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In late October, representatives of labor unions and the business sector reached a compromise with President Ernesto Zedillo's administration and signed a new agreement to control inflation in Mexico for the rest of this year and most of 1996. The agreement dubbed the Alliance for Economic Recovery (Alianza para la Recuperacion Economica, APRE) was reached with surprising speed, given threats by both the labor sector and business leaders to boycott negotiations on a new accord. The APRE, which is similar in structure to anti-inflation accords signed annually since 1987, sets a ceiling on increases in the minimum wage and creates a mechanism to limit hikes in consumer prices. However, unlike previous accords, the APRE also contains a number of concessions to labor and business.

According to members of the administration, such concessions were necessary to ensure the support of labor and business leaders. The Zedillo administration's decision to consult those sectors represented an important departure from economic policies crafted in March, when the government unilaterally imposed emergency measures without first consulting with labor and business leaders (see SourceMex, 03/15/95).

In recent weeks, business organizations had hinted that they would refrain from participating in anti-inflation talks to express displeasure with the administration's handling of the economic crisis that followed the devaluation of the peso. After the APRE was signed, however, business leaders expressed more of a conciliatory position. One leader, Hector Larios Santillan, president of the business coordinating council (Consejo Coordinador Empresarial, CEE), went as far as to describe the APRE as "the best" of all the anti-inflation agreements negotiated since 1987.

Among concessions to the private sector in the APRE are reductions in many business-related taxes and tax write-offs for certain investments. Another key element of the APRE is to eliminate certain taxes for small businesses, which have not been able to cope as well as large companies during the economic crisis. For example, under the terms of the APRE, companies that earned the equivalent of 7 million nuevo pesos (US$1 million) would be exempt from having to pay a 2% tax on assets. This exemption would cover more than 80% of all businesses in Mexico. As part of the new accord, the administration agreed to eliminate the value-added tax (impuesto al valor agregado, IVA) for processed foods and medicines, appeasing both the labor and business sectors.

The country's two largest labor unions, the Mexican Workers Confederation (Confederacion de Trabajadores de Mexico, CTM) and the workers congress (Congreso del Trabajo, CT), had expressed intense anger at the Zedillo administration for allowing increases in sugar, tortillas, and other basic products. After the administration allowed the third increase in tortilla prices in September of this year, CTM and CT threatened to stop negotiating anti-inflation agreements with government and business (see SourceMex, 09/27/95). In contrast, the day the agreement was signed, CT president

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Rafael Rivapalacio Pontones and CTM leader Fidel Velazquez praised the administration and business for taking an even-handed approach in negotiating the agreement. "The sacrifice will be shared equally among the productive sectors and the government itself," they said.

Speaking to reporters, Rivapalacio and Velazquez said the APRE would immediately benefit the 4.5 million workers who earn the minimum wage. Indeed, labor representatives were able to negotiate two separate increases of 10% in the minimum wage. The first increase becomes effective at the end of November of this year, and the other raise will be enacted in April 1996. "The incremental increase of 20% in the minimum wage falls short of what we were seeking," said CT negotiator Enrique Aguilar Borrego. "On the other hand, this agreement carries real incentives for businesses to create more jobs." Aguilar noted that the APRE provides other benefits to workers, such as tax breaks and the right to engage in collective bargaining.

The accord also contained tax breaks and other incentives for businesses to expand their workforces. Any company that increases its workforce above the average for the 10-month period from January to October of this year would receive a tax credit equal to 20% of the minimum wage for each additional worker. This tax credit would be applicable to taxes due for 1996. The APRE also specifically attempts to assist the automobile sector, which is one of the industries hurt most by Mexico's economic recession. In order to help promote a recovery in the automobile sector, APRE negotiators agreed to eliminate taxes on purchases of new vehicles. According to the automobile industry association (Asociacion Mexicana de la Industria Automotriz, AMIA), sales of new cars and trucks on the domestic market in the January- August period totaled only about 107,064 units, or almost one- fourth of the 400,000 units sold in the same eight-month period in 1994 (see SourceMex, 10/20/95).

The Zedillo administration also promised to create more than 200,000 jobs in public works and road maintenance projects. Still, the administration's decision to spend more on these types of projects will have to be offset in other areas, since the accord required the federal government to cut spending by 4.75%. In a press conference a day after the APRE was announced, Finance Secretary Guillermo Ortiz suggested that the APRE had created the conditions for Mexico's GDP to grow by at least 3% in 1996. "The general population will begin to enjoy the economic recovery in the first months of 1996," Ortiz said. He noted that the rate of private investment would increase by 4.7% next year, compared with a decline of 29.8% this year.

Similarly, Ortiz said the government's investments in public works projects was expected to grow by 3% in 1996, compared with a reduction of 14.7% this year. "The total contribution of investments to next year's GDP growth will be close to 0.6%," he said. Nevertheless, despite the administration's optimistic economic growth forecasts, the government is anticipating annual consumer price inflation for 1996 at a relatively high 20%. This rate would be less than half of the nearly 50% rate anticipated for 1995, but almost three times as high as the annual inflation rate of 7.05% for 1993. Indeed, the accord contains a clearly inflationary element: an average increase of 29% in energy prices (electricity, diesel, and gasoline) over a 13-month period ending in December 1996.

In the APRE, negotiators also agreed to higher fees for services, including increases in already high road tolls and in user fees for airports and passenger railroad terminals. To reduce the impact

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of increased energy prices, APRE negotiators decided to limit the increases to 1.2% per month, except for one-time hikes of 7% in December of this year and 6% in April of next year. The higher energy prices could cause some political problems for the Zedillo administration. An informal survey conducted by the daily newspaper Reforma among residents of Mexico City showed that respondents overwhelmingly rejected the increases in gasoline prices and electricity rates. Of 500 respondents, 96% said the government should not have increased gasoline and electricity prices.

Similarly, Arturo Lomeli, president of the consumer rights organization Asociacion Mexicana de Estudios al Consumidor (AMEDEC), said the APRE creates the same problem as previous agreements: a disparity between increases in consumer prices and salaries. He said the price of electricity, gas, water, and other public utilities has risen by 35% to 40% this year, while the average salary has increased by only 20%. Additionally, Lomeli suggested that an increase in gasoline prices would have a multiplier effect on increases in prices for other products. He said an increase of 23% in gasoline prices would almost certainly vault the inflation rate above the Zedillo administration's projected 20% level.

Meantime, political columnist Martha Robles of the daily newspaper Excelsior went further than Lomeli in criticizing the APRE, which she said took the same shortsighted approach as previous agreements. According to Robles, a significant flaw of the annual anti-inflation accords is that they lack specific elements to fight poverty in Mexico. "In much the same manner as its predecessors, the APRE resorts to the same vice of attempting to address the consequences of the crisis, while ignoring its causes," she said in an article published on Oct. 31. Indeed, in a sobering report released in late October, the government statistics agency (Instituto Nacional de Estadistica, Geografia e Informatica, INEGI) said the country's open unemployment as of September had doubled from the same time last year.

In a press conference on Oct. 23, INEGI president Carlos Jarque said the 101% increase in unemployment between September 1994 and September of this year had resulted in the direct loss of almost 1 million jobs. According to Jarque, this meant that almost 1.9 million persons who were actively seeking jobs were not able to find employment. Notwithstanding the magnitude of the unemployment statistics reported by INEGI, the true picture is probably even worse than indicated by President Ernesto Zedillo's administration. INEGI's statistics for the jobless rate are considered incomplete, since they are based only on surveys in selected cities, and often count people out who are underemployed among those who have a job. The APRE was also signed after labor and employer organizations were able to iron out a number of contentious issues. The CTM and the CT have in recent months accused business leaders of seeking concessions from the government, such as tax breaks, while "forgetting their social responsibility to their workers."

This charge gained attention in mid-October, when German Gonzalez, president of the confederation of national chambers of commerce (Confederacion de Camaras Nacionales de Comercio, CONCANACO), told reporters that 70% of the small- and medium-sized businesses affiliated with his organization would not be able to afford the traditional Christmas bonus (aguinaldo) to workers. "It's not that the owners do not want to pay the bonus," he said. "They just cannot afford it." Gonzalez's statements created an outcry and forced officials from the Labor Secretariat (STPS) to issue statements reassuring workers that the government would take the steps

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necessary to ensure that bonuses are paid. Deputy labor secretary Agustin Ibarra Almada said any companies that failed to pay the Christmas bonus to workers would be violating Mexican labor laws.

"Businesses must not use the economic crisis as an excuse not to pay the aguinaldo this year," said Ibarra. "The law requires that the bonus be paid." Following Ibarra's statements, another business leader, Victor Manuel Terrones of the manufacturing industry chamber (Camara Nacional de la Industria de la Transformacion, Canacintra), pledged that business would find a way to pay the bonuses, even if this meant taking out loans. "We hope to gain the support of the banking sector to open up a line of credit for us to overcome the potential problem of liquidity in December," he said.

Terrones said employers must recognize that workers have contributed significantly to helping businesses remain afloat during Mexico's economic crisis. "We will do everything possible to make sure they receive their Christmas bonus," he said. Analysts said the Zedillo administration's move to bring labor and business representatives together was a necessary step to help stabilize the financial markets, especially since its forecasts of economic recovery by the end of the year appeared in doubt.

"The administration was promoting expectations throughout the year that the recovery would begin in the last quarter of the year," said columnist Jose de Jesus Garcia in the daily newspaper Excelsior. "We are certain now that the recovery did not begin in October, and that it may be delayed until sometime next year."

On Oct. 30, the day after the APRE was announced, the markets experienced a temporary recovery. On that day, the peso recovered to 6.925 nuevo pesos per US$1.00 after having fallen about 6% to 7.065 nuevo pesos per US$1.00 during the week of Oct. 22-27. The Mexican Stock Exchange (BMV) also reacted positively. On Oct. 30, the BMV's main index (Indice de Precios y Cotizaciones, IPC) recovered by 1.4%, following losses of 3.58% for the full week of Oct. 23-27. These recoveries, however, were only temporary, as concerns about the continued economic recession in Mexico have again taken center stage. On Oct. 31, the peso declined to about 7.20 nuevo pesos per US$1.00, while the BMV declined by 1.99%. (Sources: Reuter, 10/19/95; Notimex, 10/20/95; Inter Press Service, 10/19/95, 10/25/95; El Norte, 10/27/95; Agence France-Presse, 10/20/95, 10/23/95, 10/24/95, 10/29/95, 10/30/95; Associated Press, 10/30/95; Excelsior, 10/24/95, 10/30/95, 10/31/95; Reforma, 10/30/95, 10/31/95; La Jornada, 10/30/95, 11/01/95; New York Times, 10/30/95-11/01/95)

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