# Notes On Unemployment in Mexico

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Looking for a job.

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## Economic Policy in Latin America

In the last two decades of the twentieth century, Latin American countries went through substantial economic, political, social, ideological and cultural changes. The driving force behind these changes has been diverse. For example, in the 1980s, the region's industrialization and import substitution policies, implemented for almost three decades, went into severe crisis. Also, at the end of the 1980s, the foreign debt became central to national economies and society.

It was precisely in the 1980s that many of the Latin American countries began a process of restructuring or economic modernization. Most of the governments abandoned the closed, protected economy and moved rapidly toward building open economies oriented to production for the world market. The change in the economic model has had broad, profound social costs for most Latin Americans.

This new economic policy, neoliberalism, has not found ways to achieve economic growth. The work force has grown naturally, but the wage-earning sector, with permanent jobs and benefits, is constantly declining. The informal sector is growing rapidly and has become an unresolved social problem.[1]

Real wages dropped continuously over the last two decades. In general, in-

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dicators have shown a decline in urban and rural wage-earners' share in the distribution of national wealth. In that context, unemployment has become one of the region's most permanent structural social and economic problems. Equally, the flow of migrants from countries of the South to the United States and Canada grows daily, and has become a tense issue, of most concern for the region's international relations.

Economic modernization has been based, of course, on a hemisphere-wide policy of free trade. Free trade agreements have played a fundamental role in this: the North American Free Trade Agreement (NAFTA), signed by Mexico, the United States and Canada; the Mercosur between Brazil, Argentina, Uruguay and Paraguay; the Andean Treaty, between Bolivia, Peru and Ecuador, etc. Modernization has included the restructuring or dismantling of the public sector in most of the region. Public companies and institutions created to foster different sectors of national economies were privatized, sometimes sold off to local businessmen or multinational corporations. The economic changes in each country were accompanied by legal reforms, sometimes even drastic reforms to national constitutions.

> Massive unemployment generates two economic and social problems: the growth of the informal economy, and the explosion of migration.

## Economic Policy in Mexico

The tension between employment and unemployment has been central to the dynamics of Mexican society and economy in recent years. It has been present both in the period of industrialization and growth (1940-1982) and the stage of restructuring or modernization (1983-2003). It is not by chance this tension paralleled the most recent economic crises and low industrialization over the last two decades.

From 1940 to 1982, Mexico's gross domestic product (GDP) grew 6 percent annually. The country industrialized rapidly. Urbanization was constant and uninterrupted. The public sector grew to a total of 1,300 public companies in different branches of the economy: oil, electricity, railroads, automobile and truck production, steel, the metal, chemical and fertilizer industries, etc. It was in this period that the social security system was set up for workers in the private sector (the Mexican Social Security Institute or IMSS) and the public sector (the State Workers Institute for Social Security and Services, or ISSSTE).

For four decades the government oriented economic policy toward the domestic market and promoted import substitution. The economy was kept closed and protected. In that context, employment grew continually in industry and services. Unemployment was very low or practically non-existent. This economic model was very close to the 1920s and 1930s ideas of John M. Keynes.

Even so, however, the distribution of wealth was very uneven in Mexico: poverty was never eliminated, but there was an attempt to hide it. The Keynesian model began to encounter problems in the mid-1970s. In 1976, the country went through its first major financial crisis. Mexico's second economic crisis came in 1982. Both had devastating effects on employment and living standards.

The administration of President Miguel de la Madrid (1982-1988) opted for a radical restructuring or renovation of the economy. It promoted opening up the borders to trade and, in 1985, entered the General Agreement on Tariffs and Trade (GATT). It began privatizing public companies, stimulating production for the foreign market and facilitating the establishment of what are now the famous maquiladora plants. The public administration and state companies stopped hiring new workers. Private companies began to fire employees in all branches of the economy.

From 1982 to 1988, GDP growth was zero. Unemployment soared, because of lay-offs, a lack of new companies or industries and because of the natural, explosive growth of those turning 18, the legal age to be a full member of the work force. During that presidential term, unemployment became an enormous problem. Full unemployment and participation in the informal economy grew rapidly. In 1988, unemployment was estimated at six million Mexicans.

The neoliberal economic model —the monetarist variety put forward by Milton and Rose Friedman— continued to be applied in the following two presidential terms, under Carlos Salinas (1988-1994) and Ernesto Zedillo (1994-2000). Another major financial crisis occurred in 1994-1995, and, once again, the greatest social cost was paid by wage-earners. Unemployment and the informal economy have not stopped growing since then. The public sector of the economy has been reduced to 213 companies and institutions involved in production. The distribution of wealth continues to be very unequal, with poverty spreading to larger sectors of the population.[2]

## Vicente Fox's Economic Policy

The Fox administration's economic policy has not lived up to the expectations raised at the beginning of the term. His economic strategy does not really have any new elements but rather is based on political discourse.

Actually, Mexico's economic apparatus continues to function with the viewpoint, the mechanisms and the programs of previous administrations. The current government has not been capable of contributing ideas and strategies either for the economy or the welfare of the population.

Vicente Fox's administration has centered a great deal of its activity and aims on the so-called structural reforms (the reforms of the tax system, energy production and labor relations). With regard to fiscal reform, it has put forward above all the idea of increasing some taxes like the VAT, which would make for substantial increases in public revenue that would then be "redistributed through public policy."

The proposal with regard to energy has been to open the sector up to national and international private investment. Supposedly, greater investment would bring higher production of electricity, gas and oil. Finally, with regard to the labor reform, the proposal has been to substantially modify the Federal Labor Law to legally bring down the cost of Mexican labor to satisfy foreign investors who demand greater cost flexibility.

It is important to point out that these three reforms were also suggested to the Mexican government by international bodies like the International Monetary Fund, the World Bank and the Organization for Economic Cooperation and Development.

In fact, these three reforms have been on the table since the 1988-1994 administration of Carlos Salinas. Actually, over the last 15 years, two broad reforms have been implemented de facto, not necessarily by going through legal channels. The Zedillo and Fox administrations continued with the policy of favoring the energy and labor reforms. In energy, broad openings for private generation of electricity have been created. At the same time, labor relations have changed de facto in the great majority of companies without the need to go through a formal legislative reform.

This de facto labor reform favors management interests. One way or another, the process has reduced labor costs for management. A drop in real wages, the explosion of formal unemployment, the lengthening of the work day, the implementation of flexible working conditions, not paying the benefits awarded in collective bargaining agreements and violation of legally-established hiring practices (such as contracting out permanent jobs to third parties), etc., have all been frequent practices. This policy has been applied under the last two administrations of Institutional Revolutionary Party presidents and during the first three years of the Fox administration.

The current government thinks that a major reason that the goals it proposed at the beginning of its term have not been met is that they have not been formalized legally. The government's logic is that if the economy is not growing it is because there is no investment and this, in turn, is due to the fact that the reforms —above all the fiscal and energy reforms— have not passed. This is partially true. But it is also true that low growth rates are due to the fact that the federal government lacks its own project for economic development. All growth is made to depend on external factors and no priority is given to national projects of agriculture, industry and services. In that context, we can say that investment has stagnated because big business, both domestic and foreign, does not see a clear government project for economic growth.

Under these circumstances, it is reasonable to think that the country's economy is having great difficulty in maintaining and reproducing itself. It is also obvious that the different facets of economic life are becoming more and more complicated every day. This is why we see low economic growth and high unemployment. At the same time, massive unemployment generates two other economic and social problems: a) the growth of the infor-

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mal economy, and b) the explosion of migration toward the United States and Canada. Both are undoubtedly "escape valves" both for the labor market and the economy as a whole.

Now, what has caused unemployment? I maintain that unemployment has grown continually and rapidly as a result of the economic policy applied from 1983 onward. The Fox administration has done nothing but confirm the same model as previous administrations, which is why employment, wages and, in general, the well-being of the wage-earners have been directly affected, bringing with it uncertainty in the population's living standards.

At the end of 2003, when Vicente Fox was finishing up his third year in office, it was no longer possible to hide the effects of his economic policy. Presidential reservations about the economy began to be made public from September 2003. Even shortly before his third report to the nation on September 1, the problem of unemployment had come to light publicly. Official institutions, banks, private associations and academic institutions all participated in the debate. In July 2003, Vicente Fox recognized for the first time that "job creation has not kept pace with the country's needs."[3] He also stated that this was "compensated for by the creation of 625,000 new jobs or positions of self-employment," through the so-called "*changarros*" or micro-companies.[4] The president's confidence in "*changarros*" as a solution for unemployment confirms the absence of an economic policy to promote growth and social development.

In late June 2003, the National Statistics Institute (INEGI) opened up the "black box." It put open unemployment at 3.2 percent. This indicator showed up the naive optimism or the fallacy —depending on your point of view— of the president's discourse because the INEGI figures highlighted the loss of formal jobs. By July, unemployment had increased to 3.52 percent, and by August, it soared to 3.96 percent, the highest monthly rate registered from 2000 to 2003.[5]

In the same vein, the Mexican Social Security Institute (IMSS) announced that from December 1 to December 31, 2000, the first 30 days of the Fox administration, 228,857 jobs were lost, 61.2 percent of which had been permanent jobs.[6] By January 2001, the figure had jumped to 611,488 jobs lost; by December 2002, 549,543; and by June 30, 2003, 569,855.[7]

In July 2003, the INEGI announced that three years into the Fox administration, 682,000 people, or 3.52 percent of the work force, were openly unemployed. If we add the 892,000 jobs lost by the end of 2000, we have a total of 1.574 million people openly unemployed according to IMSS and INEGI data.[8]

The increase in unemployment indicates above all the productive apparatus's inability to create jobs. It also implies the absence of an economic policy that benefits the entire country. In a July 22, 2003 meeting between leaders of the Workers Congress (CT), Mexico's labor umbrella organization, and Vicente Fox, the president proposed that they "consider self-employment and micro-businesses a solution to the problem of unemployment."[9] This was his "solution" for the country's average workers, that is, people with only a basic education.

On another level, in August 2003, President Fox called on universities to "link study plans and majors to the country's real needs." "Young people must have easy access to the labor market...and we must not forget the task of being entrepreneurial, of employing oneself, of creating new companies based on young people's professional studies."[10] Thus, the administration's proposal to the nation's workers, as well as technicians and professionals, is self-employment. Vicente Fox's image is that of a president who does not have a solid economic plan for job creation.

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In December 2003, the unemployed numbered 1.3 million. One year before, in December 2002, the figure had been 911,000.[11] In manufacturing alone, 690,000 jobs were lost between 2001 and 2003, jobs that probably will not be recouped in coming years.[12]

These unemployment levels are rooted in both domestic and international conditions. The same can be said about GDP growth rates in the last three years. On February 18, 2004, on the anniversary of the Labor Congress, the INEGI published its latest data about Mexico's GDP growth: 1.3 percent in 2003; 0.7 percent in 2002; 0.1 percent in 2001. Average growth for those three years came to 0.63 percent.[13] Undoubtedly, this is one of the lowest averages in recent administrations for the first half of a presidential term. We should remember that in his National Development Plan, Vicente Fox had proposed an average of 3.5 percent GDP growth for the first three years of his term and 7 percent for the end of his term. However, the only certainty is that the Mexican economy in general is weak and there are no visible mechanisms for recuperating employment.

The 0.63 percent average growth in the last three years implies that the Fox term has registered a very low rate compared to previous administrations from 1982 to 2000. The worst thing is that chronic economic weakness is evident, the harbinger of greater stagnation, more setbacks for production, higher unemployment in the formal labor market, a growth of informal work and more migration to the United States and Canada in coming years.

Naturally, conditions from 2001 to 2003 are the responsibility of the Fox government, but undoubtedly, previous administrations also contributed: when Mexico became an open economy, since the signing of NAFTA, since public spending stopped being a driving force for development, etc. Since the implementation of these changes, the Mexican economy as a whole has come to depend increasingly on economic performance in the United States.

In that context, Mexican businessmen have not been able to make enough productive investment in the country. Also, the Mexican Congress has not come up with an emergency plan to deal with stagnation and unemployment.

Union leaders (from the Labor Congress, the Mexican Workers' Confederation, the National Workers' Unity, the Federation of State Employees Unions) have not proposed an economic policy with social underpinnings, either, that would increase employment, wages, benefits and, in general, raise working people's living standards, which have been very hard hit over the last two decades.

None of the officially registered political parties (the National Action Party, the Party of the Democratic Revolution, the Institutional Revolutionary Party, the Green Ecologist Party of Mexico) have demonstrated having a project proposal for the nation. They do not have a program for political and social development. Most of their activities have not benefited the country's 103 million inhabitants.

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This situation is not exclusive to Mexico. In most of Latin America, unemployment continues, wages are low, working conditions of those who do have jobs are increasingly precarious, the informal sector is constantly growing and international migration has become a desperate way out. That is how the International Labor Organization (ILO) puts it in its *Panorama Laboral 2003* (Labor Panorama 2003), putting the region's open unemployment rate —with all its limitations— at 11 percent (involving a total of 19 million urban workers). The ILO also points to a continuing downward slide for wages. In 2003, Mexican workers earning minimum wage lost 0.3 percent of their buying power, and from 1988 to 2003, the accumulated loss has been 71 percent.[14] Economic policies in the region have been based on sacrificing labor's participation in national wealth with the only aim of attracting capital and foreign investment at any cost. From the point of view of social stability, this situation seems untenable in the medium and long term. VM

## Notes

[1] Jürgen Seller, *Reformas económicas, crecimiento y empleo* (Santiago, Chile: Fondo de Cultura Económica-ECLAC, 2000), pp.21-22.

[2] Javier Aguilar García, "¿Existe una política para desarrollar el empleo en México?" *Estudios Políticos* no. 32, UNAM (Mexico City), January-April 2003, pp. 191-218.

[3] *El Universal* (Mexico City), 8 June 2003, p. A-8.

[4] Ibid.

[5] INEGI press release, 21 January 2004, http://www.inegi.gob.mx.

[6] On December 1, 2000, the IMSS had a total of 12,775,125 workers enrolled, 87.5 percent of whom had permanent jobs and 12.5 percent of whom had temporary jobs.

[7] "El discurso del cambio otra vez derrotado por la realidad," *La Jornada* (Mexico City), 23 July 2003.

[8] *La Jornada* (Mexico City), 23 July 2003, pp. 21-22; *El Universal* (Mexico City), 22 August 2003, p. 1, 12 and B1; *El Universal* (Mexico City), 26 August 2003, p. B20.

[9] *Reforma* (Mexico City), 23 July 2003, p. A-1.

[10] *El Universal* (Mexico City), 7 August 2003, p. A-11.

[11] *El Universal* (Mexico City), 22 January 2004, and INEGI, "Encuesta nacional de empleo urbano," http://www.inegi.gob.mx.

[12] *Reforma*, Business Section (Mexico City), 1 December 2003, p. 1.

[13] *El Financiero* (Mexico City), 18 February 2004, p. 19.

[14] *La Jornada* (Mexico City), 8 January 2004, p. 25.