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Copyright: G.L. Schmaedick, Senior Lecturer
Northern Arizona University in Yuma

COMPENSATION, INFLATION, AND PURCHASING POWER IN THE MEXICAN MAQUILADORA INDUSTRY SINCE THE DEVALUATION OF 1994

ABSTRACT

This analysis shows that the economic crisis that battered Mexico after the devaluation of December 1994 caused a severe loss of purchasing power to virtually all Mexicans, including the employees of the maquiladoras. The data also makes clear that maquila employees suffered less erosion of real income and their recovery of purchasing power has been more rapid. It seems safe, therefore, to conclude that the presence of the maquila sector in Mexico has had a favorable impact on compensation at least over the last five years. The goal of this paper is to present evidence on the impact of inflation on the compensation of maquiladora workers and examine how increases in maquila wages, salaries, and benefits compensated the employees for loss of purchasing power. "Maquila employees have suffered along with the rest of Mexican wage earners but they have done better than most." is the conclusion suggested by this analysis. There is obviously still a long way to go before compensation in the maquila industry can be said to afford an adequate standard of living..

This analysis also answers some thorny questions that have been around almost since the first maquiladoras went into operation over thirty years ago. The first question is: "What impact will the maquiladoras have on Mexican wages?" The second, closely related question is: "Why is there such demand for these jobs that pay so little?" The data here only offers insights on conditions over that last five years. But it seems clear that the recent growth in the number, size, and sophistication of the maquiladoras since the inception of NAFTA has had a favorable impact on compensation of labor in general in Mexico. The pattern of increasing compensation in the maquila industry clearly has established this industry as the leader in the labor market. Maquila jobs are sought after because they offer a better opportunity than the available alternatives. The demand for maquila jobs is shown to be a logical, economic decision on the part of the labor force.

On a national scale, the fastest growth of the maquiladoras is in the interior of the country, away from the border. Employers are looking for less competitive labor markets. These pressures of supply and demand have resulted in a more rapid increase in maquila compensation and a faster restoration of lost purchasing power than would have accrued without them.

I. INTRODUCTION

Since the advent of NAFTA on January 1, 1994, no sector of the Mexican economy has grown more rapidly than the maquiladora (twin plant) sector. These businesses enjoy special exemptions from import duties granted by both the Mexican and U.S. governments. Since the inception of the program in the mid-1960s these businesses have been a dynamic, driving force in the Mexican economy. Two factors have accelerated the growth of this sector. First, the passage of NAFTA has made it especially attractive for businesses from outside the NAFTA trading area to establish production facilities where they can enjoy the benefits of this treaty. Also, as the NAFTA tariffs reductions take place, U.S. and Canadian businesses already established in Mexico will have a distinct advantage in penetrating the Mexican market.

A second factor that has driven the growth of maquila businesses is the devaluation of the Mexican pesos since December 1994. This devaluation and the passage of NAFTA may not be totally unrelated events. It can be argued that the devaluation was at least in part due to the pressures NAFTA created on Mexico's foreign exchange reserves. With tariff barriers greatly reduced in accord with the provisions of the new treaty, Mexican imports from NAFTA partners increased rapidly during 1994. Although exports also increased, the jump was not sufficient to fully offset the rise in imports. The result was a drain on Mexico's foreign exchange reserves. High profile political assassinations and the out break of the Zapatista insurgency in 1994 also contributed to capital flight. On net, more money flowed out of Mexico than came in. Its current account deficit rose to almost seven percent of 1994 GDP. It was this crisis in loss of reserves that forced the Zedillo administration to free the Peso to float against the U.S. dollar in December of 1994. This led to an immediate and rapid devaluation.

Whatever the causes, the maquiladora sector has grown by every measure between 1994 and 1998. The number of maquila establishments has increased by 43 percent (2085 to

2983). Employment in these businesses has risen to over one million, an increase of 73 percent since 1994. Total employment at the end of 1998 was reported at 1,008,031. The most rapid growth of the industry has moved from the Border States to locations in the interior of Mexico. Value added has risen almost five fold, from 20.4 billion pesos in 1994 to 96.7 billion in 1998 (US\$9.7 billion with the peso at 10 to the dollar). Employee income generated by this growth has also exploded. Total maquiladora employee compensation rose from 11.5 billion pesos in the first year of NAFTA to 47.1 billion in 1998, a 309 percent increase. At recent US\$ exchange rates (\$1 = P10), \$4.71 billion of income accrued mostly to Mexican nationals from this sector.

This income generation is impressive but what does it mean to the individual Mexican working in the maquiladora factory? Shortly after NAFTA took effect, a devastating devaluation rocked the Mexican economy. This was accompanied by the return of severe inflation. The hard facts are summarized in Table 1 below.

Table 1
Consumer Price Index vs. Inflation 1994-1999

Year	Dec. 1994	1995	1996	1997	1998	1999	Percent Increase 1994-98
Consumer Price Index (1994 = 100)	103	157	200	232	275	291	183
Exchange rate							
Pesos per US\$	3.30	6.50	7.25	7.90	9.00	9.80	197