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MINIMUM WAGES AND INEQUALITY IN MEXICO: A LATIN AMERICAN PERSPECTIVE¹

*LOS SALARIOS MÍNIMOS Y LA DESIGUALDAD EN MÉXICO:
UNA PERSPECTIVA LATINOAMERICANA*

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ABSTRACT

Mexico's minimum wage has experienced a persistent decline in real terms since the 1970s. At the same time the share of wages in national income has declined steadily, while inequality remains one of the most pressing socio-economic challenges. Despite some important recent progress in Mexican policy, raising the minimum wage in a sustainable manner to meet the constitutional mandate and support a reduction in inequality in the country requires a more profound policy change. This paper present a brief analysis of the minimum wage in Mexico from a Latin American comparative perspective.

Keywords: Minimum wage; Salaries; Inequality; Mexico; Latin America.

¹ This article updates and extends the analysis presented in Moreno-Brid, Garry and Monroy (2014), and Garry and Moreno-Brid (2015). The opinions expressed herein are those of the authors and not necessarily those of the United Nations.

RESUMEN

El salario mínimo de México en términos reales ha experimentado una disminución persistente desde la década de 1970. Al mismo tiempo, la participación de los salarios en el ingreso nacional ha disminuido de manera constante, mientras que la desigualdad sigue siendo uno de los retos socioeconómicos más apremiantes. A pesar de algunos progresos recientes importantes en la política mexicana, el aumento del salario mínimo de manera sostenible para cumplir con el mandato constitucional y apoyar a una reducción de la desigualdad en el país requiere un cambio de política más profundo. Se presenta un breve análisis del salario mínimo en México desde una perspectiva comparada de América Latina.

Palabras clave: Salario mínimo; Salarios; Desigualdad; México; América Latina.

Classification JEL: J31, J38.



1. BACKGROUND

After centuries of being considered practically synonymous with inequality², in the early 2000s Mexico received significant recognition for improvements in its income distribution (e.g., López-Calva and Lustig, 2011). This positive news emerged in a context of almost two decades of inequality reduction in Latin America. Despite remaining the most unequal region in the world, significant improvements were seen in many Latin American countries, including Mexico.

At the same time, however, its minimum wage has stagnated. It is widely acknowledged that the current Mexican daily minimum wage of MXN\$73 (US\$ 4.90) is insufficient to cover the costs of even the country's basic food basket. For decades the minimum wage has been far removed from the "adequate remuneration to meet the normal material, social and cultural requirements of a head of household, and to provide for the compulsory education of their children" as mandated by Article 123 Ap.VI of the Constitution. In May 2014, the Governor of Mexico City sparked a national debate about the adequate minimum wage level among journalists, academics, entrepreneurs, workers and employers' representatives and senior officials including the chief of the Mexican National Minimum Wage Commission (CONASAMI), the Governor of the Bank of Mexico, the Secretaries of Finance and Labor, and even the President of the Republic.

The debate made it evident that the minimum wage in Mexico has for years been among the lowest in Latin America, not to mention among members of the OECD (OECD, 2015). More importantly, it showed that since the 1980s the labor policy of the Federal Government, implemented through annual decrees issued by CONASAMI, has pushed the minimum wage into sharp deterioration. Mexico became the poster child of neoliberal macroeconomic reforms in the region, and its minimum wage an instrument to fight inflation, even if this meant that its level would deteriorate relative to the cost of living. According

² In the early XIXth Century, Alexander Von Humboldt viewed Mexico as, "...the country of inequality. Nowhere does there exist such a fearful difference in the distribution of fortune, civilization, cultivation of the soil and population". In the 1960s Victor Urquidí stated that inequality was most likely Mexico's crucial challenge for both ethical as well as economic reasons. In the present century, the poet Tito Monterroso proclaimed that "The unique, truly hyper-real characteristic of Mexico is its social inequality; the misery that marks the everyday life of the immense majority of Mexicans" (Monterroso, 2003).

to 2014 estimates by Mexico's National Council for Policy Evaluation (CONVAL), the daily minimum wage was 29% below the amount necessary to afford the national basic food basket—i.e. the extreme poverty line—and 60% below what is necessary to cover the enlarged basket of food and household services. In 2015, the situation did not improve significantly, as a nominal wage increase was eroded by inflation.

The minimum wage is important in efforts to reduce inequality in Mexico for at least three reasons. First, its low level has contributed to the reduction of the labor share of national income. After a steady and persistent decline over recent decades, today this figure stands at 27%, an all-time low in Mexico's modern history, and far below levels seen in the 1970s (Del Castillo, 2012). This means that not only are wages more unequally distributed, but the share of national income accruing to wage earners is also shrinking. Since the mid-1970s, inflation has become a policy priority. As a result, Mexican authorities began to use the minimum wage as a price stabilization tool, inducing a persistent decline in its level in real terms. By the early 2000s the minimum wage had lost more than 70% of its purchasing power relative to 1980.

Second, low overall wages also partly explain the high concentration of income at the top of the earnings distribution. As the relevant literature has shown, the minimum wage can have a strong influence on average wages, and, thus on both the functional distribution of income and inequality (Bosch and Manacorda, 2010; Campos-Vasquez et. al, 2014). Cornia (2012) also highlights that for Latin American countries over the last decade, an increase in the legally mandated minimum wage has reduced the disparity between minimum and average earnings, with equalizing effects on the distribution of earnings across the labor market. This influence was particularly strong in Brazil. In addition, López-Calva and Lustig (2011) demonstrate the benefits of increased minimum wages on income equality in both the formal and informal sectors.

Third, stagnant minimum wages are particularly worrying in a context of increasing inequality in a number of Latin American countries in recent years. This is especially acute for Mexico, where after important gains in the 1990s and 2000s, inequality as measured by the Gini coefficient has increased at an annual rate of 0.4 points from 2010 to 2014. As Table 1 illustrates, Honduras has seen a similar trend toward increasing inequality in recent years. Progress has also stalled in Venezuela, Bolivia, Costa Rica and Paraguay.

TABLE 1: ANNUAL CHANGES IN GINI COEFFICIENTS, 1992-2014.

	1992-2002	2002-2010	2010-2014
Argentina	0.8	-1.1	-0.5
Bolivia	0.6	-1.5	0.1
Brazil	0.1	-0.7	-0.4
Chile	0.0	-0.4	-0.2
Colombia	0.6	-0.3	-0.5
Costa Rica	0.5	0.0	0.1
Ecuador	0.0	-0.8	-0.9
El Salvador	-0.1	-0.9	-0.7
Honduras	0.6	-0.5	0.4
Mexico	-0.3	-0.5	0.4
Panama	0.1	-0.6	-0.1
Paraguay	0.5	-0.7	0.0
Uruguay	0.6	-0.1	-0.9
Venezuela	0.6	-1.1	0.0
Latin America	0.3	-0.7	-0.3

Source: Gasparini, *et al.*, 2016.

Moreover, recent work by Esquivel (2015) confirms that inequality as measured by the income share of the top 1% of earners in Mexico has actually risen throughout much of the 1990s and 2000s. The share of the top 1% is now among the largest in Latin America, not to mention the OECD (Esquivel, 2015). At the same time, inequality in Mexico is higher today than it was in the 1980s. In 2012, according to OECD (2015), the average income of the top decile was more than 30.5 times higher than that of the bottom 10%. In comparison, this ratio among top and bottom decile incomes was 22 to 1 in the mid-1980s.

Evidence from Mexico and Brazil supports the literature with regard to the benefits of the minimum wage as an active policy tool for reducing inequality. As Figure 1 displays, after a sharp increase in the Gini coefficient during the mid-1980s in Brazil (reflecting increased inequality), it has decreased steadily. This trend has mirrored the persistent rise in the national minimum wage over the same time period. The Mexican case, in contrast, shows that while the country appeared to make strides in inequality reduction in the 1990s, from the mid-2000s inequality appears to be on the rise again, with sharp increases since 2010. When we examine the parallel evolution of the minimum wage over the past three decades, we note a steep decline from the early 1980s through the mid-1990s, with a subsequent stagnation which persists through today.

FIGURE 1: MEXICO AND BRAZIL REAL MINIMUM WAGE AND GINI COEFFICIENTS, 1980-2014 (REAL MINIMUM WAGE INDEX 2000 = 100).



Source: Authors' own elaboration based on CEPALSTAT and SEDLAC, 2016.

In light of these observations, and given Mexico's far from successful quest for high and steady growth and a more progressive income distribution, in this article we analyze the evolution of its minimum wage from a Latin American comparative perspective. We examine the policies that determine its trajectory, as well as the results of the recent national debate to improve the minimum wage level in the long-term. We believe that key lessons can be derived from this case to help the design and implementation of better, more effective policies to reduce inequality. The paper is organized according to the following structure. The next section will look at the evolution of the minimum wage in Mexico and Latin America in more detail. Thereafter, the third section will discuss the relationship between minimum wage developments, productivity and competitiveness in Mexico. The fourth and final section concludes with some policy recommendations.

2. THE MINIMUM WAGE IN MEXICO AND LATIN AMERICA

The evolution of the minimum wage in Mexico has followed three distinct stages. In the first, ranging from the 1950s to the second half of the 1970s, the minimum wage quadrupled in real terms. This rise occurred while the Mexican economy experienced its golden age when real GDP expanded at an average annual rate of 6% and preserved low levels of inflation. The real minimum wage lost strength from the balance of payments crisis that Mexico experienced in 1976. During the oil boom years the minimum wage lagged slightly due to inflation. Later, when the oil boom collapsed in 1981- 82, the stabilization policies adopted to manage this crisis launched a phase of sharp deterioration in the minimum wage. Indeed, as part of efforts to contain inflation, government policy was set to manage the adjustment of the minimum wage below the increase in consumer prices. The depreciation of the exchange rate, and

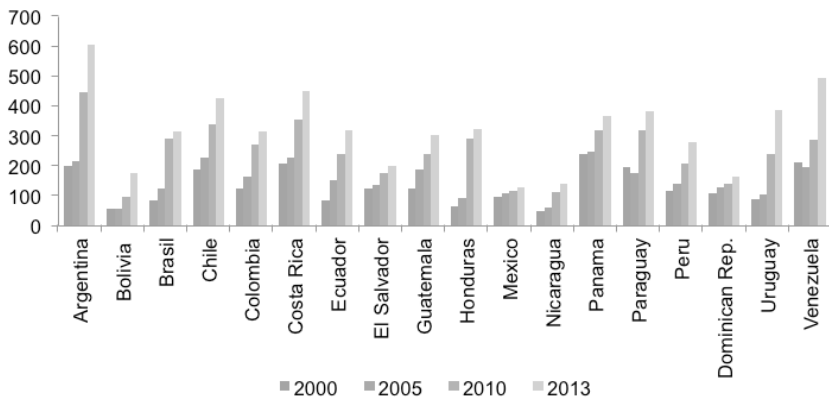


a decline in the influence of trade unions in a weakened labor market context led to a sharp deterioration in the minimum wage. Reduced levels of economic activity and the government's focus on strengthening public finances and lowering inflation drove the minimum wage into further decline.

In the late 1980s—after the lost decade—productive activity in Mexico began to recover and inflation started to stabilize at a low level. But minimum wage policy continued to be used as an instrument of anti-inflationary policy, and did not fulfill its original mission to ensure income protection in the labor market. Instead of placing it at a dignified level, CONASAMI sanctioned insufficient wage adjustments with respect to inflation that led to recurrent falls in value in real terms. By 1995 the minimum wage had lost 66% of its purchasing power compared to levels fifteen years prior.

The ensuing third phase in the evolution of the minimum wage, which lasts until today, is characterized by a stagnation in real terms. The rate of decline has slowed, and the fall in real purchasing power appears to have stabilized in recent years. However, this policy which has been followed for nearly 40 years by CONASAMI, or more precisely by its supervisory institution the Secretary of Finance and Public Credit (SHCP for its acronym in Spanish), has failed to follow through on the minimum wage's mission to protect citizens' rights. This systematic deterioration has for some time set the minimum wage as one of the lowest in dollar terms in Latin America (see Figure 2).

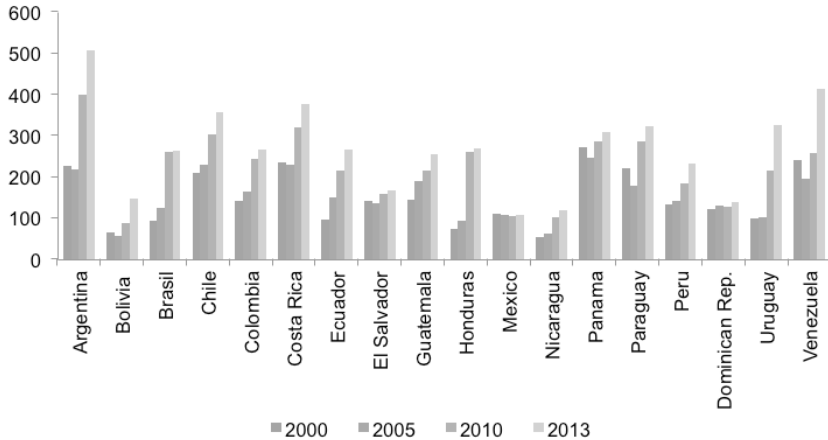
FIGURE 2: MONTHLY MINIMUM WAGE IN MEXICO AND OTHER LATIN AMERICAN COUNTRIES, 2000-2013 (CURRENT US DOLLARS).



Source: ILOSTAT, 2015.

Among Latin American countries with more recent (2013) comparative and reliable statistical information on the monthly minimum wage, the Mexican level equivalent to US\$112.2 per month was the lowest, slightly exceeded by that of Nicaragua (US\$ 117.5) and Bolivia (US\$ 117.5). This level is equivalent to 40% of the minimum wage in Guatemala or Honduras, countries whose per capita GDP is well below that of Mexico. In dollar terms Mexico's was less than one-third of the minimum wage in Costa Rica and Argentina. Unlike in the vast majority of Latin American countries, the minimum wage in Mexico recorded only a very slight nominal increase between 2000 and 2013. Its low level compared to the rest of the region is manifested most acutely by taking into account its purchasing power in constant prices as shown in Figure 3. When measured in constant 2005 dollars, the minimum wage in Mexico again positions itself by far as the lowest in the region.

FIGURE 3: MONTHLY MINIMUM WAGE IN MEXICO AND OTHER LATIN AMERICAN COUNTRIES, 2000-2013 (2005 CONSTANT US DOLLARS).

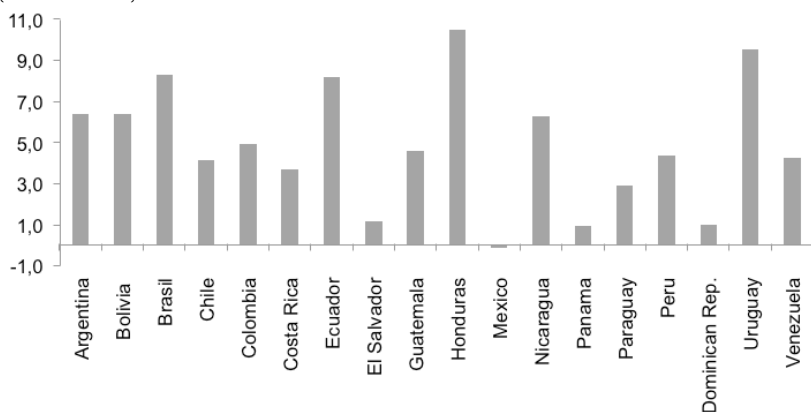


Source: ILOSTAT and CEPALSTAT, 2015.

Figure 4 reports the real rate of change in local currency for several countries in Latin America. This makes the dismal performance of the minimum wage in Mexico even more obvious. As noted, in many countries minimum wages rose strongly in real terms in the 2000s. For example, Argentina and Uruguay saw substantial increases of on average more than 10% per annum, while in Brazil, Honduras and Nicaragua wages grew by more than 5% annually. Mexico, therefore, remains a notable exception in the region.



FIGURE 4: LATIN AMERICA: AVERAGE ANNUAL VARIATION OF THE MINIMUM WAGE, 2000-2013 (IN PERCENTAGES).

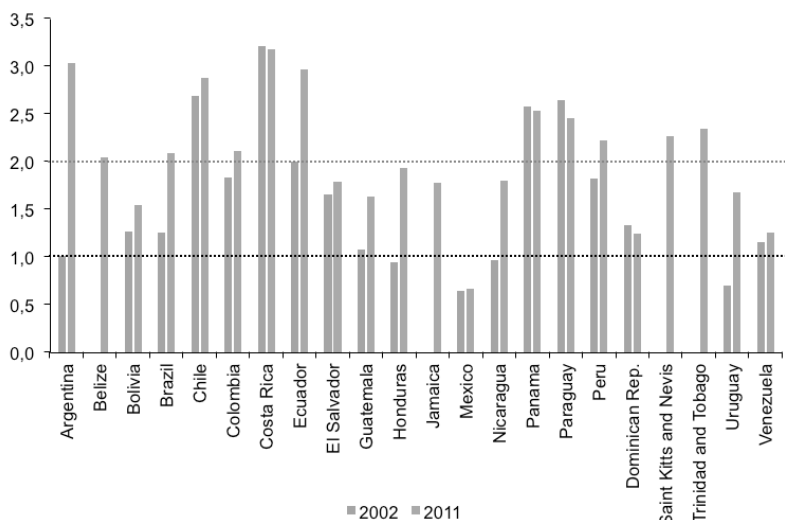


Source: ILOSTAT and CEPALSTAT, 2015.

Strong growth in Argentina, Uruguay, Ecuador and Brazil in recent years is explained by the rise to power of governments committed to more inclusive development agendas. This commitment led them to use various instruments of economic and social policy to better distribute the benefits of growth to their citizens. On the one hand, they ceased to consider the minimum wage as a mere accessory to anti-inflationary policy, and on the other hand they restored its function as an instrument of labor policy (Marinakakis and Velasco, 2006). In contrast, the Mexican policy of minimum wage containment perhaps reflects the fact that despite a shift in the ruling party of the President, social inclusion and equality are still not considered national priorities. This containment, more implicit than explicit, was needed to support a reduction in inflation and limit government spending on benefits, pensions and other expenses related to the minimum wage. At the same time, it served to compress labor costs via prices rather than productivity.

Perhaps the most dramatic indicator of the minimum wage's deterioration is manifested when compared to the per capita poverty line (see Figure 5). In 2011, Mexico was the only country in the region where the minimum wage was below the poverty line, and its ratio lies well below that of the rest of the region.

FIGURE 5: LATIN AMERICA AND THE CARIBBEAN (22 COUNTRIES): RELATIONSHIP BETWEEN THE MINIMUM WAGE AND THE PER CAPITA POVERTY LINES (1.0 AND 2.0), 2002 AND 2011.



Source: CEPAL, *Pactos para la Igualdad*, 2014. Based on data from CEPALSTAT. Note: The black line at 1.0 represents the per capita poverty line. Assuming that for every household member who works, there is one dependent who does not work, it is considered that the minimum wage should be rebased to the grey line (at 2.0) so that the minimum wage earners receive an adequate income that will allow them to overcome poverty.

Having illustrated the extremely low level of the minimum wage in Mexico, both compared to other countries in the region, and as compared to basic national poverty lines, in the next section we briefly analyze the relationship between the minimum wage and the evolution of labor productivity. We present the Mexican case and compare it to other countries in the region. This analysis seeks to determine whether, as some experts and Government officials argue, the low level of the minimum wage in Mexico is correlated with the performance of labor productivity.

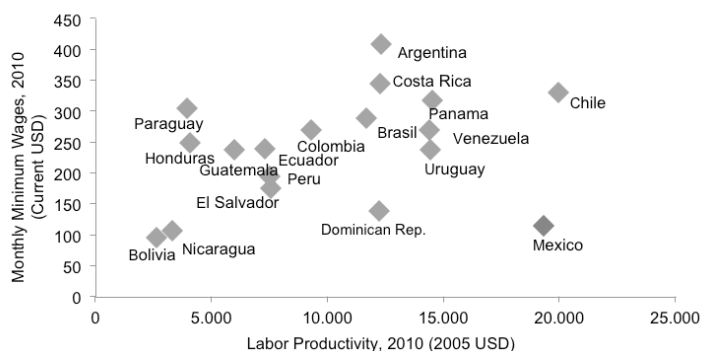
3. THE MINIMUM WAGE, PRODUCTIVITY AND COMPETITIVENESS

As documented in the previous section, the minimum wage in Mexico is the lowest in Latin America by any measure: in current prices, constant dollars, or in terms of purchasing power parity. Its relative level compared to GDP per capita is also very low. Mexico's level of 15% of per capita GDP is the lowest ratio in most of Latin America, and is far from the 30% of GDP per capita in Brazil or Chile and the 50% of GDP per capita in Peru, Colombia and Costa Rica. The Mexican minimum wage is equivalent to only 19% of the average national

wage, again one of the lowest proportions in the region. In the *Global Wage Report 2012-2013*, the ILO stressed that in Mexico “the minimum wage is below market levels, even more so for unskilled workers”. In addition, according to ECLAC, “Mexico is the only country where at the end of the previous decade the value of the minimum wage was less than the per capita poverty threshold”.

The debate in Mexico has placed a great deal of emphasis on the dependency that the minimum wage has or should have to productivity. This argument raised the hope that Mexico’s minimum wage might at least have a poor comparative regional performance for good reason. However, this is not the case. As the ILO (2013) has shown, for more than 20 years the average labor productivity in Mexico—as measured in constant US dollars—has been and continues to be among the highest in Latin America (see Figure 6). In 2012 it was the second highest, only 3% lower than Chile’s, and widely overtook Uruguay’s (30%) and Brazil’s (60%). Furthermore, labor productivity was more than double that of the average of the rest of the region.

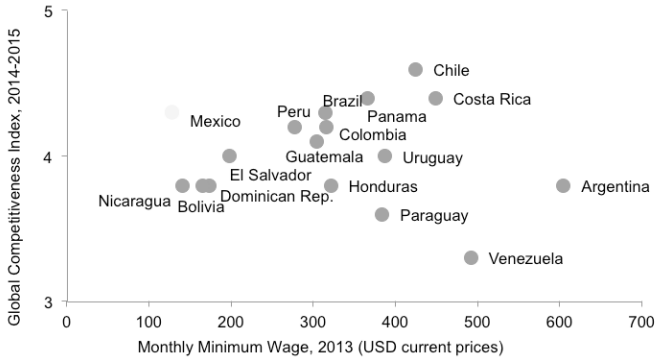
FIGURE 6: THE MINIMUM WAGE AND LABOR PRODUCTIVITY, 2010.



Source: ILO and Key Indicators of the Labor Market (KILM, 2013). Productivity data for Argentina refer to 2006, the last year available in the source.

The conclusion is very similar if instead of comparing labor productivity in the countries of the region, the Global Competitiveness Index compiled by the World Economic Forum is considered (see Figure 7). Here, Mexico appears among the highest in terms of competitiveness, yet with the lowest minimum wage. Within Mexico’s institutional framework and given the objectives of national economic policy and labor market regulation, the (limited) gains in productivity and competitiveness have not spilled over into improvements in the minimum wage. Rather, they have concentrated themselves in other factors of production or in different labor strata.

FIGURE 7: MINIMUM WAGE RATES AND COMPETITIVENESS IN LATIN AMERICA, 2013, AND 2014-2015.



Source: ILO QUIPUSTAT Database and the World Economic Forum Global Competitiveness Index. Note: the Global Competitiveness Index has a classification from 1 to 7 (the highest).

The Mexican minimum wage in dollar terms is similar to that of Bolivia and Nicaragua, whose productivity is the lowest in Latin America, but average productivity in Mexico is four times higher. In Chile where labor productivity levels are as high as in Mexico, the minimum monthly salary of US\$366 is triple that of Mexico. These observations point to relevant unknowns in the current debate in Mexico: Why does the country have one of the lowest wages in the region when labor productivity is among the highest? Why do we see an association between the level of labor productivity and the minimum wage at the regional level, while in Mexico this relationship does not hold true? To answer these questions, let us now examine the co-evolution of labor productivity and the real minimum wage in Mexico.

FIGURE 8: MEXICO: ANNUAL RATE OF REAL MINIMUM WAGE AND LABOR PRODUCTIVITY (1991 = 100).



Source: OECD, 2015.



As shown in Figure 8, average labor productivity in Mexico has performed poorly between 1990 and 2013. After falling throughout much of the 1990s, it began a tepid recovery in 1998. By 2013 it had recorded a cumulative increase of 15%, reaching a level 4.5% above that seen in 1991. This disappointing performance seems to be a reflection of sluggishness of the formation of fixed, private and public capital in the country. But the real minimum wage has performed even more miserably since 1990. In the 1990s it fell, continuing the downward pattern begun in the previous decade. Since 2000 it stabilized, and by 2013 it registered an accumulated increase of 2.6%, which still stands 30% below its 1991 level.

While both variables have performed poorly in the past three decades, the evolution of labor productivity and the real minimum wage in Mexico are far from correlated. Indeed, at the regional level Mexico has displayed some of the highest levels of labor productivity for years. Its minimum wage, however, is the lowest in Latin America. From 1998-2013, when productivity rose 15%, the real minimum wage remained stagnant. In 2013 labor productivity was 4.5% above, and the minimum wage 30% below their levels in 1990. If the real minimum wage in recent years would have grown at the same rate as labor productivity, its current level would be 50% higher, above \$100 pesos a day. In summary, in Mexico during the periods in which labor productivity has fallen, the real minimum wage has plummeted even more sharply. And during phases in which labor productivity has risen, the benefit is null or hardly reflected in the minimum wage in real terms.

As the *Global Wage Report 2012-2013* (p.42) summarized, "... In Mexico, the minimum wage policy has been strongly influenced by efforts to achieve a fiscal balance (as the minimum wage determines many social security benefits) and increase export competitiveness. As a result, the minimum wage is below market levels, even for unskilled workers. "Beyond the often expressed concerns about inflationary pressures created by allegedly "artificial" and "arbitrary" increases in the minimum wage, for instance by Secretary of Finance Luis Videgaray³, a 1999 paper by Agustín Carstens, the current Governor of the Banco de México and former Secretary of Finance, and Alejandro Werner, explicitly recognizes the practice of setting minimum wages according to budgetary requirements⁴: The authors acknowledge that, "since 1996, all the monetary programs that Banco de México has implemented are fundamentally based on [...] [a] yearly annual inflation objective. This objective is established jointly by the Federal Government and the Banco de México, and it is perceived as the result of a concerted effort to coordinate fiscal and mon-

³See for instance, http://www.milenio.com/politica/salario_minimo-aumento_salario_minimo-apoya_gobierno_aumento_salario-Luis_Videgaray_0_352764937.html or <http://www.informador.com.mx/economia/2014/542491/6/incremento-a-salario-minimo-aumentaria-inflacion-carstens.htm>.

⁴For further information see, Carstens and Werner (1999). "Mexico's Monetary Policy Framework under a Floating Exchange Rate Regime": <https://www.imf.org/external/pubs/ft/seminar/2000/targets/carstens.pdf>.

etary policies. Based on such objective the fiscal and monetary policies are designed, and it also *helps for the determination of the minimum wage*" (p.17, emphasis added).

4. CONCLUSION.

What can we conclude from this analysis? Although labor productivity and competitiveness should not be irrelevant in the evolution of the real minimum wage, for years their improvements have not been reflected in wage levels. In fact, an increasingly wider cleavage has opened between these concepts. In this regard, a substantial reform in the minimum wage policy is necessary, especially if Mexico is to comply with its constitutional stipulations to ensure a decent income standard, as well as transfer the benefits of labor productivity and competitiveness to its minimum wage workers. This transfer is far from automatic unless solid macro-economic and labor market policies apply specific measures to do so.

The outrage over the forgone opportunity to improve the economic situation of poor workers via a new policy for the minimum wage led to a national consensus that the minimum wage needs to be increased to its constitutionally mandated level. However, advances have been slow, and important political and technical hurdles remain. For years, the minimum wage in Mexico played a role as a reference point for other transactions including fines, financial operations, and even budgetary allocations for political parties. An essential initial administrative step in the right direction was to de-link the minimum wage from these multiple transactions outside the scope of the world of work. After nearly two years of discussions, by late November 2015 both legislative chambers in the Mexican Government finally approved a reform to end such practices, effectively de-linking the minimum wage from penalty payments. This was an important achievement; however, raising the minimum wage in a sustainable manner requires a more profound policy change.

In that sense, a concrete action to "Democratize Productivity" as expressed by the current Presidential administration could be to support a strategy such as the proposal for a "National Agreement for a Policy to Recover the Minimum Wage". Such a program would rapidly and significantly raise the minimum wage rate to cover the cost of the national basic food basket. Moreover, it would send the minimum wage on a path of sustained and responsible real recovery, with an aim to at least cover the enlarged food basket.

After all, the movement to improve the national minimum wage goes beyond a purely technical issue. It is a political economy issue that reflects the priority (or lack thereof) that society gives to the reduction of inequality. It touches upon the core of different perspectives that actors have on the factorial distribution of national income, its determinants, and its relationship with the pace of economic expansion.

Furthermore, the minimum wage is an important issue on the civil rights agenda of all Mexicans. The minimum wage is a powerful policy tool, that when set at



just levels and applied in a context of fair wages and appropriate labor market regulation, can make strides in reducing the acute levels of inequality that persist in Mexican society. Putting into place a roadmap to recover the minimum wage is still a wish rather than a reality in Mexico. Ultimately, improving the wellbeing of its citizens requires a commitment to a development strategy in which equality and economic growth are not seen as antagonistic or as sequential objectives. Unfortunately, this commitment has thus far been absent in the Government.

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