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EL FUTURO DE LA ALIMENTACIÓN Y RETOS DE LA AGRICULTURA PARA EL SIGLO XXI:

Debates sobre quién, cómo y con qué implicaciones sociales, económicas y ecológicas alimentará el mundo.

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A farewell to urban/rural bias: peripheral finance capitalism in Mexico

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Nadine Reis

Abstract

Based on a discussion of the structural transformation of the Mexican economy, this paper investigates the impact of financialization on agriculture's role in capitalist development. It argues that under finance-led accumulation, the national-level rural/urban and agriculture/industry distinctions have ceased to be adequate concepts for explaining the historical path of capitalist development in the periphery. Finance capital is indifferent to these distinctions on a national scale, because accumulation works through wealth extraction from labour at large by transnational finance capital. Rather than urban/rural bias, the main problem in financialized countries of the periphery today is 'finance bias'. A major contradiction of the current accumulation system does not only stem from the increased relevance of 'functional dualism', but also from the financing of cheap food/cheap labour through rising debt.

Keywords: financialization; urban-rural links; Mexico

1. Introduction

The question of agriculture's role in the economic development of a country, and the question of links between rural and urban development, are among the oldest and most controversially debated issues of development theory. At the core of the debate in agrarian studies was what Bernstein called the 'agrarian question of capital', focusing on "the transition to capitalism in which two definitive ("stylized") classes of pre-capitalist agrarian social formations ("feudalism") – namely predatory landed property and the peasantry – are transformed (displaced, "eliminated"), by the emergence of capitalist social relations of production, in turn the basis of an unprecedented development of the productive forces in farming" (Bernstein 2006, 450). For a long time throughout the 20th century, this question was central since it was assumed or at least hoped that if only it was solved, this would in a quasi-automatic manner lead national societies into a situation where economic development would sort itself out through the development of the productive forces. Hence, the defeat of the predatory landed class through land reforms and the establishment of bourgeois property rights in land were on the top of the agenda of both Marxist and bourgeois 'modernizers' (De Janvry 1981, 12). The Mexican agrarian reform in the 1930s is a famous instance of 'bourgeois revolution' (Knight 1989, 26; Gómez-Oliver 2012, 222f.), and the Soviet collectivization of agriculture was the most tragically failed political-strategic attempt to solve the agrarian question of capital by force (Bernstein 2006). As Bernstein further points out, the classic agrarian question of capital has practically become obsolete since the end of the 1970s, when predatory landed property had become insignificant as a dominant class force (Bernstein 2006). It can be hypothesized that it was in this context that the inter-

sectoral aspects of capitalist industrialization - that is, the relationship between the agricultural sector and industrialization - shifted more to the forefront of the debate about development, since even where agriculture had become largely capitalist, 'development' did not seem to automatically succeed from there.

Hence, the debate about 'rural-urban links' picked up momentum in the 1970s and 1980s, and in particular, due to Lipton's 'Urban Bias' thesis.¹ In his widely cited and influential book, 'Why poor people stay poor' (Lipton 1977), he claimed that economic stagnation and poverty in developing countries existed due to the class conflict between the 'urban class' and the 'rural class', whereas the 'urban class' was so powerful to divert the largest share of available resources in a country to urban areas. This in turn, he argued, hindered the overall development of a country, since not only was the wealth of the 'urban class' created at the expense of the rural areas, but the available resources were not invested efficiently so development could occur. In the following decades, Lipton's thesis was widely adopted in development theory and practice, even though it has also been heavily criticized.

It got rather quiet around development theory and the rural-urban links debate with the end of the 'grand theories' and the radical calling into question of the idea of 'development' by poststructuralist scholars in the academic world in the 1990s (Escobar 1992). However, this does not mean that development theories and their elements are not present in public discourse and policy anymore. The UB thesis was repeatedly renewed by Lipton (Eastwood/Lipton 2000; Lipton 2005), arguing that UB was still present or even worsened after neoliberal reforms in developing countries, even though structural adjustment measures had – so he claims - improved the terms of trade for agriculture against industry. Most notably, the UB thesis gained renewed popularity (even if mostly not explicitly) with the 2008 global food crisis (Kay 2009, de Janvry 2010; Jones and Corbridge 2010). In the same year, the World Bank published its World Development Report titled 'Agriculture for Development', signalling the key importance assigned to the role of agriculture for the overall development of countries. The policies of international organizations such as FAO and the World Food Programme, as well as the political agendas of many non-governmental organizations and social movements have since then echoed the main claim of the UB thesis that urban classes dominate national policies at the expense of agriculture and rural development. Jones/Corbridge go so far to state that "the idea that cities dominate the countryside has, on occasions, seemed to be the one point of common ground between pro-market reformers at the World Bank and social movements arguing for social justice and redistribution" (Jones/Corbridge 2010, 2). In its recent Agriculture Action Plan, the World Bank restates the need to address "cross-sectoral linkages between agricultural actions and outcomes for economic growth, livelihoods, the environment, nutrition, and public health" (World Bank 2013). In short, it is evident that agriculture is still assigned a key place in the economic and social development of countries in dominant policy practice due to assumptions about its functions for development.

Nevertheless, a theoretically and empirically informed reflection of rural-urban links has largely been lacking from the more recent academic debate. Exceptions

¹ Lipton argued that the urban-rural distinction was preferable to the agriculture-industry division since it was more encompassing (Lipton 1977, 60).

are Kay (2002, 2009) and Jones/Corbridge (2010), who both resume the discussion around UB supporting earlier criticisms of both 'agrarianist' and 'industrialist' modernizers as being based on false dichotomies (cf. Corbridge 1982). Based on an analysis of the playing out of rural-urban links in the actual development experiences of South Korea and Taiwan, Kay's main conclusion is that "the most successful development strategy is one in which the State is able to exploit creatively the *synergies between both sectors* by developing their complementarities and enhancing their dynamic linkages" (Kay 2009, 104; emphasis added). Further, Kay concludes that "the form of dualistic thinking as expressed in the UB thesis is an increasingly unhelpful way of thinking about development", considering the increasing fluidity between urban and rural sectors in terms of capital, commodities and labour in the context of neoliberal globalization (Kay 2009, 122; Hart and Sitas 2004). In a similar line of argument, referring to the work of Ellis and Harriss (2004), Jones/Corbridge point out that the distinction of urban and rural sectors is increasingly out of date considering the higher levels of national and global integration of spaces (Jones and Corbridge 2010, 11f.). In particular, both Kay and Jones/Corbridge argue that this is evident with regard to the increasingly multilocal livelihood strategies of rural and urban households that include the mixing of farm and non-farm activities in urban and rural areas, and different forms of national and international migration that combine traditional 'rural' and 'urban' activities (Kay 2009, 122f; Jones and Corbridge 2010, 11f; see also Bernstein 2009). Moreover, one of Lipton's basic assumptions, namely that poverty is predominantly rural, is increasingly questionable not only in view of the rising number of urban poor, but also regarding the unstable and inconsistent definitions of what counts as 'urban' and 'rural' in official statistics (Jones and Corbridge 2010, 8-9).

This paper departs from these earlier criticisms of the UB thesis, but aims to take the debate one step further. Based on an investigation of the structural transformation of the Mexican economy since the 1970s, I argue that thinking about development in terms of rural-urban or agriculture-industry linkages has further lost ground in being an apt way of conceptualising the economic reality that a country like Mexico faces today. This reality can be characterized as *peripheral finance capitalism*. Financialization has recently gained much attention in food and agrarian studies, but mostly with a view on the sector itself (see for instance Fairbairn 2013, 2014, 2015 and Ouma 2014 on land; Russi 2013 and Isakson 2014 on the agrofood industry; Murphy et al. 2012 on commodity traders; Breger-Busch 2014 on agricultural derivative markets; Clapp 2014 on the implications of financialization for global food politics). What has largely been lacking so far is an investigation of the impact of financialization on agriculture's role in capitalist development. The present paper aims to fill this gap in the literature and explore how finance-led accumulation shapes and dismantles urban-rural links and their impact on broader development.

Mexico was among the first countries in Latin America to implement a thorough neoliberal reform agenda beginning in the 1980s, almost completely opening its economy and privatizing state owned companies and banks. Since the implementation of NAFTA in 1994, Mexico has received enormous quantities of foreign capital inflows. Today, Mexico has 44 free trade agreements, including with the EU, China and Japan. In this sense, Mexico is a 'best case' of neoliberal development policy. Both agriculture and industry have developed at a great pace

and intensity, and the country is today among the world leading export nations for several agricultural as well as manufactured products. At the same time, economic growth has been slow, and its benefits have only reached a part of the population: 46% of Mexico's population – 55.3 million people – lived in poverty in 2014, 2 million more than in 2012 (CONEVAL 2016). This paper argues that the discussion about inter-sectoral aspects of capitalist industrialization in developing countries – one of the major dimensions of the agrarian question – must take into account the financialization of global capital accumulation, and the particular way in which it shapes the possibilities for development² in the periphery. Financialization implies that the dominant locus of capital accumulation has shifted from the sphere of production to the sphere of financial markets (Harvey, 1989, pp. 191-94; Arrighi, 1994; Krippner, 2005, p.181; Lapavistas, 2013). The literature on financialization in developing countries from a critical perspective is still rather scarce, but there is growing evidence that it is a major dimension of new unequal development on a world scale (Lapavistas 2009; Paineira 2009; Becker et al. 2010; Bonizzi 2013; Powell 2013).

In this paper I use two strands of data on Mexico, and confront these with the debate on capitalist industrialization as sketched above. The first is the available literature and statistical data on the development of Mexican agriculture and industry, paying special attention to agriculture-industry links in capital and labour. The second is the literature on the financialization of the Mexican economy. By doing so, I reconstruct the dismantling of the national model of economic development, which aimed for economic growth based on the productive sectors of the economy, and the taking over of the transnational finance-led accumulation regime, which is oriented on wealth extraction. The role of the state has thereby turned from the developmental state to the crisis-managing state. Under conditions of finance-led accumulation, capitalist agriculture has over-all developed, in the sense of increasing mechanization, output and export values. However, instead of serving broad-based development, finance-led accumulation feeds the accumulation of profit by a transnational financial elite. This development model is inherently unsustainable not only due to the expatriation of profit, but particularly due to its debt-financed nature.

The paper is structured as follows. Section 2 reviews the debate on rural-urban links in capitalist development, and how the national development model in Mexico followed this growth model. Section 3 tracks the development of agriculture and industry in Mexico, investigating how the inter-sectoral links between agriculture and industry developed since the financial opening in the 1990s. It concludes that links are practically absent in terms of capital flows mainly due to the increasing dominance of transnational corporations (TNCs) in both sectors, while the sectors are linked through agriculture's provision of cheap labour for industry. Section 4 reconstructs the financialization of the Mexican economy starting in the 1970s, and coming to full power since the 1990s. It shows that monetary policy has been adapted to the needs of transnational finance capital, and how this affects the development of the real economy. Section 5 concludes on peripheral financialization and its implications for the debate on agriculture's role in capitalist industrialization. It hypothesizes on the renewed

² The term 'development' is used here in the sense of a vision of 'good change' in both possible meanings, i.e. both as 'development alongside capitalism' and 'development against capitalism' (Thomas, 2000, 29).

relevance of theories of dependency and global unequal development, which, however, need to be refined and adapted according to the new and still under-researched configurations of transnationalized class relations.

2. Rural-urban links in the classic debate

Functions/contributions of agriculture for development

Across ideological standpoints, there is a range of factors that have largely uncontroversially been seen as functional contributions of agriculture for economic development of countries. The identification of these functions was based on the European experience, and they can roughly be grouped into two sets. First, there are functional contributions that relate to the formation of capital and a domestic market. Both neoclassical and Marxist development theorists agreed that growth in the agricultural sector is a necessary precondition of general economic development in that it serves as an ‘engine’ for industrialization through the *provision of capital surpluses for the investments needed in the industrial sector*, particularly in the early stages of industrialization, and in countries that do not have large revenues from petroleum or mineral exports (Johnston and Mellor 1961, 576f.; Byres 1982; Kay 2009, 116).

Once industrialization has succeeded to a certain level and is able to generate sufficient surplus within the sector, the need for capital transfers from agriculture becomes less and industrial resources can then be used to finance the growth of agriculture (Kay 2009, 116). Referring to the cases of Taiwan and South Korea, Kay highlights the central role of the synergies created through capital flows between agriculture and industry for their development success (Kay 2002; Kay 2009, 118).

Not only was the creation of sufficient surplus in agriculture seen as fundamental for reinvestments into the domestic industry. Agricultural surpluses were also seen as necessary for *earning foreign exchange through the production for export*, which would be needed for financing the import of machinery and other industrial inputs that cannot be produced domestically (Johnston and Mellor 1961, 574; Johnston and Kilby 1982, 53; Calva 1999, 36). Further, sufficient growth of the agricultural sector was expected to have positive effects on the overall national economy through the *creation of a home market*, in that higher cash income in rural areas increases rural demand for industrial products (Byres 1982, 82).

“A broadly based expansion of farm cash income generating demand for low-cost and relatively simple inputs and consumer goods can be expected to foster efficient, evolutionary growth of domestic manufacturing that is characterized by relatively low import content and which leads to the strengthening and diffusion of entrepreneurial and technical competence” (Johnston and Kilby 1982, 53)

Other scholars, often categorized as ‘neopopulists’, assigned an important role to agrarian reform, since it would lead to a more equitable income distribution, which would in turn stimulate the home market – a factor that is also seen as having significantly contributed to successful industrialization in Taiwan (Kay 2002, 1076f.; Kay 2009, 120).

Second, development theory assumed that in the process of expanding non-farm sectors of the economy and labour force, growth in agriculture is key for development in that it provides increased *supplies of food and agricultural raw*

materials for the domestic market, that is, avoiding the need of having to spend foreign currency for food imports and hence compromising on the balance of trade. In particular, this was seen as important for countries that do not have foreign exchange incomes through large revenues from exporting mineral products (Johnston and Mellor 1961, 574, 590; Johnston and Kilby 1982, 53). In the development experience of Taiwan and South Korea, the supply of cheap food to the industrial labour force by domestic agriculture was an important factor why labour remained cheap in the beginning phase of industrialization (Kay 2002, 1095; Kay 2009, 119).

The third set of functional contributions of agriculture for overall development relates to its role in the structural transformation of the labour force. Early development economists assumed that development would gain force through the transfer of labour from the rural to the urban sector since unproductive, *cheap rural labour would achieve a higher labour productivity in industry and thus contribute to capital accumulation and growth* (Mandelbaum 1945; Lewis 1954). Indeed, viewing again the experience of South Korea and Taiwan, the cheap labour force released from agriculture was key for industrialization, allowing capitalists to compete on world markets and gain high profits that could be reinvested in their productive capacity (Kay 2002, 1095; Kay 2009, 119).

The 'Urban Bias' thesis and its critics

Due to the rural-urban linkages that were established by early development theorists, which basically assumed that agriculture's role was to contribute to industrialization through the transfer of various resources, "it was generally taken for granted that development strategy should give primacy to industrialisation" (Kay 2009, 105; cf. Lipton 1977, 63ff.). With his 'Urban Bias' thesis, Lipton radically challenged this idea. Lipton argued that the main cause for underdevelopment was that policies in development countries were biased to favour the 'urban class' against the interests of the 'rural class', in turn hindering the overall development of the country (Lipton 1977). 'Urban class' thereby not only includes the urban population, but also the group of richer farmers, who were allies of urban consumers in their support of cheap food supply (Lipton 1977, 67; 1982, 68).

"The cities want to receive preferably cheap surpluses from the rural areas: surpluses of food, surpluses of savings over rural investment; surpluses of exportables over imports, to provide foreign exchange for industrial development; surpluses of 'human capital', in the shape of rural-born doctors, teachers, engineers and administrators, as children brought up largely at rural expense, but as adults serving largely urban needs. Who, in the rural areas, can provide such surpluses? Clearly, the better-off, especially the big farmers" (Lipton 1982, 68).

Lipton's most important insight was that 'urban biased' policies caused 'price twists', i.e. terms of trade working in favour of urban consumers and against rural producers. 'Price twists' made agricultural products relatively cheaper compared to the prices of urban products, which caused structural disadvantages for rural areas (Lipton 1977, 287ff.). A key instrument in urban-biased policies was the *overvaluation of national currencies*, which favoured food imports and distorted domestic agricultural prices. Because the majority of the poor lived in rural areas, 'Urban Bias' ultimately meant that resources are transferred from the poor to the less poor. According to Lipton, supporting small farmers would benefit overall

development not only through favouring a more equitable development path, but in particular, because small farmers were better at providing the functions of 'agriculture for development' by using capital more efficiently ('inverse relation').

"The under-use of the human resources of small farmers and landless labourers prevents the rural sector from generating a lasting, soundly based, efficiently (because labour-intensively) produced, farm surplus for exchange on fair terms with urban products, and permits only a big farm surplus, costly because intensive in its use of capital and energy, but (due to inadequate, urban-biased incentives) too small and too unreliable to serve as firm base for urban growth" (Lipton 1982, 74).

Lipton's analysis was most forcefully challenged by Byres, who argued that the lack of economic development was not due to 'Urban Bias', but to the lacking resolution of the 'agrarian question': the full development of capitalist relations of production in agriculture, and finally, the achievement of "undisputed hegemony" of the urban bourgeoisie against the interests of capitalist farmers (Byres 1982, 82f.).

"Until then the full unleashing of productive forces in industry could be frustrated where, through their political power, rural capitalists could maintain terms of trade which were persistently unfavourable to industry: a major factor preventing industrial growth, which was likely to be compounded, where the landed interest dominated the policy" (Byres 1982, 83)

Because of the power of landlords, which prevented a 'squeezing' of agriculture for the provision of surplus necessary for industrialization, the problem was rather '*rural bias*' than 'urban bias' (Byres 1974, 1979). The debate between Lipton and Byres also illustrates a general controversy between 'modernists' that believed in the development of capitalist, large-scale farming as the only road towards overall development³, and the 'populists' who advocated the adoption of capital-intensive small-scale farming, taking full advantage of the efficiency of peasant family farming for the transformation of the economy – a controversy that lives on today, even if in modified ways.

In more recent writings, Lipton holds that urban bias is still pervasive in developing countries, even after anti-rural price distortions were reduced through structural adjustment measures (Eastwood and Lipton 2000; Lipton 2005, 725). While anti-rural price distortions have been reduced, other anti-rural distortions have increased, e.g. regarding allocations for health and education, and overall rural-urban disparities have often worsened through the greater power of the urban class over resource allocation (Eastwood and Lipton 2000; Lipton 2005, 725).

Mexico's national development model, 1934 – 1982

Mexico's development path up to the 1970s followed the lines of a national development project tuned to the creation of links between agriculture and industry for achieving growth through macroeconomic policies. After the 1930s

³ The Soviet experiment of the collectivization of agriculture as projected road towards industrialization and development can be seen as the Socialist variant of this 'modernist' development strategy (cf. Bernstein 2006).

‘bourgeois’ agrarian reform, Mexico’s communal *ejido*-sector owned more than half of productive agrarian land in Mexico and was the major factor in the high growth rates of the sector between 1934 and 1950. In this period, public investment into the agrarian sector grew at an annual rate of 17% in real terms (Gómez-Oliver 2012, 224). During the ‘agricultural miracle’ between 1946 and 1965, the agricultural GDP grew at an annual rate of 6.1%, contributing to broader economic development: agriculture supplied food and raw materials to the rapidly growing industrial and urban sector; it produced surplus for export which was used for compensating the industrial trade deficit; and it helped the expansion of the internal market for domestic industrial products (Calva 1999: 37f.).

The period between 1940 and 1982 was characterized by the typical features of agricultural policy according to the Import-Substituting Industrialization (ISI) model, as it prevailed throughout Latin America, Africa and Asia. Macro-economic policy consisted in the support of domestic consumption and creating favourable conditions for domestic industry through an overvalued exchange rate and trade protection (Gereffi and Evans 1981). The negative effects on agricultural prices were compensated – initially successfully - by heavy public support of the agricultural sector in the form of irrigation infrastructure, subsidies for input and credit, extension services, and above all, a system of guaranteed prices (Calva 1999, 39f.; Gómez-Oliver 2012, 226f.). The first, ‘horizontal’ phase of ISI saw the successful development of local manufacturing of light consumer goods, stimulated by the effects of World War II and the Korean War on centre economies. This phase was characterized by a rising national bourgeoisie and diminished dependency on foreign capital as compared to the phase of primary product exports before the Great Depression (Gereffi and Evans 1981, 38f.). However, this changed after the economic crisis of 1954, when the Mexican state embarked on a ‘vertical’ ISI strategy, focused on broadening the range of domestic production to include durable goods, especially cars. This required more technologically advanced and capital-intensive investments, which could be met by foreign capital. Local manufacturing became increasingly foreign-owned, and the vertical ISI stage laid the basis for the “triple alliance’ of state, TNC, and local capital”, marking “the full blossoming of the process of ‘dependent development’ (ibid., 39f.). Although local domestic manufacturing rose and imports fell, a large share of the surplus was absorbed by transnational capital. At the beginning of the 1970s, 52% of assets of the largest 300 manufacturing firms were foreign owned (ibid., 41).

In agriculture, the structure of relative agricultural prices⁴ made agricultural exports less profitable, marking the beginning of increasing imports (Gómez-Oliver 2012, 226). Moreover, the system of subsidies intensified the existing polarization of the agricultural sector, since it mainly benefitted large farmers (Fox and Haight 2010, 11). In this period, small farmers began to diversify their income sources and increasingly relied on additional wage labour for their livelihoods (Gómez-Oliver 2012, 228f.; Eakin et al. 2014).

Hence, even if official policy followed the national development model, stimulating links between agriculture and industry were already weakening in the later ISI-phase due to the increasing repatriation of surpluses abroad. The dominance of the urban over the rural sector had to be attributed to economic

⁴ Prices compared to international agricultural prices and prices of other domestic sectors

dependency rather than to 'urban bias' (Redclift 1984). I will argue in the remaining part of this paper that external dependency has intensified with the financialization of the economy, and further dismantled functional linkages between agriculture and industry. To develop this argument, the next section examines the development of the agricultural and industrial sectors in Mexico since the beginning of the neoliberal reforms, putting special attention to inter-sectoral links.

3. Agriculture-industry links viewed through capital and labour

The classic agrarian question referred to the development of social relations of production in agriculture, and how agriculture can or must contribute to the accumulation of capital necessary for industrialization. In the following, I will analyse the development of agriculture and industry in Mexico since the 1990s, and show that the dual economic structure has consolidated: On the one hand, there is a growing, fully globally integrated export sector in both agriculture and industry, which thrives on the basis of large state subsidies, while the surplus is increasingly appropriated by transnational capital. On the other hand, there is a domestic economic sector that lacks access to credit, is underdeveloped, stagnating and (in the case of agriculture) subsistence-oriented. While links between agriculture and industry are almost non-existent in terms of capital flows, the destruction of small-scale farming through an agricultural policy favouring industrial farming provides a necessary component for the latter: an abundant source of cheap labour.

3.1 Agriculture-industry links through capital

Agriculture

Since the 1990s there has been an intensification and consolidation of the diverging development of agriculture's two subsectors, which goes back to a change in agricultural policy. In contrast to official neoliberal discourse promoting market liberalization and state withdrawal, the period since the 1990s has been characterized by *increasing agricultural subsidies*. However, these have been heavily concentrated towards a small group of large-scale producers and transnational agribusiness (Fox and Haight 2010; Appendini 2014). Between 1994 and 2010, at least US\$20 billion were spent in direct payments to farmers (Fox and Haight 2010, 13). Between 2000 and 2009, public spending on agriculture doubled (World Bank 2009, 6). Total rural expenditure amounted to a quarter of public spending in 2009 and is similar to expenditures for urban sectors, which leads the World Bank to acknowledge that there is no 'urban bias' in Mexico (World Bank 2009, 29). However, between 50 and 80% of all agricultural spending went to the richest 10% of producers (World Bank 2009, 52ff; Scott 2010). The municipalities with the greatest poverty and the greatest shares of indigenous population received a minimal part of agricultural spending, even though they are the ones most dependent on agriculture for their livelihoods (Fox 2013, 58).

"Ironically, while the popular claim is that the government has abandoned maize producers and the 'campo', the reality is that fiscal expenditure has increased for maize over the past decade, but has been targeted at a small and select group of participants" (Appendini 2014, 22).

While the provision of maize, Mexico's basic food crop, has been taken over by a small group of producers in the Northern state of Sinaloa, global corporate business has taken over the other parts of the maize-tortilla chain (Appendini 2014, 3; Eakin et al. 2014, 144).⁵ Haight (2010, 34) concludes that "[i]nstead of the government running the grain market at artificially high prices, the government is now paying private (transnational) corporations to do so – and paying as many as three different subsidies for the same grain". A key component in supporting large-scale production has been the expansion of irrigated land through further public investment into new irrigation schemes and in particular, through the heavy subsidisation of electricity for pumping (World Bank 2009, 47; Scott 2010, 86). This has especially benefitted the large commercial producers in the Northern states (Fox and Haight 2010, 12f.).

Due to massive state support, industrial and export-oriented agriculture has enjoyed high growth rates. As shown by Appendini (2014, 6), maize output in Mexico has steadily grown since 1989, while the most dynamic yield increases (from 2.9 to 9.9 tonnes per hectare) have taken place on irrigated land, mostly in the Northern states (especially Sinaloa). The contribution of irrigated land to overall maize production increased from 25% in 1989 to 40-50% in 2009. Average yields for non-irrigated maize in most parts of central and southern Mexico have remained stable at 1.5 tonnes per hectare (Appendini 2014, 6). In total, maize production in Mexico has increased from 14 to 23.4 million tons between 1990 and 2015 (Appendini 2010, 3; INEGI 2016). Similarly, the country has achieved high growth rates for other agricultural products largely destined for export. Today, Mexico is among the world leading producers and exporters of vegetables and fruits such as tomato, avocado, watermelon, mango, guava, organic coffee, squash, and papaya (Promexico 2012). The production of meat, chicken, milk products and honey has steadily increased over the years (INEGI 2016). In 2013, Mexico was the 4th largest producer of chicken and the 6th largest producer of beef in the world (INEGI 2016). The total value of agricultural exports increased from 4 to 26.7 billion US\$ between 1993 and 2015, while both primary and agroindustrial exports increased (see Figure 1). In collaboration with Mexican business associations and commercial banks, the Mexican government presents high output and growth rates in agribusiness to attract international investment in the agricultural sector (cf. Promexico 2012).

⁵ In spite of this market consolidation, local informal maize markets are still widespread, where smallholders sell surpluses from their subsistence oriented production to relatives and neighbours, or to intermediaries coming to the villages (Eakin et al. 2014, 144f.).

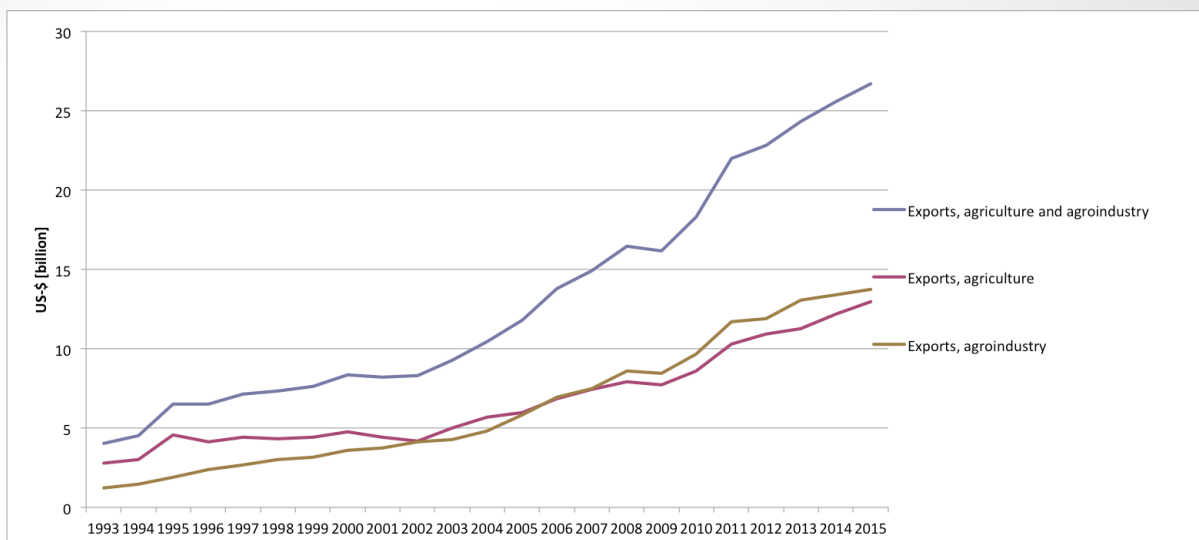


FIGURE 1: AGRICULTURAL AND AGROINDUSTRIAL EXPORTS IN MEXICO, 1993-2015
(SOURCE: ILLUSTRATION BY AUTHOR BASED ON BANXICO 2016)

Although the strong state efforts have been successful in rising the agricultural output and exports, this has not resulted in a positive trade balance in agriculture. While exports have grown to unprecedented levels, at the same time import dependency was consolidated. The economic opening led to a relative fall in prices of agricultural products that amounted to almost 60% for maize, 45% for wheat and 61% for soy (Calva 1999, 40). There has been a massive increase in agricultural imports, and Mexico turned into one of the world's main food importing countries: In 2006, it was the third largest importer of cereal (after Japan and the European Union), fourth in oil crops (after the European Union, China and Japan), third in fiber (after China and the EU), fifth in meat (after Japan, Russia, US and EU), and first for milk (Gómez-Oliver 2012, 241). After all, Mexico's trade balance in the agricultural sector has mostly been negative (Calva 1999, 47; Gómez-Oliver 2012, 242).

Clearly, not all farming in Mexico is large-scale. Appendini (2014, 6) estimates that 60 per cent of maize is still produced by small (21%)- and medium-scale (38%) producers. However, in the case of maize as in the case of other crops and vegetables, there is evidence that production is dominated by contract farming (Steffen and Echanove 2005; Appendini 2014). Under the ASERCA programme, the government actively supports contract farming through subsidies for participating producers and buyers (Appendini 2014, 16ff.). In their study on contract farming in the horticulture, barley and wheat sectors, Steffen and Echanove (2005) found that "despite the disadvantages of contract farming for growers, and the disproportional risks born by producers, they enter into contract farming labour agreements because they lack alternatives for financing, technical assistance and access to markets". Considering that the majority of buyers in the contract agreements are transnational agribusiness corporations (Appendini 2014, 16ff.)⁶, it is evident that these appropriate the major share of the increasing surplus value of agricultural production.

In this structural context, small-scale agricultural production, although still present throughout Mexico, has become an activity that is in most cases only a

⁶ Also see Schwentesius and Gómez (2002) on the transformation of wholesale in Mexico in the context of the growing power of supermarket chains in the food supply chain.

complementary element in the livelihood strategies of the rural and semi-urban population. The majority of income of the rural and semi-urban population is today made up of wage labour, and increasingly so (deJavry and Sadoulet 2001; Verner 2005; Scott 2010, 80ff.; Eakin et al. 2014, 143f.). A survey conducted in the peri-urban area of Toluca by Lerner et al. (2012) found that the largest share of *ejido* households continued maize cultivation only out of socio-cultural preference for home-made tortillas, while the second largest group relied on maize cultivation as insurance strategy due to the insecurity and instability of wage-labour income. In my own qualitative empirical research conducted in 2015/2016 in the same area, it was evident that *ejido* lands, if still used for agricultural production at all, are usually cultivated by the oldest generation in the households, while many households have given up cultivation either to use the land for building homes for the younger generation, or, to sell the land on the informal land market out of survival necessity.

At this point it must be clarified that the agricultural sector in Mexico also comprises an informal sector of substantial size, that is, the drug production and processing sector. Obviously the sector does not show in any official statistics, but it is clear that it makes up a significant part of the Mexican economy. It is estimated that the sector has a yearly export value of US\$19 to 40 billion (Lange 2010; Nájar 2010). In comparison, petroleum exports amounted to US\$ 23 billion in 2015, whereas the balance of trade in petroleum has been negative for most periods since 2008, reaching a minus of US\$10 billion in 2015 (Banxico 2016). Even at the most conservative estimation, drug exports are at least equal to the income out of migrant remittances, which amounted to US\$19 billion in 2015 (Banxico 2016). The paramount significance of these two revenue sources for the Mexican economy will be further clarified below. After the abandonment of rural state support measures through the neoliberal reforms, and the implementation of anti-drug policies in Colombia, Peru and Bolivia, the cultivation of marihuana and poppies has turned into the major livelihood source for large parts of the rural population in areas of Northern and Central Mexico (Nájar 2010; Maldonado 2013). In these areas, drug cartels have taken over the state's role in agricultural support policy, subsidising seed, fertilizers, water and harvest. The president of the State Agrarian Tribunal (Tribunal Superior Agrario) estimated in 2010 that 30% of Mexico's arable area (around 8 million hectares) co-cultivate legal crops with marihuana and poppies (Nájar 2010).

In summary, the Mexican agricultural sector is today made up of a productive and (moderately) growing export sector tied to transnational agribusiness that coexists with a small-scale, subsistence-oriented or illegal sector.

Industry

The development of the industrial sector since the 1990s has been in many ways similar to that of agriculture. US corporations had operated in Mexico before NAFTA, and, as mentioned above, a large share of manufacturing assets had already been foreign owned (Gereffi and Evans 1981, 39ff.). However, in the context of ISI, they produced almost exclusively for the domestic market (ibid.; Moody 1995, 98). After the economic opening, Mexico became the largest 'export power' in Latin America, with the total value of manufactured exports increasing

from US\$ 41 billion in 1993 to 340 billion in 2015 (see Figure 3).⁷ In 2015, a third of these derived from the automobile sector, and 84% of the total went to the US (Banxico 2016). As with the agricultural sector, this strong growth has been based on the massive subsidisation of the assembling export industry, primarily in the form of tax incentives and the minimization of customs tariffs on imported parts and components (Guillen 2012, 69).

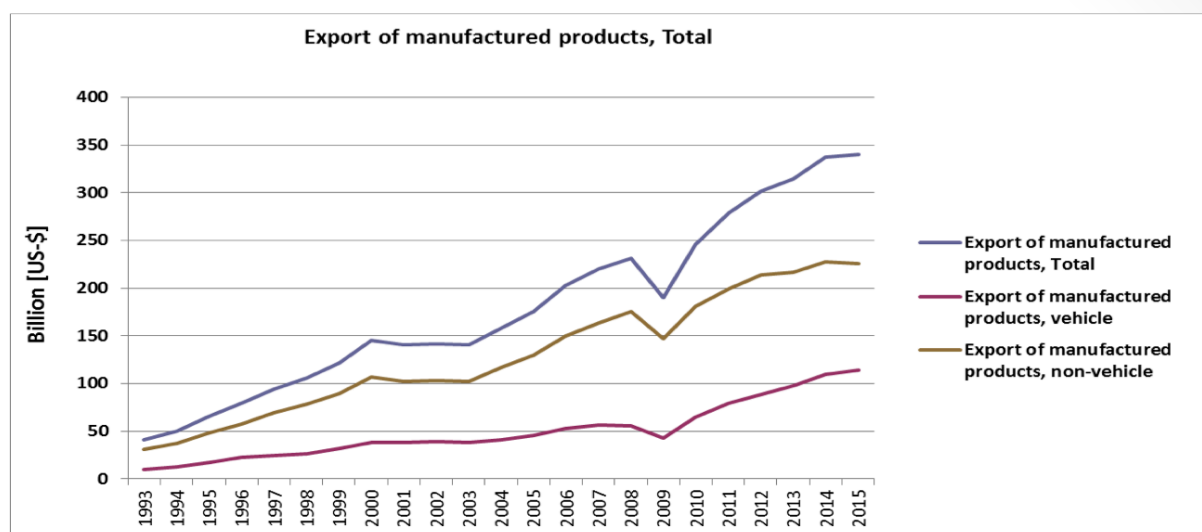


FIGURE 2: MANUFACTURING EXPORTS IN MEXICO, 1993-2015 (SOURCE: ILLUSTRATION BY THE AUTHOR BASED ON BANXICO 2016)

However, the growth of industrial exports has been accompanied by an enormous growth in the imports for manufacturing and the import content of exports, a trend visible for the whole of Latin America (Cibils and Pinazo 2016, 82f.). This implies that linkages between the export industry and the rest of the economy are almost non-existent in Mexico⁸ (E. Ortíz 2016, 165f.). In total, imported inputs account for 80% of exports, most of which come from the US. The rate is even higher for maquiladoras, where 97% of inputs are imported (Guillen 2012, 68f). The study of the maquila garment sector by Bair and Peters (2006) found that it has not created internal commodity chains. Mexico's export-oriented sector exists alongside a local industrial and services sector "whose rates of growth are meagre, have no knock-on effects and barely respond to stimuli that could help to increase productivity" (E. Ortíz 2016, 166).

In summary, exports have massively increased in both agriculture and industry since the 1990s, while imports have grown equally or even to a higher extent, causing a negative trade balance in most of the time period.

3.2 Agriculture, industry and labour

Besides the flows of capital, classical development theories assumed links between agriculture and industry with regard to labour. In particular, they held that agriculture supports industrialization through a) the supply of cheap food for labour and b) the supply of cheap labour for industry. Analysing the role of labour, it becomes clear that the price of labour still plays a central role in the Mexican system of capital accumulation. However, in contrast to the development

⁷ Figures include agroindustrial exports.

⁸ In view of the enormous size of the informal sector in Mexico, it is likely that this statement must be qualified, taking into account the role of the informal service economy for TNC capital.

experiences of Europe and East Asia, the functioning of the system depends on labour *remaining* cheap.

The price of food plays a central role in capital accumulation because of its influence on the price of labour (Marx 2009, 172, 551ff.). It would go beyond the scope of this paper to present a detailed analysis of the political economy of food in Mexico (for this, see e.g. Fox 1993; Baker 2013). What is important in the context of this analysis is that labour is cheap, but not primarily because of a growing domestic agricultural sector providing cheap food. Under current conditions in Mexico, the price of food is only marginally relevant for the price of labour *for capital*, because the price of labour is subsidized through four means: First, a continuing and intensifying trend of semiproletarianization supporting 'functional dualism' (De Janvry 1981); second, increasing government support to the poor in the form of cash transfers and food aid programmes; third, migrants' remittances; and fourth, increasing household debt.

First of all, it needs to be clarified that what is systemically important is not the price of food for the consumer, but the price of food as an ingredient of the wage that needs to be paid by the capitalist in order to ensure the reproduction of labour. The analytical difference is important since the period since around 2000 has been characterized by generally high prices on world food markets (which rapidly translate to the domestic Mexican market as it is fully open) and in particular, by high price volatility. However, it is evident that this has not translated into higher wages (CONEVAL 2007, 12). In this context, it is useful to recall the analysis by DeJanvry (1981) on the 'cheap labor-cheap food and functional dualism' relation (Eakin et al. 2014, 149f.). The key insight of DeJanvry's study concerned the functionality of the co-existence of subsistence agriculture with capitalist agriculture, as they are linked through the 'semi-proletarian' household that simultaneously depends on the cultivation for subsistence (and more or less commercialization of surplus) and on income from wage labour derived from working in fully developed capitalist agriculture.

"The salaried labor of "free semiproletarians" settled on subsistence plots outside the *latifundio* – the *minifundistas* – constitutes a source of labor power than can be still cheaper for the landlord than servile labor. In this case two advantages are secured: the possibility of exploiting family labor on subsistence plots that cost the employer nothing and the possibility of paying the worker for his effective labor only when it is needed. [...] [S]emiproletarianization [thus] permits the wages to be far below the price of labor power" (DeJanvry 1981: 83f.).

Subsistence agriculture is thus an important source of subsidy for capital's labour cost and a major reason why higher food prices do not have to translate into higher wages. As he further points out, semiproletarianization is functional in peripheral accumulation, but also subject to inherent contradictions that stem from demographic and ecological pressures that lead to the collapse of the resource base of the peasant household, and market pressures deriving from the development of capitalist agriculture (DeJanvry 1981, 39, 86ff.). There is strong evidence that depeasantization has accelerated with the neoliberal reforms and the economic opening in Mexico. The implementation of NAFTA combined with the dismantling of the state agricultural trade agency CONASUPO caused a massive loss in (largely family based) employment in small- and medium-scale

agriculture, going along with a stark increase in seasonally paid agricultural wage labour (Scott 2010, 75, 80f.; Fox 2013).⁹ However, instead of full proletarianization, this has resulted in the intensification and consolidation of semi-proletarianization since capitalist agriculture and industry have not been able to absorb the newly freed labour (Otero 1999, 56ff.; Eakin et al. 2014, 145f.). The increasing diversification of income-generating activities by peasant households and the increasing importance of non-agricultural employment and income have been a trend all-over Latin America and has been captured by the concept of “new rurality” (for a detailed summary and discussion, see Kay 2008). Arroyo (2002) even found that there has been a net loss of 0.3% in employment in the manufacturing sector, notwithstanding a 45% productivity increase. Neither capitalist agriculture nor industry thus provide sufficient income to sustain the livelihoods of the majority of Mexicans. This has given rise to the increase of the informal sector of the economy. In 2014, around 60% of the Mexican population engaged in informal work (ILO 2014).

Since agriculture has provided less and less a sufficient source of income, and there is not enough wage employment available to substitute it, other factors have become important in the subsidisation of the cost of labour in Mexico, such as migration to the US. Unemployment and poverty have led to continuously increasing levels of both internal and international migration since the 1990s. Out-migration to the US has exponentially increased in the 1990s (King 2006, 15). In 2014, 1.3 million households in Mexico received remittances from abroad (INEGI 2015). At an average household size of 3.8 members, this amounts to around 5 million Mexicans who receive part of their income through remittances, from a total population of 129 million.

Moreover, the government runs a conditional cash transfer programme for the poor since 1997, which also includes food aid (formerly called PROGRESA and OPORTUNIDADES, now PROSPERA). The programme is financed through loans from the IADB and World Bank. In 2016, 6.8 million households received support through the government programme (Gobierno de México 2016). At the average household size, this amounts to at least 26 million people. The programme was critical as government response to the 2008 food crisis. In the course of rising food prices, the government has also issued various other food aid policies for the poor, such as *Vivir Mejor*, PAZM, PAL and PESA, and food price subsidies through the state retail shops DICONSA (FAO 2014, 127ff.). Interviews with officials from the Ministry for Social Affairs (SEDESEM), the Ministry of Agriculture (SEDAGRO), and municipal authorities in the State of Mexico provide further evidence that government transfers are a major source of livelihood for the majority of the poor in Mexico. Moreover, it should be mentioned again in this context that according to government estimations, another 500,000 households depend on income from the drug economy (Nájar 2010b).

Another subsidy for labour of increasing importance is personal credit. Household debt has been on the rise in recent years, especially with the relaxation of banking regulation in 2006 (FINCA 2014; BBVA 2014; El Financiero 2016).

“Mexico [...] has exhibited an enormous increase in consumer lending, not just among microfinance institutions and commercial banks, but

⁹ Between 1991 and 2007, the number of unpaid family workers in agriculture decreased from 8.3 to 3.5 million, while that of seasonal workers increased from 1.8 to 4.7 million (Scott 2010, 75).

also payday lenders, pawn shops, and retailers. As early as 2007, *Business Week* noted that in Mexico, “even Walmart has a banking license.” New players aren’t the only ones fueling this growth. Credit cards are proliferating, and banks have increased lending limits for many customers. According to *Euromonitor*, a financial strategy researcher, payday loans alone increased by 100 percent in 2012 (FINCA 2014, 7).

The market study of the microfinance organization goes on to elaborate on the increasing over-indebtedness of the poor, finding that it was “increasingly difficult to find qualified borrowers – people whose existing debt burdens would not impair their ability to repay new loans”. In most cases, loans are used to cope with family emergencies, such as death or medical treatment, or used for essential needs such as paying for school equipment (FINCA 2014, 17f.). The report concludes that “the evidence shows an alarmingly high incidence and severity of over-indebtedness and arrears throughout the country, and microfinance organizations are right in the thick of it” (FINCA 2014, 11).

Taking on debt is often a necessity due to the continuous decrease of wages compared to living costs. Real wages have substantially decreased since the 1980s (Soederberg 2010, 82), and with a minimum wage of MXN73 (around US\$4) per day Mexico has the lowest base pay relative to purchasing power of all OECD countries (SAT 2016; Bain 2016). The brutal exploitation of labour is especially prominent in the agribusiness sector, where labour arrangements are mostly informal, and if formalized, often do not comply with Mexican labour laws (Morvant-Roux 2012, 10). NGO and media investigations report that near-slavery working conditions are common in Mexican agriculture, affecting around 2 million farm labourers, among them an estimated 100,000 children (Escalada Medrano 2015; Rodriguez 2015). An in-depth media report revealed that debt relations have spurred as a new form of labour bondage, in particular through employers withholding payment until the end of the season and charging excessive prices at local shops selling food and basic necessities in the labour camps in the Northern Mexican states.

“Many farm laborers are essentially trapped for months at a time in rat-infested camps, often without beds and sometimes without functioning toilets or a reliable water supply. [...] Laborers often go deep in debt paying inflated prices for necessities at company stores. Some are reduced to scavenging for food when their credit is cut off. It's common for laborers to head home penniless at the end of a harvest” (Marosi 2014).

At half the 30 camps the journalists visited over the course of 18 months in nine Mexican states, “labourers were in effect prevented from leaving because their wages were being withheld or they owed money to the company store, or both” (Marosi 2014). This is in line with a survey among agricultural wage labourers in the state of Jalisco, which found that they mostly incur into debt with shopkeepers for consumption purposes, that is, basic household needs and coping with shocks (Morvant-Roux 2012, 19).

Under such conditions, there is enormous competition for scarce jobs in the formal sector – which offer benefits such as access to better health services and a stable income - even if wages are below the subsistence minimum. The

deterioration of the rural economy has thus turned into the basis for the major comparative advantage Mexico possesses (next to its geography) in the competition of developing countries for foreign capital inflows: an abundant source of cheap labour that has practically become powerless in the institutional structure of the Mexican state (Bain 2016). The ‘cheap labour’ is the poor that engage in the various components of the survival economy trying to secure the livelihood of their families: in poorly paid wage labour in the export-oriented sectors of agriculture and industry, if available; in the drug business; in migration to the US to support family members remaining in Mexico; and finally, in ‘relentless micro-capitalism’, which applies to both the urban informal economy and petty commodity production in rural areas (Bernstein 2006, 457) and often goes along with over-indebtedness.

3.3 Functions of agriculture for development in Mexico

Provision of capital surpluses for investments needed in the industrial sector	<i>No, due to draining of profits by TNCs</i>
Earning foreign exchange through the production for export	<i>Yes, but still insufficient due to increasing imports</i>
Creation of a home market	<i>No, due to low income of rural labour</i>
Supply of food and agricultural raw materials for the domestic market (avoiding food imports)	<i>No</i>
Provision of cheap labour for industry	<i>Yes</i>

TABLE 1: FUNCTIONS OF AGRICULTURE FOR DEVELOPMENT IN MEXICO

Table 1 summarizes the development of agriculture-industry links according to the criteria established from the literature in section 2. It shows that in spite of the massive growth of exports in both sectors, inter-sectoral linkages in terms of capital flows are practically absent. This is mainly due to the increasing draining of profits abroad – an issue that will be further elaborated below. Because of the low income of rural labour, the rural areas do not contribute to the creation of a domestic market. Food is partly produced domestically (especially corn) and export-agriculture earns foreign exchange, but imports still surpass exports. There is only one established and deepened functional contribution of agriculture for industrialization, namely the provision of cheap labour. In the next section I will develop the argument that these empirical trends can only be understood by taking into account the financialization of capital accumulation in Mexico.

4. Development under financialized peripheral capitalism

“In retrospect, the 1970s seems to have been as definitive a marker of subsequent structural shifts in the world economy as was the 1870s, a century before” (Bernstein 2010, 79).

Since the 1970s, the national model of capital accumulation in Mexico has transformed into an accumulation model that is fully globally integrated, particularly into the US economy, and is dominated by finance-led accumulation. In the following it will become clear that financialization in Mexico can be

characterized as *peripheral or subordinated financialization* (Becker 2010; Powell 2013). Historically, financialization in Mexico developed as a consequence of the debt accumulated in the 1970s, and the conjunction of US and Mexican bourgeois class interests since the 1990s. Supported by international financial organizations and the US, the Mexican state was transformed to serve a new accumulation strategy, which is based on the extraction of wealth. Finance-led accumulation has created a vicious cycle of high interest rates, large foreign capital inflows, increasing debt, and the deterioration of the productive economy in Mexico.

4.1 The history of financialization in Mexico

Financialization in Mexico is structurally related to two underlying processes gaining importance. First, on the domestic level, and like in other developing countries, the ISI-led economic development strategy ran into increasing problems since the 1960s: in particular, the crisis of both peasant and capitalist agriculture due to the excessive extraction of economic surplus from agriculture by the state (Bartra and Otero 1987), and the lack of foreign exchange to import necessary capital goods, creating chronic balance-of-payment problems (Ernst 1979; Gereffi and Evans 1981, 42; Moody 1995, 100; Kay 2009, 18f; Gómez-Oliver 2012, 230f.). These economic problems translated into a growing crisis of political legitimacy of the Mexican state. The second set of factors was global in nature. The economic recession in the beginning of the 1970s led US corporations to look for new ways to increase their corporate profits. The core of the new strategy was the increasing reliance of their profits on subsidiaries, subcontractors and the shifting of supply networks to developing countries with low labour costs, which was facilitated by US foreign policy negotiating for greater access to foreign stock and bond markets (Cox 2013, 11f.; Cibils and Pinazo 2016, 74). Most importantly, this has been taking place through 'Mergers and Acquisitions', which have increasingly been financed by institutional investors through the purchase of corporate shares in developing countries (Correa et al. 2012, 7; Cox 2013, 6). It is thus important to note that the emergence of the Transnational Corporation (TNC) is intrinsically linked to the financialization of the global economy, which will be further clarified below. Another key global factor was the excess liquidity of oil exporting countries after the 1973/74 oil price spike, which were looking for investment opportunities to 'recycle' their enormous revenues through the major commercial banks (Lipson 1981, 604f.). In this context, and in the perceived need of inflows of foreign capital due to the failed economic development model, the Mexican government (like other Latin American governments at the time) borrowed massive sums of money on international capital markets, leading to a doubling of external debt between 1979 and 1983 from US\$43 billion to US\$86 billion. Nearly US\$52 of the latter sum was public or publicly guaranteed debt (Marois 2014, 314). In order to serve foreign debt obligations, Mexico increasingly became dependent on petroleum exports in the 1970s. A combination of falling prices and export volumes of oil and the 1979 'Volcker-Shock' – the sudden raise of interest rates by the US Federal Bank – led to the 1982 Mexican state default (Marois 2012, 65ff.), marking the beginning of the Latin American debt crisis and the so-called 'lost decade'. The crisis led to high unemployment and the continuing trend of deteriorating real wages (Correa et al. 2012, 12).

Until today, the Mexican economy has not recovered from the permanent state of crisis, which has continuously been exacerbated by the neoliberal reforms and

deepening financialization since the 1980s. The privatization of state-owned enterprises and banks (Marois 2012) by the Salinas presidency (1988-1994) offered huge sources of profit for domestic and international investment banks and contributed to the emergence of a transnational US-Mexican capitalist class (Cox 2013, 13). Privatization was led by the 37 members of the Mexican Businessmen's Council, who were part of the five largest privatizations amounting for 80% of the value of all privatizations up to 1991 (Carlsen 1991). In the disguise of Mexican 'debt restructuring' in the context of the 'Brady Plan'¹⁰ and the negotiations over NAFTA, US financial corporations were allowed to buy equity stakes of Mexico's newly privatized firms. Due to historical path-dependencies, the formation of the cross-border corporate class coalition was particularly effective in the maquiladora¹¹ and agribusiness sectors.

"In the case of Mexico, a transnational political coalition could emerge more easily than was possible in other contexts due to the historical ties between US capital and Mexican capital, especially in the Maquiladora sector, which had been established as a legal arrangement in the 1960s, and in agribusiness, which large-scale Mexican firms and financial interests were already deeply connected to US agribusiness firms in the purchase of machinery, fertilizer and trade relationships. This process was connected to the ongoing transformation of global agriculture toward more elaborate supply chains that linked to food processing, marketing and distribution networks dominated by large-scale US agribusiness corporations" (Cox 2013, 17f.).

As a result of this, Mexico became the largest destination for foreign investment among 'emerging markets' between 1990 and 1993, whereas 70% of the 52.8 billion US\$ capital inflow into Mexico were portfolio investments, mostly in the Mexican stockmarket (Soederberg 2010, 82; Correa et al. 2012, 13).

At this point, it is important to reflect on the key role of a change in monetary policy for understanding the persistent crisis-prone and anti-developmental nature of the finance-led accumulation regime in Mexico.

4.2 Increasing extraction of rent through portfolio investments

Next to financial opening, a key conditionality of international creditors in the debt restructuring processes of the 1990s was the legal implementation of 'central bank independence' (Polillo and Guillén 2005, 1774ff.). The three key features of an 'independent' central bank are price stability, political independence from the government, and the restriction or banning of monetary financing, i.e. government financing through the central bank (or in other words 'printing money' by the central bank) (Carrière-Swallow et al. 2016, 5f.). As elaborated in the following, these legal changes serve as structural basis for the

¹⁰ The 'Brady Plan' was designed by US Treasury Secretary Nicholas Brady in order to address developing countries' debt crisis and restore global stability. The aim was to encourage new foreign capital inflows through the implementation of export-oriented growth strategies and financial market-oriented reforms (EMTA 2009; Marois 2012, 74).

¹¹ *Maquiladoras* are Special Economic Zones, i.e. manufacturing plants where duty-free and tariff-free imported parts are processed or assembled and then exported.

extraction of rent from the Mexican economy by transnational finance capital, which functions through an interdependent system of foreign capital inflows, foreign currency reserve accumulation, and rising public debt held by the private sector.

‘Price stability’ or ‘inflation targeting’ has become the key strategy for the instalment of financial rentier interests in the central banks of financialized centre and periphery countries (Epstein 2002; Soederberg 2010) and is part of the ‘New Macroeconomic Consensus’ policy equally pursued in other Latin American countries such as Brazil, Chile, Colombia and Peru (De Paula et al. 2013; Carrière-Swallow et al. 2016, 5f.). In Mexico, inflation control was a commitment of the Salinas administration to gain the confidence of international investors, and was formally adopted in 1999 (Marois 2014, 316; Ortíz 2016, 170; De Paula et al. 2013, 221). In developing countries, the main strategy to comply with ‘inflation targeting’ in the aftermath of the 1990s crises, which has left many economies in Latin America and Asia devastated, has been the hoarding of the massive foreign capital inflows in foreign exchange reserves (Gray 2006; Aizenman and Glick 2008; Páncera 2009, 2012; Marois 2014, 321; Ortíz 2016). Between 2000 and 2005, developing countries accumulated foreign exchange reserves at an annual rate of 3.5% of their combined GDP, almost five times higher than the level in the early 1990s (Mohanty and Turner 2006). The building up of huge foreign reserves in developing economies, which exceed the reserves of developed economies many times over in relation to their income and trade (Rodrik 2006, 254), has coincided with financial liberalization and the strong inflows of foreign capital since the financial opening, and in particular since 2000 (Aizenman and Lee 2007; Páncera 2009). Between 1995 and 2014, the foreign reserves of emerging and developing countries increased from US\$ 456 billion to 8,057 billion (US\$ 8.1 trillion) (IMF 2016, see Figure 1).

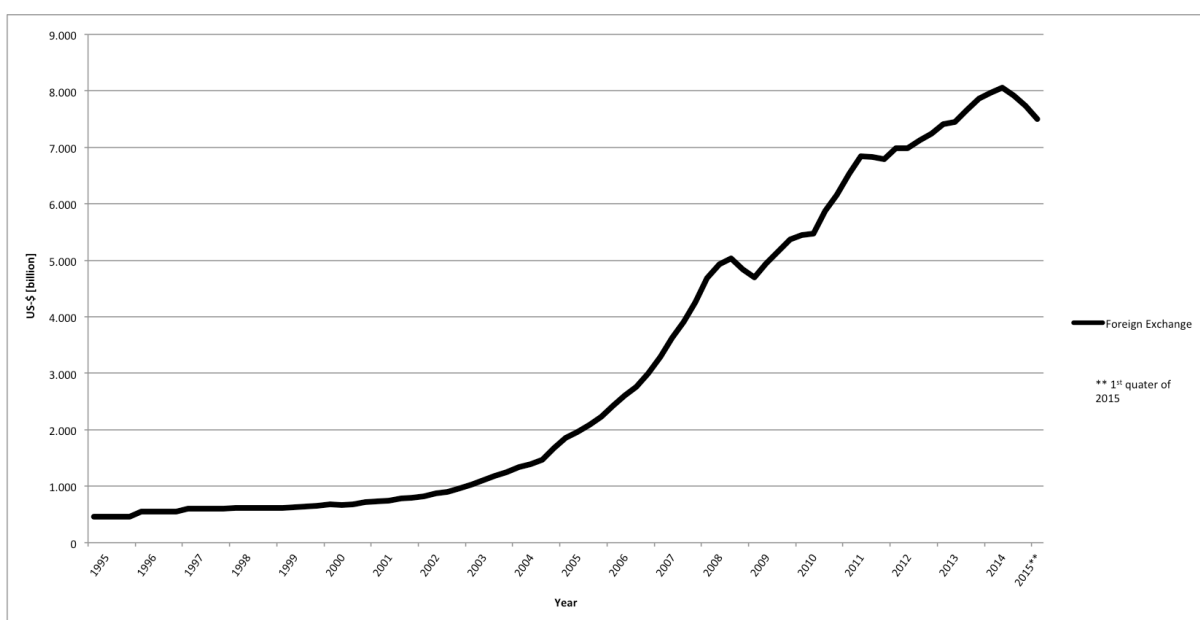
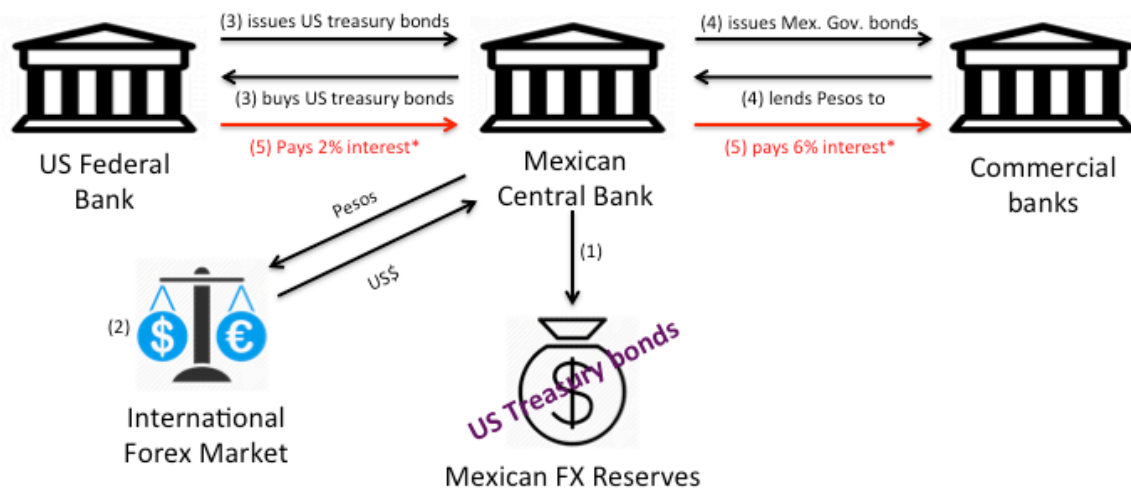


FIGURE 3: FOREIGN EXCHANGE RESERVES OF EMERGING AND DEVELOPING ECONOMIES, 1995-2015 (SOURCE: IMF 2016)

In the mainstream discourse, this massive built-up of reserves by developing countries is mostly seen as necessary either to ‘drain surplus liquidity’ created by the massive capital inflows and in this way avoid excessive levels of exchange rate

appreciation, or as ‘insurance against financial crisis’ (Aizenman and Glick 2008, 4f; Mohanty and Turner 2006; Rodrik 2006; IMF 2016). However, from a critical political economy perspective, which postulates that economic relations reflect social relations of power and class, the phenomenon appears in a different light.

The Mexican central bank uses the foreign reserves to manage the two basic variables of economic policy in the interest of financial investors: the exchange rate and the interest rate. In economists’ terms, the central bank implements ‘exchange rate management’ through the ‘sterilization’ of foreign capital inflows (Gonzalez 2013; L. Ortíz 2016). Figure 1 illustrates the “sterilization” of capital inflows through building up a foreign exchange (FX) reserve.



*In 2016, the interest on Mexican government bonds was around 6%, on US bonds around 2%.

FIGURE 4: “STERILIZATION” OF FOREIGN CAPITAL INFLOWS (ELABORATION BY THE AUTHOR)

Building up a foreign exchange reserve means that the Central Bank buys US-Dollars in the form of US government debt (1) (Lapavitsas 2009, 15; Labrinidis 2013, 21). In order to buy the US treasury bonds, it first buys dollars on the international foreign exchange (forex) market with pesos (2). It then buys the US treasury bonds issued by the US Federal Bank (3).

The crux about the ‘sterilization’ of foreign capital inflows is that the central bank does not buy the dollars with money that it ‘prints’ itself (i.e. gives to the government in the form of central bank money) – as mentioned before, such ‘monetary financing’ was banned in the context of the structural adjustment measures in the 1990s.¹² Rather, the foreign exchange is bought with credit

¹² In Latin America, monetary financing was also banned in Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Guatemala, Honduras, Nicaragua, Paraguay, Peru and Uruguay (Carrière-Swallow et al. 2016, 5). According to official IMF discourse, ‘unsterilized intervention’ in the form of monetary financing (Mohanty and Turner 2006) would lead to a reduction on short-term interest rates through ‘excess liquidity’, and consequently to inflation (Gray 2006, 8; Mohanty and Turner 2006, 42f.; Aizenman and Glick 2008, 5; Lapavitsas 2009, 14; Páncera 2009; Ortíz 2016, 251). However, as Graeber reminds us, the causal link of monetary financing and inflation seems highly doubtful with a view on the ‘quantitative easing’ pursued by the US Federal Reserve and the European Central Bank who have “printed money like mad” in the last two decades, without sparking any inflation (Graeber 2016, 47). In this light, the implementation of ‘central bank independence’ in debtor countries appears as part of creating the conditions for a transnational elite to extract wealth from the periphery. Mexican government bonds are a very welcome and lucrative ‘investment haven’ in times of desperately needed opportunities for absorbing

money that it borrows on the financial market from commercial banks, in the form of peso-denominated government bonds (4). This means that in the past, the government borrowed pesos from the central bank created by the latter. With the banning of 'monetary financing', the central bank's role switched from being a creditor to being a debtor. According to a theory of money that presumes that the creation of money comes along with the creation of debt (Vernengo 2004, 16; Graeber 2011), this means that the largest part of money supply in Mexico is not owned by the public in form of the central bank, but by private banks. The problem with this is that for the Pesos that Mexico borrows (the liabilities of the central bank) it has to pay a higher interest rate than it gets for the Dollars it owns (the assets of the central bank) (5) - whereas the latter is set by the US Federal bank and the former by the Banco de México itself. According to Forbes México, citing Banco de México, in 2013 more than 60% of the foreign exchange reserve was capital that entered the country for the purpose of buying peso-denominated government bonds (Gómez Tamez 2013). In essence, this means that Mexico lends US dollars to the USA at low cost (because Mexico's assets are low-yielding US government bonds), while private investors lend Mexican pesos to Mexico at a costly rate (because Mexico's government bonds are in the hands of private investors asking high interest). This mechanism applies to much of the developing world and is a main cause of the increasing net capital outflows from developing countries to developed countries since the 1990s, in particular to the US (Lapavitsas 2009; Paincera 2009). In other words, developing countries incur more debt in order to finance developed countries' stagnating economy, especially the US as issuer of quasi-world money (Paincera 2009, 10). For Mexico, it has implied that that while the Dollar reserves are growing, the net public debt is equally growing (Gonzalez 2013) (see Figure 2). It is thereby key to note that the creditors are private investors, and not the central bank.

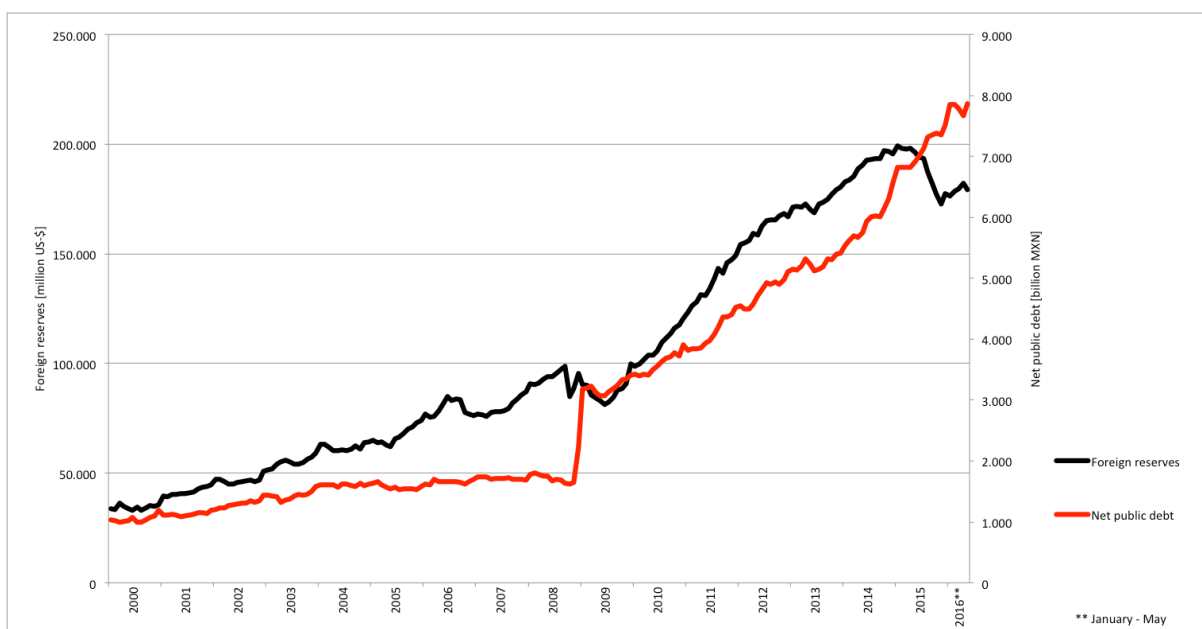


FIGURE 5: FOREIGN RESERVES AND NET PUBLIC DEBT IN MEXICO, 2000 – 2016 (SOURCE: BANXICO 2016)

overaccumulated capital (on the popularity of Mexican government bonds with financial investors see e.g. Financial Times 2016; The Wall Street Journal 2016).

The ‘sterilization’ of the inflowing dollars by buying them and creating a dollar reserve has turned into a structural condition due to the crisis-prone nature of the entire system. The country is now dependent on the foreign portfolio inflows (FPI), because the value of the peso (that is, people in Mexico being able to buy anything with pesos) is now fully dependent on the dollar reserves (Gonzalez 2013) (see Figure 6). If the foreign capital flows show signs of stagnation (as it has been the case across developing and emerging economies since 2010 (IMF 2016)), because investors fear that Mexico soon will not be able to keep its promises anymore and actually pay the high interest rate that it set, this could lead to the chain reaction of international capital selling Mexican government bonds – which would soon result in a bankruptcy of the state and hyperinflation (which is what happened in the financial crisis in 1994). In order to prevent this, the central bank uses dollar reserves to stabilize the value of the Peso, i.e. to buy Pesos with Dollars, in situations of decreasing capital inflows (‘exchange rate management’). This is the reason for the recent decrease in foreign exchange reserves in Mexico and developing and emerging economies in general (see Figures 1 and 2).

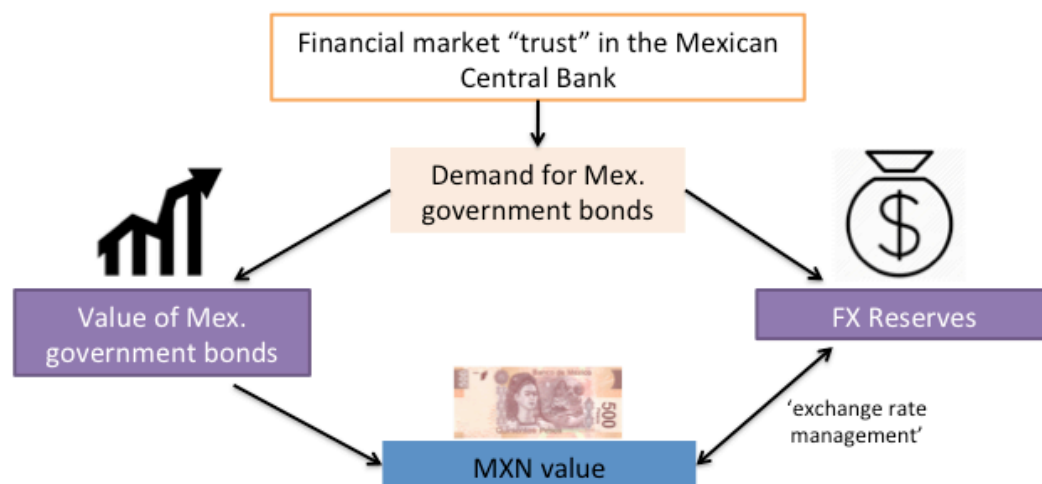


FIGURE 6: DEPENDENCY OF THE MEXICAN PESO VALUE ON FOREIGN CAPITAL INFLOWS

The stability of the system stands on very shaky grounds. The government always needs to ensure that it has sufficient dollar reserves to keep the exchange rate stable in moments of threatening crisis. Moments of decreasing capital inflows signify the threatening breakdown of the system. Consequently, the central bank raises the interest rate in order to re-attract capital by offering a higher compensation for the increased risk (it has done so several times in 2016). However, a higher interest rate puts more pressure on the system, because it means that the government has to pay even higher interests for the pesos it borrows on the market.

“As long as the external capital flows continue, the reimbursement of short-term government bonds and the returns obtained from interest rates are ensured, since both depend on the new entry of external capital. If the abundance of capital is high and permanent, the level of international reserves can grow in spite of the growing deficit on the current account, which makes agents believe that such flows are continuous. But the financial dependence also grows, because the financing of the external disequilibrium and, consequently, whether the crisis erupts or not, depends as much on new external capital

flows as on the continuation of old ones. In other words, *the credibility of the central bank being able to keep the exchange rate stable and maintain the positive differential between internal and external interest rates depends on the movement of international capital*" (Gonzalez 2013, translation and emphasis NR).

As long as interest rates are set high enough, the money will flow, but at the expense of increasing debt for which higher interest has to be paid.

4.3 Financialization and the real economy

This leads to the question of how financialization has affected the real economy and created the specific structures sketched in section 3. The causal relationship works through the main features of monetary policy, which is attractive for finance capital to extract rent, but devastating for the domestic real economy: the exchange rate and the interest rate.

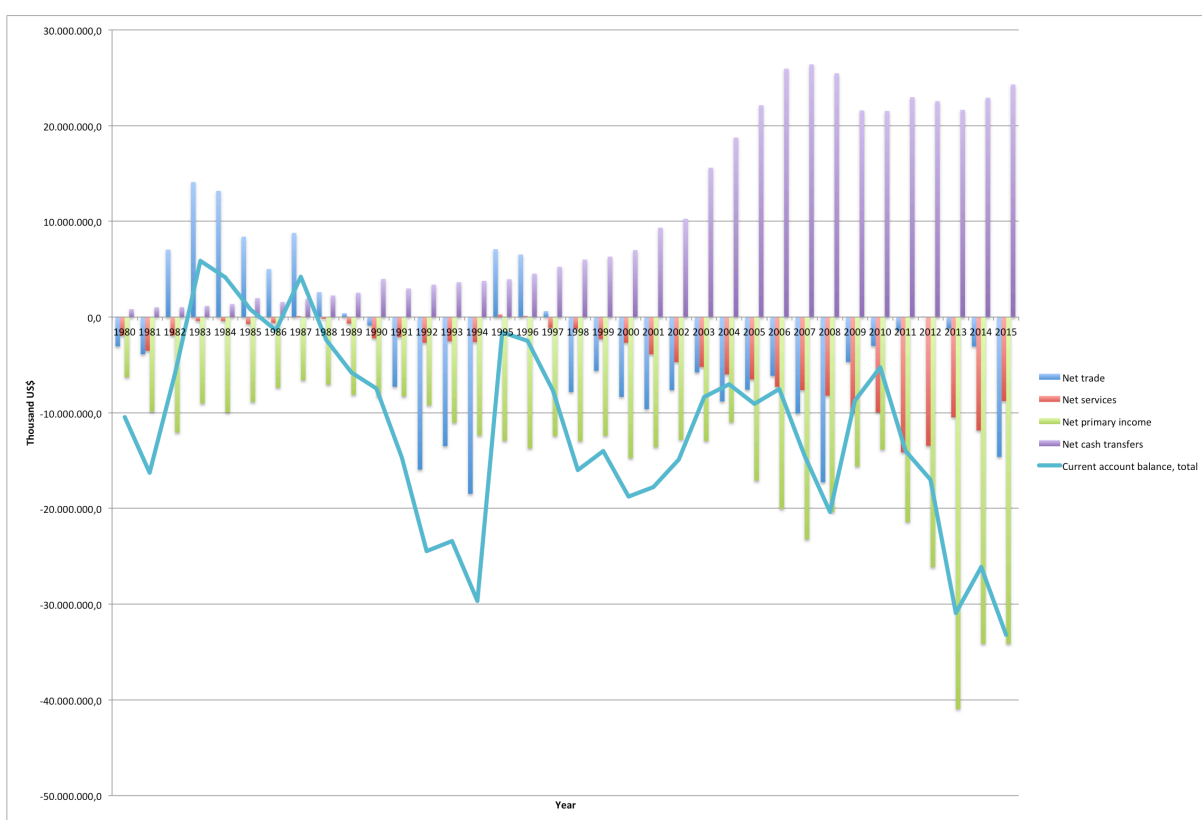


FIGURE 7: CURRENT ACCOUNT OF MEXICO, 1980-2015 (OWN ELABORATION BASED ON DATA FROM BANXICO 2016)

Figure 7 shows the Mexican current account.¹³ It shows that after the 1994/95 crisis, the current account has been increasingly negative due to a negative trade balance, service account, and in particular, net income. Before discussing how these tendencies are related to financialization and what this implies, it must be emphasized how crucial cash transfers, i.e. migrants' remittances, are for the Mexican national economy. The graph clearly shows that these have been the

¹³ The current account of any country consists of four parts: the trade account (exports and imports of goods), the service account (exports and imports of services, e.g. business services, transportation, tourism), the net primary income account (inflows and outflows deriving from investments, such as dividends and interests) and cash transfers (such as migrants' remittances or foreign aid).

only source of foreign exchange with a positive balance since the mid-1990s, and thus (next to the illegal drug money) the only source of income for the national economy countering the massive outflow of money in the other segments of the current account.

Figure 8 summarizes the accumulation system under financialized conditions in Mexico. The prevailing monetary policy has set in motion several mechanisms that cause the steadily increasing outflow of surplus and wealth from the country alongside increasing debt and a stagnating real economy. This causes a growing pressure in the balance of payments to obtain foreign exchange through increasing exports, FDI and FPI, further gearing the system towards crisis.

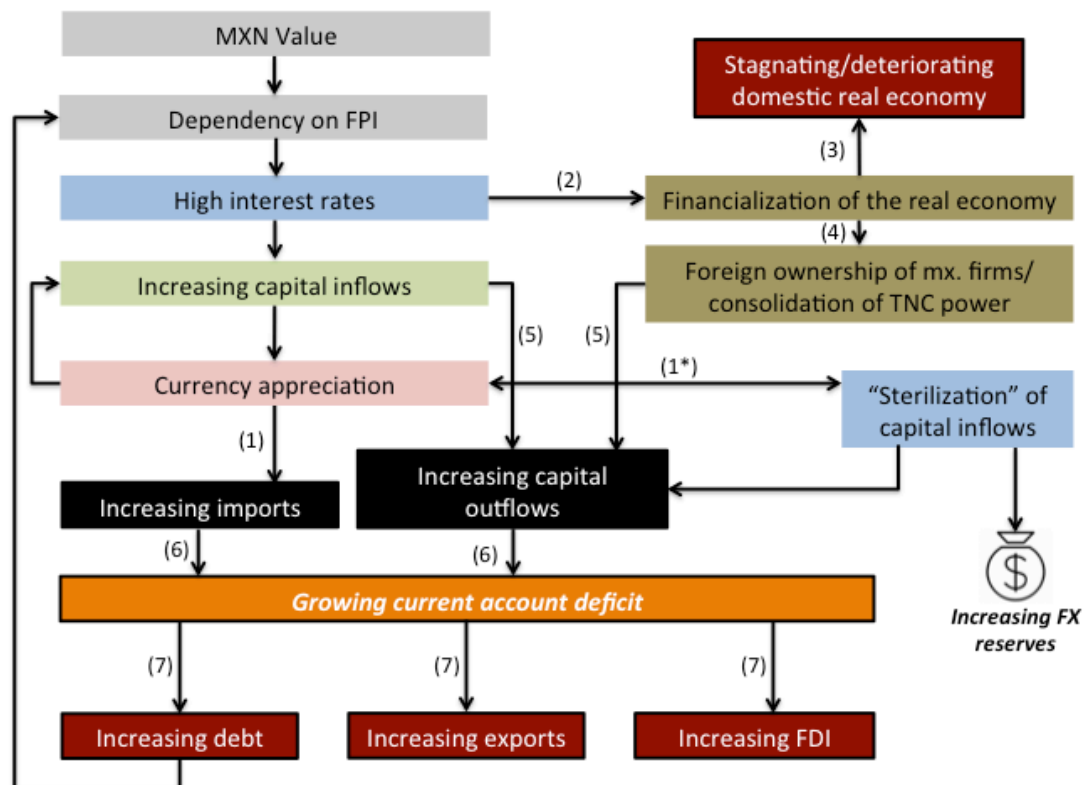


FIGURE 8: THE MEXICAN ECONOMY UNDER PERIPHERAL FINANCIALIZATION

The first main problem of the large inflows of foreign capital in boom phases, triggered by high interest rates, is that it creates an overvaluation of the Peso against the Dollar (1), resulting in negative terms of trade for the domestic economy in relation to imports. It is difficult to say whether this is more a 'natural' effect of the inflowing foreign capital, or an effect of the central bank's 'exchange rate management' (1*). Although 'sterilization' is used to prevent excessive levels of appreciation¹⁴, various scholars see the overvaluation of the exchange rate as the key anchor against inflation since the 1980s reforms (Gray 2006, 6f; Guillén

¹⁴ Under financialized conditions, strong levels of appreciation due to large capital inflows are problematic not only because of the effect on the export sector of the economy, but because it exerts pressure on the Central Bank to lower the interest rate (Gonzalez 2013). This can lead to the diminishing of capital inflows, which can quickly result in a chain reaction of depreciation ('overshooting') (Gray 2006, 6), should more and more investors loose trust in the economy: In essence, this is what led to the crisis in 1994. Before the crisis, the peso was overvalued by 29.5% (Gonzalez 2013). This mechanism illustrates once more the crisis-prone nature of the system in that the interrelations between exchange rate and interest rate are extremely delicate, and entirely depend on the confidence of the financial market in the ability of the central bank to pay.

2012, 61; Gonzalez 2013; Powell 2013, 235; Ortíz 2016, 170). In general, overvalued exchange rates and high interest rates are considered the key characteristics of monetary policies in financialized countries of the periphery (Becker et al. 2010, 229). This is peculiar insofar as overvalued exchange rates stand in contrast to the IMF and World Bank structural adjustment discourse of the 1980s, which promoted free floating exchange rates to support producers in developing countries in order to overcome 'Urban Bias' under ISI policies. Hence, while most central banks of 'emerging economies' claim to have free-floating exchange rates, "the facts indicate otherwise" (L. Ortíz 2016, 246). The economy becomes increasingly import dependent, exerting pressure on the current account.

The prevailing monetary policy, which is entirely oriented on maintaining the confidence of financial markets, leads to the situation that it is more profitable for (both finance and industrial) capital to invest in the financial sector, i.e. public and individual debt, than into the productive economy (Demir 2009; Gonzalez 2013; Powell 2013, 141, 180)¹⁵. Moreover, globally operating firms are also forced to participate in derivatives markets in order to hedge exchange rate and interest rate risk (Powell 2013, 144). This situation leads to the financialization of the real economy (2): Banks have cut credit to finance productive investments of the domestic economy, while non-financial sector firms equally prefer to invest surpluses into financial assets. As shown in detail by Powell (2013), Mexican non-financial firms (across all sectors) have financialized their business activities, in particular since 2000. This is reflected in the significant rise in the ratio of financial assets as compared to assets held as net property, plant and equipment of the Mexican non-financial corporate sector (Powell 2013, 271). Due to the financialization of the real economy, fixed capital formation in Mexico - as in other highly financialized countries of the periphery - has fallen to levels beyond those that UNCTAD identified as necessary for generating sustained economic growth. Therefore, Mexico has been undergoing a process of *deindustrialization* since the financial liberalization (Demir 2009, 315). This explains the stagnation and deterioration of the real economy in Mexico (3). It has turned from an "overdraft economy" oriented on productive investments into an "autoeconomy", where companies try to maximize their profits through financial investments (Gonzalez 2013).

The financialization of the real economy goes along with a consolidation of TNC power and increasing foreign ownership of Mexican firms (4). This is because due to the interest rate differential, firms turn away from financing through banks in Mexico and instead issue bonds in foreign markets. The consequence has been twofold: first, it has led to a further consolidation of the power of TNCs, since they have easier access to such sources of financing abroad. Second, where Mexican companies have managed to be part of the game and issue bonds on the international financial market, they have been subject to a transnationalization themselves, that is, an increasing ownership of Mexican firms by foreigners. This is reflected in dramatic increase in purchases of Mexican securities by US residents. Foreign liabilities of large Mexican firms now range between 50 and 90 percent, while the levels are significantly lower for smaller firms (Powell 2013, 249, 271).

¹⁵ In food and agriculture, this is evident in the growing financialization of food traders, processors, and retailers. Financial activities allow these transnational companies to satisfy their shareholders in the face of meagre profits through their actual business (Isakson 2014).

„[Hi]gh domestic interest rates associated with the inflation-targeting policy serve the requirements of both international financial capital and domestic capital which holds its liabilities denominated in world money. This has resulted in a bifurcated domestic funding market, with large corporates able to tap cheaper international sources of financing, while domestic SMEs are left reliant on retained earnings to fund their investment, shut out of expensive credit markets and unable to enter capital markets. With smaller domestic suppliers lacking the funds to invest, large firms turn increasingly to international suppliers, finding that local rivals are unable to compete” (Powell 2013, 304).

The consolidation of the power of TNCs is clearly visible in the Mexican agribusiness sector, which particularly derives from the high market concentration in marketization (Spieldoch 2010; Pons-Cortés 2015).¹⁶

In sum, the increasing capital inflows to buy (a) Mexican government debt and (b) the financialization of the real economy cause the increasing outflow of money from the Mexican economy (5), visible as ‘net primary income’ in the current account (see Figure 7): a) in the form of interest payments, b) in the form of dividends leaving the country. Combined with the increasing imports, these mechanisms cause a *structurally growing deficit in the current account* (6). In consequence, the pressure on the balance of payments is countered by three means (7). The first is increasing levels of debt, reproducing the dependency on FPI; the second is the earning of foreign exchange through the increase of exports; and the third is the draw of foreign exchange into the economy through FDI. Next to attracting foreign enterprises to invest in stocks of Mexican companies and to open production facilities in Mexico (supported by the subsidization of cheap labour as discussed above), FDI is attracted through the privatization of state properties, natural resources, and public infrastructure, services and policies. Since the 1990s, the major investment channels for foreign capital consisted in the agribusiness and manufacturing industries, and in the privatization of state-owned enterprises, banks, mines and social security. More recently, the government added a strategy of contracting private sector firms for the implementation of ever growing parts of public functions (Correa et al. 2012, 13). In 2012, seven government entities amounted to 42% of the debt emitted on the Mexican stock market: The National Bank for Infrastructure (Banobras), the Mexican state-owned petroleum company (Pemex), the Federal Electricity Commission (CFE), the state housing agencies FOVISSSTE and Infonavit, the Federal Mortgage Company (Sociedad Hipotecaria Federal), and the government of the Federal District (Mexico City) (El Economista 2012). In author (forthcoming in 2017), I show how housing policy has been transformed in order to extract wealth from the working classes. State policy thereby consists in facilitating banks’ use of the working

¹⁶ One consequence of the involvement of agribusiness companies in financial markets is that they themselves contribute to the increasing price volatility on agricultural commodity markets (Clapp 2012; Murphy et al. 2012; Isakson 2014; 757ff.). Higher price volatility in turn translates into higher premiums for insurance against price risks. One of the peculiarities of state-facilitated finance-capitalism is that the Mexican state subsidizes price risk insurance through a price insurance programme, which is part of ASERCA, the commercialization support programme of the Mexican Ministry of Agriculture, SAGARPA. The programme became especially significant after 2007 and in 2009 accounted for 44% of the ASERCA budget for maize (Appendini 2014, 15).

classes' personal income as a source of profit¹⁷, and attracting foreign capital to these sort of 'investments' through securitization, i.e. insuring the investments, resulting in growing household debt (cf. Lapavitsas 2009, 18f; Soederberg 2014). Mexico's energy reform of December 2013, which opened the oil and gas sector to private international investors and promotes Mexico as the "new el Dorado" (cf. Gay et al. 2014), is a further attempt of the government to attract FDI.¹⁸

5. Conclusion

Development of the Mexican economy

Since the 1970s, the national model of economic development has been taken over by a finance-led global accumulation regime. The paper has tracked the mechanisms of this transition in Mexico, an economy defined through its peripheral position in the financialized capitalist world system. The collapse of Mexico's public finances due to the massive amounts of external US-Dollar denominated debt collected in the 1970s has provided the base for the breakthrough of finance-led capitalism after the 1980s and 1990s financial crises. This breakthrough has strongly shaped the development of agriculture, and its role in the broader capitalist industrialization process. The structural adjustment and debt restructuring measures after the 1980s crisis created the conditions for the financial opening of the country, and the takeover of rentier interests as the primary orientation of economic policy. A monetary policy committed to high interest rates and 'exchange rate management' through the accumulation of a large foreign exchange reserve has created adverse conditions for the productive economy due to: a) an overvalued exchange rate leading to negative terms of trade for Mexican products vis-à-vis US products; b) high interest rates impeding access to credit; and c) higher rates of return for capital in the financial sector than in the productive sphere.

Nevertheless, agriculture and industry have both substantially grown since the 1990s in terms of output and export values. I have argued that the nature of the development in both sectors, is a consequence of the financialization of capital accumulation. In terms of capital flows, the thriving agricultural and industrial sectors are largely delinked from each other and from the rest of the economy, since both investments and the extraction of profit are mostly controlled by transnational corporations. In contrast to the idea that agriculture should be 'squeezed' for financing industrialization, transnational capital appropriates the largest part of the surplus in both sectors, while its productive activities thrive on heavy state subsidies. Rather than the state 'squeezing' agriculture for an

¹⁷ Expanding the personal credit market is a key strategy of investors in 'emerging markets', as evident from this analysis of a research firm of the rating agency Fitch: "We believe that on aggregate, consumer and household debt in emerging market will continue to rise over the coming years as a majority of economies - most notably India, Mexico, Indonesia and Russia - still enjoy very low levels of household leverage. When combined with a deepening of the banking sector over the coming years, still-strong income growth in most emerging markets and favourable demographics, rising debt has the potential to drive the consumer stories in these countries" (BMI research 2016).

¹⁸ Moreover, the energy reform is seen as necessary since there are hopes that foreign investments into the exploitation of natural gas ('fracking') will lower the costs of electricity supply, thereby increasing the competitiveness of the manufacturing industry (Alvarez and Valencia 2015).

industrialization project, we can conclude that transnational capital ‘squeezes’ Mexican labour to incur more debt to finance its extractive activities.

The export-oriented industrialization model has not brought about broad-based development, nor has it created the conditions to do so in the near future. The sectors are integrated through the reproduction of a continuous supply of cheap labour - not only directly between agriculture and industry through ‘functional dualism’, but also indirectly through the role of finance capital in providing credit to the state and households. Clearly, this is contradictory and unsustainable in the long run, as the system works towards the destruction of both. If it is not the development of capitalist agriculture alienating peasants from their lands and liquidating functional dualism (cf. De Janvry 1981, 39f), it is the debt-financed nature of finance-led accumulation that is inherently contradictory: First, the financing of the structurally rising current account deficit through incurring more public debt while the real economy is not yielding sufficient surplus for the state to redeem its claims; second, the financing of cheap food (and other basic needs such as housing) for labour on (public and household) debt that will come to an end when the contradiction between increasing levels of debt, a stagnating domestic economy, and below-subsistence level wages become too large. These contradictions are likely to result in new financial crisis sooner or later. Up to now, the costs of the crises have been almost unilaterally borne by Mexican labour (Marois 2011).¹⁹ The question is thus not only when the bubble bursts, but how long the costs can be imposed on labour when there is less and less to squeeze out of it.

In contrast to the widespread view, the Mexican case exemplifies that the enormous inflows of foreign capital to developing countries (due to export, but mainly due to financial investments) have not been in favour of broad based development, but to the contrary, led to net capital outflows and further impoverishment. The irony of peripheral finance capitalism is that the system is dependent on the continuous inflows of foreign capital, while these are simultaneously leading to perdition. Since the stop of foreign capital inflows is the trigger of crisis, the state’s role has shifted from being a developmentalist state to a debt-financed crisis manager. In order to pay for necessary investments, subsidies and basic operations, the state lends from transnational finance capital. The state further insures investments of finance capital into state tasks that were taken over by private firms (e.g. housing) through securitization. At the same time, the state’s role consists of keeping up the trust of investors that interests can be paid. Therefore, it continuously creates new investment opportunities for foreign capital and manages interest and exchange rate to the benefit of investors, furthering the conditions of peripheral finance capitalism.

From Urban/Rural Bias to Finance Bias

In 1982, Corbridge declared that “the collapse of the UB theory does not guarantee the validity of the concept of rural class bias any more than the failure of Byres’ industrialization teleology justifies a unitary and necessary path of development led by agriculture”, accusing both of thinking in terms of “a crudely dualistic social theory” (Corbridge 1982, 112). The history of the past 30 years have proven the relevance of this statement. The analysis has shown that the

¹⁹ Importantly, Marois also shows that the socialization of financial risk is a necessary and constitutive element of finance capitalism (Marois 2011).

urban/rural distinction has ceased to be a useful analytical tool for explaining Mexico's development path under neoliberalism. An overvalued exchange rate and cheap food imports are important characteristics of the current accumulation regime. However, even if such policies are in the interest of the urban dwellers who make up the majority of the population, and the subsidization of food consumers is still a key aspect of state policy, a domestic policy bias favouring urban food consumers over rural producers is by no means the origin of keeping food prices low. The data has shown that - as in most other parts of the world - even in rural areas and among peasant households, people are food consumers rather than producers, which makes the urban/rural class separation obsolete in this respect.

Above all, the analysis shows that the question of agriculture's role in capitalist development must be approached from a world historical perspective, as the national development path is increasingly absorbed by the operations of global finance capital. It is questionable whether the interpretation of the development problem (only) through a national lens was ever appropriate to the historical realities (McMichael 2013, 69ff.). With the breakthrough of global finance capitalism, it is unmistakable that the national-level rural/urban distinction is neither an adequate conceptualization for explaining the historical path of capitalist development, nor for explaining poverty and social inequalities today. It seems that finance capital is indifferent to the agriculture/industry and urban/rural distinction (at least on a national scale), because accumulation works through wealth extraction from (paid and unpaid) labour at large by an increasingly transnational and transsectoral capitalist class. Rather than urban/rural bias, the main problem in financialized countries of the periphery today is thus 'finance bias'. With 'agrarian capital beyond the countryside' and 'rural labour beyond the farm' (Bernstein 2016, 642) under financialized conditions, it is clear that agrarian change and industrialization are not linked through the same mechanisms as in the era of national developmentalism. One of the key questions is, if the sectors have disintegrated capital-wise on a national scale, how are they related on a world scale? Questions about who produces what on which land and for which purpose are central not only in view of an emancipatory project (McMichael 2013), but also analytically, since finance capitalism continues to be linked to labour in production and therefore cannot decouple from the price of food. Food regime analysis is thus central and must start from questions about changing patterns of accumulation and their contradictions (cf. Bernstein 2016, 639; Friedmann 2016, 684f.). For instance, how do financialization and new mechanisms enforcing unequal development on a world scale relate to food and agriculture?

Unequal development, dependency and class relations under peripheral finance capitalism

The discussion of foreign reserve accumulation showed that it is crucial to note the re-emergence of a clear distinction of centre and periphery countries in the world economy along the lines of issuers and hoarders of 'quasi world-money' (Lapavistas 2009; Labrinidis 2013). A key question this raises is how we have to understand global unequal development and centre-periphery relations in the age of finance-led capitalism. On the one hand, the Mexican case exemplifies how the 'disciplining regime of debt' (Sassen 2014) (re)produces peripheral countries' position in the new international division of labour, and how it impedes

investments in the productive economy and creation of links between sectors for the creation of employment and development in the sense of increasing levels of wealth for the majority of society (Powell 2013). Mexico's internal development is strongly shaped by its particular insertion into the global economic system, revoking the relevance of theories of development of underdevelopment, dependencia, and unequal development on a world scale. Its dependent status thereby seems even more pronounced than under the model of national development. However, the nature of dependency is different from the phase of national developmentalism, in at least two ways that need further research and clarification. First, at the core of the system of appropriation from the periphery by the centre is the extraction of wealth through the mechanism of interest. Hence, the centre-periphery relationship is not anymore characterized by the appropriation of a *surplus* from the periphery, but by pure extractivism. Second, while it seems that there are new dependencies along the lines of centre and periphery, the nature of what and who constitutes centre and periphery are not clear-cut. The Mexican state may be dependent on keeping up the confidence of international investors to avoid (or rather, postpone) economic crisis, and stand in competition with other peripheral states for the same investments. But who is the Mexican state, and who is dependent on whom or what, when the periphery's financial and political elite is becoming part of a transnational capitalist elite extracting wealth from the country? What is the relationship between the domestic and international capitalist class, and where and how has finance capital (not) been able to co-opt productive capital? What are the class dynamics of peripheral finance capitalism? Class relations are today constituted globally, and attention needs to focus on how they structure and reproduce poverty and inequality within and between countries (Selwyn 2015).

Finally, the analysis has shown that with financialization, we have moved further away from the structural conditions that facilitate development in the sense of increasing levels of income for society at large. This goes back to the accumulation mechanism of finance capitalism: interest. Interest is a claim on the surplus value created in the production process, and in this way links finance capital to labour in production (Marois 2012, 33). With transnational capital gaining more power vis-à-vis labour under neoliberalism, and peripheral countries competing for investments, this means that labour must be squeezed more in order to settle the claims of financial investors. Development is therefore unlikely to take place under the conditions of global finance capitalism. If new free trade agreements such as TPP are implemented, Mexico is likely to be a role model for other countries of the periphery. Finance capital will then penetrate deeper into developing countries to appropriate more public goods, natural resources, and people's personal income. Since the balance of finance-led accumulation is only temporal by nature, this will continuously expulse more people from society and push them to the limits of survival. There is a high risk that this will lead to strong surges in migration and organized crime – both of which are characterized by the most extreme forms of violence and lack of human dignity. A reform of the international monetary system and the de-financialization of the world economy are a *sine qua non* for rendering possible human development, and must obtain more attention by researchers and activists alike.

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