# *Corn Crisis and Market Discipline:* The Limits of Democracy in Mexico

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The policies that affect wages in Mexico remain unaltered by the outcome of elections and partisan politics. These policies show the limits of the so-called 'transition to democracy' in Mexico, which is often associated with the triumph of the Action National Party (PAN) in the presidential elections of 2000. The meaning of democracy has been confined to the citizen's right to vote and the liberalisation of the electoral process, while people's political, economic and social rights continue to deteriorate. This has been expressed in the first two months of the new president Felipe Calderon's administration when corn and tortilla prices increased more than 50 per cent. In response, Calderón has reinforced the policies that he inherited from his predecessors, which places the burden of the negative outcomes of market mechanisms on Mexico's poorest.

## The Tortilla Crisis

In the early days of January 2007, corn tortilla prices in Mexico increased more than 50 per cent, pushing inflation up, while minimum wages remained almost the same. The rising price of corn and tortilla has had a significant impact on Mexico's economy since this product represents half of the calories consumed by low-income families. As a result, the difference between the price of this commodity and relatively stagnant salaries has affected 50 million poor people. Among them, 20 million live with less than two dollars per day. Last year, a person earning the minimum wage spent from 10 to 14 per cent of her daily salary on tortillas. Today, this same person has to spend about 30 per cent of her wage on this same product.

Indeed, the high prices of corn in international markets resulting from rising demand of ethanol have influenced the price of agricultural commodities in different countries. The price of corn in the futures market has recently reached its highest price since July of 1996 at 3.965 dollars per bushel. Still, the ways in which international markets of corn have affected Mexico is greatly influenced and mediated by the market-oriented policies implemented by the Mexican state in the past twenty-five years.

This is evident in the increasing power of agri-business and the price of Mexican corn, which was 100 per cent higher than in the Chicago Board of Trade (CBOT), the most influential futures market for agricultural commodities. The difference between Mexican corn prices and the CBOT is the outcome of the privatisation of communal lands and the removal of social programs aimed at the distribution of grains such as corn and beans. On the one hand, the privatisation of communal lands – *ejidos*– and the removal of agricultural subsidies for peasant communities led to the concentration of agricultural production in a few hands, and therefore a decline in subsistence agriculture. This in turn has made the population more reliant on commercial markets for corn and has given more power to large-scale producers to influence the price of this commodity.

The elimination of the government agency CONASUPO in 1999, on the other hand, also strengthened the control of several national and international corporations' over the national corn market. CONASUPO, *Compania Nacional de Subsitencias Populares,* distributed and guaranteed the price of basic grains in the Mexican market through subsidies and price controls. Since the removal of CONASUPO, the American Corporation Cargill-Monsanto, and the Mexican firms MASECA and MINSA have had the control over the commercialisation and distribution of corn in Mexico. This situation has made these companies central in setting the price of corn and tortilla in the country. The increasing power of these corporations and other agro-businesses has allowed them to hoard supplies to drive corn prices up even more.

## Calderón and Free Market Policies

The government response to this situation reveals Calderón's commitment to free markets. When corn prices escalated, the government rejected any policy shift towards the implementation of price controls, subsidies and wage increases. Instead, the government has sought after an agreement with the private sector. Producers and distributors of corn and tortilla have consented to settle the price of tortilla. They have consented to maintain tortilla prices at 8.50 pesos per kilo (83 cents) as opposed to previous prices of 10 and 15 pesos (one dollar and one dollar and a half). In return, the Mexican government has agreed to guarantee the supply of corn by extending the quota of American corn. The corn quota was increased to 750 thousand tons for human consumption and 2 850 thousand of tons for the cattle and poultry industry in the context of the North American Free Trade Agreement.

Calderón's decision to increase quotas of U.S. corn to guarantee low prices for Cargill, MASECA and MINSA shows the President's determination to implement market mechanisms to solve social problems. Freer trade is seen as a solution to the 'corn crisis,' which only favours American corn producers and private firms that operate within Mexico. Market mechanisms have replaced long-term policies that foster domestic production in peasant and small land holdings. This agreement shows the Executive's willingness to consult and negotiate with the private sector, excluding the rest of society from these accords. The political parties in the Mexican Congress are only debating Calderón's measures and manipulating the situation for electoral purposes without presenting inclusive and democratic proposals to solve the corn crisis.

Most importantly, the case of corn illustrates the continuation of the Mexican state's anti-inflationary policies at the expense of people's wages. Changes in the price of corn have resulted in a higher inflation rate. At the same time, salaries have remained behind price increases and 256,000 people have been laid-off in the first 45 days of Calderón's administration. In contrast, the Mexican stock market and corporations such as MASECA have benefited from sustained growth in profits resulting from rising prices and low wages. In this context, Calderón has refused to increase salaries in order to prevent inflation and has confirmed his administration's intention to favour corporate interests.

While these policies correspond to a specific sector of the economy, the governmental response to rising corn prices suggests the overall orientation of Calderón's economic policy. The prevalence of these policies has been ensured by Calderón's economic cabinet, where he appointed Agustín Carstens as Finance Minister and has supported the permanence of Guillermo Ortiz Martínez as the Governor of the Central Bank. Carstens is the former Deputy Manager of the International Monetary Fund and has worked in close relationship in several projects with Francisco Gil Díaz, the Minister of Finance during Vicente's Fox administration. Ortiz Martínez has remained the Governor of the Central Bank since 1998, who has been implementing anti-inflationary mechanisms based on declining wages and relatively stable, yet attractive, interest rates. These appointments guarantee the continuity of market-oriented policies.

While Calderón's government has rejected the implementation of policies that effectively defend people's rights to food, he has confirmed his administration's support for market-oriented policies to international investors. For instance, at the 2007 World Economic Forum at Davos, Calderón expressed that Mexico, unlike other Latin American countries that returned to 'old-fashioned' central planning and expropriations, offers a favourable business climate. In this forum, Calderón mentioned that his administration guarantees and protects private firms' profits and offers economic stability. Such a statement refers to the prevalence of previous economic strategies that maintain economic stability and guarantees corporate profitability based on price increases, the stagnation of wages and the flexibilisation of labour conditions.

### Movements for Democratisation

Mexico's corn crisis stresses the need for inclusive mechanisms of social participation that go beyond electoral politics to protect citizens' substantial rights. These claims were expressed at the end of →

January 2007 in a large public demonstration in Mexico City. This protest gathered about 45,000 people from unions and different political organisations. In this protest march, people defended the right to food, a living wage and employment security. Unions and peasant organisations signed the *Zocalo* declaration, in which they criticised the government's economic model, arguing that the current economic policies only generate more unemployment, lower wages and the loss of food self-sufficiency. In this declaration, these organisations also condemned Calderón's repression against any public expression of dissent. Most significantly, the declaration calls for the 'democratisation of the economy,' that is the inclusion of citizens in economic decision-making. Still, there are challenges to local mobilisation and the construction of national resistance against the market-oriented policies of Calderon's administration. These difficulties are increasing poverty and economic insecurity, escalating violence related to drug cartels, political repression at the federal and state level and leadership corruption in some labour organisations such as the Mexican teacher's unions. Such a scenario makes it more complicated to create a national movement that incorporates all social groups to oppose Calderón's initiatives.

Yet, the social discontent expressed in public demonstrations in Mexico city, the lack of legitimacy of the 2006 presidential elections, the Executive's recent policies favouring the private sector, and the futility of political parties in presenting initiatives for social change raise questions regarding the social outreach of 'Mexico's democratic transition.' The widespread questioning of Mexico's democratisation, amidst the generalised negative effects of market-discipline over middle and low income sectors, is a step forward towards the construction of a larger movement that may yet support a real democratisation of Mexico's politics and economy. **R**

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# The Costs of Rising Tortilla Prices in Mexico

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Spurred by the increasing use of corn for ethanol, tortilla prices in Mexico have skyrocketed by more that 50 percent in many regions over the past several months. Popular anger and protests against these increases forced the government of Felipe Calderón to publicly promise to punish speculators and to call for increased corn imports. Calderón also negotiated a pact with the largest tortilla producers to cap the price of tortillas at 8.5 pesos per kilogram – a 41.67 percent price increase since April 2006. However few consumers will benefit from these efforts. Instead, Walmart, the large corporations that dominate the industry, and the U.S. transnational companies that supply Mexico with corn are likely to be the beneficiaries.

The tortilla price hikes and the government's responses will be shouldered by Mexico's poorest consumers and producers. Tortilla prices have increased by more than 10 times the recent increase in the minimum wage. In some states a kilogram of tortillas accounts for as much as one-third of the daily minimum wage. Increasing imports is likely to further devastate Mexican corn producers, who have been especially hard hit since the 1994 implementation of NAFTA.

The Mexican government has not always been willing to sacrifice the poor for giant corporations. In the Mexican Revolution in the early 20th century, Mexico's working classes demanded social justice. Successive Mexican administrations responded by granting land to the landless and subsidizing the production of tortillas. As Mexican governments sought to transform the economy through industrialization and large scale agriculture, peasant and worker resistance led to the creation of a government agency with a chain of stores to keep basic food prices within the reach of consumers. This agency established a minimum producer price and purchased staple grains directly from small producers. While the goal was not to eradicate poverty or challenge the market system, this authoritarian responsiveness provided a basic security net for millions of Mexicans.

These social policies were greatly weakened by Mexico's economic crisis of the 1980s and the U.S.-inspired response. Social programs were slashed and food subsidies eliminated as private businesses were hailed as the solution to Mexico's economic ills. This has led to a virtual abandonment of the countryside. Mexico's farm employment has been reduced by 30 percent since the implementation of NAFTA. According to a study by the Americas Program of the International Relations Center, between 1999 and 2004 the price paid Mexican corn farmers fell by about half as U.S. imports flooded Mexican markets. While for centuries Mexico's campesinos have produced maize and other basic staples, their lands are increasingly privatized or abandoned and are forced to migrate in search of better opportunities.

Among the major beneficiaries of the government policies in the 1980s and 1990s, and of recent price hikes, is the Mexican tortilla giant Grupo MASECA (GRUMA). Founded in 1949, GRUMA pioneered an industrial process of making corn flour and tortillas. When subsidies to maize and tortillas plummeted, GRUMA thrived as Mexican President Carlos Salinas diverted state corn stocks away from smaller subsidized tortilla factories and to the ready-mix tortilla industry, such as GRUMA, openly favoring them as more efficient producers.