Subsidizing Inequality:

Mexican Corn Policy Since NAFTA

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First edition, 2010

ISBN 1-933549-86-6

Editors: Jonathan Fox and Libby Haight
Publishers:
Woodrow Wilson International Center for Scholars
Centro de Investigación y Docencia Económicas
University of California, Santa Cruz

This book was made possible thanks to support from the William and Flora Hewlett Foundation.

The work is bilingual and fully accessible online at:
www.wilsoncenter.org/MexicanRuralDevelopment
www.wilsoncenter.org/DesarrolloRuralMexicano
www.subsidiosparaladesigualdad.org

Editorial coordination: Alicia Athié
Design: Deikon estudio gráfico, S.A. de C.V.
Design –interior and printing: Genio y Figura
Printing: Dissa Impresores
Cover photograph: Enrique Pérez S., ANEC

Printed in Mexico.

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Preface

NAFTA's trade opening was widely expected to lead Mexico to increase its corn imports, which would shift agriculture away from corn and displace many hundreds of thousands of small-scale corn producers. This prediction framed Mexico's agricultural subsidy programs for the next 15 years; trade compensation and adjustment programs spent at least $20 billion dollars on direct transfer payments to farmers between 1994 and 2009. As expected, corn imports increased substantially, but corn is still Mexico's most important crop - in terms of the volume of production, the numbers of producers and the area harvested. Yet at the same time, many farmers have left agriculture. What happened? This report focuses on how Mexico's post-NAFTA agricultural trade compensation policies actually worked in practice, with a focus on corn.

To understand these policies, this report brings together economic, institutional and political analyses of these compensatory farm policies, over the long term. The diverse studies that follow address three main sets of questions: how were farm subsidies distributed? How did agricultural policies and institutions actually work in practice? To what degree were the subsidy programs transparent and accountable? To focus on these questions in detail, this report does not do justice to key related issues, such as the extraordinary diversity of Mexico's corn producers and markets, corn's cultural and nutritional significance, the specific implications of the recent spike in international corn prices, changes in patterns of peasant organization, or the environmental challenges involved in protecting the biodiversity of Mexican maize. Because of this study's focus on corn and compensatory subsidy policies, analysis of agricultural trade patterns in general or government policies toward agro-exports are also beyond its scope. Yet interested readers will find many references to diverse studies that do address these issues.

Now that NAFTA's implementation phase is over, the future direction of Mexican agricultural policy is the subject of increasing public debate. The goal of this report is to inform this discussion – including the role of US farm policy. The studies that follow reflect the individual view of each independent analyst, and they draw on official data, program evaluations, interviews with policy-makers, relevant scholarly work, and field research with producers. The authors have diverse policy perspectives, and therefore we did not seek consensus regarding specific policy recommendations to draw from the analyses. The report begins with a short synthesis of the main findings, followed by in-depth reports on the policy research – some of which are available in more extensive versions on-line at the project's bilingual website: www.wilsoncenter.org/MexicanRuralDevelopment.

This study was made possible thanks to a grant from the Global Development Program of the William and Flora Hewlett Foundation, and reflects collaboration between the Woodrow Wilson International Center for Scholars' Mexico Institute, the University of California, Santa Cruz and researchers from CIDE, the Centro de Investigación y Docencia Económicas.

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Synthesis of research findings:

Farm subsidy policy trends

Jonathan Fox and Libby Haight

This study of Mexico's farm subsidy programs finds four main sets of conclusions, regarding farm employment, transparency and accountability, Procampo, and other ASERCA subsidy programs.

First, Mexican agricultural spending increased substantially since 2001, almost doubling in real terms by 2008. Yet farm employment fell significantly. Even in the 1990s, the share of Mexico's budget that went to agriculture was the highest in Latin America. Direct cash payments to farmers alone totaled US$20 billion since 1994 (in 2009 dollars). Yet Mexico still lost 20% of its farm jobs between 1991 and 2007, with the total number falling from 10.7 million in 1991 to 8.6 million in 2007. A comparison of the 1991 and 2007 agricultural censuses shows that the total jobs lost in family farming far outnumbered those created in export agriculture. Agriculture's *share* of Mexico's jobs overall also fell substantially, from 23% in 1990 to 13% in 2008. At the same time, the *rural* share of Mexico's population was still at 23.5% in 2008, having declined much more slowly. If one applies the OECD's broader criteria for "rurality," as much as one third of the population remains rural. This growing gap between Mexico's shrinking agricultural employment and a persistently large rural population reveals the growing degree to which millions of families are separated, with the corresponding unquantifiable social and cultural costs. **The sharp contrast between Mexico's increased public spending in the countryside and the fall in agricultural employment shows that the rural job crisis is not due to a lack of public spending, but rather that rural employment has not been a priority.**

Second, Mexico's open government and accountability reforms have been unevenly applied in the agricultural sector. Farm programs' vast reach and complexity pose major challenges to state capacity, but transparency and accountability reforms have the potential to improve public sector performance. Yet Mexico's farm subsidy programs' long lists of sometimes inconsistent goals maximize the discretion of policymakers and the influence of vested interests. In compliance with Mexico's minimum official standards for open government, the two largest direct payment programs at first appear to be very transparent, with detailed recipient lists that are now accessible on-line. This data is sufficiently public to reveal that many public servants are also farm subsidy recipients. On balance, however, the lists remain opaque. Insufficiently precise official data leads to substantial confusion regarding how many actual producers receive payments. Meanwhile, Mexico's many *other* subsidy programs fall short of even the appearance of transparency, including the payments to large firms and the major agricultural investment programs that are decentralized to (and discretionally carried out by) state governments. Moreover, the lack of consistent producer registration or unified lists of subsidy recipients across the different programs prevents analysts from knowing the *total* amount of funding that any specific producer or private firm actually receives. In addition, agricultural agencies lack effective public accountability mechanisms. Only the Procampo program has a nominal system of local smallholder advocates, but in practice they represent the agency to the producers rather than vice versa. More generally, neither state nor federal agricultural agencies have chosen to form balanced partnerships with representative low-income producer organizations to bolster public sector accountability and performance. **The second conclusion is that while Mexico's largest farm subsidy programs *appear* to be quite transparent, in practice they lack both transparency and accountability.**

Third, the Procampo program, designed to compensate losers from free trade and extended until 2012, is by far the agricultural program that reaches the most low-income producers. Procampo is still Mexico's largest single agricultural program, and it disburses annual payments to approximately 2.5 million recipients, primarily non-irrigated corn growers with fewer than 5 hectares. Procampo is clearly the most pro-poor of Mexico's national farm programs. Smaller farmers receive modestly larger amounts per-hectare, following a sliding scale. Yet this does not mean that the distribution of Procampo payments is progressive, because it is designed to pay more to those who have more land. There has been no effective cap on the amount of annual payments that one individual or company can receive. In addition, in practice, according to two different national surveys, most of the very poorest producers (those with less than 5 hectares) are in practice completely *excluded* from Procampo, in spite of having been among the intended beneficiaries. At the same time, Procampo privileges better-off irrigated producers with double annual payments, even though the program was designed to be based on land-holdings rather than production. In addition, Procampo's share of the agricultural budget has been shrinking over time, as has the purchasing power of its per-hectare payments – in favor of less pro-poor farm programs. In addition, the costs to Mexican producers of domestic corn prices driven down by below-cost imports from the United States were larger than the average per-hectare payment under Procampo. Finally, while Procampo payments have a modest impact on reducing migration, almost half of Procampo families have sent members to the US. **In summary, even Mexico's most inclusionary, pro-poor farm program for corn growers excludes much of its target population and benefits better-off growers disproportionately.**

Fourth, almost all of Mexico's many other, less well-known farm subsidy programs are even more sharply biased to favor medium and large-scale producers. Mexico's second and third-largest agricultural programs subsidize "marketing support" and farm productivity investments. Both privilege northern states and are designed to grant discretionary access to well-off producers. Notably, the third largest program, Ingreso Objetivo, subsidizes grain production directly – in spite of the government's official free market discourse. This program offers payments to a small number of larger growers that cover the difference between international and domestic prices for grain sold. This drives down the crop price received by *other* producers, thereby reinforcing the downward pressure of subsidized imports on producer prices in general. In addition, substantial marketing subsidy payments go directly to large trading and processing firms, including transnational corporations, like Cargill and Maseca. Overall, according to a recent World Bank economic analysis, "agricultural spending is so regressive that it cancels out about half the redistributive impact of rural development spending.... with more than half of spending concentrated in the richest decile." **The extreme concentration of non-Procampo agricultural programs among the already-privileged few *produces* increased inequality.**