

Institution: Queen Mary University of London		
Unit of Assessment: 16 Economics and Econometrics		
Title of case study: Informing policies to protect low wage workers and to prevent rising wage inequality in Latin America		
Period when the underpinning research was undertaken: 2005-2010		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s): Marco Manacorda	Role(s) (e.g. job title): Professor of Economics and Public Policy	Period(s) employed: September 2000–Present
Period when the impact occurred: 2014-2020		
Is this case study continued from a case study submitted in 2014? N		
1. Summary		
<p>Professor Manacorda has produced a body of research on the role of labour market institutions and educational policies in affecting trends in wage inequality in Latin America. His research findings have shaped public understanding of the forces behind trends in the structure of earnings in the region, influenced policy and public debate both nationally and internationally, and led to explicit policy recommendations that have directly affected national legislation. In particular, this research has informed the reform of the minimum wage legislation in Mexico in 2016, paving the way for an increase in the real value of the minimum wage between 2016 and 2020; guided the legislated increases in the minimum wage in Argentina between 2016 and 2018; and shaped policy debates and recommendations by international organizations regarding appropriate educational policies to prevent rising earnings inequality throughout Latin America.</p>		
2. Underpinning research		
<p>Despite remarkable progress during the last two decades, Latin America has one of the highest levels of wage and income inequality in the world. Manacorda's research on the role of wage institutions and educational policies in driving wage differentials and inequality in Latin America has led to several novel and policy-relevant findings, which have revised existing wisdom about the determinants of these trends in the region.</p> <p>His research on minimum wages and earnings inequality in Mexico showed that [3.1]:</p> <ul style="list-style-type: none"> • Up to the late 1980s, when set at a sufficiently high-level, the minimum wage in Mexico acted as an effective floor for wages of low paid workers and helped reduce wage inequality. During this period, the minimum wage covered not only low paid formal workers, namely those with regular contracts who contribute to social security and taxation, but also low-paid informal workers, who account for a large fraction of the Mexican labour force, and for whom minimum wage legislation was not legally binding. This happened because policy set during high inflation periods indexed pensions and state benefits - and hence indirectly all low wages - to the minimum wage. • Between the late 1980s and the early 2000s the real value of the minimum wage fell by 50%, causing a considerable rise in bottom wage inequality in Mexico (an increase of more than 20 percent the differential between those with median wages and those in the bottom 10 percent of earners). This fall happened because policy failed to index the minimum wage to inflation, and nominal increases were significantly below inflation. Hence, the ability of the minimum wage to provide an effective wage floor was gradually eroded, with a resulting increase in inequality at the bottom of the wage distribution. <p>These findings challenged the view of previous research that the rise in inequality in Mexico over the period was a result of globalization and Foreign Direct Investment and demonstrated that, despite imperfect enforcement, the minimum wage is as an effective redistributive tool in low and middle-income economies [3.1].</p> <p>Related research showed that, alongside labour market institutions, education policies contributed to the observed changes in the wage structure over the 1980s and 1990s in Latin America [3.2].</p>		

This research provided novel evidence of a ‘hollowing out’ of the returns to education over the 1980s and 1990s in four major economies (Argentina, Brazil, Chile and Colombia), with declining returns to secondary education relative to both primary and tertiary education. These trends were markedly different from richer economies, notably the UK and the US, where returns to secondary education relative to primary education had been on the rise or stable. The research showed that, similar to richer economies, changes in the demand for labour in Latin America favoured highly educated workers. However, unlike in richer economies, the supply of labour in the region had grown disproportionately among secondary educated workers. This happened because education policy had not reacted to increasing demand for tertiary education through an expansion of the university system. This resulted in a fall in secondary educated workers’ earnings relative to the other groups. These findings demonstrated that increased enrolment of secondary educated workers into tertiary education would have restored the equilibrium of relative wages and moderated increases in wage inequality at the top of the distribution [3.2].

3. References to the research

[3.1] Bosch, M., & Manacorda, M. (2010). Minimum wages and earnings inequality in urban Mexico. *American Economic Journal: Applied Economics*, 2(4), 128-49. doi.org/10.1257/app.2.4.128

[3.2] Manacorda, M., Sánchez-Páramo, C., & Schady, N. (2010). Changes in returns to education in Latin America: The role of demand and supply of skills. *ILR Review*, 63(2), 307-326. doi.org/10.1177/001979391006300207

4. Details of the impact

Manacorda’s body of research on the determinants of trends in the earnings structure in Latin America has informed policy reforms on the minimum wage and tertiary education, which has contributed to reduced economic inequality in the region. In particular, it has:

Informed policy in Mexico, resulting in an increase in the value of the minimum wage

Minimum wage legislation in Mexico is engrained in the 1917 Constitution which states, ‘[m]inimum wages must be sufficient to satisfy the normal needs of a head of the family, of material, social and cultural nature, and to provide for the compulsory education of the children’.

By the beginning of the last decade, Mexico had among the lowest minimum wage level in the world (USD112 per month) and high levels of wage inequality, leading to an animated debate around the effectiveness of the minimum wage in the country. Supporters of a minimum wage reform claimed that it was an effective redistributive tool in the face of high and rising inequality. Those opposed feared that minimum wage increases would be ineffective, due to poor enforcement, and would lead to inflation and unemployment, with no discernible effect on wage inequality.

The debate led to the establishment in 2014 of a government consultative committee for the reform of the minimum wage, which eventually resulted in legislative reform in 2016. Manacorda’s research informed this process at all stages, feeding into the initial policy debate, providing the basis for the design of the reform, and informing the decision to upgrade the minimum wage gradually:

- During the initial policy debate, Manacorda’s research [3.1] was explicitly used to substantiate calls for a rise in the minimum wage by key national actors in Mexico, including the administration of Mexico City in 2014 [5.1] and OXFAM in 2015 [5.2].
- Key international organizations, including the Organization for Economic Cooperation and Development (OECD), the Inter-American Development Bank (IADB), the International Labour Office (ILO), the United Nations Economic Commission for Latin America (ECLAC) and the World Bank repeatedly cited [3.1] as a central piece of scientific evidence of the existence of a causal link between the fall in the real value of the minimum wage and

increased earnings inequality. This also led to explicit policy recommendations by these organizations. For example, in 2015 the OECD stated:

‘Evidence shows that low minimum wages have contributed to higher income inequality in Mexico (Bosch and Manacorda, 2010). [...] Hence, Mexico should consider raising the minimum wage to fight poverty and inequality’ [5.3, p. 102].

- During the reform period, the Mexican consultative committee for the minimum wage reform widely quoted [3.1] in official documents as the most authoritative and up-to-date scientific evidence on the link between inequality and the minimum wage in Mexico. This included the Minimum Wage Commission (CONASAMI), which has the legal mandate of recommending minimum wage increases, and the Research Centre on Public Finance of the Mexican House of Parliament [5.4], and the research featured among the key scientific references in the legislative debate in the Senate in 2014 [5.5]. In the words of the IADB representative on the consultative committee, findings in [3.1] ‘were crucial in an environment in which many people thought that the minimum wage was irrelevant in practice’ and ‘the debate regarding the minimum wage, which Marco’s paper clearly influenced, led to a series of policy changes’ [5.6]. As a result of this debate, a constitutional reform in 2016 delinked pensions and benefits from the minimum wage.

Overall, [3.1] served as a key piece of evidence in the government’s decision to upgrade the value of the minimum wage. According to CONASAMI’s President, and at that time Technical Director, ‘Manacorda’s research on minimum wages in Mexico [...] was decisive to start the discussion that has led [...] to increase minimum wages’ and ‘considerably affected CONASAMI’s recommendations to gradually increase minimum wages’ in line with the letter of the Constitution [5.7].

Following the legislative reform between 2016 and 2020, the real value of the minimum wage increased by around 50%.

Informed policy in Argentina that increased the value of the minimum wage

Manacorda’s findings on the minimum wage in Mexico also affected legislation in Argentina. Starting in 2009, inflation and the great recession had gradually eroded the real value of the minimum wage (with a fall of around 12% between 2010 and 2015). This led to a halt in the fall in wage inequality that had taken place over the previous decade, especially at the bottom of the distribution. In response, between 2016 and 2018, the Argentinean government legislated subsequent increases in the value of the minimum wage. As witnessed by the then Director of Labour Policies, Studies and Labour Relations at the Argentinean Ministry of Employment, Labour and Social Security,

‘Bosch and Manacorda’s research on the minimum wage in Mexico, one of the other largest countries in the region, provided us with key insight. In particular it showed that the minimum wage had a bite on the distribution of wages despite high labour market informality, which is almost as common in Argentina as it is in Mexico. It also showed that the remarkable rise in inequality in that country was due precisely to the fact the real value of the minimum wage had fallen. Based on these pieces of scientific evidence, we recommended an increase in the minimum wage of 30% for 2016-2017 and 35% for 2017-2018’ [5.8].

These increases allowed the minimum wage to maintain its purchasing power in the face of high inflation.

Shaped policy debate and recommendations in Latin America about appropriate educational policies to prevent rising earnings inequality

Manacorda’s research [3.2] demonstrated that changes in the supply of skills were important in explaining trends in the wage structure in the region. Between 2017 and 2019, International organizations, such as the inter-American Development Bank (IADB) and the International Labour Organization (ILO) and OECD repeatedly cited [3.2] as key evidence on the determinants of

changes in the returns to education in Latin America in official reports. This included the influential 2017 IADB flagship publication 'Development in the Americas' [5.9, p. 78], which used the theoretical framework originally developed in [3.2] and further developed by IADB researchers to derive updated estimates of the trends and determinants of changes in the wage structure in the region, and to make explicit recommendations for a rapid expansion of tertiary education.

Relatedly, [3.2] directly affected the views of very senior officials at the World Bank and fed into the advice provided to its client countries. According to a Senior Advisor at the World Bank,

'Research on changes in the wage structure in Latin America by Manacorda, Schady and Sanchez Paramo [...] led to a revision of a view held in some policy circles that demand for secondary versus primary education in the continent had deteriorated due to adverse demand (rather than supply) shocks' and that 'this increased understanding [...] fed into our core policy recommendations [...] for further investment and expansion of tertiary education in the continent' [5.10].

To summarise, between 2014 and 2020, Manacorda's research on the drivers of wage inequality in Latin America in the period from the late 1980s to the early 2000s has had considerable and far-reaching impact on the national and international debate, national legislation in Mexico and Argentina, and the advice and recommendations provided by international organizations to client countries.

5. Sources to corroborate the impact

[5.1] [Report] Gobierno del Distrito Federal, Política de Recuperación del Salario Mínimo en México y en el Distrito Federal. Propuesta Para Un Acuerdo, Mexico City, 2014.

[5.2] [Report] Hernández, Gerardo Esquivel, Desigualdad Extrema en México. Concentración del Poder Económico y Político, OXFAM Mexico, Mexico City, 2105.

[5.3] [Report] Organization for Economic Co-operation and Development, OECD Economic Surveys: Mexico, Paris, January 2015.

[5.4] [Report] Villagómez, F.A, '¿Es Conveniente Aumentar el Salario Mínimo en México? Impactos Relevantes', Centro de Estudios de Las Finanzas Públicas Cámara de Diputados, Mexico City, June 2016.

[5.5] [Report] Gaceta del Senado de la Republica, Iniciativa con Aval de Grupo Parlamentario con Proyecto de Decreto Por el que se Expide Ley del Salario Mínimo General, Reglamentaria del Artículo 123 de La Constitución Política de Los Estados Unidos Mexicanos, VLII Legislatura, no. 8 (I), Mexico City, September 2014

[5.6] [Testimonial] Lead Labor Market Specialist, Inter-American Development Bank, Mexico City Office. [Corroborator 1]

[5.7] [Testimonial] President of the Council of the Mexican Comisión Nacional de los Salarios Mínimos (CONASAMI). [Corroborator 2]

[5.8] [Testimonial] Former Director of Labour Policies and Director of Studies and Labour Relations at the National Ministry of Employment, Labour and Social Security, Government of Argentina.

[5.9] [Report] Inter-American Development Bank, Development in the Americas (DIA) 2017 - IDB Flagship Publication: Learning Better. Public Policy for Skills Development, Washington DC, 2017.

[5.10] [Testimonial] Former Senior Advisor, World Bank, Washington DC.