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FEATURED Q&A

Should Mexico's Government Raise the Minimum Wage?

Q Mexico City Mayor Miguel Ángel Mancera recently proposed raising the federal minimum wage, one of the lowest in the hemisphere, by more than 20 percent. Critics have said the proposal would raise inflation, cause layoffs and decrease Mexico's competitiveness, while supporters have argued that it would help address income inequality and draw people into the formal economy. Should Mexico raise its minimum wage? What effects would an increased minimum wage have on the economy? How are politics playing into the debate?

A Gerardo Esquivel, professor of economics at El Colegio de México: "Mexico should definitely raise its minimum wage rate. It should do so because it is fair and necessary. The minimum wage is currently only $5 per day, and it has lost 70 percent of its purchasing power in the past three decades. The government should also raise it because it is good policy (it may help to reduce poverty and inequality, and it may strengthen the extremely weak domestic market). It is also ethical and legal: the current level of the minimum wage is unconstitutional in the sense that a formal worker who earns it is considered to be poor according to the official definition and estimates. Moreover, if that worker has to financially support another family member, they both are considered to be extremely poor since they cannot even afford the minimum food requirements for a healthy life. This situation cannot be allowed to continue. On the other hand, the alleged costs of increasing the minimum wage to slightly above $6 per day, as has been proposed, are most probably very low. Studies based on a previous increase in the minimum wage for a specific region of Mexico in 2012 have shown that effects on employment and prices were negligible. If anything, they reduced the probability of people moving toward informality. Mexico has the conditions of macroeconomic sta-

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Panama Invites Cuba to Summit of the Americas

Panamanian Foreign Minister Isabel de Saint Malo personally invited Cuban President Raúl Castro to next year's Summit of the Americas, Cuba's government said Friday. The United States has consistently blocked Cuba's participation in the gathering. See story on page 2.

File Photo: Panamanian Government.

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NEWS BRIEFS

U.S. Court Dismisses Citi's Appeal in Argentina Bond Case

A U.S. appeals court on Friday dismissed **Citigroup**'s appeal of a judge's ruling barring the bank from processing payments on approximately $8.4 billion in Argentine bonds, Reuters reported. Citi had appealed the order from Judge Thomas Griesa, saying Argentina could take action against it if it refuses to process the payments. Friday's ruling was the latest in the dispute between Argentina and bondholders who have refused to accept restructurings.

Venezuela's Government to Spend $47 Million to Disarm Civilians

Venezuelan President Nicolás Maduro announced Sunday that his government will invest $47 million to create 60 new disarmament centers to collect citizens' firearms in an effort to reduce violence, BBC News reported. Venezuela has the second-highest murder rate in the world and most are committed with firearms, according to United Nations figures. Maduro also earmarked $39 million for a plan that puts soldiers in dangerous neighborhoods, a figure the government said will be used to hire 2,000 patrols and buy new equipment.

Jamaica Mortgage Bank Leads Financing for UWI Project

Jamaica Mortgage Bank is the lead financier of a 4-billion Jamaican dollar ($35.5-million) project to expand housing at the Mona campus of the University of the West Indies, which broke ground on Sept. 18, the *Jamaica Observer* reported. The developers and proposed operator of the development, which will house 1,584 students, signed a syndicated loan agreement with JMB and **National Commercial Bank**.

Political News

Panama Invites Cuba to Summit of the Americas

Panama's government has formally invited Cuba to participate in next year's Summit of the Americas, which the Central American country is hosting, Cuba's government said Friday, the Associated Press reported. Panamanian Foreign Minister Isabel de Saint Malo met with Cuban President Raúl Castro last Thursday and personally delivered the invitation. The United States has blocked Cuba's participation in all six previous Summit of the Americas gatherings since Washington began the summits in 1994, saying the meetings are for democratic nations only. Panama's decision to invite Cuba follows demands by several Latin American countries that Cuba be invited to the next summit, which is scheduled for April. "The United States faces a tough choice: either alter its policy toward Cuba or face the virtual collapse of its diplomacy toward Latin America," Richard Feinberg, a senior fellow at the Brookings Institution and former president of the Inter-American Dialogue, told Reuters. De Saint Malo visited Washington earlier this month and informed U.S. Secretary of State John Kerry that Cuba would be invited to next year's summit. Speaking to reporters on Sept. 2, State Department spokeswoman Jen Psaki reiterated Washington's opposition to Cuba's participation in the gathering, pointing out that participants in the 2001 Summit of the Americas agreed that attendance should be limited to countries with respect for democracy. "So we should not undermine commitments previously made, but should instead encourage—and this is certainly our effort—the democratic changes necessary for Cuba to meet the basic qualifications," she said. [Editor's note: See Q&A on this topic in the June 4 issue of the *Advisor*.]

> "The United States faces a tough choice: either alter its policy toward Cuba or face the virtual collapse of its diplomacy toward Latin America."
>
> *— Richard Feinberg*

Featured Q&A

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bility and the appropriate institutions (an independent central bank, for example) that guarantee that such an increase will not generate an inflationary process or macroeconomic disturbances. Mexican workers definitely deserve a raise."

Carlos Petersen, Latin America associate at the Eurasia Group: "Beyond addressing the economic benefits and risks that an increase in Mexico's minimum wage could generate, it seems rather clear that the main political forces will move forward and support the rise in salaries. With the 2015 midterm elections around the corner, political parties believe that it is too much of a risk to go against such a popular policy. Nevertheless, this decision could affect each party differently. Because of its ideological position, the PRD and the rest of the left-wing parties have a lot to win by proposing such a policy, but for the right-wing PAN and ruling PRI parties, support could imply a risk. For both, higher labor costs and more uncertainty among the private sector could have a negative impact. On the one hand, the manufacturing sector represents an important group within the PAN constituency; therefore, an increase in wages could generate discontent among these firms, which hire mainly low-skilled labor and operate in central and northern states were the PAN has its strongest electoral base. On the other hand, for the

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Economic News

Brazil's Largest Bank Workers' Union Considers Strike

The largest union representing bank workers in Brazil is considering a strike over salary that could begin on Sept. 30, Reuters reported. The union, Sindicato dos Bancários de São Paulo, Osasco e Região, said in a statement that Fenaban, which represents commercial banks in the country, made a pay-raise counter offer that fell short of the union's demands. The union has pushed for a 5.4 percent inflation-adjusted pay raise, among other demands. Union members are planning to meet Thursday in São Paulo to determine whether to call a strike if Fenaban does not improve its offer.

Company News

Mexico Reports New Spill From Sonora Copper Mine

Authorities in Mexico have warned residents in Sonora about a new spill of toxic chemicals from **Grupo México**'s copper mine in the northern state, BBC News reported Sunday. State officials said residents should not use water from the Bacanuchi River following the appearance of an orange stain in the river. The company said heavy rains from Hurricane Odile caused new flooding at its Buenavista del Cobre mine, Bloomberg News reported. However, the company said that it had contained the new leak with pumps and suction equipment, BBC News reported. A spill at the same mine on Aug. 6 polluted the water supply of some 24,000 people, forcing the company to spend $150 million on cleanup, according to Bloomberg News.

A spill last month contaminated the water supply of some 24,000 people .

Countdown to Brazil's Election

A Series of Views and Analysis from David Fleischer

A 'Little Wave' of Support for Marina Becomes a Tsunami

BRASÍLIA—Next month, 142 million Brazilians will go to the polls to elect a president, 27 state governors, 27 senators, 513 federal deputies and 27 state legislatures. The first round will be on Oct. 5, and the second round will be on Oct. 26.

In June, 11 presidential campaigns were launched—President Dilma Rousseff (PT), Senator Aécio Neves (PSDB), Eduardo Campos (PSB) plus eight minor party candidates. Back in September 2013, the National Election Court (TSE) refused to register the Sustainable Network party organized by Marina Silva, and she then accepted Campos' invitation to join the PSB and become his running mate in 2014.

In 2008, then-Senator Marina Silva resigned as President Lula's environment minister, and in 2009 she left the PT to join the PV (Green Party) in order to run for president in 2010. She received some 20 million votes and placed third. She quickly realized that the PV was not very "green" after all and in 2012-2013 began organizing her own new party in order to run for president again in 2014.

In mid-July, polls showed that Rousseff had a comfortable lead (36 percent vs. 20 percent for Aécio and 8 percent for Campos) and might win re-election outright in the first round. However, after the tragic plane crash that killed Campos on Aug. 13, Silva became the PSB's presidential candidate. A **Datafolha** poll conducted Aug. 14-15 showed her with 21 percent vs. the same 36 percent for Dilma and 20 percent for Aécio. Marina had reduced the "undecided" by one-half and taken points away from the other candidates.

Analysts quickly said that this result was just a "little wave" of commotion and anguish because of Campos' death. However, the next poll two weeks later showed that Marina was tied with Dilma at 34 percent and Aécio had declined to 15 percent. The little wave had become a tsunami, and Marina had topped Dilma by 10 points in a second-round simulation. She had taken points away from both Dilma and Aécio.

What happened? Silva is considered a national and international icon in her defense of the environment and sustainable development. Because of the 2010 campaign, she achieved a very large level of national recognition—much higher than Neves or Campos. Also, since early 2014, polls have showed that 70 percent of voters want "big changes" in public policy for 2015.

Earlier this month, Rousseff reacted with very negative TV ads against Silva accusing her of planning to eliminate the bolsa família (income transfer) program and the pre-salt petroleum extraction. Marina had proposed autonomy/independence for the central bank, and Dilma accused her of "turning the central bank over to the bankers," saying that would produce higher interest rates, unemployment and hunger. This was a re-edition of the "fear campaign" tactics used by the PSDB against Lula in 2002 that proved to be counter-productive.

These attacks against Silva curtailed her rise in the polls, and the Sept. 9-10 poll showed Dilma again in the lead (36 percent vs. 33 percent) over Marina, but the PSB candidate still held a slight lead in the second-round simulation.

David Fleischer is emeritus professor at the University of Brasília and editor of Brazil Focus.

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Featured Q&A

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PRI and President Peña Nieto, supporting a wage increase could generate uncertainty among investors and increase private sector mistrust in the government (generated by the 2014 fiscal reform) at a moment when the government needs as much investment as possible to revitalize the economy. What can be expected from the PRI and PAN is an attempt to dilute, or at least slow down, the increase in the minimum wage and to try to protect the economy and private sector interests from shocks and pressures the policy could generate."

James R. Jones, member of the *Advisor* board and co-chair of Manatt Jones Global Strategies: "Decisions on minimum wage issues are generally a tough call both politically and economically. I certainly found this to be true when I was a member of Congress who supported most minimum wage increases while representing a very conservative congressional district. In the case of Mexico, an increase in the minimum wage seems appropriate and should not hamper, but actually enhance, economic growth. First, the Mexican government should do more to close the income disparity between the top half and the bottom half of the workforce. The latter live in poverty with a large percentage living in extreme poverty. Such inequality is potentially destabilizing to democratic reforms. If half of the population is left out of the system and perceives itself without hope to improve their lives, that is a constituency ready to be led by demagogues wanting to repeal democratic and economic market reforms. Raising the minimum wage will help those on the lower end of the economic scale to live better and, along with what the government is doing in tax policy, will move toward bringing them into the formal economy. By improving purchasing power, it will help lead economic growth. But more must be done to improve the productivity of the lower half in order to justify higher minimum wages. Education must be substantially improved, and infrastructure must be expanded to underserved areas of the country. The Peña Nieto government recognizes this and is putting in place programs to improve both. Ultimately, Mexico must achieve what several Asian countries have over the past few decades, which is to develop a productive and educated workforce that is rewarded commensurately in compensation."

Jonathan Heath, independent Mexico-based economist: "Mexico's minimum wage is extremely low as measured against just about anything one could imagine. It is so low that actually very few people today are even willing to work for it. Those who do mostly work in the informal sector (where it doesn't apply) or complement their wages with tips or other means. The Constitution, however, calls for a minimum wage that guarantees a certain standard of living, which has been interpreted to be the poverty threshold. This means that Mexico must either raise the wage by a relatively large amount or change the Constitution. The proposal on the table calls for an immediate 20 percent increase, and then if it is efficiently absorbed into the economy with few negative effects on inflation and unemployment, it can be increased on a gradual basis until it reaches the poverty line over a 10-year period. This seems reasonable and worth a try. The key issue is to effectively de-index it from tariffs, fines and any other prices, including other salaries, in order to stop its use as a reference point. It is my guess that if the minimum wage is increased gradually over time, together with price decoupling, it will have little positive or negative effect on the economy, with more of an upside risk than a downside. It is much more about politics than economics, while the latter provides much lead way, given the absurdity of how low it is and how few people earn it."

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