University of New Mexico
UNM Digital Repository

SourceMex Latin America Digital Beat (LADB)

1-24-1996

Mexican Government, Business, Labor Seek to Control Prices in Near Term

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation
LADB Staff. "Mexican Government, Business, Labor Seek to Control Prices in Near Term." (1996).
https://digitalrepository.unm.edu/sourcemex/3543

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.

LADB Article Id: 55811
ISSN: 1054-8890

Mexican Government, Business, Labor Seek to Control Prices in Near Term

by LADB Staff
Category/Department: Mexico
Published: 1996-01-24

In mid-January, the Trade Secretariat (SECOFI) gained reluctant agreement from representatives of labor and business to enact a plan to limit price increases and in some cases lower the cost for 61 consumer products listed in the basic basket of goods through at least the end of February. The plan to control prices was proposed and formally accepted at a Jan. 19 meeting of a committee that was charged with reviewing President Ernesto Zedillo's emergency economic plan. The plan, drawn up in mid-1995, was dubbed the Alianza para la Recuperacion Economica (APRE). Trade Secretary Herminio Blanco told reporters the scheme to stabilize prices was reached through agreements between the government and several hundred business organizations and private enterprises throughout Mexico.

Under the plan, the prices for many basic consumer products were reduced by between 5% and 50%. Lower prices for two basic products tortilla and milk went into effect on Jan. 20. Price controls on other products are scheduled to go into effect on Jan. 31 and remain in place at least until Feb. 29. The administration left the door open for periodic reviews of the price scheme. Before the APRE meeting, the Zedillo administration gained the informal support of 290 commercial and service organizations. In addition to the promise to reduce prices, the preliminary agreement included a government pledge to increase supplies of basic goods at government and union-run stores and to inform consumers about the savings.

According to Blanco, another key step by SECOFI was to secure commitments at the national level from the country's four major business groups, including the national confederation of industrial chambers (Confederacion Nacional de Camaras Industriales, CONCAMIN), the manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, CANACINTRA), the confederation of national chambers of commerce (Confederacion de Camaras Nacionales de Comercio, CONCANACO), and the largest retailers' organization (Asociacion Nacional de Tiendas the Autoservicio y Departamentales, ANTAD).

Meantime, CANACINTRA president Victor Manuel Terrones told reporters that the plan was also a result of intense negotiations among members of the private sector involved in different stages of the production process. According to Terrones, negotiations focused not only on reducing the price of the final product, but on ways to save money on packaging, distribution, and other stages of the production process. "We are trying to contribute to the government's efforts to fight inflation," said Terrones. "The private sector has pledged to contribute to the country's economic recovery." As a result of the agreement among the business groups, consumers on average were expected to spend less during February on such items as foodstuffs, medicine, hygiene and personal items, clothing, school supplies, and domestic electronic appliances. "Some businesses and department chains have promised greater discounts than those negotiated, thus sacrificing their profits," said CONCANACO director German Gonzalez Quintero.

©2011 The University of New Mexico,
Latin American & Iberian Institute
All rights reserved.

LADB Article Id: 55811
ISSN: 1054-8890

Despite the appearance of agreement among the various sectors, however, labor and business representatives said the Zedillo administration will have to take actions that go much further than merely negotiating periodic agreements to limit prices. For example, Rafael Rivapalacio, president of the workers congress (Congreso del Trabajo, CT), said the government should take a two-pronged approach: freeze and reduce consumer prices for a period of at least six months and allow greater salary increases in order to improve the purchasing power of workers. According to CT and CTM estimates, the purchasing power of workers declined by 40% during 1995, since average salary increases of 20% failed to keep pace with the inflation rate.

A separate survey of bankers conducted by Agence France- Presse indicated that the purchasing power of the Mexican peso in 1995 declined by more than 36%, while salaries grew by only 17%. Some businesses appear open to offer higher salary increases to workers. For example, a report published in the weekly business newspaper El Financerio International said 33 collective labor contracts were revised in the first half of January to include wage increases averaging 15.4%. According to the report, most of the wage increases were in the food industry, followed by the manufacturing and chemical sectors. Meantime, a separate report published by the association of executives in industrial relations (Asociacion Mexicana de Ejecutivos en Relaciones Industriales, AMERI), projected that many more contracts would be renegotiated in 1996. The report said the economic decline in Mexico during 1995 has created a more cooperative climate between employers and employees, since both sectors want to avoid actions that hurt production. On the other hand, the stance taken by labor leaders for a long-term freeze in prices conflicts directly with the position of some business organizations, which have requested government flexibility to raise prices. For example, Cesar Gonzalez Quiroga, president of the huge cattle ranchers organization Confederacion Nacional Ganadera (CNG), said rather than limit price increases, the Zedillo administration should free up the price of milk. Additionally, the negotiations on the plan also revealed some potential conflicts within the private sector. ANTAD officials have said they cannot impose a freeze on prices unless the wholesalers and producers lower the price of the products sold to supermarkets and department stores. "If the suppliers do not compromise, our association has no obligation to lower prices," said ANTAD president Sergio Abraham Maffud. According to Abraham, ANTAD officials will continue negotiations with wholesalers to determine where prices could be reduced. The government's action to seek an agreement to control consumer prices was a response to the sharp increase in the cost of many basic products. For example, according to unofficial SECOFI statistics, prices at the beginning of December had increased by 60% for chicken and 19% for rice. In addition, other goods considered essential by industry had also risen sharply. These included a 20% rise in the cost of cement. Indeed, the Banco de Mexico (central bank) report on the inflation rate for 1995 indicated that the cost of living in Mexico increased by more than 60% last year. Sharp increases were reported in virtually all categories, including gasoline, electricity, housing, public transport, food, clothing, and medicine. According to some economic analysts, the increase in the price of basic consumer goods has increased discontent among the general public and has become a major political liability for President Zedillo's administration. According to SECOFI, the increase in the basic basket of goods was 61% in 1995, surpassing the annual inflation rate of about 53%. In comparison, the rate of inflation for the basic basket of goods in 1994 was only 7%. For the month of December, the basic basket of goods increased by almost 4%, but a large portion of this increase was in the price of food and beverages. "The social pressures have created frustration, disorder, crimes, and demonstrations, which have collectively contributed psychologically to the weakening of the national market," said El Inversionista Mexicano, in a report published in the daily newspaper

©2011 The University of New Mexico,
Latin American & Iberian Institute
All rights reserved.

LADB Article Id: 55811
ISSN: 1054-8890

Excelsior. "This carries an economic cost, which is reflected in a higher inflation rate." The price controls established in January were also considered an essential step for the Zedillo administration to maintain its forecast of 20.5% annual inflation for 1996. According to some estimates, the inflation rate for January could reach 3%. If the administration were to reach its goal of 20.5% for the year, the monthly rate would have to average about 1.7%. In contrast, a handful of private economists have forecast the annual inflation rate for 1996 in a range of between 30% and 40%. Still, the forecasts for 1996 would be lower than the final inflation for 1995, which the central bank estimated at 52%. The Central Bank's annual inflation rate, released on Jan. 10, is more than 10 percentage points higher than the Zedillo administration's target last year of 42%. The Zedillo administration attempted to downplay the significance of the higher-than-expected inflation rate by noting that the consumer price index (Indice Nacional de Precios al Consumidor, INPC) increased by a monthly average of only 2.3% in the last half of 1995. This compared with 4.9% each month between January and June of last year. Meantime, the report by El Inversionista Mexicano projected the annual inflation rate for 1996 at 35%. The report said several factors will affect inflation, including the relatively large disparity between producer and consumer prices. For example, the report said the producer price index (Indice Nacional de Precios al Productor, INPP) during December averaged about 3.8%, compared with an INPC of 3.2%. "It is logical to believe that the producer will attempt to pass a greater portion of its costs to the consumer," the report said. A survey conducted by the prominent economic think-tank Centro de Estudios Economicos del Sector Privado (CEESP) said that producers will pass on to consumers the costs of increased expenditures for worker salaries and for energy. The CEESP projected that the INPC would rise sharply during January, drop briefly during February and March, and increase again in April and May. The CEESP said a relatively high inflation rate for January-May would have a major impact on key economic variables, including interest rates and the peso's value relative to the US dollar and other foreign currencies. On the other hand, the CEESP report suggested that the relatively high inflation rate for the year could be influenced by a stronger-than-expected economic performance during the coming year. The CEESP cited a recent survey of 453 businesses, which on average anticipated a GDP growth of 3.9% for 1996. Economists suggest that the relatively optimistic forecast is based in part on the premise that the Zedillo administration will not raise taxes, and perhaps even reduce existing taxes. In fact, the issue of taxes has been a major source of tension between the business sector and the federal government, which would like to raise more revenues for its strained budget. Business leaders have demanded reductions in both the value-added tax (Impuesto al Valor Agregado, IVA) and the income tax (Impuesto Sobre la Renta, ISR). In early January, officials in the Finance Secretariat (SHCP) hinted that President Zedillo's administration was considering a reduction in the ISR. However, the statement from SHCP official Tomas Ruiz was accompanied by a mention that Mexico's current IVA rate of 15% is lower than IVA rates in many other large Latin America countries, and is two percentage points below Europe, where the average rate is 17%. Ruiz's statements renewed rumors that the administration was about to raise the IVA to 20% sometime this year. The rumors created such a furor that Ruiz and other SHCP officials were forced to deny that an increase in this tax was imminent. However, political and economic analysts suggest that the Zedillo administration is unlikely to raise the IVA because it would be a politically unpopular move at a time when the president is struggling to gain national support. Some suggested that Ruiz's statements may have been intended as a trial balloon to determine if the administration could get away with an increase in the IVA. In addition, an increase in the IVA of 5% would almost ensure that the Zedillo administration would not meet its goal of 20% inflation during 1996. An increase of 5 percentage points in the IVA in April of 1995 was directly responsible for an increase of 8% in

©2011 The University of New Mexico,
Latin American & Iberian Institute
All rights reserved.

LADB Article Id: 55811
ISSN: 1054-8890

the INPC that month. The inflationary effect of the increase in the IVA continued to have an impact for the rest of 1995, resulting in annual inflation rate of almost 52%. (Sources: Notimex, 01/09/96; Agence France-Presse, 01/09/96, 01/10/96; Reuter, 01/10/96, 01/18/96; Inter Press Service, 01/15/96; La Jornada, Excelsior, 01/17/96, 01/19/96; Reforma, 01/19/96; El Financiero International, 01/15/96, 01/22/96)

-- End --

©2011 The University of New Mexico,
Latin American & Iberian Institute
All rights reserved.