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Inflation and Food in Twenty-first-Century Mexico

Inflation in Mexico and the Capitalist World's Economic-Health Crisis

The Covid-19 pandemic is considered the most widespread and devastating in recent history, and its economic and social impact, together with the world economic crisis that emerged in late 2019, disrupted almost all aspects of life. In this context, we should underline that agricultural and livestock resources have been especially affected throughout the world, this, in turn, has compromised food production. The devastating effect is due to the fact that intensified losses of these resources had been inflicted since the previous decade due to climate change: excessive heat, harsh droughts, flooding, and increased numbers of pests are among the main impacts.

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In 2020, the world economy contracted -4.3 percent, close to 2.5 times more than during the 2009 economic crisis. The predicted scenario for recovery in 2021, 4.7 percent, will barely compensate for the 2020 losses.

In Mexico, that year's economic crisis led to a contraction of -8.5 percent in GDP. The recovery began in 2021, but until now, the 5.3-percent growth calculated by the Ministry of Finance and Public Credit did not come about because economic recovery depended on controlling the pandemic, which has not happened; rather, the recessive gaps affecting the world economy since the 2008-2009 crisis deepened.

Impacts on the Agricultural-Food System

In Mexico, the first negative economic effect was the rise in the price of food, which comes from agriculture, animal

husbandry, and fishing; this meant that in 2021, food security was already seriously threatened.

Together with the economic and health crisis, inflation appeared in some countries and increased in others. In Mexico's case, the importation of raw materials and intermediate and capital goods made for substantial price hikes, making already high costs shoot up. Inflation was higher than in the United States due to the imported inflation in 2019-2020.

Starting then, the inflation that has affected the agricultural-food system has shown no signs of letting up since the increase in food prices is generalized and ongoing; this system is vital for the population, mainly those living in poverty and extreme poverty.

The first impact on food was the higher price of tortillas, one of the country's staples: by May 2021, it had risen from Mex\$14 to Mex\$20 a kilo in Mexico City, increasing even more in other states, seriously affecting the population's purchasing power. The price hikes expanded to many other products of the basic market basket spreading to all food groups: basic grains, dairy, meat, vegetables, and fruit. These data can be seen in the National Institute for Statistics and Geography's (INEGI) National Price Index for the Minimum Market Basket.

This climb was a response to negative productive factors such as the increase in the price of gas and gasoline; the slow, late arrival of raw materials as well as machinery and equipment; and the presence of extreme climate conditions. This means that we can say that, at least in Mexico, we are rapidly approaching a strong inflationary process that will deepen the prevailing poverty and inequality, which in turn will negatively affect health.

In addition to this, another very important factor has impacted the world's food supply: the war between the Ukraine and Russia that began February 24, 2022. It has revived the utilization of food as the most powerful weapon in the fight for the domination of the world capitalist market.

The cancellation of food exports to Europe destabilized supply in all the regions of the world, creating an effect of fictitious scarcity and not only in the countries in conflict. In the underdeveloped, dependent countries, the high cost of basic foodstuffs deepened undernourishment and malnutrition, that is, the detonators of the morbidity and mortality associated with the pandemic. In 2018, the number of people going hungry in Latin America and

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the Caribbean rose from 42,547,700 to 47,700,000. This means that the nutritional condition of the most vulnerable groups will deteriorate more because the food supply chain has changed due to smaller harvests, outbreaks of coronavirus among farmers and fisherfolk, border closures, increased sanitary measures, and decreased demand due to the closure of stores, supermarkets, and restaurants.

The Causes of Inflation and Mexican Government Responsibility

One theoretical and public policy problem that springs to mind is the consensus among government officials and the business classes of all countries regarding the implementation of monetary policies. Among the latter is the increase in the interest rates as a solution for excess demand in the face of a contraction in supply, both of which are considered the cause.

The policy implemented by Mexico's Ministry of Finance and the Bank of Mexico (Banxico) to mitigate inflation is no exception, despite maintaining a rhetorical discourse that questions the neoliberal model, still inexorably prevailing in Mexico. These theoretical considerations, which I briefly review here, come from the best representatives of neoclassical economics, who explain the phenomenon as follows:

1. Dornbusch defines inflation as the rate of variation of price levels; that is, as a quasi-natural phenomenon that occurs in markets. As a result, price levels are proportional to the quantity of money in circulation.¹
2. Similarly, Robert J. Barro sees inflation as a continual upward movement in price levels. As a representative of the rational expectations approach, he adds that inflation is fundamentally a monetary problem, which coincides with Milton Friedman's quantitative theory of money.²

3. For Heilbroner and Turow, inflation is a zero-sum game, in which one side wins what the other loses.³

The first two authors emphasize the more external or phenomenical aspect of inflation; that is, the continual rise in the general level of prices. By contrast, Heilbroner and Turow emphasize a more causal aspect when they consider that in the exchange of wealth, inflation has effects on different actors in the economy: some lose what others gain.

These approaches recognize that inflation correlates positively with the amount of money governments issue; however, the differences between them reside in the specific weight each gives to money issued and the recognition of the influence that other factors exert.

With a slight variation, Heilbroner joins the economists who from Keynesian and Marxist approaches, do not accept permanent equilibrium in full-employment markets. To the contrary, he recognizes that market systems easily become unstable. As an example, he refers to the fact that both wars and changes in political regimes, resource systems, new technologies, and in demand destabilize the market system. These disturbances led the capitalist system to develop instabilities in production, prices, and employment.

Using a different approach, Arturo Huerta questions the convention that inflation is the result of pressures on the demand side, justifying increasing hikes in the interest rate and budget cuts to diminish demand-based pressure on prices. Huerta's proposal is that today's inflation derives from supply issues, "that is, the scarcity of products and low productivity, which pressure prices and imports, through which we import inflation."⁴ These considerations would seem to lead to the idea that inflation is a long-term problem, and the solution can be found in changing monetary and fiscal policy to lower interest rates and increase inflation.

Job creation and the guarantee of decent wages would allow workers access to food and other goods and services that contribute to improving the quality of life of all Mexicans, particularly those who today are surviving amidst poverty and extreme poverty.

In fact, the reestablishment of the growth rate demands heavy investments both by the public and private sectors. Based on that, it would be feasible to contribute to job creation and the guarantee of decent wages that would allow workers access to food and other goods and services that contribute to improving the quality of life of all Mexicans, particularly those who today are surviving amidst poverty and extreme poverty. ■■■

Further Reading

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Notes

- 1 Rudiger Dornbusch, Stanley Fischer, and Richard Startz, *Macroeconomía* (Madrid: McGraw Hill, 1988), p. 375.
- 2 R. J. Barro, *Macroeconomía* (Mexico City: Nueva Editorial Interamericana, 1988).
- 3 R. L. Heilbroner and L. Turow, *Economía (Naucaupan, State of Mexico: Prentice Hall Hispanoamericana, 1987)*.
- 4 G. A. Huerta, "Hacia un estancamiento con inflación," *Economía UNAM*, no. 54, September-December 2021, p. 99.