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Zedillo's Move to Raise Value-Added Taxes Draws Nationwide Protests

by LADB Staff

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President Ernesto Zedillo's decision to raise the value-added tax (impuesto al valor agregado, IVA) has generated broad-based protests around the country. Under the economic austerity measures announced by Zedillo on March 9, the IVA was increased to 15% from 10%, effective on April 1. The increase in the IVA does not apply to food and medicines, but it does affect most other consumer goods. According to observers, immediate price increases were reported on April 1 for such items as transportation, soap, cigarettes, books, and magazines and newspapers. In Mexico City, stores were nearly empty on April 1, the day the tax increase went into effect. The most visible protests against the increase in the IVA were led by the opposition Democratic Revolution Party (PRD) and the National Action Party (PAN), both of which are seeking legal action in the Mexican courts and in the legislature to overturn the tax.

The demonstrations have been targeted primarily at President Zedillo's administration, but a number of public protests also focused on legislators belonging to Zedillo's governing Institutional Revolutionary Party (PRI). For example, on April 3, protestors burned photographs of PRI deputies and senators to criticize their decision to go along with the increase in the IVA. According to columnist Angel Viveros of *El Financiero* daily business newspaper, the photographs were burned alongside statues and photographs of Judas, a tradition in Mexico during the Holy Week holiday. PAN leaders also called on all of that party's supporters to stage a series of protests around the country during the two-week period of April 17-30. For his part, PRD leader Martin del Campo said that party is also organizing a massive petition drive during April that seeks to allow Mexicans to receive exemptions from the tax. Del Campo said the PRD hoped to obtain hundreds of thousands of signatures. Nevertheless, PRI leader Humberto Roque Villanueva told reporters that the PRD and the PAN are using the IVA increase to advance their own political agendas and have no legal basis to challenge the increase.

According to *El Financiero* International weekly business newspaper, the PAN hopes the protests will cement popular support for the party in the upcoming gubernatorial elections in Guanajuato and Yucatan states. According to public opinion polls conducted in March, PAN candidate Vicente Fox has a solid lead in Guanajuato over the PRI and PRD contenders, but a close race is expected in Yucatan between Luis Correa Mena of the PAN and Victor Cervera Pacheco of the PRI. Many business leaders have joined in the protests, warning that the increase in the IVA will reduce retail sales by between 10% and 15%. The tax increase usually imposed at the retail level has sharply increased the price of most goods. According to some reports, sales at supermarkets and other stores skyrocketed in the last days of April, as consumers attempted to stockpile goods before the tax increase went into effect. After the tax increase took effect, the confederation of national chambers of commerce (Confederacion de Camaras Nacionales de Comercio, Concanaco) announced plans to install posters in businesses listing new and old prices in response to fears of arbitrary price increases.

Other impromptu protests have erupted around the country, centered around the main square of the largest cities or at the headquarters of the PRI. For example, in Monterrey, Campeche, and other cities, processions led by women have marched to local PRI headquarters to demand that the Zedillo administration rescind the tax increase. The marches have included huge contingents of housewives banging pots and pans in protest and screaming slogans that demand a reduction in the cost of living. Ironically, the reaction by organized labor to the increase in the IVA has been mixed. For example, Javier Pineda Serino, secretary of the Confederacion de Trabajadores de Mexico (CTM) told the official news agency Notimex that the increase in the IVA, along with the impact of the peso devaluation has given workers the right to demand higher salary increases. On the other hand, while many smaller and industry-specific unions have participated in demonstrations and protests, the CTM and the leadership of the umbrella organization for Mexican unions, the Congreso del Trabajo (CT), have remained generally silent.

"We are with Zedillo and we always will be for as long as it is a constitutional government, as his is," said long-time CTM president Fidel Velazquez, in an effort to reinforce labor's traditional ties to the PRI. In fact, the CT and CTM in early April announced the suspension of the traditional Labor Day parade on May 1. Velazquez said the action was taken not as protest against the increase in the IVA, but was the result of a lack of union funds to stage the parade. Nevertheless, Francisco Hernandez Juarez, leader of the relatively powerful telephone workers union (Sindicato de Telefonistas de la Republica Mexicana, STRM), told reporters that the decision was taken out of fear that "discontent could cause people from outside to filter in and generate conflicts." In what was widely seen as a concession to the CTM and other labor groups, on March 31 the government's national commission on minimum wages (Comision Nacional Salario Minimo, CNSM) announced an increase of another 12% in the country's minimum wage, which would be in addition to the 10% approved in the economic measures announced on March 9.

The commission said in a statement that it decided on the increase after considering forecasts that Mexico's economy would slow and jobs would be lost as a result of the government's new economic program. Still, the commission stressed that the government's new policies are aimed at "rescuing and protecting the nation's productive capacity, and thus at containing to the extent possible the decline in employment." CTM spokesman Adolfo Gott Trujillo said the 12% increase was a compromise, since the CNSM had originally proposed a 10% hike, while the union was seeking a 13% increase. The new minimum wage will vary among three designated regions. Workers in Region A, which includes Mexico City, will receive 18.30 nuevo pesos (US\$2.92) a day. The daily minimum wage in Region B, which includes Guadalajara and Monterrey, will be 17 nuevo pesos (US\$2.71) a day. In region C, which includes most of the rest of Mexico, the wage will be 15.44 nuevo pesos (US\$2.46) per day.

On a related matter, private and government economists suggest that the increase in the IVA will initially result in only a minor increase in revenues collected by the federal government. According to estimates by both state and private sources, the higher IVA will probably raise an additional 15.6 billion nuevo pesos (US\$2.48 billion) during 1994, but this increase will be offset by declines in other sources of revenue, such as import duties, which have fallen drastically because of the devaluation of the peso. Tax collections this year are expected to only slightly surpass the 160 billion nuevo pesos (US\$25.51 billion) collected during 1994.

According to the Finance Secretariat (SHCP), government tax collections this year should approach 190 billion nuevo pesos (US\$30.30 billion). On the other hand, Casa de Bolsa Value estimates that total collections will be even smaller, totaling only 175 billion nuevo pesos (US\$27.91 billion), which would be about 15 billion nuevo pesos (US\$2.39 billion) above the 1994 level. [Note: Peso- dollar conversions in this article are based on the Interbank rate in effect on April 7, reported at 6.27 pesos per US\$1.00] (Sources: Reuter, 03/28/95, 03/31/95; La Jornada, 03/20/95, 03/27/95, 03/29/95, 03/31/95, 04/01/95; Associated Press, 03/31/95, 04/01/95; United Press International, 04/01/95; Spanish news service EFE, 04/02/95; Agence France-Presse, 04/01/95, 04/03/95; El Financiero, El Universal, 04/04/95; Uno Mas Uno, 04/04/95; Notimex, 04/07/95; El Financiero International, 04/10/95)

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