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Mexico Continues to Face Extreme Jobs Deficit

by LADB Staff

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Mexico continues to face an extreme jobs deficit, forcing a large percentage of the population to migrate to the US or to resort to street vending or other activities in the informal economy. A report released by the government's statistics agency (Instituto Nacional de Estadísticas, Geografía e Informática, INEGI) in late January put the country's jobless rate at 3.78% in 2004, the highest level since 1997. This figure represents about 1.3 million workers. The INEGI statistics do not offer a complete picture of the country's employment situation because anyone who works even a few hours is considered "employed."

Some government statistics indicate a large number of Mexicans lost their jobs at the end of the year. A report published by the Instituto Mexicano del Seguro Social (IMSS) in mid-January noted that almost 200,000 workers were laid off in the last two weeks of the year. The number of job losses between Dec. 15 and Dec. 31 are more than one-third the total number of jobs created during the year. Even with the losses in the latter part of December, the actual jobless rate for the month was 3.2%, a sharp drop from 3.8% in November.

The decline in unemployment the last month of the year, however, still only brought the jobless rate to the level prevailing at the beginning of 2004. Employment situation bleak despite moderate 2004 GDP growth. The bleak employment situation last year was despite a fairly decent economic growth of slightly more than 4%, which was higher than the 3.1% projected by President Vicente Fox's administration in the 2004 budget (see SourceMex, 2004-01-07).

The projected GDP growth rate for 2005, estimated at 3.5% to 4%, could create an additional 400,000 new jobs, said Guillermo Ortiz, chief governor of the Banco de Mexico (central bank). But some business leaders say moderate growth rates are not sufficient to produce the level of job growth that Mexico requires. "The rate of 4% is not sufficient," said Jose Luis Barraza, an officer with the Consejo Coordinador Empresarial (CCE). "We need sustained growth of at least 5% to generate the jobs that our country needs."

Bleak projections for first quarter

The employment picture could be even bleaker in the first quarter of 2005, indicated a survey conducted by the Banco de Mexico among 4,800 companies. Of the respondents, 58% said they had no plans to hire new workers in January-March. This is in stark contrast to the 12% who said they were planning some expansion of their work force during the first quarter of the year.

Some business organizations are anticipating slower growth in the coming year, projecting an increase of 3.7% in the manufacturing sector's GDP. "This is lower than the 4.2% rate recorded in 2004," said the Camara Nacional de la Industria de Transformación (CANACINTRA), which said expansion would be hampered by the Fox government's lack of a clear industrial policy.

The Confederacion Patronal de la Republica Mexicana (COPARMEX), which represents the country's employers, is concerned that confrontations between Fox and the opposition parties in Congress are going to become increasingly hostile as campaigns for the 2006 presidential elections begin to take shape. This is going to prevent the implementation of needed tax, labor, and other reforms. "The coming year could simply be an extension of what we saw last year," said COPARMEX. "Much will depend on how much the international economy emerges from its doldrums."

Electoral implications

Labor organizations said the inability to create jobs could haunt Fox's center-right Partido Accion Nacional (PAN) in the 2006 presidential elections. Francisco Hernandez Juarez, leader of the Union Nacional de Trabajadores (UNT), said Fox promised to create a lot of jobs during his presidential campaign but employment levels are likely to be the same as they were when he took office. "We are going to notice that not a single job was created during this six-year term," said Hernandez Juarez, who also heads the telephone workers union (Sindicato de Telefonistas de la Republica Mexicana, STRM).

A prominent think tank, the Centro de Estudios Economicos del Sector Privado (CEESP), offers a more optimistic picture than many business organizations. The CEESP sees total growth in nonservice sectors at 4.4% this year, with only the textile and apparel industry showing any signs of stagnation. There were some encouraging signs for the employment picture, such as Volkswagen de Mexico's commitment to hire 500 new workers in January.

"We're looking into whether we may need to hire more later in the year," said Thomas Karig, corporate relations director with Volkswagen in Mexico. The jobs created by Volkswagen and other companies, however, will only make a small dent in the country's unemployment situation, forcing workers to emigrate to the US or look to the informal economy.

Emigration has increasingly become a significant source of foreign exchange for the Mexican economy, with remittances rising from US\$699 million in 1980 to nearly US\$17 billion in 2004, according to statistics from CEESP and the Mexican government (see SourceMex, 2005-01-12).

Informal economy continues to grow

Unemployed workers have swollen the ranks of the informal economy. Some estimates indicate that slightly more than 11.2 million Mexicans, about 26% of the country's working population, made a living from street sales and other activities in the informal economy in 2004.

The number of Mexicans in the informal economy is almost as large as the 12.5 million workers in the formal economy who are registered with the Instituto Mexicano del Seguro Social (IMSS), said the Confederacion de Camaras Nacionales de Comercio, Servicios y Turismo (CONCANACO). Data compiled through INEGI's Encuesta Nacional de Empleo showed that the growth in the informal economy has been steady during Fox's term in office, with the number of workers resorting to street sales or other less-structured jobs rising more than 53% since 2000.

The administration, and to some extent Congress, is pondering plans to add more structure to the informal economy, partly to incorporate street vendors into the country's tax base. The IMSS estimates that the informal economy accounted for 12.2% of the country's GDP. In late January, administration officials announced their intention to create a program of incentives to encourage street vendors to register with the government.

The proposal, which Fox intends to send to Congress in September 2005, is modeled after programs in Chile and Peru, where the government offers tax incentives to workers for housing, education, and other programs. In some cases, informal workers could end up paying little or no taxes. "It doesn't matter if the taxes they pay are small," said Eduardo Sojo, Fox's top economic adviser. "What matters most to us is that the unstructured economy not continue to grow. Step by step, we hope to build one single economy."

Officials at the Sistema de Administracion Tributaria (SAT) are uncertain how much in taxes could be collected from street vendors. "The tax rate will depend on each person's earnings," said Nora Caballero Berdejo, who manages SAT's taxpayer-assistance program. A recent survey by INEGI found that more than 600,000 owners of small businesses in the informal economy together earned 191 billion pesos (US\$17.1 billion) per year. These businesses, however, make up a very small percentage of the 11.2 million Mexicans involved in the informal economy.

Formal businesses in Mexico City applauded the administration's proposal to tax the informal economy but also called for greater regulation of street vendors. "This is only the first step in gradually moving all these people to legal activities," said Manuel Tron Campos, president of the Camara de Comercio, Servicios y Turismo (CANACO) in Mexico City. "But we are not in agreement with any plan that legitimizes the activities of street vendors."

In the past 20 years, Mexico City authorities have attempted, with varying levels of success, to regulate street vendors (see SourceMex, 1997-02-05). Tron said 2,500 formal businesses in the historic district of the capital were forced to shut their doors in 2004 because they could not compete with lower prices offered by street vendors. "They say that the growth in the informal economy has resulted from increased unemployment," said Tron. "We say the opposite is true: the informal economy has contributed to unemployment."

High unemployment rates in the formal economy have also had negative repercussions for street vendors. Responding to an informal survey by the daily newspaper Unomasuno in November 2004, some street vendors in Mexico City's historic district said their sales had fallen by 50% because of the high unemployment levels in the capital. "We are going hungry because people are not buying [our products]," one vendor told the newspaper. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 9, reported at 11.15 pesos per US\$1.00] (Sources: Unomasuno, 11/04/04; Bloomberg news service, 01/20/05; La Crisis, 12/15/04, 01/28/05; El Universal, 01/20/05, 01/26/05, 01/28/05, 02/03/05; La Cronica de Hoy, 01/13/05, 01/14/05, 01/17/05, 01/20/05, 01/24/05, 01/27/05, 01/28/05, 01/31/05, 02/04/05; El Financiero, 01/11/05, 01/13/05, 01/26/05, 01/28/05, 02/02/05, 02/04/05, 02/07/05; La Jornada, 03/12/04, 01/14/05, 01/17/05, 01/20/05, 01/26/05, 02/03/05, 02/08/05)

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