



# FOREIGN POLICY RESEARCH INSTITUTE

## E-NOTES

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## MEXICAN PRESIDENT PEÑA NIETO'S "TIME OF TROUBLES"

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### INTRODUCTION

Mexico's President Enrique Peña Nieto got off to a promising start after his December 1, 2012, inauguration. In a deft stroke, he created a "Pact for Mexico." This accord provides a framework for the chief executive's once-hegemonic Institutional Revolutionary Party (PRI), the center-right National Action Party (PAN), moderates in the leftist-nationalist Democratic Revolutionary Party (PRD), and the shady Mexican Ecological Green Party (PVEM) to pursue reforms in education, telecommunications, energy, taxes, health care while providing universal pensions and waging a "crusade against hunger." Meanwhile, he has downplayed the continuing drug war, which has taken 5,971 lives this year, in an attempt to divert the public's attention to his costly, ambitious agenda and away from narcotics-related murders, kidnappings, extortion, and other crimes.

Peña Nieto signed into law a constitutional change that overhauled the nation's abysmal educational system even before he opened the telecommunications sector to competition. The former sparked an invasion of Mexico City by 20,000 members of the radical CNTE teachers' union, also known as "La Coordinadora," on August 19, the beginning of the school year. A month later—amid CNTE's marches, sit-ins, road blockages, and vandalism--tropical storms "Ingrid" and "Manuel" slammed into Mexico's Gulf and Pacific coasts, leaving thousands of people dead, missing, or homeless in a dozen or more states. Even as Peña Nieto's entourage responded quickly to the natural disasters, Finance Secretary Luis Videgaray Caso was busily devising extremely controversial revisions to petroleum and fiscal statutes.

What catalyzed the CNTE assault on the Federal District (DF)? How successfully has this union employed coercion in the past? What strategy has President Enrique Peña Nieto and leftist Mexico City Miguel Ángel Mancera employed vis-à-vis the vandals, who have squatted in public spaces, engaged in rampant hooliganism, and obstructed thoroughfares in a metropolis of 8.5 million residents where gridlock is a constant migraine? How will the chief executive's conduct during his Time of Troubles affect pending oil and budget legislation?

### CATALYST

Mexico's educational system fares poorly in reading, mathematics, and science in the triennial international PISA examination. The SNTE teachers' union has contributed heavily to the abysmal performance. Its leader Elba Esther "La Maestra" Gordillo, whom the late scholar M. Delal Baer referred to as "Jimmy Hoffa in a skirt," amassed a fortune selling teaching jobs, cramming the Education Ministry with "aviators" who appear only to pick up

paychecks every two weeks, and signing opaque contracts with the government for ever-more robust salaries and benefits for SNTE's estimated 1.3 million members. She even created her own political party and mobilized support for gubernatorial candidates in return for payola. In late February 2013, the Attorney General arrested "La Maestra" on charges of embezzling some \$200 million from the union treasury. Leaders of the rival CNTE cheered her imprisonment. Still, these militant, Marxist shock troops share Gordillo's hostility toward competitive hiring, merit-based pay, and dismissal (or probation) for shoddy work and failure to show up in the classroom.

The PRI joined with other parties to impel a successful constitutional amendment to accomplish root-and-branch revisions of the nation's schools and educators. On February 26, 2013, Peña Nieto signed a constitutional amendment that established a National Evaluation Institute for Education and a Professional Service for Educators. These measures formed part of a statute designed to extend classroom hours in some 40,000 public schools, double to 80 percent the segment of youngsters who complete high school, ban the sale of teaching posts, and conduct a census to determine how many public educators are in the country and place them under national control. However, it is important to remember that the enactment of reforms in Mexico does not ensure implementation.

For 15 years, the CNTE's 73,000-member Local 22 in Oaxaca had staged strikes and demonstrations to extort danegeld from governors, who feared that clashes between the small police force and ruffians would devastate the tourism industry and commerce. Thanks to sky-high Christmas bonuses and undeserved productivity incentives, Local 22 teachers receive the equivalent of 120 days of salary in benefits. They were joined by CNTE locals in Guerrero, Chiapas, Michoacán, and Mexico City, which had practiced extortion in their own bailiwicks.

The CNTE marauders swarmed into the capital in an unsuccessful bid to prevent lawmakers from implementing the education legislation that would threaten their tenure and pocketbooks. They chased the 500 members of the Chamber of Deputies out of their legislative hall to meet in a downtown convention center, encircled the Senate's building, surrounded the main studios of the nation's two TV behemoths to demand airtime to voice their grievances, and occupied the Zócalo central plaza. They also gathered outside the French and U.S. embassies to seek world-wide attention, blocked the main expressway to the Benito Juárez airport, marched on La Bolsa stock exchange, and bottled up traffic in a metropolis for which gridlock is a continuous nightmare.

#### PRECEDENT FOR CNTE'S USE OF COERCION?

Seven years ago, on June 14, 2006, Oaxaca's hard-line PRI governor Ulises Ruiz Ortiz dispatched state and local police to break up a three-week strike by the CNTE, which was determined to suck more funds from the state's educational budget. The law-enforcement personnel used bullets and tear gas to destroy the demonstrators' encampment and radio station. After four hours of combat, the officers were forced to retreat. This raid spawned a volatile force of Popular Revolutionary Army guerrillas, intractable leftist politicians, university radicals, and other malcontents, known as the Popular Assembly of Oaxacan Pueblos or APPO. APPO launched a bloody civil war that convulsed Oaxaca capital for seven months, shuttered businesses, scared off visitors, and gave rise to deaths, even as elements of the national media, and the NGO community excoriated the impotent Ruiz for "repression." Leaders of La Coordinadora sought to reprise their 2006 triumph in the DF this year.

#### REACTION BY AUTHORITIES

The vast majority of DF residents seethed at a small minority's brazen incursion into their city. Government Secretary Miguel Ángel Osorio Chong and Mancera pursued what appears to have been a prudent strategy. To begin with, they avoided confrontations with CNTE brigands, lest the spilling of blood ignite cries of "official suppression" and "police brutality," thus attracting more union hotheads, university dissidents, and leftist flame-throwers to their cause.

At the same time, officials held protracted negotiating sessions with Local 22's Rubén Núñez Ginés and other big shots from La Coordinadora, even as Peña Nieto refused to budge on the newly minted education measure—except to promise more monies to communities where poverty impedes the quality of learning. PRI leaders have "negotiations" embedded in their DNA, and in all likelihood will postpone applying the reform or, at the very least, give current or prospective teachers who fail the qualifying test opportunities for multiple retakes.

Shield-bearing special DF police carefully cleared the Zócalo so that the president could deliver the "El Grito"

Independence Day speech on the night of September 15—an event that took place without casualties.

Finally, Hurricane Manuel, which punched Guerrero and Oaxaca especially hard during the third week of September, stanching the flow of trucks and buses between Oaxaca and Mexico City that ensured a 290-mile supply line for food, clothing, and fresh cadres. At this point, some CNTE activists from Chiapas, Guerrero, and Michoacán headed home. At first, Local 22—divided between those eager to return to Oaxaca and bitter-enders agreed to return to their classrooms on September 23. Núñez Ginés reneged on this promise and called for an “assembly” to decide when and if they would decamp. In fact, he has spearheaded more demonstrations.

### PEÑA NIETO’S PERFORMANCE

Seasoned campaigner Peña Nieto and his aides flew to Acapulco and other zones ravaged by Ingrid and Manuel where, in some cases, victims dodged snakes and crocodiles in roiling waters. The politicians rolled up their sleeves, hugged snaggle-toothed peasants, welcomed the arrival of 5,722 medical units, vouchsafed rescue assistance, and vowed to create temporary jobs. The president emphasized that this “emergency is a priority [and] ... “I’ll be personally involved in ... visiting the areas of major impact and informing public opinion of what is happening. It remains to be seen whether he reports that avaricious governors have flouted environmental regulations to permitted resort, commercial, and housing developers to destroy forests, mangroves, and wetlands that would have mitigated the acute flooding. As highly respected ecologist Gustavo Alanis told the *GlobalPost*: “These types of things accumulate and create a greater tragedy. Greed prevails over concerns.”<sup>1</sup> Several state executives seemed more anxious to get their hands on relief monies than to help citizens. Official inaction in Tamaulipas found the deadly Gulf Cartel supplying water, canned food, corn, milk and other items to inhabitants of Aldama and other municipalities in the south of this Gulf Coast state that borders Texas.<sup>2</sup>

### ENERGY AND TAX REFORMS

Neither Peña Nieto nor Finance Secretary Videgaray has shown the same savvy in energy and tax matters that appeared in the federal government’s reaction to the hurricanes. In concert with the PAN and the PVEM, the PRI has the votes to amend the Constitution to eliminate the ban on “risk-contracts”—that is, allowing companies other than Petróleos Mexicanos (Pemex), the state monopoly, that invest in exploration and development to take ownership of a portion of the black gold discovered. Moreover, it would be possible to make fundamental changes in Pemex, which is suffused by featherbedding, job-selling, inefficiency, and corruption. Instead of exercising their electoral clout to revamp the energy sector, the government has opted for a “reform lite.”

This proposal permits joint ventures between Pemex and other companies—with emphasis on gas-bearing shale deposits and deep-water basins for which the monopoly has neither the know-how nor the equipment to exploit. And Pemex may embark upon activities in the U.S. and other countries. Various forums will take place before Congress acts later in the fall.

Cuauhtémoc Cárdenas, son of the iconic president who nationalized foreign firms in 1938, and Andrés Manuel López Obrador, the messianic, twice-defeated presidential aspirant, have already hoisted the banner ¡“El Petróleo es el Nuestro; (“The Oil is Ours”!) as they rail against the PRI-PAN-PVEM gambit. They have demanded a national referendum on the initiative. These naysayers’ predictable hostility makes it all the more curious that Peña Nieto and Videgaray have not acted boldly, particularly because sizable outside investment is required to prevent Mexico’s becoming a net hydrocarbon importer by 2020, according to the U.S. Energy Information Administration. At the same time, opposition to change comes from top Pemex executives who have profited handsomely from sweetheart contracts with mega-firms in Mexico and America and international powerhouses like the ICA construction conglomerate, Grupo R headed by Ramiro Garza Cantú, and Halliburton that have made billions of dollars providing goods and services to the monopoly.

The Finance Ministry has recommended revising the fiscal regimen, including a steeper tax (32%) on higher earners, an additional 10% tax on profits and dividends paid to individuals and foreign residents, and a one peso (7.5 cents) per liter levy on soft drinks. Meanwhile, the technocrats urge raising the Value Added Tax (VAT) to 16% in

<sup>1</sup> Quoted in Dudley Althaus, “Mexico Storms: An Unnatural Disaster,” *GlobalPost*, September 20, 2013.

<sup>2</sup> “Cártel del Golfo reparte toneladas de despensas a afectados por Ingrid en Tamaulipas,” *Proceso*, September 23, 2013.

the North where it is now 11% because of competition with U.S. frontier merchants, and eliminate VAT refunds on private school tuition and mortgage payments. At the same time, the scheme would repeal the tax on cash deposits, refrain from imposing the VAT to food and medicine, and close several gaping loopholes.

In their quest to boost revenue by \$18 billion (1.4% of GDP), budget writers failed to anticipate a revolt by the National Action Party, which—still smarting from defeats in the 2012 legislative, DF mayoral, and presidential contests—appeared on verge of fragmentation. Like traditional moderate Republicans in the America, the *panistas* excoriated boosting spending by 9.2% to fund populist programs configured to win PRI vote. The PAN's Jorge Villalobos objected to the projected 1.5% budget deficit as a step toward reviving the “devils” of the past when the country suffered continual deficits generated by the PRI. “Peña Nieto’s proposal will eliminate the middle class, particularly the imposition of higher taxes on mortgages, incomes, and private school tuition,” harrumphed another PAN legislator. Even though Videgaray has admonished PRI office-holders to hold their tongues, his party’s border governors share the PAN’s animus toward the venture, even as the PRD thrives on sticking it to the middle- and upper-classes to fund unwieldy, corruption-prone social enterprises.

## CONCLUSION

To defuse the extremely volatile situation, Mexico’s government may cut a cynical deal with the CNTE, which could still cast its lot with Cárdenas, López Obrador, and other Pemex-protectors. The new president has paid too much attention to the Left and special interests in advancing a timid energy reform and a deficit-ridden budget that threatens to alienate the PAN and key actors in his own party, as well as shatter the Pact for Mexico. Videgaray has until December 15 to make compromises with critics, lest he fall prey to Washington-style deadlock in a country that doesn’t have the equivalent of “continuing resolutions” to pay the government’s bills after January 1, 2014.

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