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Elba Esther Gordillo Morales, the floor leader of the former governing Partido Revolucionario Institucional (PRI) in the Chamber of Deputies, lost her leadership post in early December, partly because of her strong support for President Vicente Fox's policies. The PRI holds a plurality of the 500 seats in the lower house.

A special PRI committee agreed to consider Gordillo's removal after receiving a petition of no confidence signed by 123 of the 222 PRI members in the lower house. Gordillo was elected floor leader shortly after the midterm elections in July, which expanded the PRI hold on the lower house (see SourceMex, 2003-07-09). She won the election in part because of her close association with PRI president Roberto Madrazo Pintado. That election, however, saw the first sign of a major rift in the PRI delegation in the Chamber of Deputies, with many party members rejecting Gordillo in favor of Manlio Fabio Beltrones (see SourceMex, 2003-07-23).

Beltrones declined to seek the leadership after Gordillo's ouster, saying he had already attained his goal. "We have obtained the victory we were seeking, which was to change the direction of our party's legislative delegation," said the legislator and former Sonora governor.

PRI members in the Chamber of Deputies were expected to select Emilio Chuayffet Chemor to replace Gordillo. Chuayffet, considered a candidate who can unify the party, served a two-year term as governor of Mexico state in 1994–1995 before relinquishing the post to head the Secretaria de Gobernacion (SEGOB) under former President Ernesto Zedillo (see SourceMex, 1995-05-05). Chuayffet was expected to easily defeat his only rival, Sami David, who gained one of the at-large seats allocated to the PRI after the July midterm election. David ran for governor of Chiapas state in 2000, losing the election to coalition candidate Pablo Salazar Mendiguchea.

Support for Fox's tax plan dooms Gordillo

A defiant Gordillo and her supporters vowed to fight her ouster, saying the action violated the Mexican Constitution and the internal rules of the Congress. They said they would bring the matter before the country's high court (Suprema Corte de Justicia de la Nacion, SCJN) and the electoral institute (Instituto Federal Electoral, IFE). "The rules state clearly that once elected, the coordinator cannot be removed for a three-year period, which preserves stability," said Gordillo supporter Deputy Jorge Romero. Gordillo, who remains the PRI secretary-general, continues to enjoy strong support from almost 100 PRI legislators and several influential PRI governors, including Miguel Aleman of Veracruz, Natividad Gonzalez of Nuevo Leon, and Enrique Martinez of Coahuila.

Gordillo made enemies of a large faction of the PRI because of her brash personality, but her outspoken support for many proposals offered by Fox, especially tax and energy reforms, doomed her tenure as legislative leader. She supported one of the centerpieces of Fox’s tax plan, which
includes extending the value-added tax (impuesto al valor agregado, IVA) to food, medicines, books, and other items currently exempt from the tax.

Under Fox's plan, the IVA would be reduced to 10% from its current rate of 15% but would apply to all products across the board. The Secretaria de Hacienda y Credito Publico (SHCP) estimates this plan could raise an additional 70 billion pesos (US$6.2 billion) for the federal Treasury. While not endorsing a direct tax on food and medicines, Gordillo and PRI Deputies Tomas Ruiz and Francisco Suarez Davila crafted an alternate proposal that would impose the IVA at the point of production rather than consumption (impuesto a la importacion, produccion e intermediacion, IPI).

This proposal immediately came under fire from critics, who said the brunt of any tax on food and medicines, whether imposed at the point of consumption or production, would be borne by the poorest segments of society. "This proposal is even more regressive than the original IVA plan presented by President Fox," a group of legislators from the center-left Partido de la Revolucion Democratica (PRD) said in a prepared statement.

The PRD released its own formal tax-reform proposal, which leaves food and medicines exempt from IVA, transfers some taxation powers to state governments, and simplifies the income tax (impuesto sobre la renta, ISR) to close loopholes. The PRD, which expects to offer its proposal to the full Congress, said the plan could increase government revenues by at least 40 billion pesos (US$3.5 billion) in 2004. Fox's center-right Partido Accion Nacional (PAN) was expected to introduce its tax initiative, taking in many elements of the IPI.

Many business organizations have come out in support of an IVA on food and medicines, but the tax has been rejected by the public at large. This was evident in the massive rally held in Mexico City in late November, in which an estimated 100,000 demonstrators gathered in the Zocalo to reject Fox's tax plan and his proposal to increase private investment in the electrical-power sector.

The strong popular opposition to imposing an IVA on food and medicines has not escaped the PRI. "[Gordillo] made promises to the president that we couldn't keep, and for that reason she is being fired," said Deputy Hector Ramirez, who helped lead the movement to oust her. "We realize that there will have to be fiscal reform to give the government more resources, but we are not willing to support Vicente Fox's vision of reform." Beyond the implications for tax reform, Gordillo's downfall reflects the growing divisions within the PRI, which threaten the party's goal of regaining the presidency in the 2006 election.

Analysts said the PRI will have to act fast to heal the divisions or face certain defeat in 2006. "As it is, this affair will make it very difficult for the PRI to come back in 2006," said George Grayson, an expert on Mexico at the College of William & Mary in Williamsburg, Virginia. The infighting in the PRI led some PRD leaders to say that their party would remain open to dissidents from the PRI. It is unlikely that Gordillo and her supporters would bolt to the PRD, however, because of differences on tax and economic policy. Some analysts say the potential exists for some of the dissidents to eventually split from the party if Chuayffet and Madrazo fail to appease disaffected members by the time the campaigns begin for the 2006 election. For now, most are expected to remain in the PRI.
"This isn't the time for a split," Dan Lund, president of the polling company MUND Americas told The Dallas Morning News.

PRI president Madrazo also under fire

Madrazo has also been caught in the debate on the IVA and the IPI. The PRI leader, widely expected to seek his party's nomination for the 2006 presidential election, initially supported Fox's plan, but later reversed that position and backed the IPI. The IPI was then rejected by a large faction of PRI legislators, who say it is a disguised attempt to extend the value-added tax to food and medicines. This prompted Madrazo to change his stance again.

Madrazo's constant position changes drew sharp criticisms from Gordillo. "He's trying to avoid a responsibility he had assumed," Gordillo told reporters. "The proposal was approved by Madrazo. Over several weeks, we've had meetings with him."

Gordillo denied allegations by Madrazo and other PRI legislators that the IPI was crafted by the SHCP. "Whoever says that this proposal came from the Finance Secretariat is lying," she said. Furthermore, she accused Madrazo of hypocrisy because he denounced the IPI plan while crafting another initiative that would impose a direct IVA of 5% on food and medicines. During an address to supporters following her ouster, Gordillo expressed anger at what she called Madrazo's "betrayal" and his push to become the PRI's presidential candidate in 2006 at all costs. This emphasis on his 2006 candidacy may have already cost Madrazo support from some of the PRI base.

The teachers' union (Sindicato de Trabajadores de la Educacion, SNTE), where Gordillo has a strong base of support, pledged to oppose Madrazo's bid to gain the PRI presidential nomination. "From now on, [Madrazo] can consider himself defeated," the SNTE said. Infighting delays tax reform, 2004 budget process Gordillo's departure from the leadership post will almost certainly delay floor consideration of the tax-reform package, which Fox and many legislators wanted to complete in conjunction with approval of the 2004 budget. This means the final budget, which by law must be passed by the end of the year, will likely not include tax reforms.

Legislative leaders German Martinez Cazares of the PAN and Pablo Gomez of the PRD said the divisions on tax reform may force the lower house to work overtime to approve a budget plan by the deadline. The uncertainty regarding the tax and budget situation had a destabilizing effect on the financial and currency markets. One casualty was the Mexican peso, which fell sharply to 11.46 pesos per US$1.00 on Nov. 28, its lowest level for the year. The rate had recovered slightly to 11.27 pesos per US$1.00 by Dec. 3.

"The scandalous and shameful power struggles in the Congress are bringing the country to a point of paralysis," the Mexico City daily newspaper El Universal said in an editorial. "Only a few weeks remain in the current session, and no legislation of significance has been approved."

This sentiment was echoed by private analysts. "The longer it takes for [the various political parties] to decide this, the more difficult it will get," said Eduardo Garcia, editor of the Mexico City newsletter Sentido Comun. "By next March, we will be too close to the 2006 presidential elections for someone to want to take this kind of step." Gordillo's ouster caused the Fox government some
concern, but the president said her removal would not affect his administration's efforts to reach out to the PRI. "We are also working with Roberto Madrazo and with the party," Fox told reporters.

PRI leaders acknowledged that the party rift had a negative impact on the market, but also blamed the situation on Fox's policies. Deputy Ramirez said "the weak economic policies of the current government" were more to blame for the peso's free-fall than the fight over Gordillo's future. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Dec. 3, reported at 11.27 pesos per US$1.00] (Sources: Reuters, 11/27/03; Notimex, 11/30/03; Agencia de noticias Proceso, 11/19/03, 12/02/03; Associated Press, 12/02/03; The Herald, 11/19/03, 11/20/03, 11/24/03, 12/01-03/03; La Jornada, 11/19/01, 11/21/01, 11/21/03, 11/24/03, 11/25/03, 12/01-03/03; El Universal, 11/19-21/03, 11/24/03, 11/25/03, 12/01-02/03; La Cronica de Hoy, 11/19-21/03, 11/25/03, 12/01-03/03; El Financiero, 11/19/03, 11/24/03, 11/25/03, 12/01-03/03; Unomasuno, 11/20/03, 12/01-03/03; El Sol de Mexico, 11/20/03, 11/21/03, 12/01-03/03; The Dallas Morning News, 11/25/03, 12/03/03; Milenio Diario, 12/01-03/03; Los Angeles Times, 12/03/03)

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