753 problem Set 6

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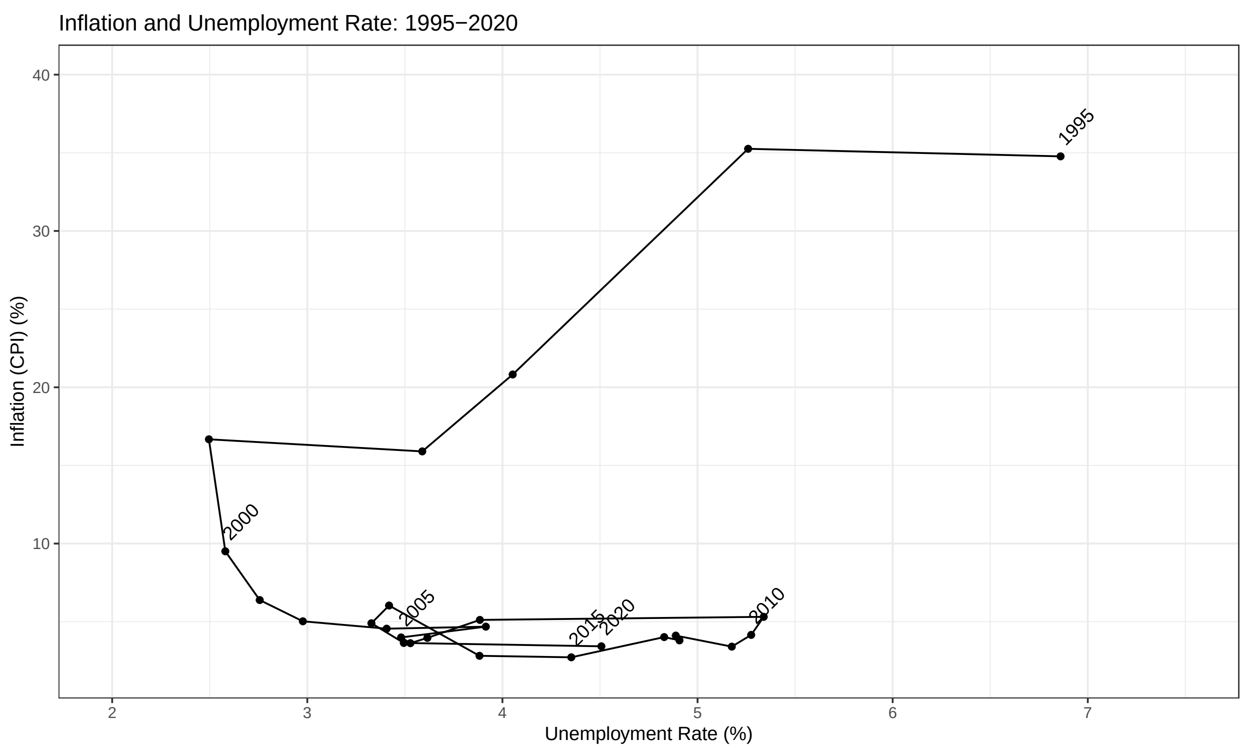
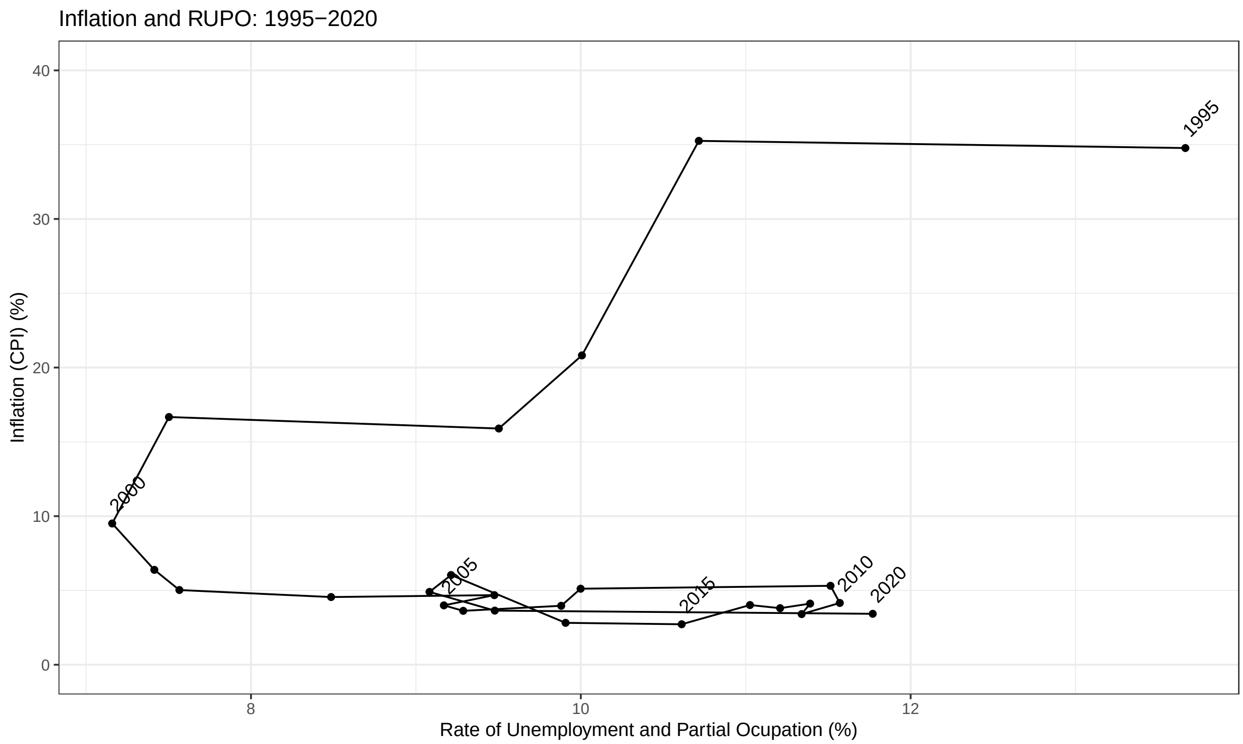
Inflation, Unemployment and Class Struggle in Neoliberal Mexico

In this report I will explore the relationship between inflation, unemployment and distribution of value added in Mexico over the last 10-15 years. The motivation comes from Ibarra & Ros (2018) study about the decline of the Labor Income Share in Mexico during the period 1990-2015, a pattern that contrasts with what happened in most Latin American countries during that period. They link that phenomena to the very slow rate of capital accumulation, which, in a dual-economy framework, implies a slow or non-existent labor absorption of the labor force by the modern sector.



In figures 1 and 2 I plot a traditional Phillips curve showing the relationship between the unemployment and inflation. In the first one I use normal unemployment rate measure, whereas in the second one I use Rate of Unemployment and partial occupation. With both measures the story is the same. 1995 Is the year of the most severe economic crisis since the last recession. A sudden devaluation of peso in December of 1994 triggered inflation and the crisis unemployment. the years after that are characterized by economic recuperation and a very painful process of inflation reduction. In 1994 Mexican Central Bank (Banxico hereinafter) acquired its autonomy and embraced an inflation targeting policy. By, 2002 inflation was already at 5/% and, what we observe after that is a non-existent relationship between unemployment and inflation. Inflation has remained constant regardless of periods of high unemployment.



I then move to the relationship between unemployment and the distribution of income. In figure 3 I plot the relationship between the unemployment rate and the wage share. First of all, in this graph it the recuperation period becomes evident: 1995-2001/2002 are characterized as the NAFTA boom period. It is a period of economic recuperation and a modest gains by workers regarding value-added. However, after 2003, the wage share and starts to fall again and the unemployment rate increases. The decline in the wage share coincides with the entry of China to the OMS, whose competition resulted in a decrease in the rate of growth of Mexican manufacturing exports. These last 20 years have also been a period of decline of the wage share (and hence, of the Unit Real Costs) in the United States, which makes the decision of MNCs to locate in Mexico less likely. However, we know that in dependent capitalist countries, like Mexico, the traditional unemployment rate hides a large part of the story. Figure 4 uses the PEUR measure of unemployment. The relation is very similar to what we saw before but the value of unemployment is much greater.

Figure 3: Unemployment and Wage Share in Mexico: 1995−2015

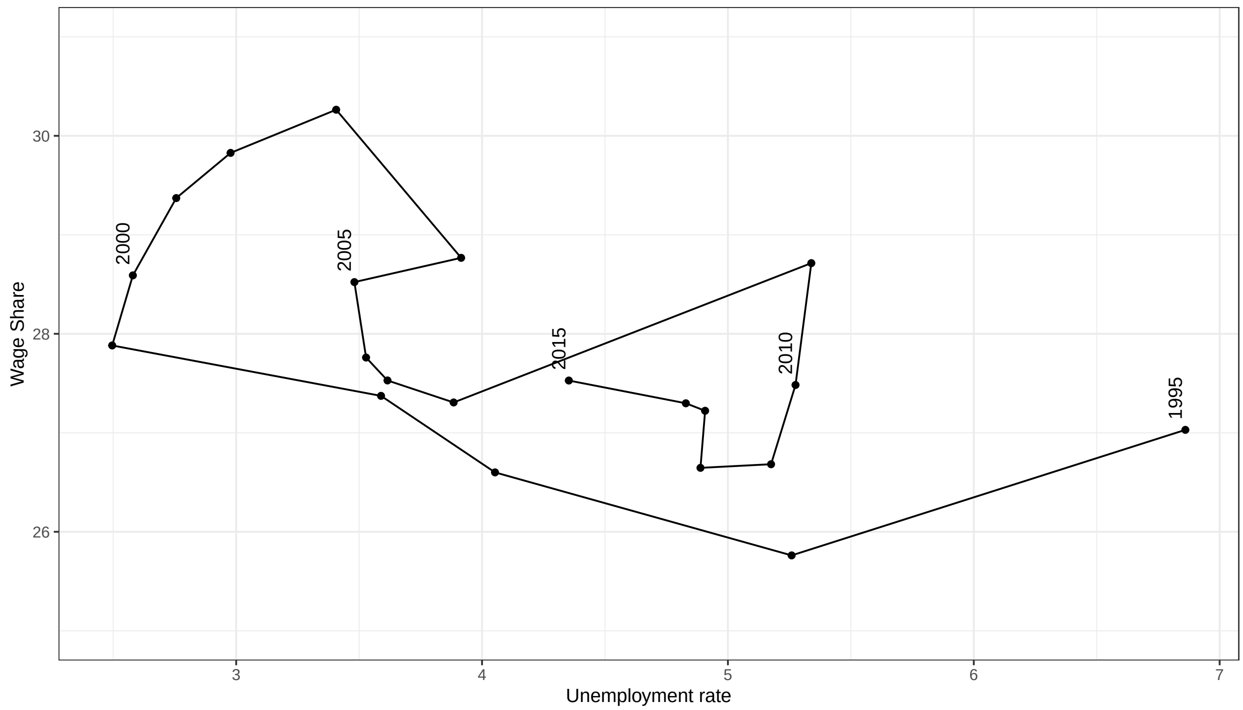
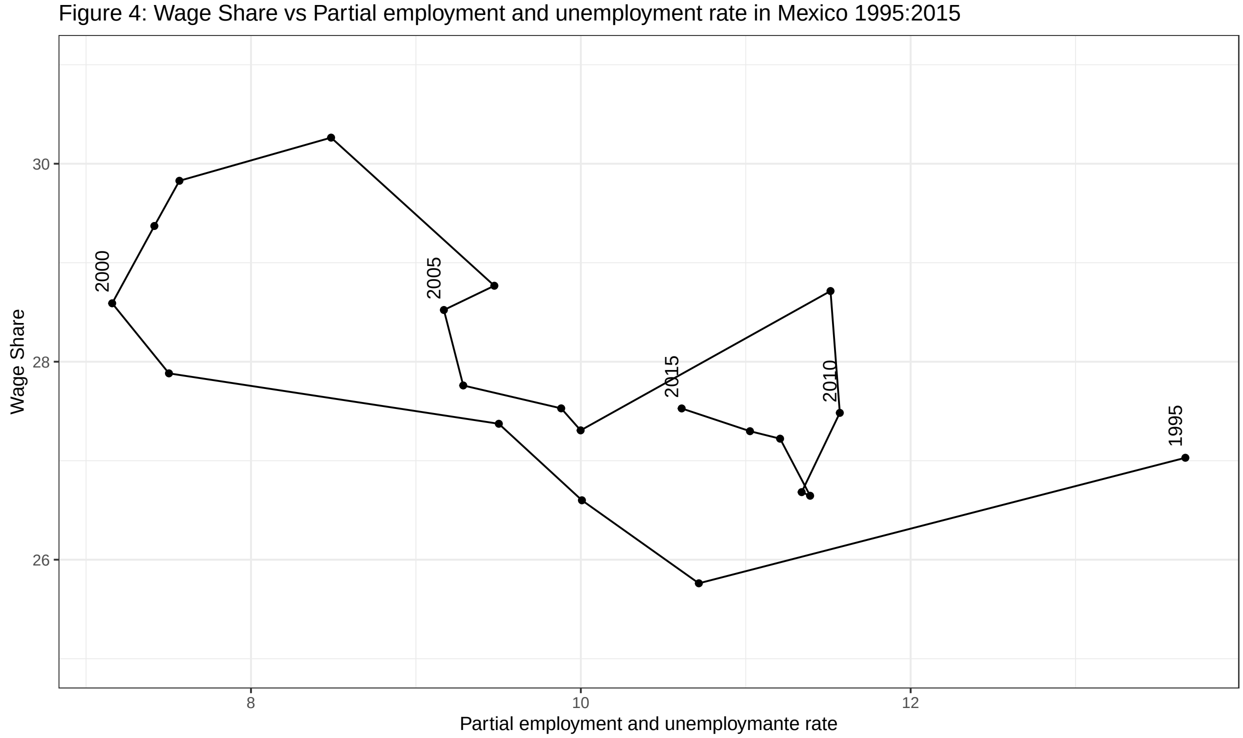


Figure 4: Wage Share vs Partial employment and unemployment rate in Mexico 1995:2015



In figure 5 we focus on manufacturing. I plot it both against the unemployment and the general pressure rate. We can see that the patterns that we identified below are much more marked for manufacturing, which is a sector that since the 1982 economic crisis have been mainly dominated by MNCs. The negative relationship between the wage share and unemployment (measured either with the unemployment or the general pressure rate is very evident).

Figure 5: PEUR vs Wage Share in Manufacturing: Mexico 1995−2015

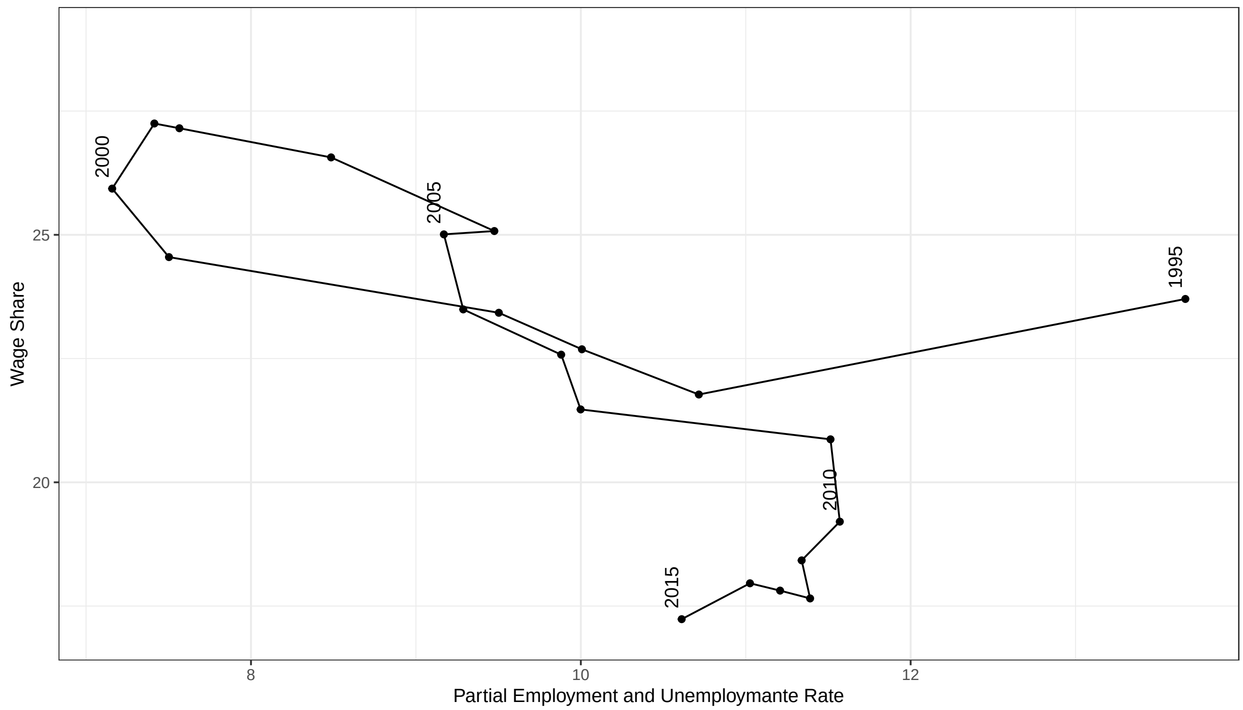
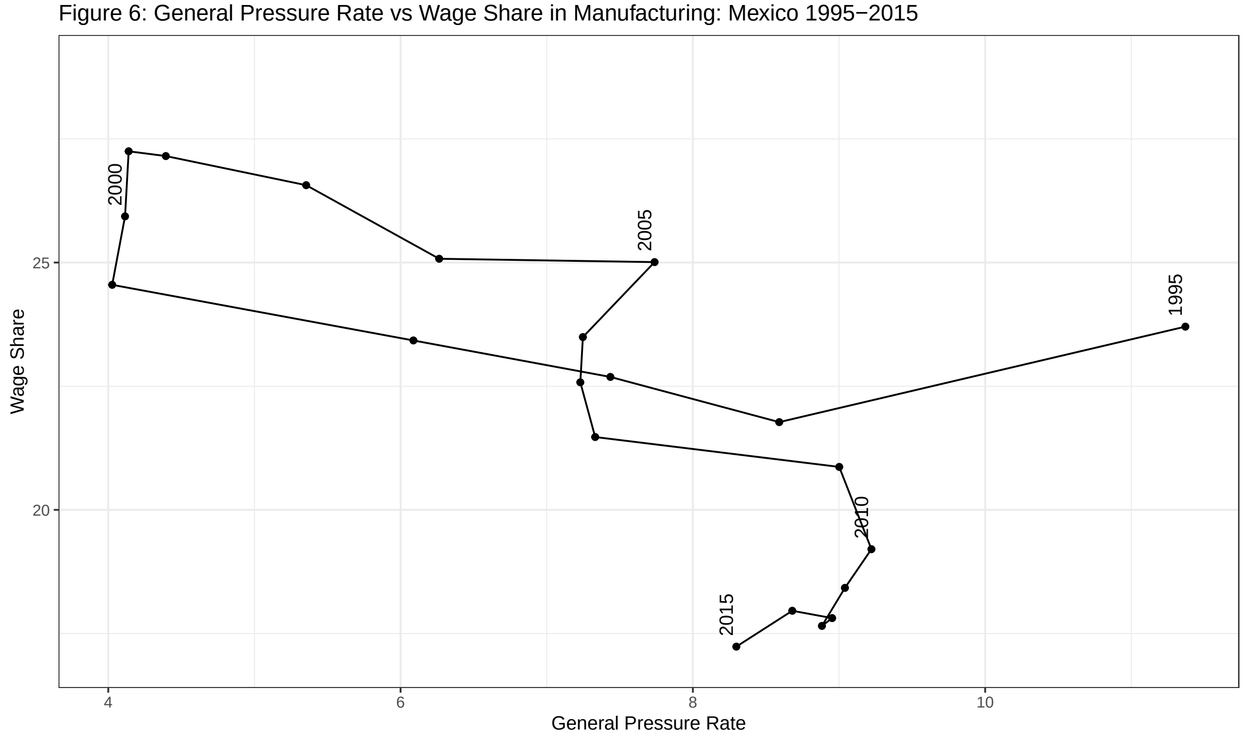


Figure 6: General Pressure Rate vs Wage Share in Manufacturing: Mexico 1995−2015



Finally, In Ibarra and Ros, the traditional sector is represented by informal-self employment. I could not gather data on informality for the years 1995-2004. However, there was data available for self-employment. According to the model they present, the larger the traditional sector, the lower real wages in the modern tradables sector. However, what we see in Figure 7 is that, from 1995 to 2015, both self-employment and the wage share in the tradables sector fell.

Figure 7: Self−employment vs Wage Share in Manufacturing: Mexico 1995−2015