Will AMLO´s Minimum Wage Strategy Improve the Quality of Life of Mexican Households?

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Bachelor Thesis Submitted as Partial Fulfilment of the Requirements for the Degree of

B.Sc. International Management Double Degree at Reutlingen University, and

Lic. Administración de Negocios Internacionales at Universidad de las Américas Puebla.

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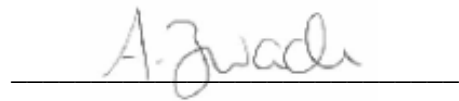
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San Andrés Cholula, Primavera 2020

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Acronyms and abbreviations

AMLO	-	Andres Manuel López Obrador
Art.	-	Artículo (Article)
Const.	-	Constitución (Constitution)
CONASAMI	-	Comisión Nacional de los Salarios Mínimos (National Minimum Wage Comission)
CONEVAL	-	Consejo Nacional de Evaluación de la Política de Desarrollo Social (*National Council for the Evaluation of Social Development Policy)*
FAO	-	Food and Agriculture Organizations of the United Nations
GDP	-	Gross Domestic Product
ILO	-	International Labour Organization
ILOSTAT	-	International Labour Organization Statistics
IMSS	-	Instituto Mexicano del Seguro Social (Mexican Institute for Social Security)
INEGI	-	Instituto Nacional de Estadística y Geografía (National Institute for Statistics and Geography)
LFT	-	Ley Federal del Trabajo (Federal Labor Law)
MXN	-	Mexican Pesos
NAFTA	-	North American Free Trade Agreement
OECD	-	Organization for Economic Cooperation and Development
UBI	-	Universal Basic Income
UBIs	-	Universal Basic Incomes
UMA	-	Unit of Measurement and Actualization
UNESCO	-	The United Nations Educational, Scientific and Cultural Organization
USA	-	United States of America
USD	-	United States Dollar
USMCA	-	The United States-Mexico-Canada Agreement
WWII	-	World War II

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1. Executive Summary

In Mexico, the minimum wage level has been so low as to become a national and international controversy. In December 2018, Andrés Manuel López Obrador (AMLO), a left-wing populist, took over presidency. During his campaigns he promised Mexico to increase the minimum wage, and even double it by 2024, with the goal to recover Mexicans' purchasing power and reduce poverty and inequality (Hernández Orozco, 2018). He has until now followed through with his promise and increased the minimum wage every year at higher rates than previous administrations (Hernández Orozco, 2018). The topic of a legal minimum wage has been strongly debated between its proponents and opponents, as to whether it causes a positive or negative effect in the economy and quality of life of citizens. This has also been the case within Mexico, which raises the question whether AMLO´s minimum wage proposal will indeed increase the quality of life of Mexican households. This thesis aims to answer this question through research done under a Systematic Review methodology, in order to limit bias and increase the reliability of the study. A literature review is followed, based on secondary sources obtained through the Snow-Ball method.

It is found in the literature review, that although there are plenty of arguments in favor and against of a minimum wage, the recent global trend has been to establish a minimum wage or to continue to increase its level (Belser, Xu, 2018). Mexico has also increased its minimum wage level continuously since its first establishment, but the increases have been rather low, and its purchasing power has decreased (Ojeda, Peralta, Hernández, 2008). This has been mainly due to the fact that limitation of the minimum wage became an instrument to maintain inflation levels low, and thus the economy stabilized, in order to combat previous public policy management failures (Ojeda, Peralta, Hernández, 2008). Since it was also linked to fines, pensions and other instruments not related to wages, it became more of a reference point than an actual minimum wage; since fines, for example, were measured in number of minimum wages. The 2016 Federal Labor Law reform broke this linkage and returned the minimum wage to serve its original purpose (Diario Oficial de la Federación, 2016). Regardless, it is still lower than real and living wages in Mexico, lower than the basic needs basket, and insufficient to sustain a family (Franco, 2018). Even though AMLO has set his goal to double the minimum wage by 2024, by then, it would still barely reach real and living wages. Real wages in the informal sector, which represent half of the Mexican economy

(INEGI, 2019), have also been identified to be far over the minimum wage level, and due to the nature of labor informality, it would not be relevant either way. Therefore, it is determined that increasing the minimum wage level, as proposed by AMLO, will not reduce poverty or improve the quality of life of Mexican households, since even his higher increase rates are not enough to actually make a difference in real wages. It is concluded that the minimum wage level in Mexico finds itself in a constant race to keep up with real and living wages. Therefore, other alternatives to reduce poverty, inequality, and increase quality of life should be explored, such as a Universal Basic Income, a new tax system, and a reevaluation of resource allocation.

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2. Introduction

The concept of minimum wage has been a controversial debate between economists and politicians ever since countries began legally establishing one at the end of the 19th century and beginning of 20th century (Starr, 1981). Nonetheless, the concept of a minimum wage has become a more frequent subject in politics and economics in recent decades. As the trend to increase the minimum wage, and to adjust it to realistic levels spreads (Belser & Xu, 2018), countries with very low minimum wages such as Mexico have been put under international scrutiny. Judgement over the low minimum wage has fallen upon Mexico not only from international organizations, but of neighboring governments, Mexican society, journalists, and fellow politicians as well. Even though Mexico kept increasing its minimum wage, arguments were made that the increases were still not sufficient and that it is time for a radical change (Animal Político, 2017). Judgement developed into pressure, such as that put-upon Mexico by USA President Donald Trump during the NAFTA renegotiations to increase wages (Frazee, 2018). Politicians began proposing drastic increases in the minimum wage if they win and started criticizing previous governments for not taking action before. At the same time, debates became more heated since other institutions and academics openly stated how increasing the minimum wage drastically would do more harm than good (Barba, 2014). Andrés Manuel Lopez Obrador made some big promises on reducing inequality, poverty, and to increase the minimum wage should he win.

Now that Andrés Manuel Lopez Obrador became president of Mexico in December 2018, the question arises whether he will be able to make good on his promise to change Mexico´s economy and reduce poverty and inequality. The objective of this thesis is to analyze whether AMLO´s proposal on the minimum wage increase will have an effect on the quality of life of Mexican households, and if so, whether the effect will be a positive or a negative one.

The topic of this thesis was selected due to a general interest in Mexico´s minimum wage situation. It is very interesting to observe how one of the most important economies in Latin America, has one of the lowest minimum wages, and how the inequality levels in the country remain as one of the highest in the world. The answer may be believed to be very simple, but when taking a closer look, Mexico is much more complex than one would expect.

The subject is important because of recent political trends in the world regarding minimum wage. More and more countries are adopting a legal minimum wage, and those that already count with one, are increasingly faced not with the question as to whether the minimum wage should be increased or not, but with the question of *how much* the minimum wage should be increased.

2.1.   Problem Statement

A minimum wage increase has always set foot to a lot of discussions and debates, the even existence of a legal minimum wage in a country can be controversial. Mexico is no exception, being subject to international scrutiny and controversy. Andres Manuel Lopez Obrador´s government has proposed to increase the minimum wage in percentages no other government before him has, leading way to new controversy as to whether the proposed increases are actually beneficial to Mexican households, and as to whether the increases will have a positive impact on Mexico´s poorest households. This thesis intends to analyze why the minimum wage in Mexico has remained so low and what the possible impacts of the increases as proposed by AMLO are; as well to identify whether it will help the country combat poverty or if the expected effect will actually be the opposite.

2.2.   Justification

Literature so far has focused on the historical impact of the minimum wage in Mexico, and the possible repercussions of an increase – or no increase – on households, society as a whole, the economy, and international trade. Due to the controversy surrounding a legal minimum wage, most literature is either in favor, against, or contrasts Mexico´s minimum wage development with recent international trends. This thesis focuses on the possible future impacts of the strategy of the government which recently came to power, and seeks to analyze the arguments of both sides of the minimum wage debate in order to find an objective answer as to whether the new government´s strategy is a correct, incorrect, or simply insufficient strategy to follow.

2.3.   General Objective

The general objective of this thesis is to perform an objective analysis of the literature and data researched so far, in order to achieve an unbiased conclusion, detached from all economic theories

and international tendencies regarding the minimum wage, focusing solely on Mexico´s situation, culturally as well as economically.

2.4.   Specific Objectives

The specific objectives of this thesis are to (1) determine the economic theories regarding a national minimum wage, as well as the international trends in recent decades, in order to compare them with Mexico´s historical trends and strategies, (2) determine which aspects of Mexico´s historical development of the minimum wage have played a role in its definition and level today, (3) identify AMLO´s minimum wage and economic proposals, and finally (4) to analyze AMLO´s administration´s strategies and counter these with the country´s past and current situation, as well as international trends and possible outcomes.

2.5.   Scope and Limitations

This thesis and its results are focused, and limited to, the case of Mexico. Due to the low law compliance levels, questionable accounting practices, and dishonest wage registrations in order to avoid taxes, data can vary greatly between sources. High informality levels within the country also account for discrepancies and unrealistic data. It is therefore that this thesis is limited to the results provided based on the data and literature analyzed. This thesis also does not take into consideration the difference between education levels in the country fully, which can vary greatly between different socio-economic levels, and can influence the wage level of workers in a great manner. It is also limited to the current status of Mexican households and the current government´s minimum wage and economic proposals. The results of this thesis should therefore not be interpreted to be valid in other countries, since the objective is to analyze the situation of Mexico, and the unique challenges Mexican society faces due to its complexity.

2.6.   Organization of the Study

The first section of this manuscript consists of a comprehensive literature review on minimum wage. The purpose of the first part of this section is to understand the concept and application of minimum wage on an international level, based not only, but mainly, on data provided by the ILO, which counts with 187 member countries and of which Mexico has been a member since 1931.

The section follows with a literature review of economic theories of minimum wage, with the objective of portraying the main economic perspectives on minimum wage, which have brought much debate on the subject. The section finalizes with an analysis of recent minimum wage trends on a global scale, to gain full context as to what has been custom and how this custom has been developing.

The second section is a literature review of the minimum wage in Mexico. To provide context to the reader, I begin with a Mexican background review through which Mexican society today can be understood on a deeper level. I then move on to portray the development of the Mexican minimum wage since its first incorporation into the Mexican Constitution of 1917, taking into account its legal history and development, its main economic phases, and how it has been applied in recent years. In addition, the final section states the economic proposals of the current president Andrés Manuel López Obrador, which consist of increases of the minimum wage and promises to reduce poverty, inequality, and to boost the Mexican economy by the end of his regime.

I finalize the literature review with the debate on increasing the minimum wage in Mexico. In this section, I contrast the different arguments in favor and against a minimum wage increase, including a former candidate´s proposal to establish a Universal Basic Income in Mexico.

I then move on to the Discussion section based on my research and comprehension of the subject, whether an increase of the Mexican minimum wage is feasible such as proposed by president AMLO, and whether his proposal will have an effect on Mexican households.

3. Methodology

3.1. Research Design and Method

There is a large amount of information for this study since the minimum wage has been scrutinized by many economists and policy makers. This has caused a significant increase on information regarding the minimum wage level in Mexico in the past decade.

The Campbell Collaboration (2020) defines a Systematic Review as *"an academic research paper, also called a report, that uses a method called ´evidence synthesis´ to look for answers to a pre-defined question"* (Campbell Collaboration, 2020, ¶1). It also states that the purpose of a Systematic Research is to sum up the best available research on a specific question, using transparent procedures to evaluate and synthesize the results and minimize bias (Campbell Collaboration, 2020). Cook, Mulrow, & Haynes (1997) share this definition in a publication over two decades earlier, and even mention four variables to take into consideration when formulating the research question: specific population and setting, condition of interest, exposure to a test or treatment, and one or more specific outcomes. They go on to mention the difference between a systematic review and a narrative review, explaining that the main difference lies in the method used and its reliability. A systematic review defines a specific method in which sources are selected or excluded and the research criteria to do so, in order to minimize bias, and address a particular subject or question in depth. Meanwhile, a narrative review does not specify clearly from the research question what will be studied and analyzed. They also mention how a narrative review may be most helpful to study a broad range of issues, helping to gain perspective on a topic or describing the history and development of an issue and its management (Cook, Mulrow, & Haynes, 1997). They state how the two methods can, and most of the times will, show vast differences in results, and how because of the differences within the methodologies, a systematic review is a more reliable method to answer a specific question. Gopalakrishnan & Ganeshkumar (2013) also mention how a systematic review provides reliable estimates on effects of interventions and can also demonstrate where or if a gap in literature or research can be found and can be used to propose or guide future research on a specific topic.

I therefore chose the systematic review as a method to conduct this study because of its reliability and limitation of bias. The research question follows Cook, Mulrow, & Haynes´s (1997) four variables:

Specific Outcome

Will AMLO´s minimum wage strategy improve the quality of life of Mexican households?

Exposure to Public Policy   Condition of Interest   Setting/Population
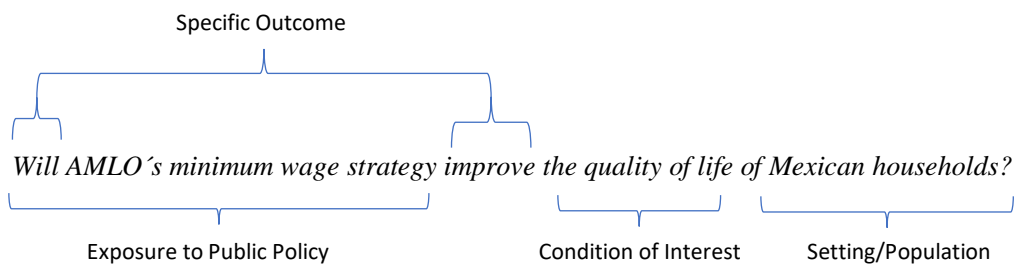
Own Elaboration (2020).

3.2.   Data collection process

The Universidad de las Americas Puebla library, the European School of Business – Reutlingen University library, and online searches using Google Scholar, ResearchGate, as well as personal book purchases were used to select resources. In addition, the internet was also used as a source due to its limitless access to publications in journals, newspapers, and government press conferences and data. The sources retrieved from the internet were written by professionals in their fields, published in reliable sites, or from reliable official newspapers. In some cases, journals, blogs, and public speakers were also quoted in order to contrast public opinion from the professionals´ points of view. Finally, the Snow-Ball method was also used, which consists on looking at a specific research paper´s sources and using them as additional resources (Wohlin, 2014), which Gopalakrishnan and Ganeshkumar (2013) mention to also be a valid way of obtaining resources. Gopalakrishnan and Ganeshkumar (2013) call it in their publication "inclusion of references retrieved from primary sources". Wohlin (2014) also states that before beginning to snow-ball a specific primary source, it is important to select whether the source counts with enough validity and reliability in order to be snow-balled. If the source is selected as valid and reliable enough, through the criteria of selection, to be snow-balled, the outcoming sources of this process should also be put into scrutiny under the criteria of selection, thus repeating the process (Wohlin, 2014). Wohlin (2014) also mentions how the same method can be used to identify the origin of a

newspaper article and thus to identify whether it can be considered a reliable source or not. Since in this thesis, newspapers, journals, blogs, and public speakers were also quoted in order to contrast public opinion with professionals´ point of view, or specific government responses to social uproar, Wohlin´s (2014) additional identified objective of the Snow-Ball method was used to detect the origins of these types of publications.

Descriptive search terms including *minimum wage, real minimum wage, living wage, legal minimum wage in Mexico, minimum wage increase in Mexico, minimum wage earners in Mexico, minimum wage history, minimum wage history in Mexico, purchasing power of Mexican minimum wage earners, living wages in Mexico, economic theories on a legal minimum wage, minimum wage earners in Mexico, Mexican public policies, minimum wage trends, Mexican economy, Mexican economy throughout history*, were used to find and retrieve research from libraries, online databases, and the internet. Public accountants and labor law lawyers from professional Law and Consultation firms were also consulted in order to shed light into possible resources and additional necessary research.

3.3.   Scope of Sources

Although the Campbell Collaboration (2020) states how their systematic reviews are generally of an international scope, this study does not only count with a single general international scope, but with the three following:

First, the sources consulted, and research made was based on a global and general scope in order to gain knowledge about what has been researched and written on the minimum wage in general. It was important to begin the research on a global and general scale in order to understand minimum wage economic theories, critiques, developments worldwide, and recent trends. In addition, it helped to identify how the situation in Mexico is seen at an international level and professional opinions on the matter.

Second, having gained knowledge on the subject on a general, worldwide scope, I moved on to narrow the scope of the research and sources to Mexico specifically. This second phase was the

largest and deepest part of the research, since it is important to understand the situation of the country at a deeper level in order to be able to do a correct analysis of the data, based on the different factors that play a role in Mexico specifically. This has the objective to eliminate arguments and studies, which may be valid and reliable in some countries but not in Mexico, due to the differences in history, politics, and socio-economic factors.

Finally, the scope of sources was broadened again in order to compare the data obtained of Mexico with that of similar countries. As mentioned in the paragraph above, since many factors exist which play a role on the minimum wage and quality of life of the poorest, it was important to select countries of comparison which are as similar to Mexico as possible. Since Mexico is a member state of the OECD, an organization with the purpose of improving economic development and finding solutions for common problems, I selected the country most similar to Mexico which is also a member State of the OECD, Turkey. Then, I followed to select a Latin American country, which also counts with a colonization background such as Mexico, which is in the process of entering the OECD, which would be Colombia. As a third variable of comparison, I chose to select the OECD averages in order to identify whether Mexico is within the average, above, or below. Chile is a Latin American country member of the OECD, but it was not selected as a country of comparison due to the difference in size, dimension and economic development. Costa Rica is another Latin American country that as Colombia, is in the process of becoming a member of the OECD. Costa Rica was also not selected as a country of comparison due to the vast difference in size, population and GDP. A similar country to Mexico would be Brazil, which is also in the process of accession to OECD, although I still believed Colombia would be a better comparison, since it is closer to becoming an OECD member State than Brazil.

Global and
general scope

Focus on Mexico

Focus on Mexico
and countries of
comparison
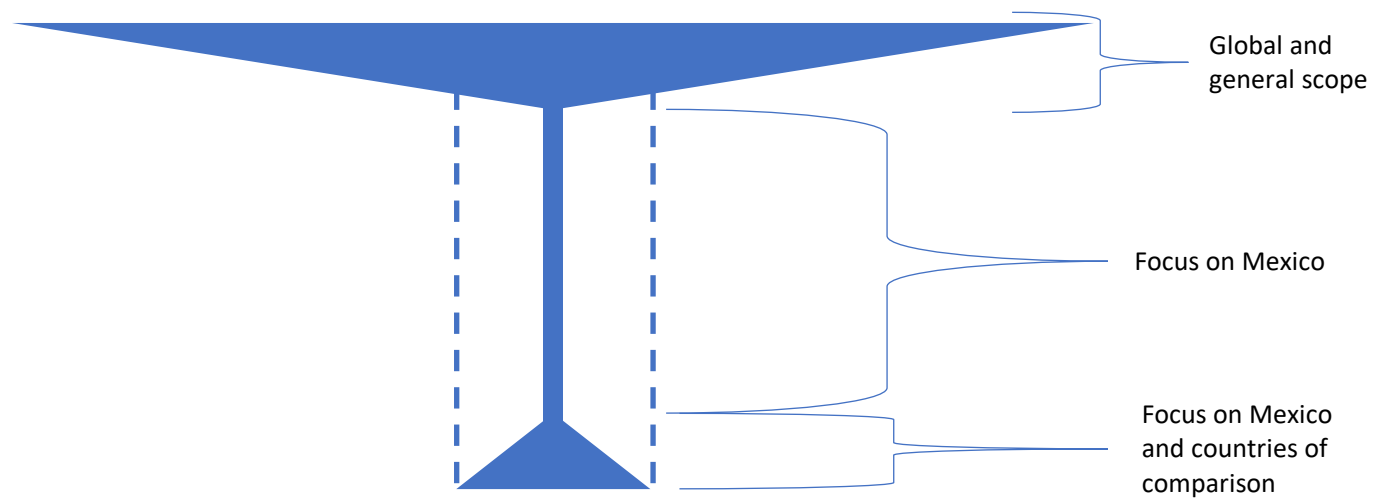
Own Elaboration (2020).

3.4.   Evaluation and Selection of Sources

The relevance and credibility of all sources were considered in this literature review. As Gopalakrishnan and Ganeshkumar (2013) state, it is necessary to establish a standard form of assessment in order to select the sources which align best to the study, whilst limiting bias. Therefore, I selected the following questions as a standard source evaluation criteria: a) does the source align with my research question?, b) what are the credentials and the professional background of the source´s author or authors?, c) how valid is the data the author used?, d) what are my source´s sources?, and e) how current is the source? The majority of references were within the last five years, although some sources from the last 50 years were used in order to include historical development of data and concepts which to this day continue to have an impact on Mexican society, policy making and the minimum wage level.

First, descriptive search terms were used to find potential sources within one of the previously mentioned scopes. As stated before, the research process was conducted three times with the three different scopes under the following order: 1. Global and general scope, 2. Focus on Mexico, and finally, 3. Focus on Mexico and the selected countries of comparison. Then, the potential sources were scrutinized with the questions selected as evaluation criteria. If the potential source did not align satisfactorily with the selection criteria, the source was excluded. If, on another hand, the

source did align with the evaluation criteria, the source was selected. The selected sources where then snow-balled, and the references of the selected sources were once again scrutinized under the selection criteria, following again a selection/exclusion decision.

Figure 3: Research Process and Source Selection
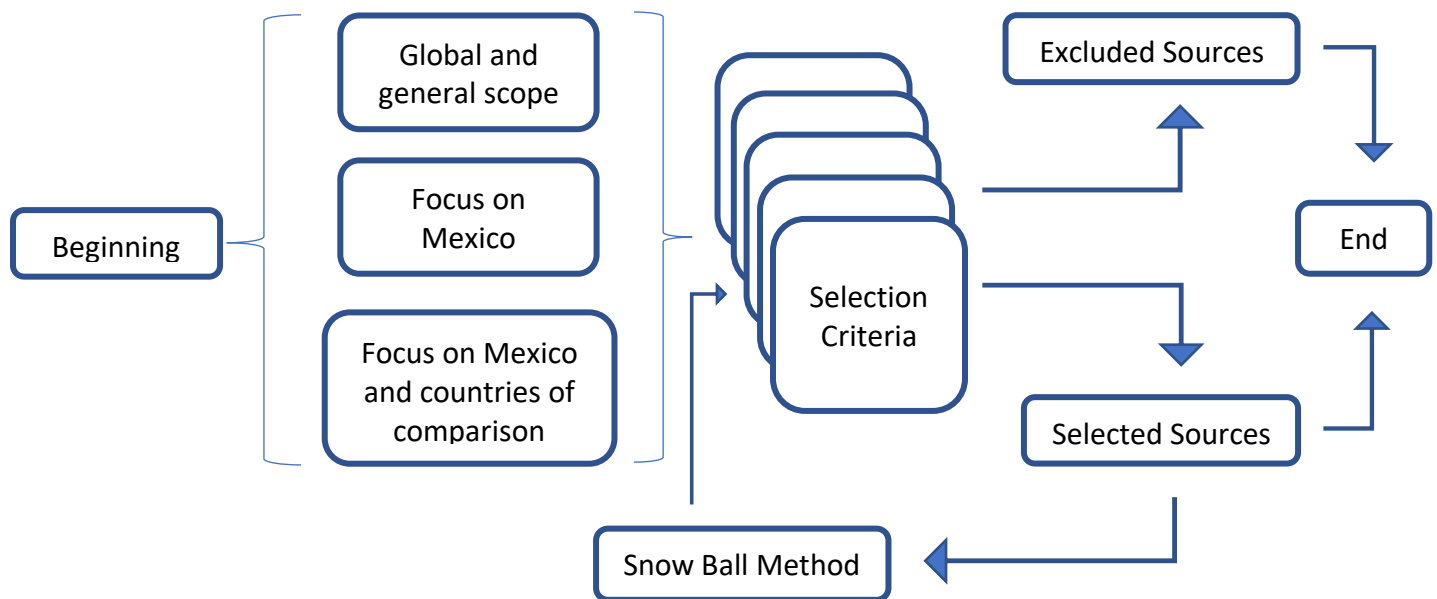
Own Elaboration (2020).

3.5.   Specific Issues During Research and How They Were Approached

Whilst conducting the research, three major issues emerged: bias information, popular belief disguised as facts, and discrepancies in data. The way these issues were approached was the following:

Bias information – Whilst conducting the research, it became evident that some information and publications were bias, mainly due to the war between Mexican political parties. Some newspapers and government publications published information disregarding previous administrations and justifying their party of preference´s approach to major issues in society, such as poverty and inequality in the country. They also many times fail to publish the full picture and choose to only publish positive facts or effects of their party of preference´s public policies and sometimes even

exaggerate the dimension of the positive effects or publish expectations as though they were already becoming a reality. The way this specific issue was approached, was by doing additional research on opposing parties´ opinions and trying in the best way possible to disregard sources which evidently published articles as part of a political war and had done no research or did not publish reliable sources.

Popular belief disguised as facts – We live nowadays in a digital world in which it is very easy to publish unfounded and false information. Because this is so easy, there has been a significant increase in recent decades on fake news and publications without sources. People are also able to publish their personal opinions on a matter and these may become "viral". Sadly, some newspapers choose to republish this as soon as possible, in order to "be first", instead of fact-checking beforehand. When this happens, unfortunately, other newspapers follow to publish the information as well. This creates an avalanche of publications stating the same information and facts that do not count with reliable sources, but only mention how other newspapers published the information as well. The avalanche effect then goes further, with authors mentioning the information published in this way, as sources in their researches and official publications. The same happens with popular beliefs. Some bloggers publish their beliefs about a specific matter, their arguments in favor or against, and their opinion, as to whether a specific public policy will be effective or not. When this is published on an online blog, the same process takes place with newspapers. A lot of news articles can be found which, when traced back, the true original source of the information published is a blog with no reliable analysis, based neither in research nor in facts, and which more often than not, fail to publish a single source. In addition, the information was not only republished by newspapers, but it was also spread through social media by other readers, creating a general popular belief that the data is indeed fact. These people then followed to further spread the information as fact throughout social media, reaching a level of exposure in which the information was ironically again published by blogs and newspapers, creating a vicious cycle.

There were two steps in which this issue was approached. The first step was to identify which publications were popular beliefs disguised as facts, and these were identified through the Snowball Effect. This means, the sources of the sources were checked, and the sources of those sources, were checked again, becoming a spiral of sources until one reaches source 0. If source 0

was a blog with no mentioned sources, or unreliable sources, the data was labeled as popular beliefs disguised as facts. The second step was to analyze and observe how many publications were made with this information. If there was an extraordinary amount of publications found with the same unfounded facts in newspapers and blogs, the information and publications were not only catalogued as popular beliefs disguised as facts, but were also selected to be mentioned in this research as what some Mexicans believe to be facts or reality, due to the scope of the publications and exponential reach, and thus, the extent of their contribution to the Mexican common citizen´s general knowledge and awareness of the subject at hand. It was relevant and important to select and mention Mexican general public beliefs in this research, in order to compare and contrast this with AMLO´s administration´s public policy initiatives, objectives, and their potential reach. If these popular beliefs align with AMLO´s administration´s public policy initiatives, it could lead to a general belief that the quality of life of Mexican households will indeed increase. At the same time, should these not align with each other, other unfounded publications could be made with the argument that poverty and inequality in Mexico are not improving. This last argument does not only contribute to the vicious cycle which creates the necessity to once again prove whether the information published is based on facts and reliable research, but it can also influence an administration's approach and selection of public policy initiatives in order to gain popular approval.

Discrepancies in Data - A particular issue that emerged during research was the discrepancies found in the data between international, national, and most shockingly, between government sources as well. This issue was particularly challenging, since it was difficult to identify which is the most reliable source. The way this issue was approached was by putting sources, even governmental ones, under scrutiny and by analyzing the variables taken into consideration by the organizations while conducting the study. For instance, it was analyzed if organizations considered whether a worker was only registered as a minimum wage earner in order for its employer to save taxes or whether the minimum wage worker had a second or a third job. In addition, it was also analyzed whether the governmental source published data based only on the formal sector, or if they took into consideration the informal sector as well. After this process, the sources selected as most reliable were the CONASAMI (National Minimum Wage Commission) and the INEGI (National Institute of Statistic and Geography).

3.6. Excluded Methods

Due to the nature of the research question, the reader may ask himself why a qualitative research with deep interviews or focus groups was not used as a research method. At the beginning of the process of conducting the study, I considered, and had chosen, to do a qualitative research based on deep interviews with entrepreneurs, Human Resources managers of different industries, accountants, lawyers and workers earning the minimum wage. This approach was quickly disregarded, since due to the low compliance and high corruption levels in the country, it became difficult to find businesspeople and workers willing to summit themselves to an interview. Those who were open to being interviewed asked to remain completely anonymous, since most follow unwanted and, most of the times, even illegal accounting practices. Having only been allowed to realize interviews in which all interviewed individuals remained completely anonymous would have reduced the reader´s reliability on the research significantly. It is because of this, that a qualitative research method was disregarded, and a systematic literature review based on secondary sources was found to be a better suit to conduct a more reliable study.

4. Literature Review

4.1. The minimum wage in general

According to the International Labour Organization, a minimum wage has been defined as *"the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a giving period, which cannot be reduced by collective agreement or an individual contract"* (International Labour Organization, 1996-2020, ¶1). The organization also states that the purpose of setting a legal minimum wage is to ensure that workers are receiving a fair remuneration for their work by setting a "floor". It protects vulnerable workers, such as women, young workers and migrants, against discrimination and inequality. One must note that the effects of a minimum wage are influenced by many different factors, which vary in each country, region, and industry.

4.1.1. History

The first countries to establish a minimum wage were New Zealand in 1894 and Australia in 1896 (Starr, 1981). The minimum wages were to protect the most vulnerable workers in these countries from exploitation. Although many countries mention a "fair" or minimum wage set by State in their constitution, the true expansion of a legal minimum wage world-wide began after WWII and through the independence of several colonized countries such as India and Pakistan (Starr, 1981). From the 1990´s forward, countries started to further establish or strengthen their minimum wage policies with the purpose to combat poverty, inflation, and inequality, rather than to solely protect vulnerable workers, (International Labour Organization, 1996-2020). In September of 2015, ILO counted with 186-member States, of which 92% counted with a minimum wage applied fully, or partly, to the private sector. The regions with the most States that do not count with a minimum wage are Africa and the Arab States (Adema, Giesing, Schönauer, & Stitteneder, 2019).

4.1.2. Setting and adjusting a minimum wage level

The most challenging aspect of incorporating a legal minimum wage is its level. The International Labour Organization mentions how a balanced and evidence-based approach is necessary. This approach takes into consideration the needs of workers and their families, as well as the economic factors. Its purpose is to find a balance in which the level of the minimum wage is not too low to protect workers and their families from poverty and unfair remuneration, but not too high to have negative effects on employment. Just as its name mentions, an evidence-based approach should also take historical data and statistics into consideration, i.e. evidence, when setting and adjusting a minimum wage level.

Needs of workers and their families

Assessing needs

Measuring the exact needs of workers and their families can be very difficult, since there are all too many different factors to take into consideration, as well as personal situations that may vary across regions and individuals. For example, it is important to remember that the social and economic development of a certain country must be taken into consideration when analyzing the needs of workers, such as it is important to remember that the size of an individual´s family can have great impact on whether a specific minimum wage level is sufficient to meet their needs or not. Whether a spouse is working or not, the amount of family members earning minimum wage, and the development in the local cost of living, can all mark great differences regarding the sufficiency of the minimum wage. The lack of a universal concept of "needs" has sparked heated discussions and created a strong demand for a more specific definition. Should purely basic needs, or higher needs be taken into consideration? What can be counted as basic needs? What are higher needs? When does a need become a luxury, and therefore, should it not be considered into the minimum wage determination? The International Labour Organization (1996-2020) mentions three elements that can be used as guidelines to measure and define the needs of an individual:

Income Benchmarks

Poverty lines can be seen as benchmarks and guidelines into what are the minimum needs and the international poverty lines for example, are used to compare countries with each other. There are different approaches as how to measure poverty. For instance, the World Bank measures poverty by Purchasing Power Parity in dollars per day, whereas the Food and Agriculture Organizations of the United Nations (FAO), measures poverty by food security. Regarding the minimum wage, observing the national poverty line of a said country can be a more resourceful reference, since the country´s specific condition, and the social and economic development are taken into consideration. Nonetheless, one must remember that there can exist some discrepancies between the Law and the Organs responsible for analyzing and calculating the national poverty line. Therefore, there should be more aspects taken into consideration, such as calculating the basic needs basket for low-income workers, which should also be done after certain periods of time. International and national poverty lines focus on absolute poverty, which takes place when an income is insufficient to meet the basic needs of life, such as food, medicine or clothing. Developed economies however, count with a third poverty line: the relative poverty threshold. Relative poverty is described by the UNESCO as a way to *"define poverty in relation to the economic status of other members of the society"*. It can serve as an indicator for the percentage of society that has been "left behind" in an economy.

Household size

Household size can differ greatly across regions, ages, and demographics. Therefore, the ILO (2014) mentions three possible options of measurement: 1. National household size average, 2. Two adults and two minors, and 3. Average household size of low-income households, which, statistically, tend to be larger than those of high-income households. Regardless of the option selected for measurement, it is important to consider that a family of four does not equal the needs of an individual times four, but that the needs must also be adjusted to those of children. For instance, children tend to consume less calories, but tend to have higher needs for medical services and clothing.

Labor force participation

In the paragraph above we mentioned how households can vary in size, but: for how many people must one single minimum wage be sufficient? At the beginning of the twentieth century, the labor force participation in western countries was mainly men, which meant a single minimum wage had to be sufficient to provide for an entire household. Today, with the evolution of social standards and women´s rights, female labor force participation has increased significantly, for example, within the OECD, the female labor force participation rate in 2018 was at 52% (ILOSTAT, 2019 as cited in The World Bank, 2019). In Latin America specifically, gender gaps still remain but they can vary across regions. In Mexico´s particular case, the female labor force participation in the year 2017 was at 44% in women over 15 years old (ILOSTAT, 2019 as cited in The World Bank, 2019). This means the chances of there being more than one "bread-winner" per household are significantly higher nowadays than fifty years ago. As well as the increasing trend in Latin America within younger generations to move out of home in later years, meaning not only two possible minimum wage incomes per household, but probably three or more. Simultaneously, there has been an increase over the last few decades of mono-parental households, which reduce the "bread-winner´s" role to just one individual yet again.

Another factor to consider in the labor force participation is the fact that not all workers earn the same amount, since not all workers work for the same amount of hours. A part-time worker cannot be considered as a second income but must be adjusted to represent the total of full-time incomes, in the case of a part-time worker this would be 0.5 wages. In a household with a full-time worker and a part-time worker, instead of being 2 wages, there is only 1.5 wages. There are many different possible scenarios within households and new family dynamics which can influence the level at which a minimum wage must be set.

Adjusting for increases in prices

When adjusting a minimum wage by taking into consideration the needs of the workers and their families, it is important to consider the increase of cost of living and prices in general. Inflation is responsible for eroding the "real value" of minimum wages over time. The Consumer Price Index is a helpful tool to track the developments in prices for a basket of goods and services. Due to

inflation, the price of the basket of goods and services may increase, reducing the real value of the minimum wage. The higher inflation is in an economy, the stronger the real minimum wages lose their value.

4.1.3. Economic factors

The International Labour Organization Convention No.131 states that the economic factors to take into consideration when setting or adjusting a minimum wage include *"the requirement of economic development, levels of productivity, and the desirability of attaining and maintaining a high level of employment"* (International Labour Organization, 1996-2017, Art.3, (b)).

Labor productivity

Labor productivity levels are often used as a reference by policy makers when adjusting a minimum wage. Labor productivity is defined as *"the rate of output per worker (or group of workers) per unit of time"* (Business Dictionary, 2019), in other words, labor productivity shows the market value of what is produced by a worker in a certain period of time. Therefore, if labor productivity increases, which means market value output per worker increases, workers should get a higher remuneration in order to participate in the profits of growth (ILO, 2019). Nonetheless, it is also important to observe the rate at which productivity is growing and whether companies can bear the higher labor costs or not.

Amount of workers affected

When introducing or increasing a minimum wage level, it is important to consider the amount of workers that will be affected by it. For instance, increasing the minimum wage level too high will likely affect a larger amount of workers. This will have a much larger impact on the total labor costs for employers, which can trigger inflation or reduction of employment. Not to mention, that in developing countries, where informality is highly present, the risk for non-compliance of the legal minimum will rise. In countries where the minimum wage is set far below the wage average, there will have to be a more significant increase for workers to actually benefit from the adjustment.

4.1.4. By whom should a legal minimum wage be set?

In most cases, the State has or creates a National Wage Commission, which has the responsibility to establish the legal minimum wage level and assess when and how it should be adjusted. An argument of opponents of the legal minimum wage is that when the State interferes, it can also trigger non-compliance, since some businesses will not be able to afford the increase in labor costs. It can also backfire when settled too high, since companies will have to compensate the increase in labor costs with a higher consumer price. It is therefore recommendable for the settlement of a legal minimum wage level, and system, not to rely solely on the hands of the government or a National Wage Commission, but also on representatives of the involved parties. A tri-party approach in which interests and arguments of State, employers and employees are taken into consideration is considered best (Belser & Xu, 2018). This approach can be somewhat challenging, seeing that the opinions of each party can largely differ from each other. Nonetheless, finding a common ground between all three parties can lead to higher levels of compliance and satisfaction with the outcome. As the International Labour Organization (2019) states, it is important to find a balance in which all parties benefit, which can best be achieved when considering experts´ opinions during negotiations.

4.1.5. How many minimum wages should a country have?

In the case of larger and decentralized countries, there has been seen to be several minimum wages, depending on the industry and specially the region. Mexico can be seen as a perfect example of a country in which the northern region, frontier to the United States, counts with a higher minimum wage level than the rest of the country. It was also not until recently that Mexico counted with more than two minimum wage levels, due to the differences in economic development and employment across regions. Both Mexico and Costa Rica have actively reduced the amount of minimum wages. Even though having different rates can be beneficial, seeing as it takes into consideration development and poverty levels that may vary across states, having too many different minimum wages can create confusion within applicability and raise non-compliance levels. Workers may also be more motivated to migrate within a nation to states with higher

minimum wages, creating a surplus of labor supply in a richer region and throwing the system off-balance.

4.1.6. Frequency of minimum wage adjustments

Although setting and adjusting a minimum wage level can be very complicated due to the numerous factors that need to be taken into consideration, it is still of high importance for an economy that minimum wages are adjusted regularly. Regular adjustments can help fight loss of real value due to inflation. If the minimum wage is not adjusted regularly, a strong erosion due to inflation can result in higher inequality and poverty. It is also necessary to monitor each adjustment closely since its effects cannot be predicted entirely and/or can differ from expectations due to the many different factors that play a role. These arguments are supported by general minimum wage theory and the International Labour Organization, which follow the balanced-based and evidence-based approaches.

Belser and Xu (2018) also agree with these arguments and approaches but mention a further argument. They mention how oftentimes the minimum wage level present is too low to be increased in such a fast matter to a level which satisfies the needs of households fully. It is therefore necessary to create mid-term reforms to support these households and progressively eliminate the gap between the needs and the minimum wage level.

4.1.7. Who has the right to a minimum wage?

The minimum wage by definition, seeks to protect all *employees,* so a fair remuneration is given for their labor. Technically, all employees have a right to a minimum wage, although the question may arise as to who is an employee? The Cambridge Dictionary (2019) defines an employee as *"someone who is paid to work for someone else".* Although the main definition of employee is common knowledge, there is still not an international legal definition of an employee, for which definitions and requirements for an employment relationship can vary across countries. Because of this, the ILO Employment Relationship Recommendation (No. 198, 2006) has suggested non-

legal indicators by which countries can orientate their laws regarding the existence of an employment relationship. These indicators are the following:

- The work is carried out under instructions and control of another party.
- The work is performed for the benefit of another person.
- The work must be performed personally by the worker.
- It is continuous, with specific work hours and/or a workplace.
- There is periodic remuneration from the person soliciting the work towards the worker.
- The remuneration given is the main source of income of the worker.
- There is a recognition of entitlements such as weekly rest and vacations.

These indicators can help identify where an employment relationship exists and, should that be the case, then the employee has a right to a minimum wage. Although one must note that the minimum wage seeks to protect the workers who are most vulnerable and prone to be underpaid, which are mostly women and minorities. Domestic workers, casual workers, and home-based workers are even more vulnerable groups, and in most cases, these are precisely the groups that do not count with enough government protection for their labor, since they are mostly informal workers. In countries with high informality levels, achieving compliance for these workers can be particularly challenging.

4.1.8. How to increase compliance

High non-compliance levels are mostly present in rural areas and especially in informal sectors. Increasing compliance levels can be especially challenging in countries with large informal sectors. Belser and Xu (2018) mention how awareness campaigns, enforcement strategies, and empowering of workers to seek their rights can help increase compliance levels. Empowerment of workers is especially important; taking a country with a large informality sector as an example, when a legal minimum wage is established, but only a third of the workers demand their rightful wage, employers will seek the other two-thirds that are either unaware of their rights to a higher wage, or out of necessity have to accept lower remuneration. When most of the informal workers are empowered to demand their rightful wage, employers will have to pay the demanded wage,

since labor at lower cost will be much harder to find. The higher number of workers that demand their rightful wage, the higher the chances will be for a wage floor to be set according to the legal minimum wage; hence compliance levels will rise. Compliance is important, seeing as without it, a legal minimum wage will not have the desired impact upon the lower earning sector of the economy.

4.2. Economic theories

4.2.1. The classic labor market model and arguments against a minimum wage

Milton Friedman, considered to be one of the most influential economists of the twentieth century and winner of the Nobel Memorial Prize for Economics, was one of the economists that openly defended a Supply and Demand Model approach regarding minimum wage. From his point of view, a legal minimum wage does more harm to the economy and low-skilled workers than good. He also made the following statement in response to former American President Barack Obama´s proposal to raise the legal minimum wage in the United States:

"The do-gooders believe that by passing a law saying that nobody shall get less than $9 per hour, or whatever the minimum wage is, you are helping poor people who need the money. You are doing nothing of the kind. What you are doing is to assure, that people whose skills, are not sufficient to justify that kind of a wage will be unemployed." (as quoted by Perry, Mark J., American Enterprise Institute, 2013, ¶2)

Many economists supporting the free-market approach, such as Milton Friedman, argue that the labor market is exactly that: a market and is, and should, be therefore solely ruled by one of the most fundamental principles of microeconomics: the concept of Supply and Demand. Figure 4 illustrates how the law of Demand states that consumers will be more willing to purchase more of a certain commodity at lower price levels, representing therefore a downward curve. The Supply curve on the other hand, goes upward, stating the willingness of producers to supply more of a commodity the higher the price in the market. The intersection between both curves set a market equilibrium, which establishes the price and quantity in a market that will be bought and sold, such as illustrated in Figure 5.
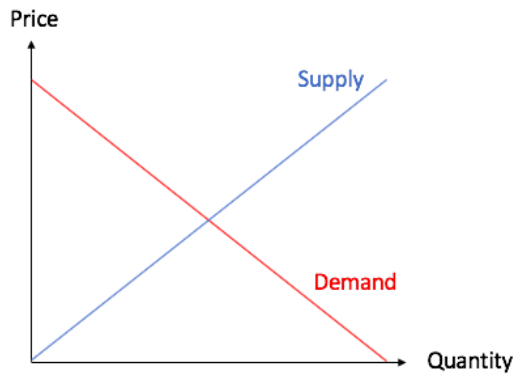
Own Elaboration (2019) based on Principles of Economics, BC Campus OpenED (2019).
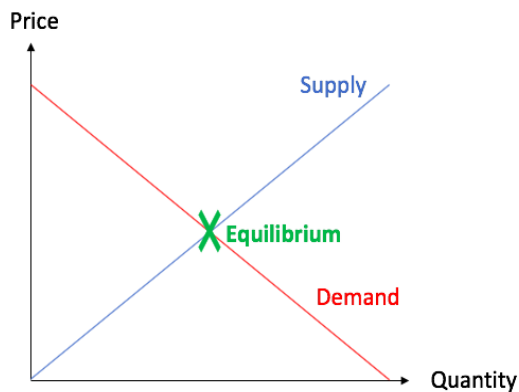
Own Elaboration (2019) based on Principles of Economics, BC Campus OpenED (2019).

This model can be applied to the labor market with the same principles. The demand for labor and the supply of said labor set a natural equilibrium of price for a specific work. It is due to this fundamental principle of economics that some economists argue that government or organizational intervention with the natural equilibrium of the price can set the market off balance. When focusing primarily on the model itself, one can observe how setting the price for labor above the natural equilibrium point of the market can translate to an increase in the supply of labor, not to mention that at higher wages, companies will not want to hire as many employees and demand will be reduced. On another point, when setting the price underneath the natural equilibrium of the labor market, one can observe a decrease in supply, meanwhile companies will probably want and will be able to hire more employees at lower wages creating an increase in demand. Take engineers as an example; let us imagine the natural price for labor of an engineer is at $20,000. If the price is

set higher at, for example, $25,000, more people will want to become engineers, for which the supply for this labor will increase. Should the price be set at a lower level than the natural equilibrium, lesser people will want to become engineers, creating a decrease in supply and, naturally, a higher demand from companies for engineers, since engineers are still needed by companies (Greenlaw & Shapiro, 2018).

It is also an argument that intervening with the natural equilibrium of price in a labor market will not be sustainable in the long-run, since incentives and the market itself will continue to push the price towards the natural equilibrium. For instance, when the price is set above the natural equilibrium and a surplus takes place, there will be 50 engineers looking for a job, but companies will only need to hire 35 of them. This will give companies the leverage to reduce the wages, pushing the price back towards the natural equilibrium (Greenlaw & Shapiro, 2018).When the price is set underneath the natural equilibrium, there will be lesser engineers, say 20, but companies will still need 35 engineers. Companies will therefore see themselves forced to create incentives to attract labor, in which they will offer higher wages, therefore pushing the price once again towards its natural equilibrium (Greenlaw & Shapiro, 2018).

These previous examples are based on a price adjustment which can be readjusted depending on the situation and development of the market. In the case of the legal minimum wage, companies and workers are bound by law to comply with the price adjustments. In this case, setting a price above the natural equilibrium, in a situation which creates an increase in supply and a decrease in the willingness of companies to hire employees at said price, will result in a surplus of supply, which translates to unemployment. In countries with higher informality rates, it can also trigger a higher non-compliance with the legal requirements in the informal sectors.

Spokesmen of this approach also mention the risk that companies may become uncompetitive. Setting a labor price above the natural equilibrium and thus raising labor costs for employers can cause smaller firms to go out of business, since they cannot afford employees anymore (Pettinger, 2017). Pettinger (2017) adds that they become uncompetitive in regard to companies operating in lower paid regions. He also mentions how in order to maintain their competitiveness, companies will me more likely to move their operations to lower wage countries, removing more employers

from the market. In the case that a company is not as harshly affected by the increase in labor costs, it will still most probably have to pass this increase in costs onto the end consumers, creating a cost-push inflation (Pettinger, 2017).

4.2.2. Criticism of the supply and demand model and arguments in favor of a minimum wage

David Card and Alan Krueger, both professors in economics, have challenged the classic Labor Market Model by making a study in the United States. Their findings and other arguments in favor of a minimum wage were published in 1995 in their book "Myth and Measurement: The New Economics of Minimum Wage". This book received a lot of praise but also a lot of criticism and mixed opinions from other economists, since their theories and observations challenge and disprove the so-far solid economic theory that a legal minimum wage disrupts the market equilibrium of Supply and Demand, causing more economic damage than good in the long-term. Their observations are based on studies made in the fast-food industry in different states within the United States. Card and Krueger (1995) stated in the book that classic economists do make valid points regarding the labor market and minimum wage. They mention how their findings are mainly for moderate increases of a minimum wage and cannot be transferred to great increases in minimum wages, since a high bump will show other findings. Almost twenty years later, Krueger mentions in an interview for VOX CEPR, that the classic Labor Market Model should not be written off completely, but rather reexamined and modified in order to represent the labor market in a more realistic way. Spikes in wage distribution at the minimum wage, and companies' power over wages as possible additions to the classical model (VOX CEPR Policy Portal, 2016).

One of their arguments in favor of a minimum wage is the erosion of worker bargaining power throughout recent decades. The classic Labor Market Model does not take into consideration that, in the real world, employees are strongly dependent on their salaries in order to cover for their living expenses and those of their family members (VOX CEPR Policy Portal, 2016). Employees, especially low-wage earners, are bound to accept the wage offered to them by a company due to necessity. Low-wage earners cannot afford to deny a company´s offer, especially when finding a job proves itself to be hard enough already. Not to mention the fact that companies are aware that

if a potential employee declines an offer due to under-pay, they will not be affected since there are many other workers willing to take the first one´s place for that same low-wage offer. This is especially true with monopsonic companies, which are the only buyers of labor in a said market, and therefore count with the bargaining power to set wages as low – or high – as they wish (Fernández-Villaverde, 2018). Government intervention in the labor market through minimum wage policies can help redistribute bargaining power throughout parties, assuring that even though companies count with a significantly higher bargaining power, they cannot make a wage offer lower than the regulated minimum (Fernández-Villaverde, 2018).

Another main argument in favor of a minimum wage is the fact that setting a price floor can reduce poverty. This argument contradicts directly the main argument of the basic Labor Market Model in which economists state that setting and/or increasing a minimum wage will translate into unemployment, which increases poverty. Card and Krueger´s (1995) study in the fast food industry in the United States, showed evidence that a raise in minimum wage did not translate into higher unemployment, but employment grew in the States with an increase in minimum wage as much as it did in the States without a minimum wage increase.

Charles Lenchner (2015) wrote a report for the Alliance for a Just Society stating that the American Federal Minimum Wage was not enough to meet basic necessities, and that an American worker would have to work *"93 hours a week in order to make ends meet"* or *"would have to skip necessities like meals or medicine"* (Lenchner, 2015). Many pro-minimum wage minds not only support the establishment of a minimum wage in order to protect low-skilled workers, but also support higher minimum wages to battle issues such as poverty, high welfare spending of governments, and elevated high-school drop-out rates (Bhatia, 2014). They argue that having a guarantee that all legal formal jobs offer a fair and living wage, will not only pull a fraction of society out of poverty, but that the increase in household income will actually support households to be capable of affording goods with their wages. This in turn, will translate into fewer households being eligible for welfare, which will reduce national welfare spending (Pacitti, 2015). The higher income can also reduce the amount of youngsters that see themselves in the necessity of dropping out of school in order to contribute to their household´s income to make ends meet (Pacitti, 2015).

A decent wage with which households can afford essential goods can also have health benefits for society. With a guaranteed living wage, households will be more likely to afford balanced foods and therefore prevent health complications and premature deaths (Bhatia, 2014). Edward Ehlinger, State Health Commissioner for Minnesota even stated *"If you look at the conditions that impact health, income is right at the top of the list. Anything we can do to help enhance economic stability will have a huge public health benefit"* (Edward Ehlinger as quoted by Krisberg, 2015, ¶6). Improvements in health of the low-skilled workers can benefit the economy by reducing public spending. We here now return to how low-skilled workers are the main benefactors of welfare programs and government-funded health programs. An improvement in health and preventing chronic diseases can reduce government spending dramatically in this sector (Bhatia, 2014).

Pro minimum wage minds also see benefits for companies. The guarantee of a decent living wage can help reduce employee turnover, *"As the minimum wage rises and work becomes more attractive, labor turnover rates and absenteeism tend to decline"* (Manning, 2014). Low-skilled workers and youngsters will be more motivated to stay at a certain job if they are guaranteed a decent living wage. The decent wage can also serve as an incentive to work in a better manner, trying their best to maintain their job, or maybe even acquire a promotion or a raise (Manning, 2014).

4.2.3. Recent trends

The minimum wage has been a controversial subject since its first implementation, but in recent decades, it is becoming a more present topic in political debates and policy making. Since the 1990´s, developed and developing countries have either introduced a legal minimum wage or strengthened existing systems. The United Kingdom introduced a minimum wage in 1999 and has stated its goal to increase it to the level of a living wage by the year 2020 (Policy in Focus, Vol. 15, Issue No.2, 2018). Numerous European countries followed, including Germany in 2015. Germany´s implementation of a national minimum wage was significant, since Germany has previously relied on collective agreements instead of intervention by the State (Minimum Wage: Global Challenges and Perspectives, 2018). Latin American countries have also increased their minimum wages and countries such as Russia, China, and South Africa have adopted new policies

in order to strengthen their system. In South East Asia, Cambodia, Malaysia, and Myanmar have also strengthen their minimum wage policies (Minimum Wage: Global Challenges and Perspectives, 2018). At the same time, as the trend continues to spread and strengthen around the world, countries lacking laws to protect laborers are more pressured to introduce new policies. An example of this scenario is Qatar. Qatar, as the host of the 2022 FIFA World Cup, has been accused several times of violating Human Rights in construction projects related to the World Cup. The International Labour Organization warned and gave Qatar the deadline of November 2017 to make changes in their labor laws (BBC News, 2017). Qatar then announced its commitment to new labor laws including a temporary minimum wage for migrant workers. To the date of this paper, Qatar is still accused of not complying with their agreed upon terms for workers´ rights, causing uproar and disapproval from organizations such as Amnesty International.

In an issue of Policy in Focus, published by the International Policy Centre for Inclusive Growth in 2018, authors Patrick Belser and Ding Xu (2018) mention how the rising trend of the minimum wage in the last decades can be mainly attributed to two factors: the increase in new data and past policy failures. Modern studies of the minimum wage have not shown major job losses such as feared by minimum wage opponents (Belser, Xu, 2018), but rather that the effects of minimum wage on employment are very little, if observable at all. The cases in which a strong effect on employment has been observed, are mostly the ones in which the minimum wage level is set too high, so that compliance becomes impossible and losses inevitable. Belser and Xu (2018) also mention that, with new academia at hand, policy makers are more open to explore State intervention in the labor market. This in part because policy makers have observed that a legal minimum wage, when managed carefully and appropriately, can be used as a tool to increase the quality of life of low wage households and achieve a fair distribution of a country´s economic growth.

The other factor both authors mention is the observation of past policy failures. They mention how in the past, countries have failed to grow in an inclusive manner, and how income inequality has remained high or even increased. Belser and Xu (2018) also mention how it is now widely known that high inequality levels hinders further growth in economies, regardless whether they are

developed or developing. High levels of inequality can also interfere with a society´s sense of unity, which can cause instability.

A further argument is also how in most countries, a collective agreement is not sufficient to incite compliance and lacking enough coverage to protect low wage workers. This system has been seen to work in Scandinavian countries, which still operate with a combination from government wages and collective agreements. Sadly, this system has not been seen to work as good in other countries, especially developing ones. It is therefore that most countries nowadays do not debate anymore whether a legal minimum wage should be established or not, but rather debate whether how a minimum wage system can be best developed in which all involved parties benefit and their interests are taken into consideration.

4.3. The Minimum Wage in Mexico

4.3.1. Background

In order to fully understand Mexico´s current situation, it is important to observe under what circumstances the country was built, as well as which factors have played an important role in policy making and society´s mentality.

The Mexican territory was a Spanish colony for 300 years. During the colonial period, there was a strong classism. The higher classes consisted of Spaniards and people of European descent, meanwhile the lower classes consisted of indigenous and races of darker skin. Land, law, and resources belonged, and were controlled, by the higher classes. Lower classes, however, were exploited and barely counted with any protective rights at all. There was a strong sense of injustice and hatred towards the higher social classes, but the poor masses were especifically trained to hide these feelings. Indigenous rebellious groups were "taken care of", sometimes even executed, in order to maintain power within the higher classes and stability (Hernandez, 2015). The lower classes were trapped, not counting with the necessary resources, education, power and courage to actually begin a revolution (Bringas Nostti, 2014). The high classes though, were not completely homogeneous. As mentioned previously, the high class did not consist only of European-born Spaniards, but of Mexican-born individuals of European descent, and criollos (mixtures), as well.

The latter groups did not count with the same rights and privileges as "true" Spaniards born in Europe (Hernandez, 2015).

With an already existing hatred from the masses towards the Spaniards, and their existing resources and power, the criollos decided to take down the greater power. It became popular belief that the Mexican independence was a fight towards freedom for the lower classes, when indeed it was a fight for the throne between two high classes. Therefore, the birth of Mexico as an independent country did not mean freedom, equal rights, and the increase of living standards for the poor masses, but rather the contrary: the criollos were now free to exploit the country and the masses without further control from the Spaniards. Europe was changing, and declaring independence from Spain, would protect the criollo´s interests to maintain the country such as it was and their interests at place (Bringas Nostti, 2014). Nonetheless, the independence still initiated much discussion about the political future of the country. Debates regarding form of government and pro-European vs. pro-American ideologies kept those in power busy and the country saw no significant development.

With the arrival of Porfirio Diaz to power, whose regime lasted from 1876 to 1911, there was a significant change in the country. Although he was far from an honorable leader, one must note that the economy grew and was a lot healthier than in earlier years. Major cities, ports, and mines were all connected by railroads. This development boosted Mexican modernization and supported the growth of mining, industrial centers, and export-oriented agriculture (Campos-Vazquez, Flores, Márquez, 2017). The economic growth in the country, which was actually a world phenomenon due to the increase in liberalization of markets and technological developments, was credited to the dictator (Bringas Nostti, 2014).

The liberalism that Porfirio Diaz´s regime brought to the country created two different sides. On the one hand, Mexico had never been as wealthy and modern before. On the other hand, the lower classes suffered through a serious crisis. Once again, there was a high discontent due to the high inequality levels and classism. There was a sense of desperation due to the century-long wait for a change, which never came. This time around, the social pressure for a change was stronger than before, making a revolution inevitable (Bringas Nostti, 2014). The Mexican Revolution´s

supposed purpose was precisely to end this inequality and provide rights to all citizens of the country, as well as to take away the power of the small group of high-class individuals. A sense of nationalism and protectionism rose in the Mexican mentality. In 1917, under president Carranza, the Mexican Constitution of 1917 was created, and it prevails to the date of this paper.

4.3.2. Evolution of the Mexican Minimum Wage since the 1917 Mexican Constitution

The Mexican constitution of 1917 was created after the Mexican Revolution, under Mexican president Carranza. This Constitution of 1917 states in its Article 123, that *"All people have a right to a decent job, socially useful; to that effect, jobs shall be promoted and the social organization of work, according to the law"*. In August of 1931, during Ortiz Rubio´s presidency, the Federal Labor Law was established. In 1933, President Rodríguez established the *Comisión del Salario Minimo* (Minimum Wage Commission), in order to promote the establishment and application of the minimum wage laws in the Constitution. Nonetheless, it was not until 1934 that the first national minimum wage was established by President Rodríguez (Ojeda, Peralta, Hernández, 2008). The Law states that the minimum wage can be adjusted at any time by the Minimum Wage Commission under petition of the majority of leaders and workers of a municipality, as long as the adjustment is necessary due to specific conditions. Regardless, the minimum wage was adjusted every two years from 1934 to 1974. After 1976, the minimum wage was adjusted annually, which means it has been modified 15 times more than the 32 times it would have been if adjustments had taken place every two years (Ojeda, Peralta, Hernández, 2008). The authors also mention how between 1934 and 2008, there have been 72 minimum wage adjustments. These adjustments normally take place at the end of every year, in order for the new minimum wage level to come into effect the 1st of January. Nonetheless, this is just a common practice and there is no law stating the date in which an adjustment has to be made. It is possible to adjust the minimum wage at any other given time in the year, such as in 1995, a year in which three adjustments took place (Comisión Nacional de los Salarios Minimos, [CONASAMI], 2014).

4.3.3. Different phases of the Mexican minimum wage throughout the XX century.

The Mexican minimum wage has had three major phases related, to a certain extent, to the Mexican economy´s performance (Moreno-Brid, Garry, Gómez-Franco, 2014).

The first major phase can be observed from the 1950´s to the 1970´s. In the 1950´s, the post-World War II economic boom began, commonly also referred to as *"the Golden Years of Capitalism"*, leading to great economic growth in countries throughout the world. Mexico was no exception, and there are even some economists that call this phase *"the Mexican Miracle"*, characterized by low inflation, a yearly real GDP growth higher than 6%, expansion in health services, and public education. All these factors contributed to a high improvement in social welfare and the country´s income distribution. In this particular phase, the real minimum wage quadrupled (Moreno-Brid, Garry, Gómez-Franco, 2014).

By the end of the 1970´s, the wage growth had lost impulse with the oil boom and nominal adjustments of the minimum wage stayed below inflation (Moreno-Brid, Garry, Gómez-Franco, 2014). The following overvaluation of the peso and the country´s deindustrialization forced it to increase borrowing further. Mexico found itself in severe over indebtedness and suffering from economic mediocrity. Mexico counted with a dependency on imported inputs for its industry, had overprotected domestic markets and low competitivity. The government´s concern to correct failed public policies and finances, and reduce inflation, led lagging of the minimum wage level, with an insufficient compensation for raises in consumer prices (Moreno-Brid, Garry, Gómez-Franco, 2014). The beginning of the 1980´s represent the start of the second phase in which the minimum wage kept losing its value.

President Miguel de la Madrid, who governed from 1982 to 1988, went against previous government´s customary practices and liberalized the economy. During his administration, Mexico joined the General Agreement on Tariffs and Trade. Later on, his successor president Carlos Salinas de Gortari, who governed from 1988 to 1994, followed the path to liberalization of the Mexican economy by promoting the North American Free Trade Agreement with the United States and Canada. The hope was that these two agreements would increase foreign direct investment

and push economic growth. Nonetheless, the Mexican minimum wage kept losing value. By 1995, after the economic crisis and devaluation of the currency, it had lost 66% of its purchasing power when compared to its value 15 years prior (Moreno-Brid, Garry, Gómez-Franco, 2014).

The third phase began after the economic crisis of 1994. The loss of real value has not been as significant as in prior phases and inflation has been kept under control, although the minimum wage still kept deteriorating, resulting in one of the lowest in the region of Latin America regarding purchasing power. Most countries in Latin America have increased their minimum wages in real value since the 2000´s, with the exception of a few countries including Mexico. Mexico was the only country in the region of Latin America in which the minimum wage in both 2002 and 2011 was underneath the poverty line per capita (Moreno-Brid, Garry, Gómez-Franco, 2014).

4.3.4. Mexican Minimum Wage Today

Up until the year 2012, Mexico´s states were divided into three geographic zones, A, B, and C. The states with a higher economic development were zone A and counted with the highest minimum wage. Geographic zone B had states that had an average economic development, and counted with a lower minimum wage than geographic zone A. Finally, geographic zone C counted with the states with the lowest economic development and therefore, the lowest minimum wage. However, one must note that the difference between the minimum wages was of only a few pesos per day. The minimum wages established the 1_{st} of January 2012 were 62.33 Mexican Pesos per day for zone A, 60.57 for zone B, and 59.08 for zone C (Comisión Nacional de los Salarios Mínimos, [CONASAMI], 2014). In November 2012, a Federal Labor Law Reform took place in Mexico, in which many of its clauses were changed and new were incorporated. A compaction of the minimum wage geographic zones also took place and all states belonging to geographic zone B were incorporated to geographic zone A, and all states in geographic zone C were incorporated to zone B. Geographic zone C was hereby eliminated and the country counted with two geographic zones, A and B, as of November, 2012. The minimum wage was set to be 62.33 Mexican pesos per day for zone A, and 59.08 Mexican pesos per day for zone B (Comisión Nacional de los Salarios Mínimos, [CONASAMI], 2014). A month later, Enrique Peña Nieto, from the Mexican political party PRI took office as President of Mexico. In 2013 and 2014, the minimum wages of

both geographic zones were increased by an average of 3 pesos a day. In the year 2015, the national minimum wage was set at 70.10 Mexican pesos for states belonging to geographic Zone A and 66.45 Mexican pesos for states belonging to geographic Zone B (Comisión Nacional de los Salarios Mínimos, [CONASAMI], 1992-2020). Due to the Reform of 2012 to further compact geographic zones, there was an increase in the minimum wage of zone B the 1st of April 2015. The increase of minimum wage of solely one geographic zone was made in an attempt to prepare the belonging states for a further increase to the level of geographic zone A in the following months. The 1st of October of 2015, the further compaction of both geographic zones A and B took place, meaning there was a single national minimum wage established for all states in Mexico. The national minimum wage was set at the level of geographic zone A, which was 70.10 Mexican pesos per day (Comisión Nacional de los Salarios Mínimos, [CONASAMI], 1992-2020). As of 2016, the national minimum wage was increased once again to 73.04 Mexican pesos for a day of work. A year later, the Mexican Commission of Minimum Wage CONASAMI, reported the national minimum wage set to be 80.04 Mexican pesos for a day of work as of January 1st, 2017. There was a further increase twelve months later in which the national minimum wage was announced in November 2017 to be set at 88.36 Mexican pesos for a day of work as of January 1st, 2018 (Comisión Nacional de los Salarios Mínimos, [CONASAMI], 1992-2020). This increase of 8.32 Mexican pesos, represented the second yearly increase of over 10% in a row. Nonetheless, the minimum wage kept receiving increased criticism and negative attention from several different media and bloggers in the internet. Bloggers quoted and criticized former president Enrique Peña Nieto for praising CONASAMI for the *"significant increase"* in the minimum wage. Their main arguments being that the raise was still not enough to fulfill the needs of the Mexican people. The bloggers mostly took reference of the basic needs basket, which for the year 2018 was set at a cost of 94.06 Mexican pesos, arguing that the national minimum wage was still not enough to cover these costs, and that a *"significant increase"* would rather mean an increase to at least 95 Mexican pesos in order to cover the costs of the basic needs basket (Animal Político, 2017).

According to data provided by the Wage Indicator Foundation website, Mexico counted with the following wages in the period from 2015 to 2018:

	2015	**2016**	**2017**	**2018**
Minimum wage*	1,750	1,899	2,433.2	2,686
Living wage – single adult*	3,200 – 4,760	3,200 – 4,920	3,070 – 4,420	3,080 – 4,630
Living wage – typical family*	5,750 – 8,710	5,710 – 8,840	5,790 – 8,600	5,810 - 8,810

Monthly wage in Mexican pesos

Own Elaboration (2019) based on data retrieved from WageIndicator Foundation (2019)

The data provided by the Wage Indicator Foundation shows how the legal minimum wage in Mexico is far below the living wage of a single adult, and not even half of the living wage of a typical family (typical family: 2 parents, 2.3 children, 1.7 wages). One must also note that even though the minimum wage is far below the living wages, one can observe in *Table 1* a significantly larger increase in recent years of the minimum wage than of the living wages of the Mexican households, even in that of an entire family. Regardless, the gap between the minimum wage and living wages of individuals and families is much larger in Mexico than in other OECD member countries. Tables 2 and 3 show the minimum wages and living wages, of individuals and families, in Turkey and Colombia respectively. Turkey was selected as a country to which Mexico can be compared to, since Turkey has the nearest levels of annual GDP, Income Inequality Index, and similar Human Development Index to Mexico within the OECD (see Appendix 1), whilst being member to the OECD, but not the European Union. Colombia was selected as the other country to be compared to, since it finds itself in the midst of the OECD accession process and is only the third Latin American country to be invited to join the OECD, after Mexico and Chile. Chile has been excluded since, even though it is also a Latin American member of the OECD, the indexes mentioned previously are somewhat similar, but the country is much smaller than Turkey, making Turkey in the writer´s opinion a better point of comparison.

Turkey	2015	2015	2016	2017	2018
Minimum wage*	1,201.5	1,273.5	1,647	1,777.5	2,029.5
Living wage – single adult*	1,750	1,750	1,750	1,820	1,930
Living wage – typical family*	2,970	2,970	2,970	3,070	3,190

*Monthly wage in Turkish Liras

Own Elaboration (2019) based on data retrieved from Trading Economics, WageIndicator Foundation (2019).

It can be observed in Table 2 how the minimum wage in Turkey was also under the living wage in the years 2015 to 2017, but the minimum wage kept increasing until it surpassed the living wage of a single adult. It still does not reach the level of the living wage of a typical family, but it represents only two thirds of the living wage of a typical family, whilst in the case of Mexico, the gap is much wider, being the living wage two to three times the legal minimum wage.

Table 3: Minimum Wages in Colombia 2015-2018

Colombia	2015	2016	2017	2018
Minimum wage*	644,350	689,455	737,717	781,242
Living wage – single adult*	615,700 – 787,400	559,100 – 733,500	618,600 – 746,500	620,800 – 782,100
Living wage – typical family*	864,200 – 1,130,400	794,900 – 1,049,500	853,000 – 1,065,500	848,500 – 1,095,100

*Monthly wage in Colombian Pesos

Own Elaboration (2019) based on data retrieved from WageIndicator Foundation (2019).

In the case of Colombia, the Wage Indicator Foundation (2019) does not state a definite amount as the living wage for a single adult or a typical family, but rather a range. It can be observed that the legal minimum wage level is above the lower level of the living wage range for a single adult. In the case of Colombia, such as in Mexico and Turkey, the minimum wage level increased between 2015 and 2018 and the living wages did so as well, but not as significantly. This caused a reduction in the gap between the legal minimum wage and living wages. Such as it is the case in

Turkey, the minimum wage level in 2018 is still not sufficient to cover the living wage for a typical family, but it does cover the range of the living wage of a single adult in 2018 almost completely.

Table 4: Wage Comparison between Mexico, Turkey, Colombia, and the OECD Average in 2018

2018	Mexico	Turkey	Colombia	OECD Average
Minimum wage*	161.92	897.32	397.44	1,077.69
1.7 Minimum wages*	275.26	1,525.44	675.64	1,832.07
Living wage – single adult*	232.5	853.98	356.84	850
Living wage – typical family*	440.89	1,411.5	494.38	1,304.55

*Monthly wage in US Dollars

Own Elaboration (2019) based on data retrieved from WageIndicator Foundation (2019) and Statista (2019).

One can observe in Table 4 a direct comparison between the wages in Mexico, Turkey, and Colombia for the year 2018. A new column was added with the OECD average for the same year to take as a reference. For the comparison, it is important to also take into consideration the quantity of 1.7 minimum wages, since the Wage Indicator Foundation (2019) considers a typical family to count with 1.7 wages. It can be observed in Table 4 that Mexico is the only country in which the minimum wage does not cover the living wage of a single adult. In fact, 1.7 minimum wages in Mexico are sufficient to cover only the living wage of a single adult, and not two, whereas in Turkey, Colombia, and the OECD average count with minimum wages sufficient for a single person, and 1.7 minimum wages sufficient to cover the living wages of a typical family.

Mexican society´s division regarding the subject increased when then-candidate for presidency, Andres Manuel Lopez Obrador, openly joined and expressed the arguments that the minimum wage is not enough for Mexican households to live by during his campaign for presidency in 2018. Andres Manuel Lopez Obrador, commonly known for his initials AMLO, is a populist long-time Mexican politician. During his campaign for his third attempt for presidency, he promised Mexico to end corruption, poverty, and restore economic growth. AMLO repeatedly criticized former governments on how they failed to take into consideration the Mexican people´s needs and mentioned how the Mexican minimum wage drastically lost its purchasing power in the last 40

years. He mentions in several interviews and speeches his proposal to increase the legal minimum wage to a level from which households can actually survive from. AMLO won the presidential elections in July 2018, and as President Elect, continued to openly state his plan on increasing the legal minimum wage as soon as he took office in December 2018. During the last months of 2018, AMLO and his labor segment advisors stated that their goal is to double the legal minimum wage by the end of the president´s six-year regime, increasing it gradually year after year. After taking office in December 2018, AMLO did follow through and increased the legal minimum wage to 102.68 Mexican pesos for a day of work, effective as of January 1st, 2019. President AMLO also incorporated a higher minimum wage level for states near the Mexican-USA border. This minimum wage was set at 176.72 Mexican pesos per day of work. The administration stated the purpose of a higher minimum wage near the border to be an incentive to reduce migration towards the USA.

This latest adjustment has been one of the highest increases in latest years, representing an increase of almost 20% in a single year. AMLO, as well as his supporters and members of his political party, claimed this adjustment as a success and a first step towards "change" and an improvement in the quality of life of Mexican households, although they assure the people that they are aware it is still not enough, but that they promise they will achieve their goal by the end of the new regime.

AMLO and his political party claim the increase of the minimum wage to be a step towards ending poverty, although it may be difficult to identify the actual number of households that the adjustments of the minimum wage in Mexico will actually impact, due to the different data to be found and spoken of. There are doubts regarding the number of beneficiaries of 1 or less than 2 minimum wages, since every organization seems to have different data. The numbers can vary from as high as 7 million minimum wage earners, as stated by researchers from the Universidad Autónoma de Mexico, to as low as 1.3 million, as stated by CONASAMI (Carrasco, 2016). To understand the discrepancies in data, one must take into consideration the large informal sector in the country, which according to the National Statistics and Geography Institute (INEGI), accounted for approximately 57% of total employment in 2017 (Instituto Nacional de Estadística y Geografía [INEGI], 2018). With an informal sector this large, it can be very challenging to find reliable data on actual wages and incomes per household. Studies can be very complex, and

workers may not be completely straightforward with their actual earnings due to fear of legal repercussions.

In the case of Mexico, the official numbers of people earning one or two minimum wages are also not as reliable due to businesses´ lack of transparency. Each company has to officially register its employees and state the remuneration the employee will receive. Seeing as the tax system favors lower remunerations, businesses tend to register employees with lower wages than they will actually receive, in order to avoid paying higher taxes. The difference then is paid either in cash or in form of benefits. Taxes for real or higher wages can be very high and many small and middle-sized businesses cannot afford them, hence the bad practices and favorability of informality.

United States-Mexico-Canada Agreement and its influence on Mexican wages

Mexican wages have also been an important topic in regard to the North American Free Trade Agreement between Mexico, the United States, and Canada. Since it took effect in 1994, there has been a lot of criticism towards Mexico in the U.S., since Mexico has been seen as to deliberately depressing its wages in order to gain advantage or increase profits for investors (Frazee, 2018). President Donald Trump promised his voters during his presidential campaign to renegotiate the NAFTA deal, and stated the deal is *"the worst trade deal ever"* (Hirschfeld Davis, 2017). President Trump kept his promise and, in the first half of his presidency, began the renegotiation process of NAFTA (Hirschfeld Davis, 2017). In this renegotiation, President Trump´s goals are to find an agreement in which a "fair" competition between all three countries takes place, and jobs are maintained and brought back into the U.S. (Behsudi, Palmer, & Rodriguez, 2018)

The largest topic in the negotiations was the automotive industry and Mexican wages. President Trump has claimed that NAFTA has been a *"complete disaster"* for the U.S. and has caused the loss of *"millions of jobs and thousands of factories"* (Behsudi, Palmer, & Rodriguez, 2018), blaming this primarily on the large wage gap between Mexico and the United States, which makes Mexico more attractive for factories and manufacturing jobs than the United States. Although the loss of these jobs has not yet been proven to be actually due to NAFTA, Trump persisted on new clauses to make for a more *"fair competition"* and *"return jobs to the U.S."*. Mexico and Canada

did not accept all of Trump´s demands, for which he then pressured the countries by setting trade tariffs. After extensive negotiations and political disputes, the new agreement, now called the United States – Mexico – Canada Agreement (USMCA), was signed in November 2018, just before Mexican president-elect AMLO took office (Livingston International, 2019). Most of the clauses in the new agreement regarding the automotive industry are focused on the materials used for production, but there is a specific clause that impacts wages directly: *"40% of an automobile, and 45% of a light truck must be produced by an average labor wage of 16 USD per hour"* (Livingston International, 2019, ¶27). This clause is intended to put pressure on companies and the Mexican government to reduce the wage gap between Mexico, the United States, and Canada, since only when an automobile or truck meets the new requirements, will the entry to the other two countries be granted free of tariffs.

It is uncertain whether the new agreement will actually have a significant impact on overall Mexican wages, since it can be argued that companies will rather pay the tariffs than increase the wages of their workers so drastically (Frazee, 2018). Nonetheless, the new agreement certainly increases pressure on Mexican politicians to keep increasing wages in order to avoid another situation in which trade with the United States is jeopardized.

4.3.5. President Andres Manuel Lopez Obrador´s economic proposition for his administration 2018-2024

During the presidential campaign 2018, president AMLO made several promises to the Mexican people regarding his plans for the country´s economy during his administration. One of his major promises was the increase of the minimum wage as one of his first actions in office. As mentioned above, the president did increase the minimum wage significantly at the beginning of 2019 and introduced a higher minimum wage for states near the Mexican-USA border. Nonetheless, he has promised that increases as such will take place every year throughout his administration. For instance, he promised a yearly minimum wage increase of 15.6%, in order to reach a minimum wage level of 171 Mexican pesos per day, plus inflation, by the end of his six-year regime (Hernandez Orozco, 2018). Independently from the percentage he promised, AMLO also promised that the yearly increase will be above inflation rates and will remain parallel, or higher, than the

level of basic needs of every Mexican according to the basic needs basket (Hernandez Orozco, 2018). President AMLO has even gone as far as to promise that *"Now, by law, because I will incorporate it into the Constitution, there will never again be a wage increase less than the inflation rate, but must be at least as high as inflation"* (Andres Manuel Lopez Obrador, 2018, as quoted by Hernandez Orozco in *Estas son las 12 promesas económicas de AMLO,* Expansión.mx, 2018, ¶ 9). Additionally, he mentions how the focus will not be only on the increase of wages, but on inflation levels too, with the purpose of maintaining these low, so balance can remain (Sitio Oficial de Andrés Manuel López Obrador, 2018).

At the same time, the President´s economic team during his campaign mentioned how the country could save 400,000 million Mexican pesos by reducing the salaries of high public administration officials and reducing spending in services to these officials, such as cellphones, cars, supplies, and personal services (Hernandez Orozco, 2018). The administration stated how these savings shall be redirected to public spending and investments. Reducing privileges of high government officials will be a government income alternative to raising taxes, since the president also promised to maintain the Income Tax at a limit of 35%, and the Value Added Tax at a 16% (Hernandez Orozco, 2018). In the states along the Mexican-USA border, where the minimum wage was doubled, AMLO intends to reduce the Income Tax to 20% and the Value Added Tax from 16% to 8% (Sitio Oficial de Andrés Manuel López Obrador, 2018). Not only has it been promised that taxes will not increase, but also that there will be no additional taxes created (Albarrán, 2018). By reducing the salaries and benefits of public administration officials, and thus creating a government income alternative to raising taxes, the money saved could be redirected to public spending and investments. When redirected correctly, these new public spending policies and investments could represent a lower spending level of minimum wage earners, since some elements they spend their money on would be covered by the government. In this way, the low wages become somewhat "higher" since the earners would be released of certain expenses and the remaining money could be seen as additional purchasing power. In addition, by reducing the incomes and benefits of the highest earning public administration officials, the government reduces the wage gap between the lowest and highest earning public officials. At the same time, maintaining income taxes fixed or even reducing them in regions such as the USA-Mexican border,

could mean that companies will not be as reluctant as they are now to increase the minimum wage earner´s salaries.

The AMLO administration also published a statement after taking office that they focus monetary resources significantly towards five programs, three of which are a form of financial support. To begin with, President AMLO promised since his campaign he would increase the pension for the elderly, so they can enjoy a more dignified life. The program, called "Pensión para el Bienestar de las Personas Adultas Mayores", was given a budget of 100,000 million Mexican Pesos, through which the pension for the elderly will be of 1,300 Mexican pesos per month (Nación321, 2018).

The second program consists of a program for Mexican youth which is neither studying nor employed. Through the program "Jóvenes Construyendo el Futuro", the President intends to guarantee Mexican youth the right for education and employment (Hernandez Orozco, 2018). The program intends for young adults to be hired as apprentices, and the businesses to work as tutors. These apprentices will be receiving a monthly base salary, funded by the government, of 3,600 Mexican pesos. The administration mentioned how they estimate 2.6 million Mexican young adults will be joining the program. The President promised that the program will count with an investment of 110,000 million Mexican pesos, although in September 2018, Gerardo Esquivel stated that the 2019 budget for the program will be of 108,000 million Mexican pesos, 2,000 million pesos less than previously promised (Hernandez Orozco, 2018).

The third program to which the administration tends to focus monetary resources is a scholarship for high school students. This scholarship program is called "Beca Universal para Estudiantes de Educación Media Superior Benito Juárez" (Nación321, 2018). This scholarship will grant all high school students an amount of 800 Mexican Pesos per month (Nación312, 2018), for which the administration has set a budget of 17,300 Million Mexican Pesos.

In addition, AMLO promised that Mexico will enjoy an annual GDP growth of 4%, double than the average 2% annual GDP growth in the past 30 years. He states he is confident these goals will be achieved with the harmonious participation of the private, social, and public sector (Hernandez

Orozco, 2018). The main source of this economic growth will be the increase in consumption capacity of the poorest sector of Mexican society (Ríos, 2019). However, in the year 2019, the Mexican economy contracted significantly, dropping to an annual GDP growth of 0.4% (Statista, 2019). Expectations for the upcoming years are more positive than 2019, but still far below AMLO´s promises.

5.4.   The Debate of the Minimum Wage in Mexico Today

5.4.1.   Arguments against raising the minimum wage

Even though the minimum wage level in Mexico has attracted international attention and outraged human rights activists and Mexican citizens, there are people and institutions within the country against an increase.

One of the most common arguments against an increase is that the minimum wage does not represent actual wages. It was mentioned earlier in this paper how there are discrepancies regarding the number of households earning a minimum wage (Carrasco, 2016), and that the informal sector represents half of Mexico´s economy, which makes it difficult to determine the real number of minimum wage recipients. Nonetheless, even taking into consideration the highest published so far of minimum wage recipients, it can be argued that the number of households earning a single minimum wage is actually very low relative to the country´s population. It is also commonly argued that many households report earning just a single minimum wage and have, in addition, an informal business, leading to a higher real income than officially reported. Many households increase their income not only by running an informal business, but also as domestic employees and working independently, thus informally, as plumbers, gardeners, electricians, mechanics, etc.

Table 5: Minimum Wages vs. Real Low-Skilled Wages

	2019
Minimum wage	3,121.47[1]
Average wage of a gardener	5,346.00[2]
Average wage of a housekeeper	6,135.00[2]
Average wage of a plumber	6,964.00[2]

Own Elaboration (2019) based on data retrieved from Comisión Nacional de los Salarios Mínimos [CONASAMI](2019), and Indeed (2019).

[1] *(Comisión Nacional de los Salarios Mínimos, [CONASAMI], 2019)*

[2] *(Indeed, 2019)*

It can be observed in Table 4 that the remuneration of even a single informal job is far above the national minimum wage, thus, strengthening the argument that the minimum wage does not represent actual wages.

The argument that only a small percentage of the population is recipient to a minimum wage gives base to another common argument: the minimum wage has served as a unit of reference for penalties, as well as administrative and services tariffs. When observing Mexican labor law, one can see that monetary penalties against companies for breaking the law were measured in minimum wages, for example, employers breaking labor laws regarding women and under-aged employees are charged with a fine ranging from 50 to 2500 times the minimum wage (Ley Federal del Trabajo, Art. 995, 2013). This has been a commonly used argument, although in the year 2016, a reform took place to disengage the minimum wage as a unit of reference. In this reform, Art. 123 of the Mexican Constitution, in which the minimum wage is defined, was modified to include *"The minimum wage shall not be used as an index, unit, base, measurement or reference for purposes beyond its nature"* (Diario Oficial de la Federación, 2016, ¶6). A Unity of Measurement and Actualization was created as a replacement, so no federal laws base penalties or tariffs on the minimum wage level anymore (Martínez Gonzalez, 2018). Now, employers breaking labor laws, for example, regarding women and under-aged employees are charged with a fine ranging from 50 to 2500 times the Unity of Measurement and Actualization (Ley Federal del Trabajo, Art. 995, 2019).

Inflation has also been a major concern, since the minimum wage has not only served as a unit of reference, but also as a tool to keep inflation levels low. Barba (2014) mentions how increasing the minimum wage by 19% would be inflationary. Barba (2014) also makes reference to Dr. Agustín Carstens, former governor of Banco de México, who mentioned how real wages, which are the wages that truly matter, would not increase with inflation. He implies with this statement that even though the minimum wage would increase, and so would inflation, real wages would remain the same, decreasing the purchasing power of wages. With a decrease in purchasing power, meaning people would be able to afford less with their real wages, a drastic increase in the minimum wage would create an opposite effect than originally intended. Banco de México (2016) made several calculations with different scenarios regarding the repercussions of a minimum wage increase. Firstly, Banco de México (2016) calculated the repercussions of a minimum wage increase of 1% on prices and inflation and concluded that although there would be a minimal increase on inflation, the effects would disappear, and inflation would return to its previous level 24 months after an increase. Regardless, prices would maintain a slightly higher level than previously, although the difference would be too minimal to have an impact. In the second scenario, Banco de México (2016) calculated the effects of a 21.7% minimum wage increase, which would be the increase necessary for the minimum wage to reach the value of the basic food basket in México. In this case, an increase of such a percentage would result in a 3.3% higher inflation and prices levels 12 months later. Even though it is shown in the study that 24 months after such an increase inflation would return to its previous level, they do mention how prices would increase in the long-term by 3.7%. They continue to state that even though this percentage may seem low, drastic increases in minimum wage could trigger a rejoinder effect between prices and exchange rates. Should this happen in a scenario with a 21.7% minimum wage increase, prices would increase on the long-term by 29.7%, reducing the real value of the minimum wage drastically (Banco de México, 2016). Some proposals have been made in the past, suggesting the minimum wage should be increased to the level of the extended welfare basket in Mexico at once, which would mean an increase of 146.6%. This was the third scenario for which Banco de Mexico (2016) also estimated the outcome. This drastic increase would result in a 22.4% higher inflation and prices after 12 months. 24 months after increase, the effects on inflation would vanish, but prices would be 24.9% higher than before. The major concern though, would be if a rejoinder

effect between prices and exchange rates is triggered, which would result in a 200.8% increase in prices in the long-term (Banco de México, 2016).

Banco de México (2016) concludes that the major concern is not necessarily the inflation level after an increase, but rather the potential negative effect on Mexican economy in general this could trigger. Barba (2014) agrees with this statement by mentioning how increasing minimum wages will inevitably increase the costs of employers, which will have to recover profits by increasing the price on their products, which will be paid by consumers and competitiveness will be lost. He follows to state how the creation of new businesses will be inhibited, profit margins will be lost, and shortages of personnel will take place (Barba, 2014), and argues that because of this, instead of increasing the quality of life and protecting the most vulnerable employees, these will be the most affected by reduction in staff and an increase in prices. These are general arguments economists have been making for almost a century, as to why there should not exist a legal minimum wage in the first place, but Barba (2014) also mentions how in the specific case of Mexico, informality and inflation will increase, and poverty will not be reduced; workers will not find formal jobs and will seek them in the informal sector, but the race between prices and wage increases will have accelerated with the workers becoming the losers, thus maintaining or even increasing poverty. Banco de México (2016) also argues that informality would increase, by explaining how a drastic rise in minimum wages creates a lighthouse effect on other formal wages. The lighthouse effect is when an increase in minimum wage triggers an increase in general wages too. This increases the labor costs for companies, reducing the chances of low skilled workers to be hired for higher wages. These low skilled workers would then seek for survival opportunities in the informal sector (Banco de México, 2016). Barba (2014) also mentions that in order to increase wages, the country must first reduce taxes, public spending, and open all markets. This way, the author argues, wages will rise by themselves, mentioning countries such as Switzerland and Singapore as examples. Banco de México (2016) does not suggest the same solutions as Barba (2014) to reduce poverty and income inequality in the country, but it does conclude that the focus should not be only in increasing the minimum wage, but also in the improvement of public policies and measures to fight the shortcomings of the system.

Candidate for president 2018 of the PAN party, Ricardo Anaya, suggested an alternative to a legal minimum wage: the universal basic income. This was one of the candidates most significant proposals. It is relevant to mention this proposal since, a universal basic income would eradicate the minimum wage completely. Anaya´s proposal was to offer the universal basic income to all Mexicans, no matter their occupation, social and economic status, and even to those unemployed. Anaya mentioned several reasons why the universal basic income would have a positive impact in Mexican society. He argued how his proposal would eradicate extreme poverty in the country for good, and how it would reduce inequality as well (Zavala, 2017). He furthermore states that the universal income *"will eliminate what is known as the poverty trap. Remember how currently, beneficiaries of social programs know that if they stop being poor, they will no longer receive support. And this has had disastrous consequences"* (Ricardo Anaya, 2017, as quoted in Animal Politico, 2017, ¶5). In addition, it would eliminate bureaucratic costs, since the money would be given directly to the citizens. Simultaneously, it would eliminate the clientelism within social programs, and the power of those in charge to threaten to take these away from the people (Animal Político, 2017). Anaya mentions how these programs are managed in a mediocre way. There are currently more than 6,500 social programs, most of which are poorly managed, lack structure, proper implementation, and are even duplicated. Not to mention how in most programs one can find high levels of corruption and clientelism (Animal Político, 2017).

Speculations were made whether this proposal was feasible or not, to which the candidate responded *"Usual politicians will say there is not enough money. I tell them they should not tell us that story. That is a lie, that is false, there are resources, the problem is that the government currently spends that money incorrectly, they spend it in things they shouldn´t, and the corrupt steal it…"* (Ricardo Anaya, 2017, as quoted in Animal Político, 2017, ¶9). In light of this statement, there were journalists and economists that analyzed the numbers and published different views on whether this affirmation is actually true. Pérez Valtier (2017) for instance, concluded that the numbers did not add up, considering the approved budget for 2018. With the costs allegedly saved, and even reducing the total social expenditure of the government, and redirecting it solely to the universal basic income, it would still be just half of the necessary resources to make this program possible (Perez Valtier, 2017). From another point of view, Gómez Bruera (2017) mentioned how it would be possible, if costs in other programs and social expenditures are

reduced. Although, he adds how in order to really reduce inequality, the program should include a tax reform, in which the wealthier are taxed higher. The extra income produced by these higher taxes would also serve to fund the universal basic income program (Gómez Bruera, 2017). Martínez (2018) however, takes a more neutral position by writing how Anaya´s proposal needs further definition and structure, but still remains an important subject worth taking to further debate. He states how, in his opinion, a country´s economic success should be distributed in society, and a way to do this would be the universal basic income (Martínez, 2018). He furthermore argues how true freedom comes when people are no longer afraid of losing their ability to fulfill their basic needs. Having a universal basic income would free the poor from this fear, therefore providing them with the freedom to make decisions as they wish, a state of mind necessary for a country to be a true democracy (Martínez, 2018). He concludes that even though Anaya´s proposal lacks definition and a proper financial plan, it is worth taking into consideration and further debate, when observed how conventional public policies have failed until now. He continues to argue that because of these failed public policies, the search for alternatives, such as Anaya´s proposal, is urgent and necessary (Martínez, 2018). Nonetheless, this proposal was not pursued by president AMLO.

5.4.2. Arguments in favor of raising the minimum wage

Such as there are people and institutions with arguments against a rise in the legal minimum wage, there are also people and institutions making arguments in favor of an increase.

For starters, one of the most common statements is how a great percentage of the Mexican population lives in poverty, and that the minimum wage should rise to help increase the quality of life of Mexican households. President AMLO stated how the new strategy to increase the minimum wage throughout the duration of his administration represents a "new era in Mexican history", in which poverty will be significantly reduced (Heraldo de México, 2019). The idea behind this new strategy is to raise the minimum wage above the poverty line, so workers receive a fair and sufficient remuneration for their labor. Franco (2018) agrees that it is a step forward and a positive beginning, although he expresses concern that the increase is still not enough to provide the welfare level as stipulated by Art. 123 of the Mexican Constitution of 1917. It is argued that only a small

percentage of Mexicans actually receive a minimum wage, but Franco (2018) contradicts this argument by stating how the number of minimum wage recipients, even if low, is irrelevant; the negative repercussions of continuously depressing the minimum wage level are greater than the repercussions of an increase.

Franco (2018) compares the Mexican minimum wage to a "heavy anchor", which pulls Mexico downwards. Based on Franco´s (2018) own calculations and data of the Encuesta Nacional de Ocupación y Empleo, he mentions how the median wage is approximately 132 Mexican pesos per day. The ideal, in order to remove the downward pulling effects of the low minimum wage, would be to adjust the minimum wage level at least 10% above the median wage (Franco, 2018). Having a legal minimum wage far below the median wage tends to pull other indicators down as well, resulting in the minimum wage level to become a "maximum level" instead of a minimum. In order for it to function as a minimum, it is important to set it above the median wage, i.e. above 132 Mexican pesos (Franco, 2018).

It has also been argued, that depressed minimum wage gives Mexican and new foreign companies in the country the wrong impression. Foreign companies may arrive to the country and take the national minimum wage as reference to establish salaries. Being the minimum wage far too low, these new companies establish very low wages, or may even take advantage of the legal minimum in order to keep company costs low (Cárdenas Sanchez, 2016).

Even though one of the arguments against a rise in the minimum wage level is that it could increase informality levels, the contrary has been argued as well. Higher minimum wages, and therefore higher wages in the formal sector, may serve as an incentive for more citizens to leave the informal sector (Zelayaran, 2018).

Franco (2018) also contradicts the common argument that a rise in the minimum wage level can be inflationary. He states how it is insufficient to argue that an increase above productivity levels can result in higher inflation, since only 10% of gross productivity is represented by wages. In contrast, gasoline prices have a more powerful and persistent inflationary effect (Franco, 2018). Furthermore, he states how the increase in a minimum wage is not an inflationary subject, but

rather a subject of corporate income and adjustment of production costs. Franco (2018) stipulates how it is time to stop believing increases in wages are inflationary, since this belief is based solely on the statement being repeated sufficient times.

AMLO has also emphasized how an increase will not have effects on inflation, and also mentions how unemployment will not rise either. On the contrary, it is argued that the increase will promote employee retention and businesses will benefit by reductions in training costs (El Informador, 2018).

The Mexican minimum wage has been under international scrutiny in recent years and has been subject to much controversy. Increasing the minimum wage can improve the country´s image at an international level, such has been a point made by President AMLO, affirming "*it is an act that strengthens our government, society, and moreover the image of our country, internally and externally.*" (Andres Manuel Lopez Obrador, 2018, as quoted by El Informador, 2018, ¶10).

6. Discussion: Will AMLO´s minimum wage strategy improve the quality of life of Mexican Households?

Due to the high controversy regarding the minimum wage in Mexico, there are many different opinions as to the possible benefits, and/or repercussions of an increase. Interestingly enough, some of these opinions are not based on hard facts, but rather on assumptions made by public figures or media, which have been repeated so many times, to and by the public, that are now being confused with actual facts. Therefore, it is important to previously filter opinions and popular beliefs from facts, so a more accurate analysis, and finally, a more accurate discussion, can take place.

The beginning of this thesis focused on the minimum wage in general, and it is mentioned how the definition of a minimum wage is *"**the minimum amount of remuneration** that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract"* (International Labour Organization, 1996-2017, ¶1). Nonetheless, the International Labour Organization also mentions how the purpose of the minimum wage is to ensure workers are receiving a *fair* remuneration for their work by setting a "floor" in order to protect vulnerable workers and provide them with a salary from which they can enjoy a decent quality of life. The Mexican Constitution of 1917 states how the minimum wage *"must be enough to satisfy the normal necessities of a head of family, in a material, social and cultural matter, and to provide the obligatory education of children."* (Constitución Política de los Estados Unidos Mexicanos, 2019, Art. 123, A, VI, ¶ 2), and can therefore be argued, that the Mexican Constitution of 1917 shares the same purpose to the minimum wage than the International Labour Organization.

The minimum wage must be set at a level which is not too high, so that it translates into negative economic repercussions, but high enough so that its purpose can be fulfilled. For this to be possible, it is important to use an approach which takes both repercussions and purposes into consideration, such as a balanced and evidence-based approach, as suggested by the ILO. In Art. 123, the Mexican Constitution also states how the level of the legal minimum wage will be set by the CONASAMI, which must contain representatives of workers, employers, and the government, with the goal of

agreeing to a level which will benefit all parties involved. More importantly, by both definitions mentioned, the level must be enough to fulfill the minimum wage´s purpose of being a *fair remuneration* and *enough to satisfy the normal necessities of a head of family.* Therefore, the monetary amount considered to be the average normal necessities of a head of a family could be argued to be an initial negotiation point for the minimum wage level. The thesis has mentioned possible indicators which could be taken into consideration to identify this amount, such as the national median wage, the basic needs basket, national poverty line, and the relative poverty threshold.

Even though the setting of a minimum wage level can be very challenging due to the many factors to be taken into consideration, many pro – minimum wage minds and the ILO agree that adjustments must be made periodically to avoid erosion due to inflation. It is a fact that periodic adjustments have been made in Mexico since the establishment of its first minimum wage level in 1933. Authors Ojeda, Peralta, and Hernandez (2008) even mention how there have been 72 adjustments between 1934 and 2008.

The Mexican Constitution and government have a minimum wage definition, purpose, settlement procedure, and periodic adjustments aligned with recommendations of the ILO and pro-minimum wage minds. Nonetheless, it is a fact that the Mexican minimum wage has lost significant real value over the last 50 years. As shown previously in Table 1, the legal minimum wage, even in recent years, has been far below the living wage of a single adult, let alone a family. The difference between the minimum wage and a living wage of a single adult in 2018 was 500 to 2,000 Mexican Pesos per month. Being the minimum wage in 2018 at a level of 2,686 Mexican Pesos per month, a living wage of a single adult of 4,630 Mexican Pesos per month represents twice the amount of the legal minimum wage. The living wage of an average family constellation, being that of two parents and two children, was 5,810 – 8,810 Mexican Pesos per month in 2018. When observing this data, it can be argued that the minimum wage for an adult must be at least 5,810 Mexican Pesos per Month, for it to be able to fulfill its purpose as defined by the 1917 Mexican Constitution in Art. 123. Even though, it was mentioned earlier that the female participation in the labor force has increased significantly, and therefore most households count with two workers instead of one, the constitution states in Art. 123 that the minimum wage should be sufficient for a **single** head of

household to be capable to supply with his/her wage a family and its necessities. This amount, even being the minimal living wage shown in the data, is more than twice the amount of the minimum wage level in the same year. When comparing the minimum wage in 2018 to the higher living wage amount of an average family constellation represented in the data, the latter is found to be three times the minimum wage. In addition, the daily minimum wage in 2018 was set at 88.36 Mexican Pesos, whereas in the same year the value of the daily basic needs basket was estimated at 94.06 Mexican Pesos. In conclusion, the Mexican minimum wage today in fact has lost significant real value and it is not enough to fulfill the normal necessities of a head of family, and furthermore does not fulfill its purpose as defined by the Constitution, making the minimum wage indeed unconstitutional.

It is also a fact that the situation has been subject to national and international scrutiny. The subject has become a controversial one, not only in media, but in political debates and policy making as well. In the section Recent Trends of this thesis, it is also mentioned how it has become a global trend to strengthen laborer protection laws, establish and/or increase minimum wages, and enforce minimum wage compliance. As this trend continues to spread, countries that have not followed such trend are more pressured to do so and Mexico is not the exception, such as it was mentioned how the Trump administration has used NAFTA negotiations to pressure Mexico into increasing wages. More modern papers, such as that of authors Belser and Xu (2018), also state how it is widely known that high inequality levels, such as those found in Mexico, can hinder further economic growth, and that a way to reduce such inequality levels, would be to increase the minimum wage and strengthen compliance laws.

To this day, much of the arguments against an increase in minimum wage have been based on fear for the negative economic repercussions, but in recent decades there has been an increasing amount of studies, such as Card and Krueger (1995), stating how these negative repercussions would be minimal, and the benefits of an increase would surpass them. These arguments of possible negative economic repercussions are based mostly on economic theories and studies and have been considered in the debate in Mexico as well. Nonetheless, due to the loss of significant purchasing power of the national minimum wage, and the high levels of poverty and inequality in the country, the debate and arguments have gone further.

One of the main arguments in favor of a raise in minimum wage is how it will help increase the quality of life of Mexicans and reduce poverty in the country. President AMLO supports this argument and mentions how the increases during his administration will help reduce poverty. Regardless, an argument against is how the minimum wage does not represent real wages and only a very low percentage of the Mexican population is recipient to a single minimum wage. A raise in minimum wage would reduce poverty and increase quality of life only if its level were close to real wages, which is not the case. The minimum wage in 2019 is 3,121.47 Mexican Pesos per month, whereas the average monthly wages of low-wage informal jobs such as those of gardeners, housekeepers, and plumbers is at least 5,346 Mexican Pesos.

The difference between the minimum wage and real wages is high and it is therefore argued that the minimum wage does not represent real wages, but rather a unit of reference for penalties, administrative, and services fees. This argument has lost its relevance since the Law Reform of 2016, in which the minimum wage was disengaged as a unit of measurement and Art. 123 was modified to include *"The minimum wage shall not be used as an index, unit, base, measurement or reference for purposes beyond its nature"* (Diario Oficial de la Federación, 2016, Art. 123, A, VI). For unit of reference purposes, a Unit of Measurement and Actualization was established, liberating the minimum wage of this function, in order to serve solely as a wage floor. It still may be used as a unit of reference, although only for pension levels and social security services, which fall into purposes of minimum wage nature. This leads to conclude, that the argument that the minimum wage is still only an instrument of reference is, since the 2016 Reform, no longer valid.

Simultaneously, even though the minimum wage can no longer be legally used as a unit of reference for penalties and administrative fees, it can still be used as a reference for other purposes, such as wage calculations by private foreign firms. The argument that the minimum wage does not represent real wages also overlaps with the economic theory that the market will always set a natural equilibrium, which in this case would be the wage for a specific labor. Nonetheless, the pro-increase argue how employees nowadays have almost no bargaining power against private firms, giving companies the opportunity to lower costs by pushing wages down. Cárdenas Sánchez´s (2016) argument that foreign companies take the minimum wage in Mexico as a

reference to establish salaries for their opening positions, becomes herewith stronger. It has been counter-argued that companies offering such low wages would be uncompetitive, but with enough companies offering low wages, further companies could follow, lowering real wages. Especially, since the high demand for labor guarantees companies that even if potential employees reject the offer due to the wage offer given, others will take their place.

Finally, one of the most popular arguments against an increase in minimum wage is that this would result in higher inflation rates. Several pro-increase have mentioned how this is a myth, including President AMLO. As mentioned previously in this thesis, Banco de Mexico conducted a study with calculations of different minimum wage increase scenarios. The study concluded how in all scenarios inflation rates returned to normal within 24 months, weakening the argument that inflation would spiral out of control due to an increase in minimum wage. Nonetheless, it does also conclude how a drastic increase would result in much higher prices in the long-term, especially if the increase triggers a rejoinder effect of prices and exchange rates. Therefore, even though the argument that it would be inflationary weakens, the argument that no repercussions would take place is not accurate either.

The minimum wage in Mexico counts in my opinion with two versions of itself: the paper version and the reality version. On paper, the definition as stated by the Constitution, its establishment process, and periodic adjustments are aligned with the recommendations by the ILO. Meanwhile, in reality the minimum wage is lower than the basic needs basket level, does not represent living or real wages, and has lost most of its purchasing power. The existence of these two versions shows how the implementation of theory and laws have not been working or have gone wrong. The minimum wage does not represent a unit of reference anymore due to the labor reform, leaving its purpose to be solely that of the minimum wage, which it currently does not fulfill.

AMLO has promised to repair this by doubling the minimum wage by the end of his administration, and thus to improve the quality of life of Mexican households and reduce poverty and inequality; but to what extent will he be able to make good on his promise?

To begin with, AMLO´s minimum wage increases as planned throughout his administration will take international pressure off the Mexican government. On one hand from international organizations which have criticized Mexico a lot for its low wages, and on the other hand from the United States and Canada, since low wages were cause for much unsatisfaction within the NAFTA members. On another point, a high increase in minimum wage will give foreign companies a higher floor to set wages when entering the market. In addition, workers in Mexico whose wage is set based on "amounts of minimum wage" such as a person earning three minimum wages, or even four per contract, will see a nominal increase in their wages due to the minimum wage increase. Moreover, even though the Mexican population earning a single minimum wage per month is rather a low percentage of the total population, these people will also benefit from a direct impact through the nominal minimum wage increase. Businesses will also benefit on the short term of a nominal minimum wage increase because, since taxes on companies based on wages are measured on amounts of minimum wages, they will see a reduction in taxes. This is because an increase in the minimum wage will represent a lower amount of minimum wages per salary, which will translate to lower taxes. For example, a person earning $300 Mexican pesos per day at a minimum wage level of $88 pesos per day, represents 3.4 minimum wages per day, whereas a person earning $300 Mexican pesos per day at a minimum wage level of $120 pesos per day represents only 2.5 minimum wages per day, thus reducing taxes.

AMLO will also enjoy a positive effect on political terms with his minimum wage increases. A high percentage of Mexican society listens to his propositions and solutions and says "ahora sí", meaning, *"this time it will happen",* as to say this time something will change and AMLO is indeed increasing the minimum wage at rates higher than previous administration. It is an excellent way to increase approval rates, and if something does not go according to plan, it is easy to say it is due to the many corrupt presidents Mexico has had before, who have left the country too destroyed to be able to make rapid changes.

But, what impact will this have on the *quality of life* of Mexican households? Minimum wages in Mexico have been used as a tool to maintain inflation levels low, and as mentioned before, the minimum wage increase opposition has argued how such a drastic increase could trigger higher inflation levels. Even though Banco de Mexico´s study says that this is not necessarily true, it does

warn that a *drastic* increase in minimum wage could trigger a rejoinder effect and thus inflation could spiral out of control. AMLO´s planned increases represent a risk of this happening, and if it does, the informal sector, which will enjoy of no direct nominal wage increase, will count with a lower purchasing power. This will then lower their quality of life, and one must take into account that the informal sector in Mexico represents over 50% of the total economy. In the formal sector people´s quality of life would not increase either, since higher inflation represents higher prices on goods and services, annulling any positive impact a nominal wage increase could represent, especially in single minimum wage earners. Furthermore, the workers already earning more than a single minimum wage per month, who enjoy no positive impact on their wages through the minimum wage increase will also see a decline in their purchasing power if prices increase whilst their wages remain the same. Higher inflation would raise the price on the basic needs basket, increasing the disparity between the basic needs basket and minimum wage level. The race between both would therefore continue, and not be slowed down. Besides, AMLO´s goal of doubling the minimum wage by the end of his administration will still not result in a minimum wage representative of the living wage of a typical family in Mexico, as stated by Art. 123 of the Mexican Constitution of 1917.

Finally, what impact would such increases have on companies and thus on workers and their quality of life? Since many of the prices for goods and services get updated every year based on inflation levels, if minimum wage increases remain above inflation, this could represent much higher costs for firms. Additionally, the high increases in minimum wages would represent more workers who earn just above the minimum wage seeing how the minimum wage is getting closer to their nominal wages, and could bring them to ask for wage raises, which would furthermore increase costs for companies. This lighthouse effect on wages could give companies cause to increases prices on their goods and services to maintain profit margins and could thus trigger cost-push inflation, which will furthermore increase prices on goods and services rendered to the people, again reducing purchasing power. Drastic increases in minimum wages and costs for companies could also give companies cause to raise hiring standards and qualifications. As Milton Friedmann said, higher costs per employee could push companies to seek higher qualified people, and thus reduce the labor demand for lower qualified people, making it harder for them to find a job, from which many would seek them in the informal sector, and would then not perceive an

increase in their quality of life since the informal sector oftentimes does not count with the same securities the formal sector does. Furthermore, increases above inflation, representing a faster increase in costs than in company revenue, could push firms that cannot handle the cost increases to seek for creative alternatives, thus increasing non-compliance levels in the country or illegal accounting practices.

So, to what extent will AMLO´s minimum wage plan improve the quality of life of Mexican households? In my opinion, superficially, it will seem like an overall improvement and it will reduce international pressure on the country. However, in greater depth, the quality of life of Mexican households will not truly improve. But what about other functions of the minimum wage?

AMLO proposed, and followed through, to set a higher minimum wage level than the national level at the Mexican-United States border as an incentive for migrants to stay at the border and not migrate into the United States. This is, in my opinion a simple solution seeking to solve a complex problematic. Mexican migrants that arrive at the northern border seeking to enter the United States illegally, may be able to apply for formal jobs in northern Mexico, but I believe this to be highly unlikely, since the minimum wage at the northern border is still significantly lower than the wages offered to informal workers in the United States. Regardless, AMLO also forgot to consider how, and why, migration happens. He forgot to take into consideration that a higher wage is only one of many factors of what motivates people to move. For instance, Mexican migrants do not just randomly decide to move to the United States and arrive to some random town or city and pursue a life. Mexicans have migrated to the United States for generations now, and many of the Mexican migrants nowadays seeking to enter the United States do so because they count with some relative or contact from their hometown already in the United States. These relatives and contacts are often the ones that invite potential migrants to move to the United States and are often the ones that pay the high costs of the travel as well. Mexicans are typically very family-oriented and seek to remain near their families. When arriving to northern Mexico and being presented with the opportunity of a job with a higher wage than the national average, they may be interested, but since their families are not there and they do not know anybody, they will either keep trying getting into the United States or, should they fail, go back home. Having a contact or a relative, who has already built a life in your city of destination makes building a life of your own, getting a good job, incorporating

into a new home and culture a lot easier. This is something that makes migration attractive. The travel and entering the United States might represent a high risk, but should one arrive to the city of destination, since one already has a contact or relative there, things will be less difficult and wages much higher than in Mexico (including the northern border), thus giving migrants the opportunity to provide their families back home a much higher quality of life. Crossing the USA – Mexican border illegally has though become more difficult and less attractive due to insecurity and higher number of deportations. However, should this high risk result discouraging to potential illegal Mexican migrants, these migrants, as mentioned before, will seek to stay by their families, or, should they fail to cross the border, will return back home, since the wage difference between their homes and the northern border is still not high enough to actually motivate them to move their entire family.

In addition, it is well known that the number of migrants of Mexican nationality seeking to enter the United States illegally has decreased significantly in recent years, whilst the number of Central and South American migrants has increased. This may seem to be an irrelevant fact, but it is key as to why this incentive will not work. Central and South American migrants are also foreigners on Mexican territory, and thus do not count with a work permit. In order to work in the formal sector in Mexico, it is necessary to count with a work permit, and acquiring one in Mexico can be surprisingly complicated. For once, Mexican law prohibits businesses from having a foreign labor force higher than 10% of their entire employee roaster, including managers and directors. They also need to count with a permit from the government to actually hire foreign labor force in Mexico and submit their work permit request. These work permits can be costly, and some are even denied. Furthermore, foreigners applying for a work permit who are already in Mexico are required for the work permit process to leave the country and get the permit in a Mexican consulate in a foreign country. Most migrants have already spent a significant amount of money, in some cases their entire savings, in their travels up north. They do not count with the financial means and cannot afford to pay for the travel back south and up north once again. The most cost-efficient and the easiest way would be to submit their work permit request in a Mexican consulate in the United States, and if they manage to get into the United States, why go back to Mexico again if they achieved what they were seeking in the first place? Regardless, when businesses are only allowed to hire a specific number of foreign employees, they will most certainly seek to hire the higher

qualified foreigners. If a company is only allowed to hire five foreigners, and they count with foreign job applications for operator positions, and foreign job applications for management positions, the most logical thing to do, would be to hire the higher qualified applicants. Especially given the costs and additional processes hiring a foreigner entails, which will push companies to hire the foreigner, which represents the highest "return on investment" and added value to the company. Having this problematic, migrants are left with the possibility to work in the informal sector, in which, as I stated before, the legal minimum wage has little influence on real wages. The wage level is set by the natural equilibrium of the labor market. AMLO´s strategy of setting a higher minimum wage at the northern border therefore does not represent a good enough incentive to reduce migration into the United States.

The Covid-19 health crisis in Mexico has also brought light to another predicament regarding the low level of the minimum wage. Experts say the Covid-19 crisis could become catastrophic in Mexico, and the economic repercussions can be massive as well (The Economist, 2020). Amidst the increase of confirmed cases, the Mexican government has faced backlash for its reluctance to officially name the crisis a sanitary contingency. Instead, the government has insisted on delaying the most extreme measures as much as possible (Gonzalez Diaz, 2020). They have officially called the crisis a "sanitary *emergency*", but still not a "sanitary *contingency*". This small technical variation may seem irrelevant to most, but the impact on wages from one term and the other is significantly different. Mexican Federal Labor Law states as a cause for temporary suspension of labor relations in a company *"The suspension of labors or work declared by the appropriate sanitary authority in the cases of sanitary contingency"* (Ley Federal del Trabajo, Art. 427, VII, 2019), and follows to add *"with regard to section VII, the employer will not require approval or authorization from the Court and will be obligated to pay his workers compensation equivalent to one day of the current general minimum wage, for each day the suspension lasts, without exceeding one month"* (Ley Federal del Trabajo, Art. 429, IV, 2019). A "sanitary emergency" on the other hand, forces companies to send their employees home as a "social distancing" measure and still pay them their full wages, since as long as no official sanitary *contingency* is declared, companies will have no legal grounds to apply Art. 429 and are thus obligated to comply with the terms in every relationship of employment. This can be seen as a method of the government to avoid the national economy to come to a full halt. Having such a low minimum wage, which is far below

the living wage of a family in Mexico, means that if companies actually send their employees home perceiving a salary reduced to a single minimum wage per month, most families will not be able to afford basic essentials. This would cause a far more acute economic impact. Nonetheless, AMLO´s plan to double the minimum wage by the end of his administration will still not reach the level of the real living wage of a single family in Mexico. This means that his proposal will still not guarantee households the security of being able to afford basic needs in case of a sanitary *contingency* in which Art. 429 comes to effect.

It was mentioned previously in this thesis how AMLO´s intention is not only to increase the minimum wage level to reduce poverty and improve the life of Mexican households, but also to create and implement other economic and social programs and policies. Therefore, the reader may wonder whether these kinds of social and economic programs could compensate for the shortcomings of the minimum wage in Mexico.

Roldán (2017) mentions in an article how the CONEVAL (*National Council for the Evaluation of Social Development Policy)* identified 5,491 programs and actions for social development in Mexico. Unfortunately, Roldán (2017) also mentions how only 54% of these programs are considered priority programs. In addition, the author mentions how the CONEVAL in their report, that sadly, many programs are designed in an individual manner. The programs achieve their objectives and attend to their beneficiaries at an individual level, but that from a broader social development perspective, they contrast or don´t complement each other or present holes in the project (Roldán, 2017). AMLO´s economic proposal will create many more programs, which are not necessarily effective or sustainable either. Take AMLO´s program "Jóvenes Construyendo el Futuro" *(Youngsters Building the Future)* for example. Creating an educational program, in which young Mexicans who do not count with education or a job, can enter a business and be taught a profession is in my opinion an excellent idea. The fact that the government is supposed to pay for these young people´s wages is not. If the government is the one paying for the trainees´ wages, when training is over, businesses would have to pay for the wages themselves, and with this sudden added cost, businesses may contemplate laying the graduated trainees off and look for new trainees whose wages will be again covered by the government in order to reduce costs. The money saved in wages can be worth more than the time spent training a new person. This is an example of a

program whose objective may be very clear, but it is not that effective in achieving the broader development goal. Programs with these kinds of structures are not only not effective, but also not sustainable. A perhaps more adequate structure would be to create incentives for businesses to hire and train young people, such as reducing or eliminating wage taxes on young people in training completely. In this way, the government can create an educational program, incite businesses to train and hire young people, without increasing public spending so massively and risking not being able to make good on promises or payments. In this way, the program could also become more effective: The proposition I make, would force businesses to invest not only in time and effort, but also in wages in their trainees, making them more likely to hire them permanently, whilst reducing taxes on wages. This is just one of many other public policies and programs funded by the Mexican government which can be redesigned to become more effective and sustainable.

So, given that the minimum wage increase does not seem to truly improve the quality of life of Mexican households, and social and economic programs are not compensating its shortcomings, what would be an alternative to reach a higher quality of life?

Anaya´s proposal for a Universal Basic Income is in my opinion worth taking into consideration. No, the Universal Basic Income level would not be higher than the minimum wage, and no, it would not eradicate poverty and inequality in Mexico completely, but when analyzed and designed correctly, it can have many positive effects. Additionally, resources from other institutions which are proven to not work could be reallocated towards the UBI, helping achieve a higher efficiency of government resources. In order to implement such a UBI system, one would have to eliminate the legal minimum wage since the concepts contrast each other. For this reason, let us analyze the following scenario in which the legal minimum wage is eradicated.

Case A: The Informal Sector. Real wages are already much higher than the minimum wage in the informal sector as well, where laws are not necessarily taken into consideration when hiring an employee. In these cases, employees would also not be able to defend themselves should their rights be violated, since in order to be able to place a suit and go to court to demand what is their right, or a punishment for the employer, under Mexican law it is necessary to be able to prove your relationship of employment, with evidence such as a business ID card, a labor contract or evidence

of payroll payment, none of which are present at informal employment relationships. The employer can deny before court having ever been the employer and can even deny knowing the person. Lacking proof, employers can violate labor laws and walk free of punishment. Employers in the informal sector have therefore no pressure whatsoever from the government or the Law to maintain wages higher than the legal minimum, it is, as stated in the classic economic models, the natural equilibrium of the labor market what truly matters. The wages in the informal sector would not be affected due to the arguments mentioned before, since nothing really changes either for the employers nor the employees.

Case B: The Formal Sector. Minimum wage is eliminated, and some businesses see this as an opportunity to push wages further down. First of all, this would not be legally possible, since Labor Law in Mexico states that it is not legally possible to reduce an existing employee´s wage permanently. This means that the companies would have to lay off their employees and hire new ones with a lower wage offer. Since the employees would be laid off "without cause", companies would have to pay them their severance package in full which, depending on the wage level and length of relationship of employment, can be very high. Laying many people off without cause would therefore be incredibly expensive and not necessarily worth it. Businesses could do it gradually so the financial impact is not that high, but the time and effort spent and the high employee rotation during the process would still not be worth it. Regardless, these businesses would not be competitive, since most businesses already offer wages higher than the legal minimum, so the labor force willing to work for so much less also bring less of the necessary skills and know-how, so it does not represent an actual benefit for the business on the long-term.

Having stated both cases in which a minimum wage is eliminated, what impact would the implementation of a UBI system have? A UBI system would have the benefit that it would not only have an impact on the formal sector, but on the informal sector as well. Looking again at real wages as portrayed in Table 5, the average wages of informal low-skilled workers, such as a gardener is at 5,346.00 Mexican pesos per month. Should the UBI level be at, say 2,000.00 Mexican pesos per month, the gardener would then count with 7,346.00 Mexican pesos per month. Table 6 shows a direct comparison between minimum, real, and living wages and what the total income would be with a UBI of 2,000.00 Mexican pesos per month per person (over 18 years old).

In Table 6 one can see how the minimum wage in 2019 is still insufficient in comparison to living and real wages. It is not even sufficient to cover the living wage of a single adult. The real wage of a gardener is also just enough to cover the living wage of a single adult. However, the total income of a gardener with a UBI of 2,000.00 Mexican pesos per month, is enough to cover for the median living wage of a typical family. In addition, a UBI would mean both father and mother would receive a UBI each, making the total income of the gardener´s family with the additional 2 UBIs 9,346.00 Mexican pesos per month. This income level is sufficient to cover the living wage of a typical family and represents three times the minimum wage level in 2019.

Table 6: Comparison of Mexican Wages in 2019

Minimum wage	Living Wage Single Adult	Living Wage Typical Family	Real Wage Gardener	Total Income with one UBI	Total Income with two UBIs
3,121.47[1]	3,690 – 5,380[2]	6,640 – 9,120[2]	5,346[3]	7,346	9,346

Own Elaboration (2019) based on data retrieved from Comision Nacional de los Salarios Mínimos [CONASAMI](2019), the WageIndicator Foundation (2019), and Indeed (2019).

[1] (Comisión Nacional de los Salarios Mínimos, [CONASAMI], 2019)

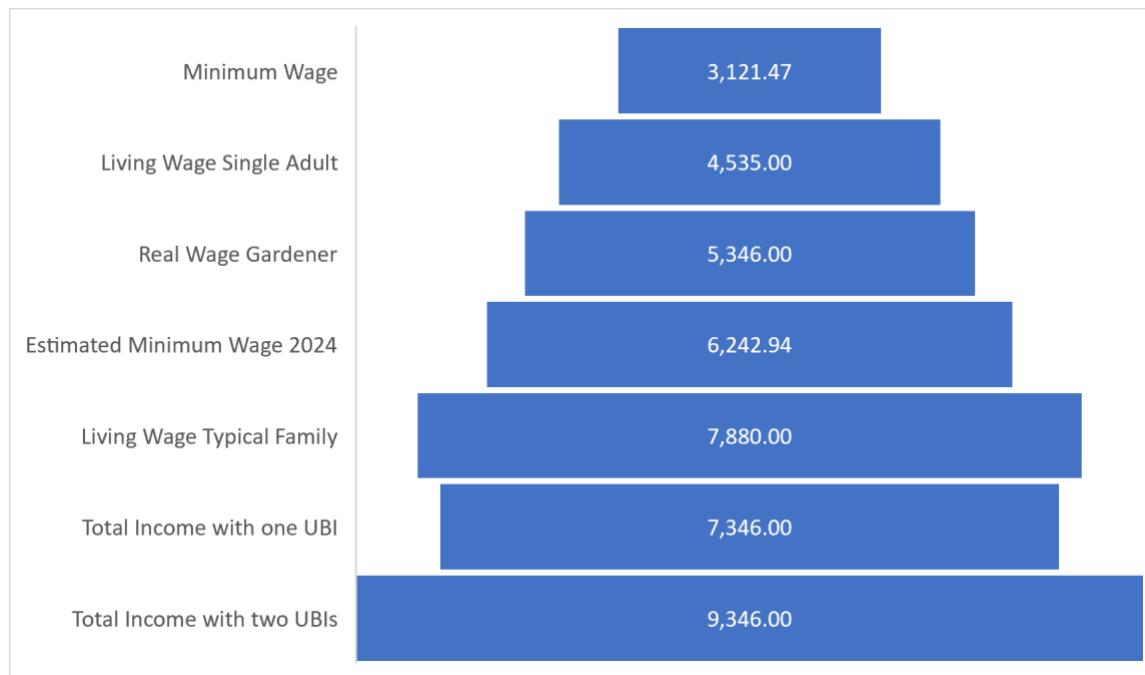*[2] (WageIndicator Foundation, 2019)*

[3] (Indeed, 2019)

It is difficult to ignore the significant difference between incomes. In this scenario, in which the gardener and his family receive 2 UBIs (one per adult), the gardener is capable of providing for his family with his wage alone. The gardener´s wife is able to stay at home and take-care of the children, or, to take a part-time job, increase total income further, and take care of the children after school. Figure 6 can help put more into perspective how the resources of the gardener´s family increase significantly through the 2 UBIs. The total family income surpasses the current minimum wage, living wages, and the future minimum wage level as proposed by AMLO (whose goal is to double the minimum wage level by 2024). Another point in favor of the UBI system is, that since it is an additional partial income and does not represent the level of a real wage, it does indeed benefit the poorer and poorest households. It may not represent a significant increase in quality of life for middle and higher socio-economic classes, but it does make a world of a difference for lower income households, since it represents almost half of their real wages. This additional

income could represent higher quality foods for the gardener´s family, or larger investments in preventive health care and well-being, which would eventually reflect a lower public expenditure on healthcare, since the family will count a better health base. The additional income could also represent a higher investment in education, such as in the purchasing of books and maybe even English tutoring. The number of school drop-outs could even decrease if young family members are no longer required to drop out of school to work and support their families. Even if the additional income is rather spent in clothes, restaurants, or the beauty salon, it would still have a positive effect, since it could jumpstart a higher demand in services and small businesses.

On another point, in order to implement a general UBI system nationwide, the government would need to create a network in which all adults of the country can be reached in order to make the monetary transfers. This kind of network would be helpful in a crisis such as the COVID-19 sanitary emergency to reach the informal sector workers, and the general population for that matter, to help relieve the economic impact households are having. Nationwide quarantine, fear of consumer spending, and a significant decrease of the consumer purchasing power reduces the income of informal workers to basically zero (Garcia, 2020). Informal workers, who do not count with employer security nor government security are left to their fate. Spikes in crime and poverty can be observed (Diario de Yucatán, 2020), and informal workers are reluctant to stay at home and follow sanitary protocol since they need to go out and try and earn enough to sustain their families (Garcia, 2020). The United States for example will give checks of $1,200 USD to every tax-paying adult earning less than $99,000 USD per year, as well as $500 USD per child, and $600 USD to adults earning too little to owe income taxes (Sullivan, 2020). This kind of government stimulus during a crisis could me more plausible with a network of citizen reach that Mexico does not count with but would have to create should a UBI system exist. In addition, such a network could present the government with more options regarding the economic relief packages during the health emergency. Also, overcoming the economic crisis would be less difficult counting with a UBI, since citizens would still receive an unconditional basic income from which they could afford at least food and other essentials.

Figure 6: Mexican Wages 2019 Compared to Total Income with UBI and Estimated Minimum Wage 2024

Own Elaboration (2019) based on data retrieved from Comisión Nacional de los Salarios Mínimos [CONASAMI](2019), the WageIndicator Foundation (2019), and Indeed (2019).

Some of these arguments are also made in favor of a higher minimum wage level, but when observing the data, one can see that in AMLO´s proposition to double the minimum wage by 2024, the minimum wage level would be at approximately 6,242.94 Mexican pesos per month, as observed in Figure 6. AMLO states proudly how he will increase the minimum wage in much larger amounts than anybody before in order to double the level by the end of his administration. With this been said, if AMLO´s strategy represents a "never before seen increase", but it would still take several years to barely reach the living wage of a typical family, is it really worth waiting? The total income with two UBIs however, is much higher and would not represent higher costs or taxes to businesses, which as mentioned before is in some cases the reason why business owners are reluctant to pay their employees more in order to avoid high taxes. How long would it take for the minimum wage to reach the level of the Total Income with Two UBIs as proposed in this thesis based on today´s wages? Because of inflation, the living and real wages will also increase by 2024, and will keep increasing, leading to the question: How long will it take to reach real and living wage levels? The minimum wage level seems to never be able to keep up.

Even if AMLO does manage to elevate the minimum wage to real and living wages by the end of his administration, the benefits are, in my opinion, rather minimal in comparison to the benefits a UBI could bring. Not to mention that the benefits would also be limited to the formal sector, which accounts for barely half of the Mexican economy (INEGI, 2019). In contrast, the concept of a UBI has been increasingly debated across the world, and there have even been several Universal Basic Income pilot projects in most continents which have shown several positive results.

Interestingly, both Mexico and Brazil have already put such projects in motion on a small scale, more specifically the "Programa Oportunidades" in Mexico and "Bolsa Familia" and the "Quatinga Velho Project" by the Recivitas organization in Brazil. The reader may wonder why, counting with a pilot program in Mexico, this program was not used as an example or point of reference for the arguments made in this thesis. The reason for this is that the Oportunidades program in Mexico is a highly focalized conditional program. The program is aimed to support the development of the following areas: education, health, nutrition and income (Caridad Araujo, Suárez Buitrón, 2013). The program consists on providing cash transfers to very poor families in marginalized rural areas, specifically those living in nutritional poverty, if they comply with the established conditions. Studies have shown a direct relation between the program and an increase in school attendance, nutritional health and a reduction in poverty (Caridad Araujo, Suárez Buitrón, 2013). Nonetheless, since the proposal made in this thesis is that of a general Universal Basic Income, the benefits of this program should not be used as arguments in favor because they are due directly to the conditions set by the program to obtain the monetary aid, whereas a UBI is not conditional. The same arguments can be made for the Bolsa Familia program in Brazil, which is also a conditional monetary aid program (Ćirković, 2019). The Quatinga Velho program by the Recivitas organization in Brazil on the other hand, is not conditional and therefore a better point of reference for the proposal made in this thesis. Unfortunately, the project was funded completely by the NGO Recivitas and was suspended due to insufficient funding. However, the NGO is so convinced of the positive impact of a basic income project that it launched a second project in 2016 with the objective to be permanent. Sadly, the NGO has refused to continue program studies and publish results in protest to criticism and lack of government support (Brancaglione, as quoted by Basic Income Week, 2017). In addition, the project is very small, having in the first round an

amount of beneficiaries of 100 and in the second round only 14 beneficiaries (Brancaglione, as quoted by Basic Income Week, 2017). It is because of the lack of studies, official reports of results and the low dimension of the project that it will not be used as a point of reference for the proposal of this thesis. However, an example can be made of the UBI pilot project in Madhya Pradesh, India; a country that also counts with a large informal economy, high inequality, and a caste system which can be compared to the classism in Mexico between Europeans, criollos and indigenous communities inherited from the colonial period.

Madhya Pradesh is a state in central India, in which a randomized control trial was made from June 2011 to November 2012 (Schjoedt, 2016). The project is very interesting since it was designed to give monthly cash transfers in a universal, unconditional and individual way (Schjoedt, 2016). The project counted with beneficiary groups and control groups, with the objective to observe the true effects of the project. 6,000 men, women, and children received the monthly cash transfers for a year and a half, and a total of 15,000 individuals were covered by the research (Schjoedt, 2016). The project counts with two pilots: the first is with eight villages as beneficiaries and 12 similar villages as control groups, the second consists of one tribal village as beneficiary and another tribal village as a control group (the latter being the poorest villages). The cash transfers consist of an amount representing 20-30% of the monthly income of the lower-income families. This had the objective to give out cash transfers, which would make a difference in the quality of life of the households, but not enough to improve them significantly. The initial benefit level was an estimate of $4.40 USD per adult and $2.20 USD per child at the time. Later on, the level was raised by 50% to adjust for inflation and provide a higher benefit to the households (Schjoedt, 2016). The author notes that it is important to take into consideration that, since these are individual cash transfers, the household as a whole benefits more than in other programs made around the world so far, in which the transfers are made per household and not per individual.

A wide range of positive impacts could be seen during and after the pilot project. First, the amount of households that counted with at least one bed increased from 35.5% to 83%. Mobile phone ownership increased from 9% to 61%, and scooter and motorbike ownership also increased from 3% to 30% (Schjoedt, 2016). Schjoedt (2016) mentions how this acquirement of assets improves

the job opportunities for the individuals significantly since they count with the resources to get to work and access to information.

One of the most dramatic impacts was in nutrition. With the additional income, the tribal beneficiary village increased its pulses and lentils consumption by 1,000%, and their vegetable consumption by 888% (Schjoedt, 2016). After only six months of the project, the percentage of households reporting enough income to satisfy nutritional necessities rose from 52% to 78%, whereas the control tribal village saw a decrease. There was also a significant decrease in malnutrition of children. When the project ended, the proportion of children reporting a normal weight for their age rose from 39% to 59%, an increase double as high as in the control villages (Schjoedt, 2016).

Some other positive impacts mentioned by the author are a reduction on debt, and a significant increase in school attendance of children and higher expenditure on education, especially for girls. A particularly interesting positive impact of the program was women´s empowerment. Since the cash transfers are made individually and not per household, women counted with their own money. 60% of women reported by the project´s end that they counted with more influence in household spending and decision-making due to the fact that they had their own income. In the pilot villages, 55% said that income was shared equally between household members, in contrast to only 36% in the control villages (Schjoedt, 2016). In the tribal villages, at the beginning of the project, 71% of households reported decisions were made by the head of the households (generally men), but by the end of the project, the percentage in the tribal villages had decreased to 52% (Davala et al., 2015).

The Universal Basic Income system is controversial and often criticized because it is argued that poor people cannot make good financial decisions and would therefore waste their money. The author mentions how of course, all villages have members who abuse alcohol and a UBI will not change this. However, Schjoedt (2016) mentions how there was an overall positive trend in the beneficiary villages: even though 3% increased their alcohol consumption, 4% reduced it; whereas in the control villages 7.5% people increased their alcohol consumption and only 2.5% reduced it (Schjoedt, 2016). Schjoedt (2016) mentions how in the interviews he made to women in the village

of Ghodakhurd, the women explained that their husbands started to drink less when the project began due to less economic stress.

Another argument is that people would become lazy, since they are receiving money independently of whether they have a job or not. Interestingly enough, there was a slight decrease in overall wage labor, but this was not due to people becoming lazy. The study found how the program beneficiaries gave up their low-wage jobs and began buying seeds and fertilizers to start working on their own fields. Beneficiaries had also begun to save money to invest in livestock by the end of the project (Schjoedt, 2016). This shows how although the statistics see a reduction in overall wage labor, people´s productive assets increased significantly, and investments to improve their own farming land´s productivity were made, increasing therefore overall productivity on the long-term.

The author mentions how the results observed in the pilot project suggest that the livelihoods and effects on production would have been improved significantly more if the project had continued for a longer period of time. Schjoedt (2016) also analyzes how a Universal Basic Income would cost India approximately 3.2% of its GDP, at a level of $4.36 USD per adult and $2.18 USD per child. The author then compares public social security expenditure percentages of GDP, as stated by the International Labor Organization in 2014, in other countries, pointing out that it is not an unreasonable cost. Schjoedt (2016) concludes his paper by stating how a UBI will not solve all issues faced, but that *"it is amazing how much can be done simply by providing people with a small extra income on a regular and predictable basis"* (Schjoedt, , 2016, p.8, ¶3).

Even though the Madhya Pradesh UBI Pilot Project has shown very positively surprising results, and it is in my opinion the best option to improve quality of life, I must acknowledge the limitations a nationwide implementation of such a system can have in Mexico. First of all, eliminating the legal minimum wage in order to implement a UBI system could spark a lot of controversy at an international level. Probably more than the low levels of minimum wage the country currently has. Secondly, the current administration will not seek to eliminate the minimum wage, but rather continue with its policy to keep increasing it. Eliminating the minimum wage could also cause great backlash from Mexican society against the current governing party. Third, the necessary

network in order to create a UBI system which reaches the entire Mexican population could be very challenging due to the numerous marginal communities in the country. Finally, the high corruption, violence and organized crime levels could hinder the true reach of those resources to the people. It is not uncommon for officers and criminals to take advantage of vulnerable citizens or even exploit them for their monetary gain.

So, what is then a suitable second alternative to increase the quality of life of Mexican households and reduce poverty? In my opinion, a serious analysis of public policies, social programs, and government-funded institutions. I believe many are unsustainable and not very effective or efficient. This is a main issue in Mexico: inefficiency (not only, but mainly of the government). An analysis of how resources are spent currently, and how effective each program and public policy is, could help redistribute resources so these are used in a more efficient manner. Programs that contrast each other can be redesigned in order to complement each other and close gaps. The vast amount of programs also reduces the likelihood of citizens knowing them, and actually applying and benefiting from them. Programs that are very similar could be merged and their resources could be combined. If two similar programs are both only working at half their capacity since not enough citizens are aware of their existence, merging them could thus increase their efficiency by increasing the number of beneficiaries. At the same time, if the merger of certain programs results in a surplus of their resources, these resources could be redirected to the programs counting with a high demand but insufficient capacity due to resource scarcity. Using resources in a more efficient manner in the more effective programs and policies could increase their positive impact, thus improving the quality of life and opportunities of Mexican households.

The income tax system should also be redesigned. If a government wants businesses to pay their employees a higher wage, why do they charge businesses with higher taxes for the higher wages, and lower taxes for lower wages? An incentive can be made with the income taxes. For example: one could design an income tax system in which a salary range is established. There can exist a salary range from 0 to the living wage or the equivalent of the basic needs basket cost, and businesses that offer their employees a wage within that range are charged per employee with a higher tax. Another wage range can be established for the higher wages as well, in which wages that are higher than twice the median wage are also charged a higher tax. This would leave a wage

range between the lowest and highest wages, in which companies could enjoy of a lower tax charge for all employees within this range. This is a very basic idea that needs more detailed exploring and a higher analysis, but in my opinion, a model like this could motivate companies to reduce the wage gap themselves and can function as an incentive to stop suppressing wages. A solution like this could have a higher impact on reducing inequality in Mexico (within the formal sector) than other incentives so far have had. This of course would have to be implemented gradually. The wage range in which companies enjoy of tax benefits could start off as being very broad, and over time be reduced. In this way, companies motivated to pursue the tax benefits can have time to adjust and would not suffer from a cost-increase shock, which as mentioned before, could have a negative impact on low-skilled employment.

7. Conclusion

The purpose of this thesis is not to give a simple solution to a highly complex problematic, but rather to question whether we are approaching the problematic in the correct way. Politicians, policy makers, and yes, sometimes even economists, tend to compare one country with another and forget that it is not as simple. Why do we keep trying to make a country fit a commonly used public policy, instead of designing a public policy that fits our country? We live under the illusion that Mexico was once a great country, and that the reason why it is not anymore is due to corrupt politicians. I do not want to exempt corrupt politicians of the negative impact they had on the country, but the reason Mexico is inefficient and in a bad economic place is not due solely to corruption, but to economic and government program inefficiency as well. Why are we so reluctant to accept that the reason why Mexico once enjoyed a high economic growth was not due to our protectionist, nationalist laws and public policies, but rather due to a global economic growth in which we were lucky enough to be along for the ride and get a piece? We confuse luck and macroeconomic correlations with efficiency and successful social programs.

If we really want to improve the quality of life of Mexican households, reduce poverty and inequality, and increase economic growth, it is time to accept the crude reality. It is necessary, as I stated in the Discussion, to sit down and objectively and realistically analyze which public policies do in fact work, and which ones are unsustainable and inefficient. The illusion of former economic greatness is what keeps us from accepting that the system is just not that good, and because we do not accept this, we try to "improve" this existing system and even create new public policies which are just as inefficient. Such is the case of the legal minimum wage. Why do we keep doing the same things over and over again, and expect a different result?

AMLO constantly affirms that Mexico and its system were once great, and that the problem has been the neoliberal strategies and corruption of previous administrations and elites. He argues that it is because of this that his administration will be a "Fourth Transformation" to reconstruct Mexico, however, there is not much transformation going on. He is not transforming the minimum wage, nor rethinking the model as a whole, and in some cases, he is even moving backwards by establishing again two minimum wage geographic zones. I believe Mexico is trapped in a vicious

circle going from left to right and from right to left again. Having administrations which pursue a political ideology just to prove the other wrong, and even use politics as a pretext for personal interests, whether for money or power, is a guarantee that the country will not move forward. I believe AMLO is no exception.

I strongly believe we will not improve unless we break out of the vicious cycle of constant "repeat" and start thinking outside of the box. I conclude that the first best option to truly make a positive impact in the quality of life of Mexican households would be a UBI. However, as mentioned in the Discussion, I have to acknowledge the challenges the introduction of such a system at a national scale would face in Mexico. Nonetheless, I don't find this to be a reason to maintain the current system. Even when the best option is not possible, there are still things that can be done to move towards the set goals. Analyzing programs like "Jóvenes Construyendo el Futuro" deeper and observing its impact, as well as doing adjustments, over time could help us improve it and reach the desired effect. The same thing can be done for all other programs. A budget does not necessarily need to be increased, but rather used properly. The tax system as proposed in this thesis could help the government push the private sector to reduce wage gaps themselves.

I conclude that AMLO´s minimum wage strategy will not improve the quality of life of Mexican households and it will rather remain the same unless a real transformation is done in which public policies and social programs are designed to fit the country and not the other way around. Such as studying and understanding the issues poor Mexicans face and their causes, in order to address them more properly. It can be seen through the Madhya Pradesh UBI pilot project that sometimes an unconventional approach can help achieve the most conventional of objectives; if a true improvement in Mexico is desired, then maybe it is time to completely rethink the way public policy is done.

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Appendix

Appendix 1.

Comparison OECD Member States

Country	Population	GDP Growth (Annual, %)	GDP (Annual, $USD)	GINI Index	Human Development Index
Australia	24,992,369	2.94	1.434 Trillion	35.8	0.938
Austria	8,847,037	2.42	455.286 Billion	30.5	0.914
Belgium	11,422,068	1.45	542,761 Billion	27.7	0.919
Canada	37,058,856	1.89	1.713 Trillion	34	0.922
Chile	18,729,160	4.02	298.231 Billion	46.6	0.847
Czech Republic	10,625,695	2.95	245,226 Billion	25.9	0.891
Denmark	5,797,446	2.39	355,675 Billion	28.2	0.930
Estonia	1,320,884	4.76	30.732 Billion	32.7	0.882
Finland	5,518,050	1.67	276,743 Billion	27.1	0.925
France	66,987,244	1.72	2.778 Trillion	32.7	0.891
Germany	82,927,922	1.52	3.948 Trillion	31.7	0.939
Greece	10,727,668	1.93	218.032 Billion	36	0.872
Hungary	9,768,785	5.09	157,883 Billion	30.4	0.845
Iceland	353,574	4.61	25.878 Billion	27.8	0.935
Ireland	4,853,506	8.17	382,487 Billion	31.8	0.942
Israel	8,883,800	3.45	370.588 Billion	38.9	0.906
Italy	60,431,283	0.77	2.084 Trillion	35.4	0.883
Japan	126,529,100	0.78	4.971 Trillion	32.1	0.915
South Korea	51,635,256	2.66	1.619 Trillion	31.6	0.903
Latvia	1,926,542	4.62	34.409 Billion	34.2	0.854
Lithuania	2,789,533	3.64	53.429 Billion	37.4	0.869
Luxembourg	607,728	3.11	70.885 Billion	33.8	0.909
Mexico	126,190,788	2.13	1.221 Trillion	48.3	0.767
Netherlands	17,231,017	2.59	913.658 Billion	28.2	0.931
New Zealand	4,885,500	2.77	204,924 Billion	-	0.921
Norway	5,314,336	1.29	434.167 Billion	27.5	0.954
Poland	37,978,548	5.14	585.664 Billion	31.8	0.872
Portugal	10,281,762	2.44	240.675 Billion	35.5	0.850
Slovakia	5,447,011	4.03	105.905 Billion	26.5	0.857
Slovenia	2,067,372	4.11	54.008 Billion	25.4	0.896
Spain	46,723,749	2.35	1.149 Trillion	36.2	0.893
Sweden	10,183,175	2.22	556.086 Billion	29.2	0.937
Switzerland	8,516,543	2.75	705.14 Billion	32.3	0.946
Turkey	82,319,724	2.82	771.35 Billion	41.9	0.806
United States	327,167,434	2.92	20.544 Trillion	41.5	0.920

Own Elaboration (2020) based on data retrieved from The World Bank (2019), and United Nations Development Programme Human Development Reports (2019).

Appendix 2.

Comparison between Latin American Potential OECD Member States

Country	Population	GDP Growth (Annual, %)	GDP (Annual, $USD)	GINI Index	Human Development Index
Argentina	44,494,502	-2.48	519.872 Billion	41.2	0.830
Brazil	209,469,333	1.11	1.869 Trillion	53.3	0.761
Colombia	49,648,685	2.56	331.047 Billion	49.7	0.761
Costa Rica	4,999,441	2.63	60.13 Billion	48.3	0.794
Peru	31,989,256	3.97	222.045 Billion	43.3	0.759

Own Elaboration (2020) based on data retrieved from The World Bank (2019), and United Nations Development Programme Human Development Reports (2019).