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Mexico City Attempting to Deal with Rapid Growth in Informal Economy

by LADB Staff

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In late January, the Mexico City government implemented a controversial plan to address a surge in the number of street vendors in the city's central business district. As an initial step, authorities relocated about 100,000 street vendors from the area and implemented a three-tiered fee structure. Street vendors, known as ambulantes, will now be charged fees ranging from 5 pesos (US\$0.64 cents) to 15 pesos (US\$1.92) daily, depending on the "commercial viability" of where they locate their stands.

According to Jesus Toledano, secretary general of the Mexico City government, authorities also offered more than 4,000 sites in public markets and commercial centers as an incentive to remove 45,000 street vendors from some of the areas of greatest conflict with shop owners. However, past attempts to integrate displaced street vendors into the city's 27 authorized markets have failed to resolve the problem. In these cases, the ambulantes have complained that the markets lack sufficient space, and they said that regulations are too stringent.

Toledano also asked the city's legislative assembly (Asamblea Legislativa del Distrito Federal, ALDF) to form a special multiparty commission to draft a more permanent solution to the rapid growth in the informal economy and integrate street vendors into the tax-paying work force. In early February, representatives of organizations of street vendors met in Mexico City to propose their own solutions to the situation.

Still, the Mexico City government's plan to remove street vendors from the central business district met with strong protests by ambulantes, who claim that the plan is insensitive to the economic realities of street vendors. In late January, more than 1,000 street vendors organized a series of demonstrations in front of City Hall to demand a suspension of the city government's "unilateral" actions.

Alejandra Barrios, director of the street vendors group Asociacion Civica Legitima de Ambulantes (ACLA), said her organization could live with the fee-based structure. On the other hand, she described the decision to remove all street vendors from the central business district as "illogical." "We are on the street because we need work," said Barrios, whose organization represents more than 10,000 street vendors. Tensions grow between shop owners and street vendors. The growth in the informal economy has fueled strong tensions between street vendors and shop owners in Mexico City.

According to the Mexico City Chamber of Commerce (Camara Nacional de Comercio, CANACO), the large influx of street vendors into the central business district has forced some businesses in

the area to lose as much as 80% of their potential sales. CANACO contends that street vendors enjoy an "unfair trade advantage" because they are not required to pay income taxes or collect the government's 15% value-added tax (Impuesto al Valor Agregado, IVA).

Economic downturn causes surge in number of street vendors

Some economists trace the surge of street vendors to the economic depression that followed the devaluation of the peso in December 1994. According to government statistics, Mexico's GDP declined by 6.9% in 1995, which caused many large companies to lay off workers and forced many small and medium-sized business into bankruptcy. According to estimates published by the ALDF, the crisis forced a total of 21,000 formal businesses employing five or fewer workers to close their doors in 1995 and 1996. "For every formal business, there are two informal businesses," said Antonio Montiel Guerrero, president of the small business chamber of commerce (Camara Nacional de Comercio en Pequeno y Servicios, CANACOPS).

The economists suggest the increase in unemployment after the crisis drove many workers, especially in large metropolitan areas like Mexico City, into the informal economy. "With no significant social safety net to help the victims of layoffs, people had to work somewhere," said the business publication Latin Trade. According to Latin Trade, the actual number of jobs available in Mexico City in June 1996 was 10% below the number reported in June 1993.

Statistics published by the ALDF's economic development committee indicate that roughly 68% of Mexico City's economically active population (EAP) is unemployed or underemployed. Similarly, a report published by the World Bank indicates that Mexico's nontax-paying sector swelled to 39% of the country's GDP this year. This is 12 percentage points higher than in 1994. Indeed, a recent study published by the center for private sector economic studies (Centro de Estudios Economicos del Sector Privado, CEESP) estimates that the informal sector in recent years has generated economic activity worth between 28% and 39% of the official Mexican GDP.

The plight of the street vendors has not gained much sympathy from key authorities. In a television interview in early December, Mexico City Mayor Oscar Espinosa Villarreal promised to halt the growth in the informal economy. "I know of cities with much higher levels of unemployment that don't try to resolve the problem by letting the streets and sidewalks fill with ambulantes," said Espinosa.

Neoliberal policies also blamed

Other economists and political observers, while acknowledging that the recent economic depression magnified problems for most residents of Mexico City, blame the structure of the Mexican economy for the crisis. For example, columnist Leopoldo Trejo Martinez of the daily newspaper Excelsior said the neoliberal economic policies followed by former presidents Miguel de la Madrid and Carlos Salinas de Gortari, as well as current President Ernesto Zedillo, have failed to create the number of jobs required by the Mexican economy. "Citizens have turned to the informal economy to deal with the structural changes in Mexico," said Trejo. According to a report in Excelsior, the informal economy has registered growth of about 13.6% annually, compared with similar growth rates of 7.4% for the formal economy.

Similarly, economist Jorge Albergo Mendoza Garcia said the combination of government downsizing and the tendency by private companies to become smaller and more efficient has directly contributed to the jobless situation in Mexico. "The government is reducing jobs and pulling out of the (formal) economy in nearly every sense of the word," said Mendoza, who teaches at the Mexico City branch of Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM). "The state shrinks, the private sector retrenches, the social safety net is nonexistent, and you create conditions to make the informal sector grow."

Mendoza published a book on the informal economy in 1994, which many consider one of the most extensive studies of the subject in the country. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 5, reported at 7.79 pesos per US\$1.00] (Sources: El Economista, 11/25/96; Proceso, 12/06/96; El Universal, 01/20/97; Excelsior, 11/24/96, 01/09/97, 01/22/97, 01/23/97; La Jornada, 12/16/96, 12/17/96, 01/28/97, Novedades, 12/17/96 01/29/97; El Nacional, 01/28/97, 01/29/97; The News, 12/10/96, 01/20/97, 01/28/97, 01/30/97)

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