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Joblessness, Business Failures Strain Finances for Social Security Institute

by LADB Staff
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Mexico's growing unemployment rate and the increasing rate of business failures have begun to further strain an already financially troubled social security institute (Instituto Mexicano del Seguro Social, IMSS). The IMSS relies on worker and employer contributions for part of its budget, but this source of funds has fallen significantly because of massive job losses in the formal economy. The institute is the principal source of health care for 57 million Mexicans and the main provider of retirement benefits for tens of thousands of others.

The latest report from the government's statistics agency (Instituto Nacional de Estadisticas, Geografia e Informatica, INEGI) said the rate of open unemployment in August was the highest for that month since 1996. The government estimates the number of unemployed workers at about 1.7 million, increasing from 1.4 million at the end of June (see SourceMex, 2003-07-30). These statistics do not reflect Mexico's true employment picture because they do not take into account the huge percentage of the population that only works a few hours a day or makes a living in the informal economy.

The IMSS said an estimated 350,000 salaried workers have stopped contributing to the institute in the past 30 months because they have lost their jobs. "To the extent that we have fewer salaried workers contributing to the institute, our revenues will continue to decline," said IMSS director Santiago Levy Alzati. "That is why we are very worried about the employment situation."

Job losses have occurred both in the manufacturing and service industries. For example, INEGI reported recently that the maquiladora industry lost more than 25,000 employees between July of 2002 and the same month this year. In the restaurant industry, the Camara Nacional de Restaurantes y Alimentos Condimentados (CANIRAC) said 12,000 workers in this industry became unemployed during 2002.

Contributions from employers have also declined, with an estimated 50,000 companies closing their doors since the middle of 2002. Levy said the institute ended 2002 with a budget deficit of 153 billion pesos (US$13.9 billion). Among the IMSS liabilities was a huge debt primarily owed to the government of Mexico City for rent and other services (see SourceMex, 2002-07-04).

In testimony before a Senate committee in early August, Levy said the IMSS financial crisis would reduce the resources available in medication and other benefits by an average of 30% for each beneficiary.
Director says emergency rescue not yet necessary

The precarious financial situation of the IMSS has led to concerns that the institute would become insolvent in coming years. This has led to proposals that the federal government and the Congress create a rescue plan similar to that developed for banks after the devaluation of the peso in 1994.

"The rescue of the institute, one of the basic providers of our society," should become a priority as we consider tax reform and other financial matters," said Sen. Genaro Borrego Estrada, a member of the former governing Partido Revolucionario Institucional (PRI).

Borrego was director of the institute during the administration of former President Ernesto Zedillo (1994-2000).

Levy later told reporters that he did not anticipate the need for a rescue in the near future, but said Congress and the executive branch would be considering reforms such as deferring the retirement age and possibly increasing the contribution of workers and employers. "The legislature has just begun its work, and the decisions affecting our agency will come out of committees dealing with social security, health, labor, and budget," said Levy.

Levy also expressed confidence that the Mexican economy would begin a gradual recovery by the fourth quarter of this year. "We have to await an economic recovery in the last one-third of 2003 and faster growth in 2004 to generate jobs."

Some business leaders are not so sure that any increase in employment is on the horizon, and they urged President Vicente Fox's administration to take more deliberate steps to create new jobs in Mexico. "Our country's development prospects are endangered as long as unemployment rates remain high," said Alberto Espinosa, president of the executive council at the Instituto Mexicano de Finanzas (IMEF).

A report from the Centro de Analisis y Proyecciones Economicas de Mexico (CAPEM) said the high unemployment rate has also had negative repercussions for government finances. The CAPEM report said the loss of jobs over the past year has translated to a decline of about 60 billion pesos (US $5.5 billion) in revenues the government would have received through income tax (impuesto sobre la renta, ISR) and value-added tax (impuesto al valor agregado, IVA).

CAPEM analyst Antonio Castro Quiroz said unemployment is having a special impact on IVA collections. "The people who lose their jobs obviously are going to consume less," said Quiroz. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 1, reported at 10.96 pesos per US$1.00] (Sources: El Financiero, 08/06/03, 09/18/03, 09/23/03; El Sol de Mexico, 08/06/03, 09/23/03; El Universal, 03/23/03, 09/23/03, 09/24/03; Milenio Diario, The Herald, 09/24/03; Reforma, 09/25/03, 09/26/03; La Cronica de Hoy, 09/24/03, 09/29/03; Agencia de noticias Proceso, 08/05/03, 09/19/03, 09/26/03, 09/30/03; La Jornada, 09/24/03, 09/30/03; Unomasuno, 09/29/03, 10/01/03)