

Comments on The Impact of minimum wage on low wage formal employment

by

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BANCO INTERAMERICANO
DE DESARROLLO

David S. Kaplan

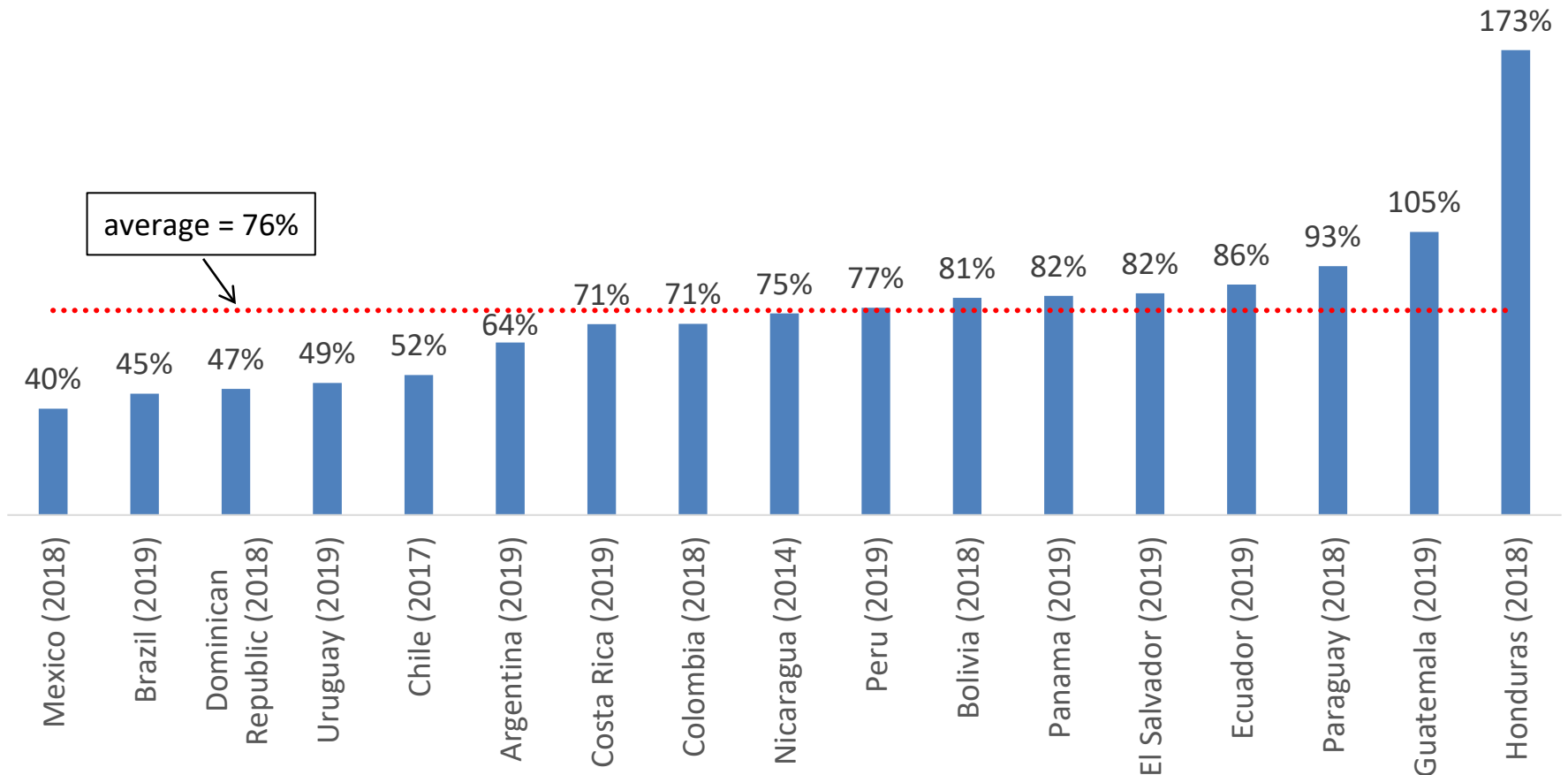
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Context matters: the increase of the minimum wage started from a very low level

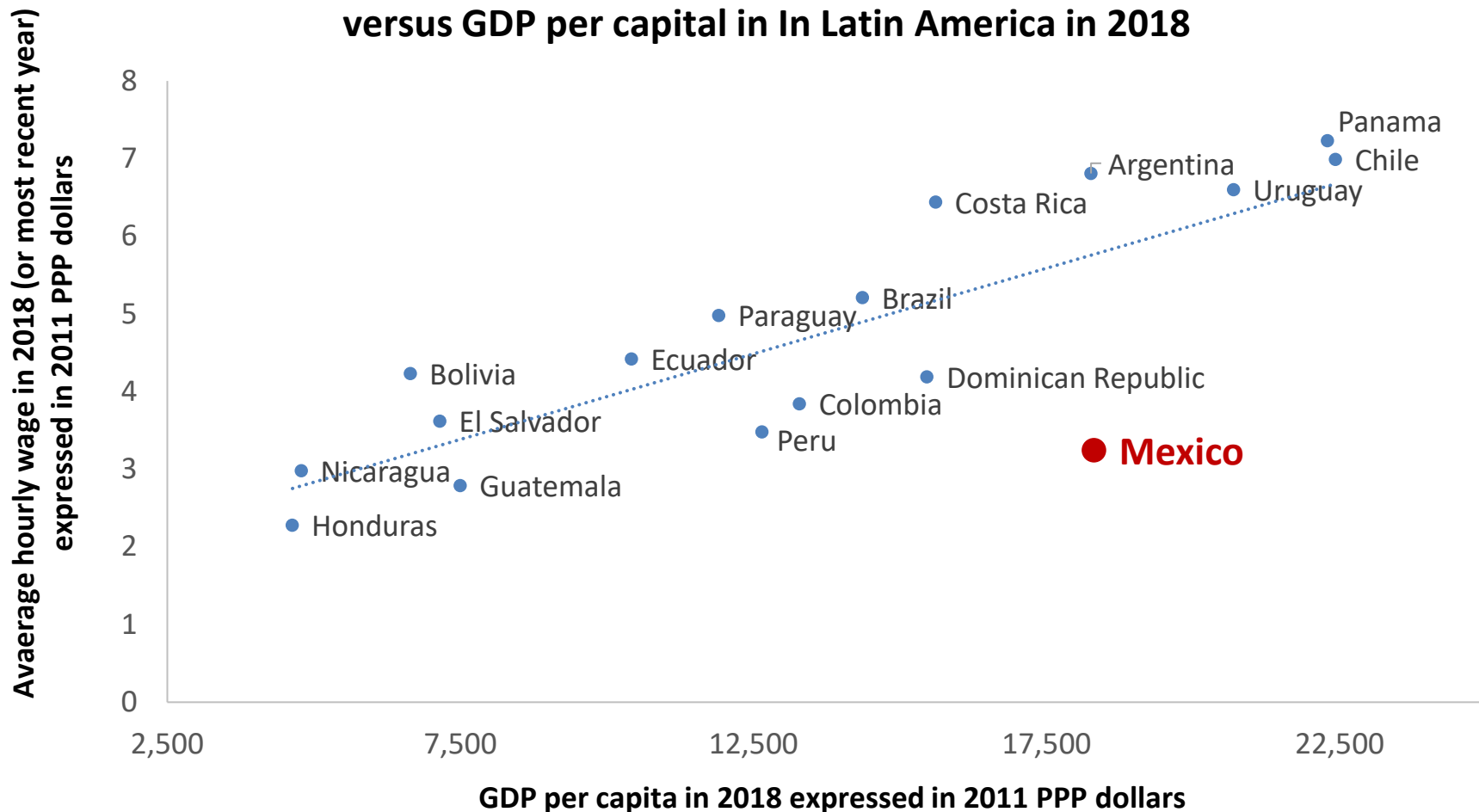
Minimum wage as a percentage of average wage in Latin America
(Data from 2018 or the most recent year available)



Source: Labor Markets and Social Security System of the Inter-American Development Bank.

Also, wages in Mexico seem to be surprisingly low

Average real hourly wage in the main activity versus GDP per capita in Latin America in 2018



Sources: Labor Markets and Social Security Sistem of the Inter-American Development Bank and World Economic Outlook Database, versión abril 2019.

Main results

- Significant impact on wages
- Small but statistically significant reduction in employment
- Perhaps there is an important difference from Cengiz et al. (2019)
 - In that paper, different states increased their minimum wages at different times during a long period
 - In Mexico, the entire Northern border increased the minimum wage at the same time.
 - I don't think clustering the standard errors at the State level can account for the correlated outcomes across states.
- Small point, misreporting of wages is unlikely to be “white noise”, so it is not clear what the bias would be

My two main conclusions

- Make sure the standard errors are calculated correctly
- Be careful about extrapolating these results to make policy recommendations for other countries
 - Mexico is probably an atypical case (low minimum wage and low wages in general).

¡MUCHAS GRACIAS!

