

Mexico Budgets for the Transition

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In this briefing paper on Mexico's labour justice reform, MSN examines how the Mexican government intends to pay for its implementation, through a review of the budget allocation in fiscal year 2020. The funding for implementation is of particular importance in light of the pressure that has been placed on Mexico by the US Congress to show further commitment to the Labour Reform and its enforcement prior to any ratification of the US-Mexico-Canada (USMCA) trade agreement. As we go to print, agreement has been reached between Mexico, the US and Canada on additional commitments regarding enforcement and monitoring of compliance with Mexico's labour reforms. We will analyze that agreement in a further briefing paper.

Transforming Mexico's Labour Justice System

Since the secondary legislation for Mexico's labour justice reform was approved by Congress on April 29, 2019, the country's Secretariat of Labour and Social Welfare (*Secretaría de Trabajo y Previsión Social, STPS*) has been gearing up to implement the reform. This includes setting out the guidelines for new procedures (such as the Protocol for the Authentication of Collective Bargaining Agreements¹), and establishing new labour institutions at the Federal and State levels. As we noted in our October briefing paper, the legislation sets out a timeframe by which the transition to the new labour

justice system must be concluded, and the phases that should be completed in order to ensure that the system is in place by May 1, 2023.²

In line with the timeframe, the implementation of the reform is to be completed in stages, starting in October of 2020.³ The principal tasks of the first phase of the reform include establishing the Federal Centre for Conciliation and Labour Registration, and creating Federal and State Labour Tribunals. Local Conciliation Centres and Labour Tribunals will be launched initially in 10 states in the first stage, and will then be extended to the remaining states by 2023.

According to STPS, the 10 states included in phase one are Baja California Sur, Chiapas, Durango, Mexico State, Guanajuato, Hidalgo, San Luis Potosí, Tabasco, Tlaxcala and Zacatecas.⁴ Phase two, which begins in October of 2021, includes 11 additional states. The third phase, which begins in May of 2022, will incorporate the remaining 10 states.⁵

Federal Budgeting for the Labour Reform

The federal budget proposal (*Proyecto de Presupuesto de Egresos de la Federación*, or the Proposal for Federal Budget Expenditures, PPEF) was sent to Congress for review on September 8, 2019, with reports on income and other economic package information, and was passed by Congress on November 21, 2019.⁶

Implementation of the reform, including paying for the transition, has become the central roadblock in the US Congress to moving forward on the ratification of the USMCA. On November 4, Richard Trumka, president of the AFL-CIO, met with Mexican president Andrés Manuel López Obrador (AMLO) to discuss Mexico's plans to enforce the new labour law, followed by a visit a week later by House Ways and Means Chairperson Richard Neal.⁷ Central to these discussions was concern by Democrats that the original funding proposal for implementation in the PPEF was insufficient given the magnitude of the transition. Cuts to the STPS operations budget, widely reported in the Mexican press, also caused a great deal of debate over Mexico's ability to handle the logistics of the implementation.⁸

In response to the Democrats, AMLO put the promises made to Chairman Neal in writing, in a letter on October 14.⁹ That letter details that the Mexican government has donated the building to house the Federal Centre for Conciliation and Labour Registration, and has instructed the Ministry of Finance (*Secretaría de Hacienda*) to increase the budget, so that 1,300 million pesos would be available for the implementation in the first year. An MSN comparison of the letter and the budget shows that the final tally of monies available for implementation is actually greater than the promises made to Chairperson Neal.

The federal budget earmarks 1,401.9 million pesos (US\$69,336,589) to implement the labour reform in

the first year.¹⁰ The budget includes 197.3 million pesos (US\$9,098,203) for the creation of the Federal Centre, and staffing by 320 new conciliation specialists and 321 registrars. The budget also sets aside 375.3 million pesos (US\$18,765,000) to establish Labour Tribunals at the federal level.¹¹ Additional federal transfers to the states are reserved to set up the new state-level institutions: 359.6 million pesos (US\$17,980,875) are set aside for the local conciliation centers, while local Labour Tribunals will receive 270.1 million pesos (US\$13,505,850). STPS will receive 199.70 million pesos (US\$9,986,661) in additional monies for training, and to oversee the authentication of existing collective bargaining agreements once that process is fully underway. In total, the cost of the full transformation of the labour justice system over the course of the four year period is estimated at 2,223 million pesos (US\$119,348,461).¹²

STPS Budget Cuts for 2020

In addition to the labour reform, STPS is balancing five major program initiatives during the current administration, including a signature apprenticeship program for young people, *Jóvenes Construyendo el Futuro* (Youth Building the Future, JCF), changes to minimum wage policy, the regulation of outsourcing, and the promotion of domestic workers rights and the regulation of their working conditions.¹³ The last three are essentially legislative efforts, and JCF makes up the bulk of the STPS operations budget.

When the 2020 budget proposal was first published, STPS received a hefty cut over the 2019 budget, which did not bode well for the funding of the implementation of the Labour Reform.¹⁴ However, the money for labour reform implementation is a separate fund that is divided between STPS and other entities, including the Judicial Branch, and state governments, and is not included in the STPS operating budget. Also, nearly the entire budget cut to STPS is for funding to the *Jóvenes Construyendo el Futuro* program, which provides 3,600 pesos per month to young people for up to one year to complete an apprenticeship program, largely in the private sector. While in 2019 the program received 40,000 million pesos, in the 2020 proposal, the program was to receive 25,600 million pesos, a cut of 38.2%. Part of the reason for the cut is

that the Program had spent only 32% of the money it was allocated in the first six months of the program, leading Hacienda, Mexico’s finance ministry, to consider budget reductions.¹⁵

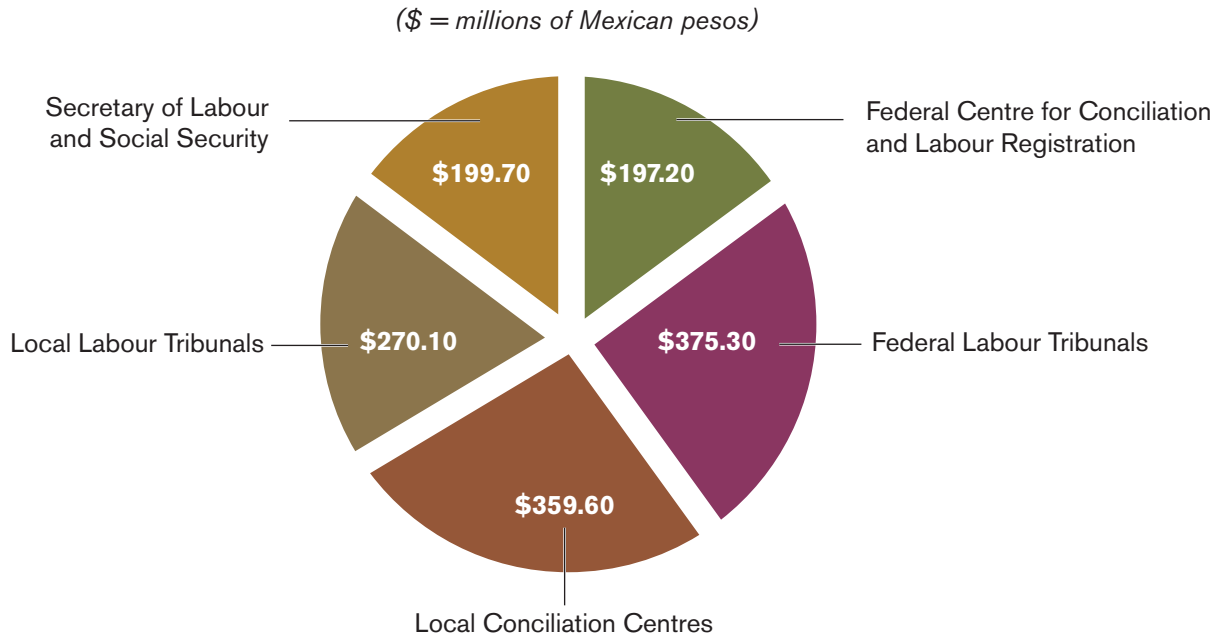
While the cuts to JCF make up the largest sum of money, other cuts to STPS are also significant. Programs for conciliation between workers and employers will receive a reduction of 123.9 million pesos, which while is less money than the JCF cut, represents a 73% decrease of funding in those programs.¹⁶ It is not clear from publically available information which areas of conciliation – and which entities within STPS that are charged with conciliation – will receive cuts, or whether the budget cuts to conciliation programs are to be made up by either reassigning funds from other STPS programs, or will be allocated from the monies aside for the labour reform. And while smaller cuts to general services, materials, and staff for programs might be in line with the new administration’s insistence that the

federal government must “do more with less”, cuts to staff and programs calls in to question STPS’ ability to manage its ambitious 6 year plan.¹⁷

It remains to be seen whether the plan for implementation, and the budget approved in Mexico, is enough to fund what is shaping up to be a very complex implementation process.

The question of whether sufficient funding is being allocated for the implementation of the reform does not fully address the issues that have been raised by the US Congress and labour movement as to whether there are adequate mechanisms and sufficient political will to ensure that the new legal obligations of employers and unions will be enforced in Mexico. MSN will examine the recent agreement on additional commitments made by Mexico in a future briefing paper.

Federal Budget Allocations for the Labour Reform Implementation



The chart illustrates the breakdown of budget earmarks for the implementation of the labour reform at the federal level and for 10 states.

ENDNOTES

- ¹ <https://mexicanlaws.com/STPS/PROTOCOL.pdf>.
- ² See MSN, October 2019, *Catching up with the Labour Reform: Mexico Enters New Era in Labour Relations*, [https://www.maquilasolidarity.org/sites/default/files/resource/Mexico Enters New era in Labour Relations October-2019.pdf](https://www.maquilasolidarity.org/sites/default/files/resource/Mexico%20Enters%20New%20era%20in%20Labour%20Relations%20October-2019.pdf).
- ³ See MSN, October 2019, *Timeline for the Implementation of the Labour Reform*, <https://www.maquilasolidarity.org/en/timeline-implementation-labour-reform-mexico>.
- ⁴ STPS. 2019. *Entidades Federativas*. <https://reformalaboral.stps.gob.mx/#Entidades>, accessed 8 December 2019.
- ⁵ There are discrepancies between the states listed in the federal budget as the first states to implement the reform, and the list of states chosen by STPS. This means it is not clear exactly how the money for the reform has been assigned at the state level, or whether the federal budget will need to be adjusted to reassign funding to the states listed by STPS.
- ⁶ Hacienda. 2019. *PPEF infografía*, available at: https://www.transparenciapresupuestaria.gob.mx/es/PTP/infografia_ppef2020.
- ⁷ Zavala, Misael, and Alberto Morales. 2019. "AMLO se reúne con Richard Trumka para abordar situación del T-MEC." *El Universal*, <https://www.eluniversal.com.mx/nacion/politica/amlo-se-reune-con-richard-trumka-para-abordar-situacion-del-t-mec>, accessed 4 November 2019.
- ⁸ Garza, Brenda. 2019. "Preocupa a IP recorte a Economía y Trabajo," *El Horizonte* (Monterrey, NL), 12 September 2019, <https://d.elhorizonte.mx/finanzas/preocupa-a-ip-recorte-a-economia-y-trabajo/2636003>, accessed 12 October 2019; and Rivero, Arturo. 2019. "Golpe a la política laboral, asignan 34.8% menos para 2020," *Pulso Laboral*, <https://tinyurl.com/y58ubb8s>, accessed 8 October 2019.
- ⁹ Andrés Manuel López Obrador. 2019. "Honorable Richard Neal, Chairman, House Ways and Means, House of Representatives." October 14. <https://neal.house.gov/press-releases/neal-receives-letter-mexico-s-labor-reform-commitments-president-lpez-obrador>, accessed 22 November 2019.
- ¹⁰ Hacienda. 2019. *PFEF 2020, Anexos*.
- ¹¹ Hacienda. 2019. *Carta de Motivos, PPEF 2020*, https://www.ppef.hacienda.gob.mx/work/models/PPEF2020/docs/exposicion/EM_Capitulo_1.pdf, accessed 14 October 2019.
- ¹² Hernández, Gerardo. 2019. "Implementar la reforma laboral costará 2,223 millones de pesos," *El Economista*. <https://factorcapitalhumano.com/leyes-y-gobierno/implementar-la-reforma-laboral-costara-2223-millones-de-pesos/2019/02>, accessed 10 October 2019.
- ¹³ Hernández, Gerardo. 2019. "STPS define las cinco prioridades de la agenda laboral del gobierno," *El Economista*. <https://factorcapitalhumano.com/leyes-y-gobierno/stps-define-las-cinco-prioridades-de-la-agenda-laboral-del-gobierno/2019/09>, accessed 12 October 2019.
- ¹⁴ STPS received 28,756,371,575 pesos for 2020, 33.5% less than in 2019, with 43,269,051,026 pesos budgeted. Garza, Brenda. 2019. "Preocupa a IP recorte a Economía y Trabajo," *El Horizonte* (Monterrey, NL), 12 September 2019, <https://d.elhorizonte.mx/finanzas/preocupa-a-ip-recorte-a-economia-y-trabajo/2636003>, accessed 12 October 2019 and Rivero, Arturo. 2019. "Golpe a la política laboral, asignan 34.8% menos para 2020," *Pulso Laboral*, <https://tinyurl.com/y58ubb8s>, accessed 8 October 2019.
- ¹⁵ Deydén, Andrea. 2019. "Por qué Jóvenes Construyendo el Futuro tendrá menos dinero en 2020," <https://elceo.com/politica/por-que-jovenes-construyendo-el-futuro-tendra-menos-dinero-en-2020>, accessed 14 October 2019.
- ¹⁶ Cámara de Diputados, Comisión de Trabajo y Previsión Social. 2019. *Opinión de la Comisión de Trabajo y Previsión Social Respecto al Proyecto de Presupuesto de Egresos de la Federación para el Ejercicio Fiscal de 2020*, 24 October.
- ¹⁷ Garza, Brenda. 2019. "Preocupa a IP recorte a Economía y Trabajo," *El Horizonte* (Monterrey, NL), 13 September. <https://d.elhorizonte.mx/finanzas/preocupa-a-ip-recorte-a-economia-y-trabajo/2636003>, accessed 12 October.

MSN provides periodic updates of key issues and developments as Mexico implements commitments under its 2019 labour law reform. The outcome of this process and its impact on the exercise of freedom of association, the rights to collective bargaining and improving transparency in industrial relations is crucial to gaining justice for workers in Mexico.

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