

*An ambitious plan for agricultural reform—that just might work*

# SOWING MEXICAN PETROLEUM

by Frank Meissner

Throughout most of the twentieth century Mexico's rural sector has been an open sore. In the years following the 1910-17 revolution, large private estates were expropriated by the government and divided into tiny plots for distribution to landless peasants. But political power soon passed from the countryside to the cities. The peasants, victorious in the revolution, were largely neglected by subsequent "revolutionary" governments.

As a result, the near-feudal social conditions of nineteenth-century Mexico were perpetuated. Most peasants, lacking credit, seeds, fertilizer, machinery, and education, were scarcely able to feed their own families. With each new generation the tiny plots were further subdivided and more and more farmers were forced to migrate to cities or to follow seasonal crop harvests as far north as the United States. Even today 80 per cent of the 23,000 communal farms produce little or no surplus food and perhaps as many as 90 per cent of the population, some 21 million people, are undernourished. In a country where only 15 per cent of the land is cultivable, many plots are on arid, swampy, or steep land.

Successive administrations refused to meddle with the postrevolutionary land tenure system, arguing that it guaranteed political tranquillity by keeping alive the peasants' hope. Until the present administration of José López Portillo, every president since 1920 boasted of how much land he had distributed. Yet today there are still 4.5 million adult peasants without land, a million more than in 1910.

In the late 1940s the government invested heavily in irrigation to enable private farmers to increase production, particularly in the northwestern states of Sinaloa and Sonora. But from 1965 to 1976 output again stagnated, growing by an annual average of just 1.6 per cent at a time when the population growth rate was 3.5 per cent. Over the years many piecemeal solutions were suggested, including such panaceas as increases in guaranteed farm prices, emphasis on mechanization, special incentives for growing high-value export crops to obtain enough foreign exchange

to pay for imports of selected basic foodstuffs, and creation of alternative state-controlled distribution networks to compete with "exploitative" traditional marketing intermediaries in the private sector.

In the mid-1970s, President Luis Echeverría launched the national Program for Investment in Rural Development (PIDER), an attempt at improving the quality of life among the rural poor of a hundred selected regions of the country. Both the Inter-American Development Bank and the World Bank provided major financial support for PIDER, which continues during the administration of López Portillo. But part of the recent malaise of Mexican agriculture was actually deepened by President Echeverría, who frightened away private investment in agriculture and topped off his six-year term by expropriating 90,000 acres of irrigated private land.

## BIRTH OF "SAM"

When President López Portillo took office in December, 1976, he inherited an acute as well as a chronic crisis in the countryside. He quickly tried to make peace with private farmers. At the same time, he confronted peasants with an unpleasant truth: There was little land left to be distributed. He then turned to developing Mexico's new oil wealth, which became the strategic catalyst of economic recovery during the first years of his administration. Since 1976 proven hydrocarbon reserves have increased tenfold, output has tripled, exports of crude have grown exponentially, refining capacity has increased by some 50 per cent, and production capacity for basic petrochemicals has practically doubled. Yet Mexico is not to become a "petroleum country." Oil accounts for barely 7 per cent of gross national product and only little over a third of foreign revenues. Furthermore, oil provides no guarantee of economic growth if not used in harmony with the pace of development in other sectors. After all, GNP in some oil-exporting countries shrank by 3 per cent in 1980, while Mexico's economy grew by more than 8 per cent. Mexico simply wants to "sow oil" so as to turn a nonrenewable resource into a permanent source of income. Agriculture is evidently the key to that metamorphosis.

The president also found in 1976 that grain imports, mostly from the U.S., were rapidly increasing.

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The social and economic implications of this development were serious: deteriorating nutritional standards, rising food prices, and accelerated peasant migration to cities. Things went from bad to worse. In 1979 an unhappy combination of drought and frost devastated Mexico's grain harvest. And just as Mexico was preparing to import a record 11 million tons of food from the U.S., Washington imposed a grain embargo on the Soviet Union in retaliation for the invasion of Afghanistan. Suddenly the alarm bells went off. As Alan Riding wrote later in the *New York Times* (November 6, 1981): "Mexico has always been politically sensitive to overt dependence on the United States. And now, having seen Washington use food as a political weapon, it felt particularly vulnerable."

Mexico reacted rapidly to the grain embargo. On March 18, 1980—the forty-second anniversary of Mexico's expropriation of the oil industry—President José López Portillo launched the Sistema Alimenticio Mexicano (Mexican Food System), or SAM. The main objectives of SAM are to reach self-sufficiency in basic grains; improve the quality of rural life; reduce malnutrition among the poorest of the poor; and redistribute wealth from city to countryside.

SAM was quickly stitched together—too fast to allow thorough professional analysis, not fast enough to satisfy action-oriented politicians—and promptly went into operation. The government's first step in implementing SAM was to boost guaranteed prices for corn and other grains, reversing the sustained decline in real value that had occurred during most of the '70s. Seeds, fertilizer, and machinery were made available below cost, with the government effectively subsidizing credit. A new crop-insurance plan, known as "shared risk," guaranteed farmers earnings equivalent to their average production over the previous five years.

The government has now identified 19 million people who require urgent nutritional attention, 45 per cent of them under the age of fourteen. New warehouses are being built in depressed rural areas and a "food stamp" program is being contemplated for urban slums. A major publicity campaign has also been started to educate the population on nutritional matters, including the encouragement of breast-feeding.

Any major increases in agricultural productivity evidently will be the result primarily of improved technology on rain-fed lands within traditional farming areas. Even this is easier said than done. For more than a third of the population, agriculture remains a way of life rather than an occupation. Adaptation of more effective production technologies requires the active cooperation of relatively uneducated, poor rural inhabitants scattered throughout a countryside with little in the way of a communications infrastructure. The government is attempting to facilitate the process by subsidizing the necessary seeds, fertilizer, fuel, and implements for target farmers; increasing guaranteed minimum prices for basic foods; sharing risk; expanding extension services; stepping up adaptive research for small-farm technologies; and increasing access to timely and reasonably priced credit.

## POTENTIAL AND PROMISE

Two-thirds of Mexico is arid or semiarid; more water flows down the Mississippi than down all of Mexico's rivers together. There are severe droughts in about one year out of five. Yet in 1980 and 1981 summer rains were on time and plentiful, filling reservoirs that two years before were at only 30 per cent of capacity. As a result, grain output rose by a third to 24.3 million tons in 1980. Imports were down. President López Portillo hopes that by the time he leaves office in late 1982 he will be able to announce that Mexico has ceased to import corn and beans.

Because of the hasty way SAM was put together the expected "shakedown" problems arose: In some areas farm inputs such as fertilizer and improved seeds have not been available. The 1981 spring and winter harvests of 26.5 million tons—6.5 million more than the disastrous 1979 harvest—exceeded the storage capacity of 16 million. Temporary open-air tarpaulin-covered storage was set up in the states of Zacatecas and Durango. Yet in other regions, due to shortages of transport and warehouse facilities, much grain remained rotting in the open.

SAM also has been enormously costly, involving subsidies to both producers and consumers of agricultural products. In many cases cost of local production exceeded the cost of imports. The standard reply to such a charge is that at least "the oil is sown at home."

In the tasks ahead PEMEX, Mexican petroleum, serves as SAM's intellectual godfather. This is because oil, like food, is much more than an economic matter. Before expropriation of foreign oil interests in 1938, and even before the revolution of 1910, oil was inextricably bound up in the politics of Mexican nationalism. Private ownership of national resources was an alien Anglo-Saxon concept, often identified as foreign interference in Mexico's affairs. The militantly nationalist rhetoric that initially surrounded SAM created an adverse reaction among international agribusinesses, which were disinclined to make additional investments. However, contacts now have been established between SAM and an Agribusiness Working Committee, jointly organized in October, 1980, by the Mexico-U.S. Businessmen's Committee of the Council of the Americas and the Consejo Empresarial Mexicano para Asuntos Internacionales. International development agencies too have shown an active interest. An \$80 million fisheries loan, approved by the Inter-American Development Bank early in 1980, is an example of a project that fits the SAM framework.

An outside observer cannot escape the first impression of SAM as a hodgepodge of hastily assembled activities, with no clear-cut links between them. But a closer look reveals that SAM is a creative and potentially promising response to the challenge of "sowing petroleum" in such a way that, in the words of President López Portillo, Mexico would realize its "great potential for growth without making unnecessary political concessions, by expanding the productive base and the domestic market, and thus provide solid foundations for sovereignty and for an efficient and powerful economy." [WV]