operations, causing more serious problems that affect the entire country.

The concern of the business sector is a clear example of the distancing and lack of

empathy between the Government and businesspeople, who seem to have no voice for the President.

The situation is clear for the employers: they will have to scratch and scrape their way out of it with their own fingernails and row against the tide of the Government's policies, determined once again to discredit the true engine of the economy, THE BUSINESSPEOPLE.

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