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Business, Labor Suggest Unemployment is Much Higher than Reported

by LADB Staff

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In early May, the government statistics agency (Instituto Nacional de Estadística, Geografía e Informática, INEGI) announced that the unemployment rate for February reached 5.3% of the economically active population (PEA), the highest unemployment rate reported by the government in recent history. Nevertheless, a number of business organizations, plus Mexico's largest labor association Confederación de Trabajadores de México (CTM) say that the number of jobless in Mexico is at least twice as high as reported by INEGI.

Notwithstanding INEGI's admission that unemployment in February reached a record high, as usual the agency's statistics were hotly contested by independent groups, which have long argued that INEGI traditionally fails to take into account under-employment when making employment calculations. They also say INEGI fails to consider the higher rate of joblessness that prevails in many rural areas, since the INEGI surveys are generally based in urban zones.

Criticisms about the INEGI statistics grew particularly heated after the agency released its most recent statistics because of the significant increase in the number of layoffs that have occurred in Mexico as a result of the economic crisis that followed the devaluation of the peso in late December 1994. According to estimates compiled by the business coordinating council (Consejo Coordinador Empresarial, CCE), at least 400,000 workers lost their jobs since the start of the year, and this number could easily double by December.

For its part, the financial analysis company Grupo de Economistas y Asociados (GEA) reported that 1.454 million workers were jobless at the end of February, compared with 872,000 at the end of December. The 582,000 newly unemployed included an estimated 400,000 employees who were laid off, as well as 180,000 new members of the PEA who could not find employment in the period under study. Meantime, the strongest criticism of the INEGI statistics came from the employers organization Confederación Patronal de la República Mexicana (Coparmex). According to a report released by Coparmex in early May, the real unemployment rate is approaching 10.4% of the PEA, nearly twice the rate cited by INEGI. Coparmex and other business organizations said that unless President Ernesto Zedillo's administration recognizes the gravity of the unemployment picture in Mexico, the government will fail to take the proper steps to ease the burden on the Mexican population.

One business leader, Victor Manuel Terrones, president of manufacturing chamber (Cámara Nacional de la Industria de Transformación, Canacintra), criticized the Zedillo administration for focusing its policies on fighting inflation and reducing the deficit while paying little attention to the unemployment situation. For its part, at a government-sponsored forum on unemployment in early May, the CTM also took the opportunity to criticize INEGI for underreporting the extent of

unemployment in Mexico. According to the CTM, the sum of unemployed and underemployed workers is equivalent to almost 30% of the 36.5 million workers comprising the PEA. Some Zedillo administration officials acknowledge the INEGI statistics may not reflect the true extent of the problem in Mexico. For example, Zedillo's chief economic spokesman Alejandro Valenzuela said that the true number of unemployed and underemployed workers is difficult to determine because of the existence of "10 different indexes." Valenzuela said he did not know if the Coparmex statistics were accurate.

For his part, Finance Secretary Guillermo Ortiz said that the unemployment situation would probably worsen in the next several months before improving by the end of the year. "We are still in the midst of the most difficult phase of the crisis," Ortiz told reporters. According to INEGI and several business organizations, layoffs have been greatest in key sectors such as construction, finance, and manufacturing of durable goods, which have borne the greatest impact of Mexico's economic recession. According to some business organizations, many companies are operating at 30% to 40% of their installed capacity. Similarly, a report produced by the CCE indicates that overall economic activity has declined sharply since the start of 1995 in 26 out of 29 Mexican states surveyed. According to the report, the greatest decline was reported in Quintana Roo state, where economic activity dropped by more than 70% from a year ago. Other states hit especially hard were Campeche, Queretaro, and Morelos.

Alfredo Coutino, chief economic analyst at Ciemex-Wefa, an affiliate of Wharton Econometrics, projected that a total of 2 million workers will be unemployed by the end of the year if Mexico's GDP declines by 4%, as many economists have forecast. For its part, Grupo Expansion in its weekly *Tendencias* economic bulletin predicted that the impact of Mexico's economic crisis will be most apparent in an expected sharp decline in GDP during the second quarter of the year. A relatively small decline of 1% in GDP during the first quarter of the year was attributed to the ability of some companies to expand exports or to substitute domestic products with imports.

However, *Tendencias* said economic growth will continue to decline during the rest of the year, especially for such sectors as financial services, which will continue to be affected by a huge increase in overdue debt. Similarly, construction will decline because of a depressed real estate market, the cancellation of government projects such as road building, and high interest rates. Officials admit that the downturn in production will have a major impact on the employment situation. Labor Secretary Santiago Onate acknowledged that Mexico's GDP growth must rise by 7.5% to 8% per year in order to produce an annual increase of 3% in the number of viable jobs required by the Mexican economy. However, the opposite is expected to occur this year, with the GDP likely to decline by as much as 4%.

According to Canacintra's Terrones, the social impact of layoffs so far this year has been limited, because many workers who lost their jobs have received compensation payments from their employers. However, he warned that most of the payments received by laid-off workers will expire in July or August, which could result in increased social unrest in the latter half of the year. Many analysts warn that unless the government finds a way to increase employment levels over the next several months, other problems could ensue. "Of all the economic indicators, employment is the one that is directly linked to political stability," said columnist Rodrigo Cabrera of the daily newspaper

Uno Mas Uno. "The social irritation, the acts of desperation of social groups, originate in the lack of employment."

On May 1 the traditional Labor Day holiday in Mexico and other parts of the world about 70,000 workers turned out for a massive demonstration organized by independent labor unions against Zedillo's economic policies. The turnout, while far short of the anticipated 350,000 predicted by organizers, nevertheless pointed to the tenuous situation facing the Zedillo administration as a result of the unemployment picture. For example, researcher Luis Felipe Barron of Centro de Investigaciones para el Desarrollo warned that Mexico's economic crisis was bound to bring more Mexicans into poverty. "According to some estimates, one of every three Mexicans who are currently above the poverty level could easily drop below the poverty level because of the crisis," said Barron.

The growing poverty and the increase in the potential for social unrest could continue to inhibit both direct and indirect foreign investment in Mexico. "If real wages continue to stagnate or fall, if job creation continues to be slow or nil, you're going to have deepening poverty and social unrest and that feeds back into whether Mexico is able to attract foreign investment over the long term," economist Thea Lee of the US-based Economic Policy Institute told the Associated Press.

A survey of foreign business executives and bankers, conducted by the daily newspapers Reforma and El Norte, showed that many potential investors are both encouraged by the Zedillo administration's ability to stabilize the peso and also deeply concerned about the potential for social unrest in Mexico because of the economic crisis. About 88% of respondents expressed some approval for Zedillo's handling of economic policy. At the same time, roughly 80% of respondents voiced concern that political and social problems could become "unmanageable" due to the economic adjustment measures imposed by Zedillo. (Sources: New York Times, 04/27/95, 05/01/95; El Norte, 05/08/95; La Jornada, 04/30/95, 05/05/95, 05/06/95, 05/08/95, 05/09/95; Uno Mas Uno, 05/09/95; Agence France-Presse, 05/04/95, 05/07/95, 05/08/95, 05/10/95; United Press International, 05/11/95; Reforma, 05/09/95, 05/15/95; Associated Press, 05/15/95)

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