Labour Justice Reform in Mexico: Progress and Challenges

Joyce Sadka[*] Erick Molina[†]

July 31, 2025

Abstract

Mexico's Labour Justice reform marked a shift in how individual and collective labour disputes are resolved. For decades, labour courts—Conciliation and Arbitration Boards (CABs)—were characterized by inefficiency, capture, and weak enforcement, limiting workers' access to justice. We examine the origins, design, and early impacts of the reform, emphasizing how empirical evidence influenced the adoption of a compulsory pre-lawsuit conciliation stage, and the use of new technologies. Data from INEGI shows that the creation of a compulsory pre-lawsuit conciliation stage has reduced lawsuits and increased the rate of settlement of labour disputes. However, implementation remains uneven across states, challenged by budget constraints, political resistance, and weak inter-institutional coordination. As Mexico prepares for the upcoming review of the FTA, the effectiveness of the labour reform will be central to Mexico's position in the negotiations and will impact regional and international trade for years to come.

1 Introduction

For decades, Mexico's labour justice system experienced a paradox: while its labour law framework provided strong formal protections to workers, in practice, these rights were often inaccessible or unenforceable. The system's design and operation disproportionately disadvantaged workers, undermining their ability to resolve disputes or secure severance. Both individual and collective labour rights suffered from institutional weakness, inefficiencies, and widespread corruption. Public institutions such as the *Juntas de Conciliación y Arbitraje*—Conciliation and Arbitration Boards (CABs)—, originally intended to balance interests between workers and employers, were characterized by capture and delays. Private actors, including unregulated legal intermediaries known as *coyotes*, exacerbated these distortions, exploiting workers' lack of legal knowledge and contributing to

[*]ITAM, jsadka@itam.mx
[†]University of Wisconsin-Madison, molinaperez@wisc.edu

ineffective dispute resolution. The result was a dysfunctional system that failed to deliver meaningful justice across the country.

The consequences of a broken institutional architecture were severe. At the individual level, weak enforcement of labour rights reduced worker's bargaining power, limiting their ability to claim legally guaranteed severance or reinstatement. At the collective level, deficient protection of union formation allowed employers to suppress organizing efforts with minimal costs. In equilibrium, both channels contributed to a systematic skewing of the distribution of labour income in favour of employers, helping to explain Mexico's wage growth despite improvements in productivity and minimum wage policies.

Although the immediate political impetus for reform was largely external—in particular, commitments made under the United States-Mexico-Canada Agreement (CUSMA-USMCA-TMEC; hereafter referred to as the free trade agreement or FTA)—the content and design of the 2019 labour reform were shaped by a sustained internal debate. This debate incorporated empirical evidence and engaged with both legal and economic diagnoses of the system's failures. A central innovation of the reform was the creation of a compulsory pre-lawsuit conciliation stage, designed to resolve conflicts more efficiently and equitably before they reached the courts. Notably, we contributed to experimental evaluations of conciliation procedures prior to the reform's enactment. These evaluations demonstrated the effectiveness of offering structured, evidence-based legal information to both parties in a dispute and confirmed the potential of pre-trial conciliation to improve settlement rates and workers' welfare.

The implementation of the reform has yielded promising results. National-level data show an increase in the use and effectiveness of the pre-lawsuit conciliation stage, which has allowed a substantial share of disputes to be resolved quickly and fairly. Workers now have access to more predictable and transparent processes, and employers face clear incentives to comply with legal obligations.

However, the reform's full potential is still at risk. A combination of inconsistent legal interpretation, weak inter-institutional coordination, and underinvestment has limited the reform's implementation. For instance, the Federal Center for Conciliation and Labour Registration (FCCLR) has suffered repeated budget cuts. At the state level the implementation challenges are even more pronounced, where political pressures and institutional fragility persist. Judicial interpretation of key reform provisions has sometimes undermined access to justice and the implementation of enforcement tools—especially, those involving collaborations with other institutions. Moreover, recent constitutional changes that mandate the election of judges risk reversing advances in merit-based judicial selec-

tion and training.

These internal challenges are coexisting with a volatile international context. Tensions between the United States and Mexico have absorbed much of the Mexican government's diplomatic attention. As a result, the implementation of the labour reform has fallen off the political agenda. This is particularly concerning given the upcoming 2026 review of the FTA. Labour justice was a central part of the treaty's renegotiation, and the reform's credibility will likely be central to Mexico's bargaining position in its revision. Failure to adequately implement labour reform could have important economic and political costs.

In this paper, we analyse the origins, design, and early implementation of Mexico's labour justice reform, with particular attention to the compulsory conciliation stage in individual labour disputes and to the role of empirical evidence in shaping procedural changes. We document both the improvements and the persistent challenges that define this major institutional shift. The reform represents not only an opportunity to modernize labour justice, but also a test of Mexico's ability to align domestic policy with international commitments and long-term development goals .

2 Labour justice before the reform

Before the reform, the resolution of individual disputes between workers and employers was entrusted to the CABs. Composed of representatives of workers, employers, and the government, the CABs were intended to guarantee balance and foster social dialogue. However, the system failed to deliver cooperative solutions to labour conflict and was captured by industry and lawyers, to the detriment of workers.

One characteristic of the CABs was their lack of independence. They were not part of the judiciary but belonged to the executive branch—the Secretariat of Labour at the federal and state levels. Their members were not career judges but appointed representatives, often with strong ties to interest groups such as employer organizations or labour unions. This structure created incentives for political favouritism and discouraged impartial adjudication. The lack of independence was particularly problematic in a context where collective labour relations were historically dominated by official, corporatist unions aligned with the ruling party.

In procedural terms, the CABs operated under a written system that relied on printed documents, procedural motions, depositions, witnesses, inspections, and expert testimony. Trials could extend over any number of hearings and postponements were very frequent due to overbooking, difficulties in notifying parties, and strategic delay. A procedure

which by law should have taken no more than 3.5 months took years to conclude. The average duration of a labour lawsuit varied by state and by the complexity of the case. Evidence from Mexico City provided by Sadka, Seira and Woodruff (2024) suggests that cases often extended well beyond 24 months. During this period, it was difficult for workers to find a new job, and many remained without income and faced severe financial hardship.

Procedural opacity and information asymmetries also undermined the system. Many workers entered the process with limited knowledge of their rights and legal options.[1] Access to high-quality legal representation was also very limited. Most workers did not have access to information or recommendations on how to find a good lawyer. Some workers accessed the over-worked public defenders, but many relied on *coyotes*—unregulated legal intermediaries or informal lawyers who often lack professional skills and seek to prolong litigation to increase revenue from fees. Furthermore, *coyotes* were sometimes known to sell cases to the opposing party. Agency problems naturally present in the market for legal services were exacerbated as workers are the only one-time player, reputation and word-of-mouth have very limited application, and the legal profession is largely unregulated. (Morales Juárez, Ríos Mora and Martínez Gómez, 2023; Sadka, Seira and Woodruff, 2025).

In addition, severe enforcement problems created further disadvantages for workers. We documented that in Mexico City, 53% of all judgments favourable to workers were never enforced, while in the neighbouring State of Mexico, 56% were not enforced. Major reasons included delay in obtaining court judgments, which meant that many employers had ceased to exist by the time the judgments against them were issued, and corruption, with court officials often collecting bribes both from plaintiffs who requested enforcement of their judgment and from defendants attempting to avoid collection.

It is important to note that the costs of enforcement are different from litigation costs because enforcement is essentially an asymmetric activity that is sought by the plaintiff and avoided by the defendant. The law and economics literature has emphasized how the costs of litigation promote higher rates of settlement, as both plaintiffs and defendants seek to avoid high court costs.[2]. Mexico is identified in Chang and Klerman (2022) as a "low-settlement" country. We believe that an important part of this lower rate of settlement is caused by poor quality and costly enforcement of court judgments. Defendants prefer not to settle in the early stages of a lawsuit because they anticipate that a judgment

[1] For instance, in a previous study in Mexico City we found that only 36% of participants were aware that the law entitles them to a 90 days of wages constitutional severance in cases of proven unfair dismissal.

[2] See Spier (2007) for an excellent summary of literature analysing litigation based on the rational choice model

against them may not be enforceable. Kaplan and Sadka (2011) use data from casefiles in the process of enforcement in the CAB of the State of Mexico, and find that an enforcement attempt is costly to the worker, making a significant proportion of workers who have won their case give up on enforcing the judgment. This explains why employers used stalling to wear down plaintiffs: the longer the process, the more likely workers were to give up or settle for a lower amount. The cost of delay fell entirely on the worker, while employers benefited from poor state capacity in the labour justice system.

Heterogeneity across states further complicated the picture. While some CABs in major cities developed internal case management systems, many others lacked even basic infrastructure. In rural areas, hearings were sometimes held in shared office spaces, leading to even longer delays and reduced legal certainty. As Morales Juárez, Ríos Mora and Martínez Gómez (2023) document, the outcomes of similar cases could vary widely depending on the state, the board, or even the presiding official.

The absence of digital tools was another major limitation. Casefiles were physical and often stored in precarious conditions, making them vulnerable to loss or tampering. Filing a claim, submitting evidence, or requesting a copy of proceedings required in-person visits. Sometimes these visits resulted in re-scheduling due to lack of organization. Moreover, there was no national case management system, no public access to rulings, and no standardized database to track outcomes or detect patterns of discrimination or abuse.

Scholars such as Bensusán (2020) have described how the system was embedded in a corporatist framework that prioritized political control over autonomy and fairness. The CABs often operated with limited independence and were susceptible to corruption and delay. The excessive backlog of cases, low procedural transparency, and lack of professionalization severely undermined access to justice for workers. Morales Juárez, Ríos Mora and Martínez Gómez (2023) emphasize that the old system failed to guarantee timely and effective resolution of disputes. The authors found that the design of the pre-reform system allowed for procedural abuses, incentivized delay as a bargaining strategy, and produced highly variable outcomes depending on geography and, in some cases, political alignment.

The diagnoses produced by legal and social science scholars documented the extremely poor performance of labour justice. The clear necessity to modernize procedures, guarantee judicial independence, and ensure greater transparency was an important driver of the labour reform. Next we will discuss some of the work that influenced the details of how the procedures of labour justice changed.

3 Evidence that informed the reform

The reform of Mexico's Federal Labour Law is an example of evidence-based policy making, in that it took into account experimental evidence on procedural changes that could improve the system. We will relate some of this evidence, from studies we were fortunate to participate in, and which influenced the legislators of the 2019 reform in relation to the creation of a compulsory pre-lawsuit conciliation stage, the procedures used in this stage, new procedures for notifications, and the creation of electronic notifications.

In the first place, experimental evidence provided support for making the conciliation stage compulsory. Sadka, Seira and Woodruff (2024) relate a series of experiments related to conciliation and to providing legal and statistical information to parties in labour disputes. In the first pilot experiment conducted in 2016, there was a "conciliation treatment" in which parties were not given any information, but were required, if they agreed to participate, to speak with a CAB conciliator for 5-10 mins, to receive information about how they could conclude their conflict through voluntary conciliation. This treatment increased settlement rates in ongoing lawsuits by 25%, and showed that "forcing" the parties to come together and giving them an opportunity to conciliate could solve many labour disputes without the need for a lawsuit.

Sadka, Seira and Woodruff (2024) also documents the effects of providing legal and statistical information in the form of a "calculator" giving workers and employers in firing disputes both the legally mandated compensation and the compensation agreed upon by similar parties, based on prediction models from large databases of concluded conflicts. The calculator aimed to correct widespread misinformation among plaintiffs regarding their legal entitlements and the likely outcomes of their cases. By delivering this personalized information directly to workers themselves and not their legal representatives, it was possible to bypass agency problems with lawyers and align workers' expectations with legal and empirical reality.

Providing the calculator revealed several important insights: First, information frictions were substantial, especially among workers, who frequently overestimated the amounts they could obtain or misunderstood their legal rights. Second, many lawyers had incentives to prolong litigation or discourage early settlement to increase their own fees, even when settlement would be in the worker's best interest. This is known in the law and economics literature as an agency problem, because the lawyer (the agent) is supposed to act in the best interest of the worker (the principal), but may instead pursue their own goals when incentives are not properly aligned. Third, the potential for improving outcomes

through simple interventions is high. The calculator intervention increased settlement rates by 33% to 50%, improved worker welfare and accelerated case resolution.

Importantly, the increased settlement rates were not associated with workers accepting lower amounts. Rather, workers who received the calculator reached agreements more quickly and reported greater satisfaction, without sacrificing the monetary value of their settlements. These results suggest that the calculator helped workers make better informed decisions, while mitigating the distortions introduced by misaligned incentives in labour relationships.

After testing the calculator during ongoing lawsuits, we turned to evaluate its impact when provided before workers filed a formal claim. This experiment—described in Sadka, Seira and Woodruff (2025)—was particularly influential in shaping the design of the compulsory pre-lawsuit conciliation procedure. In this study, randomly selected workers received not only the calculator with personalized legal and statistical predictions, but also a formal invitation to a conciliation meeting at the CAB that was given to workers so they could give it to their employers.

The results of this intervention were impactful. For instance, 51% of workers showed up to the conciliation meeting with their employer. Of those who showed up, 70% reached a settlement on the same day. This simple intervention demonstrated that encouraging conciliation at the right moment could drastically improve conflict resolution before filing a lawsuit. These findings lay the ground for the creation of the compulsory conciliation stage now codified in Law. In this new compulsory stage, legislators took the agency problem with workers' lawyers seriously. They mandated that workers must be present at the conciliation hearing and although they can be accompanied by a "person of confidence" who could be a lawyer, they cannot be legally represented by a lawyer during the conciliation procedure.

The intervention with workers who had not yet filed a claim also documented the low quality of legal representation that many workers relied on prior to the reform. In follow-up surveys, we were able to identify where the workers found their lawyers. A significant share of workers had hired *coyotes*. These lawyers were consistently associated with worse outcomes: they were less likely to have graduated from high-quality law schools and were rated 0.51 standard deviations lower in satisfaction by their clients. Additionally, 41% of their clients said they wanted to change lawyers. This reinforces the view that dishonest and low-quality lawyers were a staple of the CAB system, sustained by misinformation and faulty institutions.

These findings reinforced two key institutional changes in the reform. First, the law now

mandates that both the Federal and Local Conciliation Centres (FCCLR and LCCs) must provide accurate, neutral legal information to both parties at conciliation hearings. This task was previously left to private or public lawyers, but is now assigned to the conciliation authority itself. Second, the reform created these centres with trained conciliators, recognizing that only offering guidance was insufficient to overcome agency problems and information frictions in the dispute resolution process.

Another institutional barrier to effective labour justice prior to the reform was the notification process, which was plagued by delays, opacity, and corruption. Notifications not only determined whether conciliation could take place, but also served as a major source of inefficiency in the process.

To address this, we conducted a field experiment in one of the offices of the State of Mexico CAB, as documented in González Soto (2023). Traditionally, notifiers operated with monopoly control over their assigned casefiles, personally managing the timing, routing, and reporting of each notification. The study tested a new organizational model in which casefiles were no longer physically controlled by notifiers. Instead, notifications were assigned through a centralized system based on randomized rotation and pre-defined geographic routes, with court staff managing the flow of files. The aim was to increase transparency, and raise the success rate of notifications—especially first notifications, which are crucial for enabling conciliation.

The experimental treatment increased the probability of successful notification, while also enhancing transparency and reducing opportunities for rent extraction. These findings informed the 2019 reform's approach to the conciliation stage notifications, where this randomized routing and workload system became the standard operating procedure. The reform also introduced the electronic notification system, allowing for all personal notifications—except the first—be delivered electronically.[3]

Later, in collaboration with the Mexico City CAB, we developed and tested a custom-built technological application capable of managing and rotating workload assignments, optimizing geographic routes, and monitoring notifier activity in real time. A follow-up field experiment confirmed its effectiveness, and as of today, over 22 state-level conciliation centres have adopted the application, marking a rare example of evidence-based digital innovation in judicial administration.

We have focused here on the evidence that informed the creation of the Conciliation Centres and the compulsory pre-lawsuit conciliation procedure, as one of the three major

[3]See Article 684-D of the Federal Labour Law for how notifications must be performed by conciliation centres in the new system.

innovations of the labour reform of 2019. The other key pieces of this reform were the creation of labour courts in the judicial branches at the federal and state levels, doing away with the tri-partite CABs, and the introduction of serious union representation and democracy provisions, including a secret ballot vote to ratify and revise collective bargaining agreements. These innovations complement each other, as do individual and collective labour rights—they were intended to work as a whole to shift the equilibrium in Mexico to higher wages, a higher share of profits, and better conditions for workers.

4 Before and after: indicators of individual labour justice

Prior to the reform, conciliation was a formal step only after filing a lawsuit. While the law required that the first hearing be used for conciliation talks, in practice, these hearings were marked by delays, formalism, and mistrust. As a result, many cases proceeded to lengthy litigation. According to data from the Mexico City CAB, the average settlement was 65% in 2018. Despite that, many pre-lawsuit settlements were registered at the CABs. In those cases, both parties reached an agreement and then went together to register the settlement.

The reform introduced a compulsory pre-lawsuit conciliation stage, aimed at solving disputes more equitably and quicker. This stage became a mandatory prerequisite before filing a lawsuit, requiring both parties to attend a hearing at newly created Conciliation Centres. The objective was to encourage early resolution, reduce the burden on labour courts, and increase trust in the process. By institutionalizing conciliation before litigation, the reform sought to prevent unnecessary lawsuits and improve access to justice for workers and employers alike.

Table 1 shows basic statistics of individual disputes per year using data from INEGI (2025). Column (1) shows the number of pre-lawsuit settlements before and after the reform. Column (2) shows the number of new lawsuits. There is a decreasing trend in this number since implementation of the reform started in 2020. From 2021 onward, the number of lawsuits filed decreased markedly from 189,190 in 2020 to just 78,943 in 2023. Importantly, the number of disputes—including pre-lawsuit settlements and lawsuits—has decreased since the reform, mostly due to the decline in the number of new lawsuits. This shows how the pre-lawsuit conciliation procedure introduced by the reform has effectively prevented labour lawsuits.

Table 1: Statistics for individual labour disputes (2018-2024)

Year	Pre-lawsuit Settlements (1)	New Lawsuits (2)	Number of Disputes (3)	Settlement Rate (4)
2018	575,786	226,886	802,672	0.72
2019	596,576	237,067	833,643	0.72
2020	361,592	189,190	550,782	0.66
2021	369,151	181,953	551,104	0.77
2022	356,442	138,144	494,586	0.72
2023	402,194	78,943	481,137	0.84
2024	451,970	95,096	547,066	0.83

This transformation in procedural pathways had a direct impact on outcomes: by 2023 and 2024, the national pre-lawsuit settlement rate, shown in column (4) of table 1, climbed to 84% and 83%, respectively. This rate was calculated as the percentage of pre-lawsuit settlements over the total number of disputes shown in column (3). Not only were more conflicts resolved without a lawsuit, but these resolutions were also achieved earlier and with fewer procedural costs. In short, the reform succeeded in redirecting the majority of labour disputes away from congested courts and toward faster alternative dispute resolution.

It is important to note that this settlement rate only accounts for pre-lawsuit agreements. However, it is also possible to reach an agreement after filing a lawsuit. These statistics are accounted for separately due to the period between the dispute started and the day an agreement is reached. For instance, in 2024, 121,537 lawsuits were solved. Of these, 18.9% settled, while the rest were solved by court ruling, being dropped, or because the statute of limitations applied to the case.

A critical innovation after the reform was the introduction of electronic case management systems, most notably the National Labour Conciliation System (SINACOL). SINACOL serves as a digital platform through which the FCCLR and most LCCs manage all pre-lawsuit conciliation procedures. It allows for the registration of conciliation requests, assignment of conciliators, scheduling of hearings, and issuance of settlements and certificates of non-conciliation, all within a digital environment. A nationwide case management system for conciliation has enormous advantages, the first of which is that it standardizes and guarantees the proper application of the conciliation procedure mandated by law. It also automates many tasks, saving valuable human resources at the FCCLR and

LCCs, and increases transparency, allowing stable and homogeneous indicators of labour conciliation to be extracted and compared throughout the system.

Also, the Notification Management System (SIGNO) was introduced in the FCCLR and most LLCs after the reform. It modernized and standardized the process of notifying parties. SIGNO builds upon the lessons of past interventions by rotating assignments to notifiers, optimizing geographic routing, and maintaining digital records of each notification attempt. These features not only increase the success rate of first notifications, but also reduce discretion and rent-seeking by notifiers.

Together, these electronic tools have reshaped the way individual labour justice is administered. They have helped increase efficiency, transparency, and access. These advances stand in contrast to the pre-reform system in which physical casefiles were routinely lost, notifications were opaque and manipulated, and basic procedural information was inaccessible. While challenges remain in standardizing these tools across all states and ensuring full user adoption, the digital support created by SINACOL, SIGNO, and other electronic systems offers a scalable and transparent foundation for the new labour justice system.

5 Ongoing challenges in implementing the reform

Despite significant improvements introduced by the reform, several persistent challenges continue to threaten its successful implementation and long-term sustainability. These challenges span institutional, budgetary, and operational domains and must be addressed to preserve the gains achieved thus far.

The new federal labour law created the FCCLR with important aspects of autonomy and independence. The General Director of the FCCLR must be confirmed by the Federal Senate, serves for 6 years which overlap with two federal administrations, and cannot be easily removed from the post. After the provisions which create the FCCLR, the law creates the Labour Conciliation Centres (LCCs) of each state. It mentions that they are to be autonomous and independent, but does not detail the confirmation, period of time, or removal procedures for their general directors. As a result of this lack of specification of procedures that could guarantee more independence, in fact a majority of the general directors of the LCCs serve at the will of the state governor or state secretary of labour and do not have fixed terms. Lack of legally-mandated independence could result in political pressure and manipulation at the LCCs, harking back to the CAB system.

In addition to weak legal protections, the new conciliation centres have been given limited infrastructure and financial support. While initial federal and state investments supported

the creation of the FCCLR and the LCCs, budget allocations have varied across states. For example, between 2023 and 2024, Mexico City LCC, which started with a very poor budget, increased this budget by 6%. In contrast, the state of Coahuila decreased its budget by 42% (AIR, 2024). Insufficient budgets mean that essential activities such as training and support for the use of technological systems suffer. In many states, Conciliation Centres operate with minimal personnel and limited physical infrastructure, both in rural and densely populated urban areas. This underfunding threatens the quality and accessibility of the new institutions.

Furthermore, at the federal level, transfer programs are given priority over the new institutions. According to the 2025 Federal Expenditure Budget, 87% of the Secretariat of Labour budget is allocated to the *Jóvenes Construyendo el Futuro* program.[4] The remaining 13% must cover all other functions, including inspection, employment programs, and the old and new labour justice systems. In fact, the new labour justice institutions receive only 2.7% of the Secretariat's budget. This distribution suggests that, despite the reform's relevance, Mexico is dedicating a surprisingly small share of labour policy funding to the new labour justice system.

While the old system officially stopped accepting new cases in 2022, the Federal CAB received 767 million pesos in 2025, 319 million more than the FCCLR. Although the Federal CAB closed to new cases almost 3 years ago and is only handling backlogged cases, its funding has not declined proportionally to its reduced role. Meanwhile, the FCCLR, which manages not only pre-lawsuit conciliation in federal-level industries but also labour union registration, collective contract voting verification, and public repositories, has suffered a 32.5% budget cut compared to 2024 (Partners of the Americas, 2024). This fact illustrates a mismatch between institutional needs and funding, that could be interpreted as negligence with respect to Mexico's obligation to implement the labour reform.

Additionally, according to the FCCLRs 2024 Government Management Report, the institution was already facing serious limitations in infrastructure, personnel, and operational capacity under its 2024 budget. The report emphasized that with the resources allocated for that year, essential services such as registration, verification, and conciliation were being sustained under strain (Federal Center for Conciliation and Labor Registration, 2024). In this context, the 32.5% budget cut proposed for 2025 jeopardizes the core functionality of the institution.

A second concern relates to the heterogeneity and inconsistency in judicial interpretation

[4] *Jóvenes Construyendo el Futuro* is a federal program that provides year-long, paid apprenticeships with social security benefits to young people (ages 1829) who are neither studying nor employed, aiming to improve their job skills and employability.

and criteria adopted by Conciliation Centres and the new Labour Courts in the judicial branch. Because many of the procedural rules are recent and case law is still being formed, divergent interpretations across courts and states have emerged.

One example is the jurisprudence published by the Supreme Court in which the Court interpreted Article 685 Ter, on the exceptions to compulsory pre-lawsuit conciliation, as not including pensions (Segunda Sala de la Suprema Corte de Justicia de la Nación., 2022). The law states that social security disputes are excluded from the compulsory conciliation, and then provides a list of types of disputes, including both social security disputes and disputes that arise in the context of discrimination, violence, or harassment. Interpreting the law in the light of the constitutional amendment of 2017 and the legislative intent as described in the preamble to the new federal labour law would have included pensions in the exempted disputes. Nothing could have been more appropriate, considering that social security disputes are about rights such as disability or aged pensions, that cannot be negotiated.

Nevertheless, in its eagerness to keep all the disputes in the conciliation phase and away from the courts, the Mexican Supreme Court made a very questionable decision to interpret the law in the most formalistic and literal way, saying that since the word "pensions" was not included explicitly, all disputes about pensions would have to go through the conciliation phase. This leads to the absurdity of workers having to "conciliate" with their pension funds when they do not provide the correct payoff when a worker retires. It also saddles the FCCLR with thousands of conciliation procedures that have no hope of reaching a negotiated solution and simply clog up its system, which, in light of the severe budget cut in 2025, cannot afford to handle these additional and meaningless cases. In early 2024, the FCCLR, through the Secretary of the Interior, proposed an amendment to the federal labour law that would accomplish two main objectives: increasing by tenfold the fines that the FCCLR can assess against employers who prevent workers from organizing or negotiating collectively, through retaliation or scare tactics, and adding the word "pensions" to Article 685 Ter. The amendment was passed in the Mexican House of Representatives, but has been held hostage in the Senate for over a year.

Another example is the varying and often incorrect interpretation that state labour courts are using to "return" cases to the Conciliation Centre to repeat the conciliation phase. The law is very clear that when a a party summoned as an employer cannot be notified successfully by the conciliation centre (for example because the firm is not at the location provided by the worker, or the address provided does not exist), the conciliation centre should emit the "certificate of no conciliation", allowing the worker to proceed to labour

court (Congreso de la Unión de los Estados Unidos Mexicanos, 2025).[5] Once more, since courts want to minimize the number of lawsuits they receive, they are using judicial criteria that are contrary to law to say that if notification was not successful, then the conciliation stage was not "effectively carried out" and must be repeated. If we recall that in the old CAB system, notifications were a sore spot, bottleneck, and focus of corruption, it looks like in this new system the labour courts are trying to push all the responsibility on the conciliation centres, to the detriment of access to justice.

These examples of poor judicial interpretation may not improve as Mexico passed a judicial reform which mandates the popular election of all judges, magistrates, and Supreme Court judges. Despite the fact that labour courts in most of the country were only set up 3 years ago in phase 3 of the reform rollout, and despite the fact that state labour judges were the first ever to go through a competitive merit-based selection process, provided for in the federal labour law, half of their posts were put up for election in June of 2025, and the newly elected judges who have not been selected on merit will take over in September. Large investments were made by Mexico, its North American trade partners, and other institutions such as the ILO, to train and prepare judges for the reform implementation. Much of this training will now be lost, and institutional learning will be interrupted. The new judges in many jurisdictions will have limited knowledge and experience in labour law. This is likely to lead to even more unpredictable and uninformed interpretations of the labour law, as well as lower quality court rulings and greater backlog and delay.

The effective functioning of the labour justice system requires coordination between multiple institutions: not only the main authorities, Conciliation Centres and Labour Courts, but also public defenders and social security agencies such as IMSS and INFONAVIT. However, in practice, coordination remains weak. Jurisdictional disputes between federal and state entities persist, often delaying or invalidating proceedings. Furthermore, critical enforcement mechanisms—such as the execution of judgments or fining employers for social security violations—have seen minimal implementation. The lack of shared case management systems and harmonized protocols continues to limit inter-agency collaboration and hampers enforcement of labour rights.

Finally, resistance from those who benefited from the previous system continues. Many private lawyers–especially those of poor quality who do not rely on reputation to find clients—have sought to preserve their role by bypassing the new system, discouraging pre-lawsuit conciliation, or misinforming workers. Additionally, some of them charge for advising during the conciliation stage, while by law, users are not allowed to have

[5] Article 684-E

legal representation in this stage. Public defenders (Procuradurías) have also faced adaptation challenges, particularly in states where institutional capacity is weak. Moreover, entrenched practices from the former CAB system, such as excessive formalism and procedural delay, continue to influence parties' litigation strategy. Cultural and institutional inertia limits the full realization of the reform's goals.

6 What role will labour reform implementation play in the upcoming FTA revision?

The FTA is to be revised by July 2026, within one year of this writing. There is no provision against the revision occurring earlier, and there are reasons to believe that it may be convenient to attend to this revision sooner than later. Since the beginning of the second Trump administration in early 2025, new tariffs are on the table and have already been imposed in some industries, in spite of the existing FTA between the three countries. In some industries, although tariffs have not yet been imposed (several have been announced and then postponed repeatedly) the uncertainty is already causing disruption in trade flows and in supply chains.

In this context, Mexico could adopt the strategy of pushing for earlier revision of the treaty, and try to "package" the discussion of tariffs within the context of the revision, to minimize new tariffs or dilute them with some mutual concessions. However, on the one hand negotiations between Mexico and the US on tariffs have not yet produced any solid agreements, and on the other hand, the Trump administration has taken other actions that have absorbed most of the attention of the Sheinbaum administration in Mexico, such as declaring several Mexican cartels to be terrorist organizations, and more recently targeting three medium sized Mexican financial institutions for alleged money laundering and forbidding US financial institutions, including intermediary banks, from transacting with them. Such actions have put the Mexican federal government in a difficult situation, and instead of planning a winning strategy for the treaty revision, it appears to be constantly reacting to the US government's announcements.

Another issue which has been highlighted by experts is that there is no precedent for a "revision" of the treaty. The word was not well defined in 2020 when this last FTA was implemented by Canada, the US, and Mexico. The general speculation is that a revision is less than a full-blown renegotiation such as occurred in the first Trump administration, the grounds for this assumption are thin.

In such an uncertain scenario, Mexico would do well to consider the fundamentals and to

hedge its bets by paying more attention to correctly implementing its labour reform. We know that a major obstacle to the recent renewal of the FTA was the low level of salaries and effective labour protections in Mexico. The Rapid Response Mechanism build into the treaty and de facto operating only for Mexico is a clear sign this matters to Mexico's biggest trading partners, and will most likely still be a major issue in the negotiations over the revision. It is not in Mexico's interest to be seen as lacking effort or being negligent in the implementation of this major labour reform. This is especially so because the timing of the revision is not under Mexico's control. If the revision materializes in 2025, even a cursory level of scrutiny could flagging public investment and institutional support for labour rights.

7 Conclusion

Mexico's labour reform marked a shift in the country's approach to workplace dispute resolution. After decades of institutional dysfunction and procedural inefficiency, the new system introduced pre-lawsuit conciliation, digital case management, and professionalized labour courts. Empirical evidence played a critical role in shaping this design, especially in showing that providing legal and statistical information can improve settlement outcomes. As a result, a growing share of disputes are now resolved early, with reduced burden on courts.

However, the reform's full potential remains unrealized. Budget constraints, institutional fragmentation, and inconsistent legal interpretations have slowed progress. Many innovations —such as impartial conciliation and electronic notification—require coordination across levels of government and sustained political will. Recent changes to judicial selection rules, including the election of judges, risk undermining gains in professionalism and independence.

These domestic challenges carry international consequences. Labour provisions were central to the renegotiation of the FTA, and the 2026 review will place renewed scrutiny on Mexico's compliance. A failure to consolidate the reform may weaken the country's credibility and negotiating position.

Ensuring the reform's success is not just a matter of social justice, it is a strategic imperative. Strengthening institutional capacity and safeguarding autonomy will be key to sustaining progress. The reform has opened a path toward a more equitable and effective labour justice system. Whether that promise is fulfilled depends on the choices Mexico makes in the months and years ahead.

References

AIR. 2024. "Proyecto ENLACE - Report."

Bensusán, Graciela. 2020. "The transformation of the Mexican labour regulation model and its link to North American economic integration."

Chang, Yun-chien, and Daniel Klerman. 2022. "Settlement Around the World: Settlement Rates in the Largest Economies." *Journal of Legal Analysis*, 14(1): 80–175.

Congreso de la Unión de los Estados Unidos Mexicanos. 2025. "Ley Federal del Trabajo."

Federal Center for Conciliation and Labor Registration. 2024. "Informe de Gestión Gubernamental 2018-2024." Gobierno de México, Mexico City.

González Soto, Anna Sofía. 2023. "Corrupción y competencia en los juicios laborales del Estado de México." *Tesis de Licenciatura*, ITAM: 47.

INEGI. 2025. "Estadísticas sobre Relaciones Laborales de Jurisdicción Local (ERLAJUL)."

Kaplan, David S., and Joyce Sadka. 2011. "The Plaintiff's Role in Enforcing a Court Ruling: Evidence from a Labor Court in Mexico." Inter-American Development Bank.

Morales Juárez, Jorge Armando, Almendra Ríos Mora, and Jesús Armando Martínez Gómez. 2023. "Nuevo sistema de justicia laboral mexicano: el antes y el después de la reforma 2019: New Mexican labor justice system: before and after the 2019 reform." *LATAM Revista Latinoamericana de Ciencias Sociales y Humanidades*, 4(5).

Partners of the Americas. 2024. "Reporte sobre el Presupuesto de Egresos de la Federación 2025."

Sadka, Joyce, Enrique Seira, and Christopher Woodruff. 2024. "Information and Bargaining through Agents: Experimental Evidence from Mexicos Labour Courts." *Review of Economic Studies*, 91(6): 3677–3711.

Sadka, Joyce, Enrique Seira, and Christopher Woodruff. 2025. "Accessing Higher Quality Justice." *Working Paper*.

Segunda Sala de la Suprema Corte de Justicia de la Nación. 2022. "Prestaciones de Seguridad Social. La pensión por cesantía en edad avanzada y vejez, así como la devolución y pago de aportaciones de seguridad social, no se consideran excepciones para agotar la instancia conciliatoria prejudicial, en términos del Artículo 685 TER, Fracción III, de la Ley Federal del Trabajo."

Spier, Kathryn E. 2007. "Chapter 4 Litigation." In *Handbook of Law and Economics*. Vol. 1, 259–342. Elsevier.