10-30-1996

Labor, Business, Government Sign Anti-inflation, Economic-Growth Pact

LADB Staff

LADB Article Id: 55468
ISSN: 1054-8890

Labor, Business, Government Sign Anti-inflation, Economic-Growth Pact

by LADB Staff
Category/Department: Mexico
Published: 1996-10-30

After several months of posturing, representatives from labor and campesino groups, business organizations, and the government announced an agreement on a new economic-growth and anti-inflation package. Among other things, negotiators reached a compromise on an increase in the minimum wage, which was set at 17% for 1997. The agreement also retains some tax breaks for business, as well as gradual increases in the price of fuel and energy.

Still, the government has announced an end to certain tax exemptions for the business sector, which were put into place in 1995 to help the Mexican economy deal with the effects of the peso devaluation in late 1994. The agreement which is known as the alliance for economic growth (Alizana para el Crecimiento Economico, ACE) will go into effect at the beginning of December. The ACE replaces the economic-recovery accord (Acuerdo para la Recuperacion Economica, ARE) negotiated for 1996. The ARE expires at the end of November.

The ACE is the 22nd such agreement negotiated since 1987 under three separate administrations. Over the years, consecutive governments have promoted the agreements whose cornerstone is to control inflation as an example of cooperation among the government, labor, and business sectors. The ACE was signed by President Ernesto Zedillo and several cabinet secretaries, along with Enrique Aguilar Borrego of the workers congress (Congreso del Trabajo, CT), Beatriz Paredes of the national campesino confederation (Confederacion Nacional Campesina, CNC), Hector Larios Santillan of the business coordinating council (Consejo Coordinador Empresarial, CCE), and Miguel Mancera Aguayo, who heads the Banco de Mexico (central bank).

In a press conference announcing details of the ACE, Finance Secretary Guillermo Ortiz Martinez said the agreement was based on the government's economic projections for 1997, which include 4% GDP growth and a 15% annual inflation rate. According to Ortiz, the Zedillo administration views the agreement as a tool to stimulate the Mexican economy, both in the short and long term. "We see 1997 as a year of transition," said Ortiz. "Increased employment will put a little more money in the pockets of Mexicans next year. More than anything, we are building a solid foundation to ensure that, starting in 1998, GDP growth rates will reach at least 6%."

The Zedillo administration's economic projections for next year received mixed reviews from business organizations. El Financiero daily business newspaper, for example, said that reports from Banamex, BBV, IXE, Lehman Brothers, Ing Baring, Anahuac, and others generally concur that the ACE will promote stability, both in the general economy and in financial markets. On the other hand, El Financiero said most economic experts agree that the government's target of 15% inflation is "not credible," especially given the projected increases in fuel and energy. Starting in December, gasoline prices will rise by 8%, followed by monthly increases of 1.03% from January to November. Similarly, diesel prices will increase by 8% in December, and then by 1.2% per month.

LADB Article Id: 55468
ISSN: 1054-8890

The ACE also calls for monthly increases of 1.2% in electricity rates for residential users. Industrial users will see their rates go up in two phases: an increase of between 9% and 10% in December, and another of between 3% and 5% in April 1997. Critics said an increase in those goods and services will have wide repercussions on the price of industrial and consumer items, which could raise annual inflation above the 15% rate forecast by the administration for 1997. Additionally, economists noted other pressures that could derail the government's inflation forecast, such as demands by several industry groups that they be allowed to increase the price of basic products to help their industries survive.

In fact, in early October the directors of several producer organizations urged negotiators to include price increases for products such as tortillas and milk in the new economic agreement. Leaders of the national corn producers union (Union Nacional de Productores de Maiz, UNPM) and the national rural property confederation (Confederacion Nacional de Propietarios Rurales, CNPR) argued that the current price of 1.40 pesos per 1 kg of tortillas is too low to allow producers to recover their costs.

Similarly, the national agricultural council (Consejo Nacional Agropecuario, CNA) recommended that SECOFI eliminate price controls on milk, which is currently sold at 3.60 pesos (US$0.45 cents) per liter. The CNA argues that price controls have restricted production, which, in turn, has led to an increase in powdered-milk imports. For several weeks before the ACE negotiations were completed, leaders from the CT and the workers confederation (Confederacion de Trabajadores de Mexico, CTM) said they would not sign an inflation agreement unless the minimum wage was set above the forecast rate of inflation for 1997. Labor leaders were recommending an increase in the minimum wage of 23% to partially compensate for the steady decline in workers' purchasing power.

"At this time, not even an increase of 100% would compensate for the loss of purchasing power," the CT said in a statement a few days before the negotiations were concluded. Indeed, according to a study conducted by El Financiero, Mexico's minimum wage remains extremely low, averaging US$3 per day. El Financiero noted that the 17% increase contained in the ACE, which will go into effect in December, will do little to offset the deterioration in purchasing power. According to the newspaper, workers' salaries will decline by 1.44% in real terms this year, as a result of the increases in the prices of basic products during the course of 1996. Meantime, a separate study published by the salary- protection committee (Comite Nacional Mixto de Proteccion al Salario, CONANPROS) reported that the price of the basic basket of goods has increased by 140.9% during the first 22 months of President Zedillo's term in office.

During the same period, the minimum wage has increased by 47.9%. According to the CONANPROS study, the cost of selected basic products for a family of five was 688.50 pesos (US $87.00) per month in December 1994. By September of 1996, those same products cost about 1,659 pesos (US$210.00) per month.

"The average worker will need to earn twice the minimum wage to purchase the products that are part of the basic basket of goods," said CONANPROS. "This does not include other necessities,

LADB Article Id: 55468
ISSN: 1054-8890

such as the cost of clothing and footwear, housing, health, and transportation. On the other hand, the private sector lobbied heavily against the 23% increase in the minimum wage sought by labor, arguing that this would rekindle inflation and restrict growth. "A major increase in the minimum wage would, at the very least, restrict the creation of new jobs and also contribute to higher inflation," said a study released by the private sector center for economic studies (Centro de Estudios Economicos del Sector Privado, CEESP).

Still, the Zedillo administration says the 17% increase is an appropriate compromise. In his speech announcing details of the ACE, Ortiz said the raise will result in a higher paycheck for 1.4 million workers, or about 15% of Mexico's work force. And, despite all the strong posturing in the weeks leading to the ACE conclusion, in the end, the CT and the CTM accepted the 17% increase in the minimum wage. In a statement, labor leaders urged rank-and-file members of the various affiliates of the CT and CTM to lend their support to the new accord. "By signing on to this agreement, the labor sector demonstrates its confidence in the government and the Zedillo administration's policies, which have been followed firmly but also with social sensibility," said Javier Pineda Serino, the CTM's secretary in charge of labor disputes.

Pineda Serino urged workers to look beyond the short term and to consider the long-term benefits of the ACE. "We must support the measures that will result in sustained economic growth during 1997, which will allow us to recover the jobs lost during the recent economic crisis," said Pineda Serino. He expressed hope that the steps taken to control inflation and promote growth would, in the long run, help the plight of Mexican workers, but he acknowledged that conditions would not improve anytime soon. "The truth is, in the short run, we will not be able to correct the deterioration of salaries," he said. Pineda Serino also warned the business sector not to use the increase of 8% in gasoline prices, effective on Dec. 1, as an excuse to raise prices. "That would virtually negate the 17% increase in the minimum wage," he said.

Meantime, CT vice president Enrique Aguilar Borrego presented a more optimistic statement, going as far as to describe the ACE as the "best" of all the 22 agreements negotiated by the labor sector thus far. While the 17% increase in the minimum wage was below the rate sought by labor representatives in the negotiations, Aguilar Borrego said the ACE placed less emphasis on advancing the government's macroeconomic model and more on incorporating the needs of business and labor sectors. Indeed, the ACE set no limits on salary increases beyond the minimum wage and suggested that these be considered on a case-by-case basis, depending on a company's ability to offer higher salaries.

Still, despite the broad support from the CT and CTM, there were signs of discontent among some independent labor groups not affiliated with the two organizations. One of the most vocal critics was Samuel Ruiz Mora of the national workers council (Consejo Nacional de los Trabajadores, CNT), who accused the CT and CTM of betraying Mexican workers by accepting a 17% salary increase. Similarly, the executive committee of the opposition Democratic Revolution Party (PRD) issued its own statement criticizing the minimum-wage increase as inadequate to meet the needs of Mexican workers. "We will soon see a new decline in the purchasing power of workers," the PRD said in a prepared statement.

LADB Article Id: 55468
ISSN: 1054-8890

The PRD leadership said the ACE is intended more as a reassurance to foreign investors that salary increases will remain restrained and that the government will control the budget deficit than an effort to take into account the needs of Mexicans. Meantime, the private sector also offered mixed reactions to the ACE. CCE president Larios Santillanes said many business leaders were pleased with the ACE's broad effort to promote sustained economic growth, reduce interest rates, and stabilize the Mexican peso.

On the other hand, he said the business sector regretted that the ACE eliminated many of the tax breaks many business organizations had supported. Many of these tax breaks were enacted in the ARE to help specific industries recover from the impact of the peso devaluation in late 1994. Under the ACE, many of the broad exemptions are eliminated and tax concessions are to become more targeted. For example, companies that create new jobs will receive a break on their income tax (Impuesto Sobre la Renta, ISR). Under this plan, any business that increases the number of employees relative to 1996 will be eligible for a tax deduction equivalent to 20% of one minimum salary for each new job created.

The fiscal concessions also included a provision extending the exemption on payments of property and income taxes. In addition, companies will be allowed to continue to deduct as much as 71% of the cost of purchases of new automobiles. This was seen as an effort by the Zedillo administration to continue to support the auto industry. On the other hand, businesses will now have to pay sales tax on the purchase of automobiles (impuesto sobre automobiles nuevos, ISAN). The ISAN, which was once collected by the federal government, will now be collected at the state level. Under the ACE, negotiators agreed to meet a key concern presented by the automotive industry, which was concerned that a transfer of this tax to state governments would give some states an advantage over others (see SourceMex, 10/23/96).

As a compromise, ACE negotiators agreed that the federal government would work with states to keep the ISAN rate at a uniform 2.5% across the country. Finance Secretary Ortiz said the elimination of tax exemptions is part of the government's plan to increase revenues to balance the budget, since this year's ACE has a greater commitment to boost spending on social programs. Ortiz said the government can no longer afford to offer massive tax breaks, since this has reduced revenues by 2% of GDP, or the equivalent of 60 billion pesos (US$7.58 billion) since 1994. He said tax exemptions allowed in 1997 will be the equivalent of 0.5% of the country's GDP.

Regarding the agricultural policies established under the ACE, Agriculture Secretary Francisco Labastida Ochoa pledged that the government will continue to allocate adequate financial resources for the farm sector, maintaining, for example, the direct-support program (Programa de Apoyos Directos a la Agricultura, PROCAMPO). "Agriculture enjoys a privileged position in President Zedillo's decisions on the budget," Labastida told reporters. He said the president plans to push forward with key programs for the rural areas, such an employment initiative in some of the poorer areas of Mexico and marketing assistance for producers affected directly by a decline in international prices. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 28, reported at 7.91 pesos per US$1.00] (Sources: Agence France-Presse, 10/26/96; El Economista, 10/08/96, 10/11/96, 10/21/96, 10/23/96, 10/25/96, 10/28/96; The News, New York Times, 10/28/96; El Universal, 10/08/96, 10/09/96, 10/11/96, 10/24/96, 10/25/96, 10/28/96, 10/29/96; Novedades,

LADB Article Id: 55468
ISSN: 1054-8890

10/10/96, 10/11/96, 10/23/96, 10/25/96, 10/28/96, 10/29/96; El Financiero, 10/11/96, 10/21/96, 10/23/96, 10/28/96, 10/29/96; Excelsior, 10/16/96, 10/19/96, 10/20/96, 10/25/96, 10/29/96; La Jornada, 10/21/96, 10/22/96, 10/25/96, 10/27/96, 10/28/96, 10/29/96)

-- End --