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Fox's Annual State Address Criticized; Budget, Elections Take Precedence

by LADB Staff

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President Vicente Fox's annual state-of-the-union-address drew the usual criticisms from opposition parties, but the content is expected to be forgotten as other matters such as negotiations for the 2006 budget and next year's presidential election begin to take precedence. Fox's speech was remarkable for its brevity, lasting only 45 minutes.

Some critics even suggested the speech was a metaphor for the administration's lack of achievements not only during the past 12 months but during Fox's five-year tenure. "There was not much to say," said Jose Luis Soberanes Fernandez, president of the Comision Nacional de Derechos Humanos (CNDH), who criticized the president for a lack of tangible progress in human rights.

Rather than go into the traditional litany of public-works projects completed during the past 12 months, Fox presented a broader report of his administration's accomplishments, not only for 2004-2005 but during his entire term in office. He took the opportunity to compare his administration's record with that of the former governing Partido Revolucionario Institucional (PRI). "Five years ago, we Mexicans united our efforts behind the triumph of the transfer of power," Fox said in the speech delivered to a joint session of Congress. "Thanks to that gesture, our country now enjoys a consensus in favor of liberty, equality, and justice."

Fox acknowledged that he had failed to set the tone for compromises that would lead to much-needed judicial, energy, and social security reforms. At the same time, he scolded Congress for failing to draft the legislation that would facilitate such reforms. Still, he offered an olive branch to legislators. "Let's embrace common causes," he told Congress. "We have constructed too many walls and too few bridges. Without dialogue there is no agreement; without agreement there is no progress."

The annual speech drew the usual rebuttals from the opposition parties. Many members of the PRI were privately angered that Fox singled out their party as an obstacle to economic, labor, and energy reforms. "It is ironic that Fox was talking about bridges, when he has very high fences on his ranch," said PRI Deputy Miguel Alonso Raya, in reference to security measures created at the president's ranch in Guanajuato.

Along with members of the center-left Partido de la Revolucion Democratica (PRD), PRI legislators criticized congressional leaders for selecting an unknown legislator, Deputy Heliodoro Diaz Escarraga, to offer an almost conciliatory reply to the speech. "Today the people want deeds not words. Mexicans, more than speeches, demand courageous firmness," Diaz Escarraga said in the reply.
PRD Deputy Eliana Garcia said a more appropriate respondent would have been PRI floor leader Manlio Fabio Beltrones. The harshest criticisms of Fox came from business organizations, which laid the blame on the president for Mexico’s mediocre economic performance. In a joint statement, the presidents of the Consejo Coordinador Empresarial (CCE), the Confederacion Patronal de la Republica Mexicana (COPARMEX), the Confederacion de Camaras Nacionales de Comercio (CONCANACO), and the Confederacion de Camaras Industriales (CONCAMIN) said Fox has failed to live up to his campaign promises to boost economic growth and generate more jobs in the formal economy. In areas where Mexico has shown some growth, the benefits have failed to reach the average Mexicans, said the business leaders.

Budget debate centers on projected oil-export price
Fox’s words will likely fade into the background as the Congress begins debate on the 2006 budget, which is expected to increase significantly from past years because of historically high global oil prices. Mexico’s oil-export price has surpassed US$50 per barrel this year and is poised to increase even further because of the global supply disruptions caused by the damage from Hurricane Katrina in the Gulf of Mexico.

The government and private analysts expect oil prices to remain fairly high in 2006, almost certainly surpassing US$30 per barrel. This is moderately higher than the reference price of US$27 used to determine the 2005 budget, which was reached after major disagreements between the president and Congress (see SourceMex, 2004-10-11, 2004-12-15, and 2005-05-18).

The budget proposal the Fox administration sent to Congress in early September assumes an average export price of US$31.50 per barrel for Mexican crude oil, close to the US$32 projected by the state-run oil company PEMEX. "A price of US$32 per barrel is conservative," said Deputy Juan Carlos Perez Gongora, who chairs the finance committee (Comision de Hacienda) in the lower house.

Private analysts agree that the reference price could easily be set at US$35 per barrel but disagree on whether the next threshold of US$40 per barrel will be used. "I see very little chance that a price of US$40 per barrel will be used to set the budget," said Ramon Hernandez, deputy director of economic studies at the Mexico City-based office of Ixe Grupo Financiero. Still, analyst Lourdes Rocha of Grupo Financiero Banamex-Citibank believes it is very feasible that the average oil-export price for Mexican crude could reach US$41 per barrel in 2006. This, she said, would boost Mexican oil-export revenues next year by about US$10 billion over those projected in 2005.

The Congress initially announced its intention to use a reference price above US$30 per barrel in its budget plan, but did not offer a specific level. Some legislators later said they would like to go much higher than the US$31.50 set by the SHCP. "Once again, the executive has sent us an undervalued projection for Mexican oil exports," said Deputy Pablo Gomez, leader of the PRD delegation in the lower house. "Many of us think that the price is going to be significantly above US$30 per barrel." The Congress and the administration are also expected to fight over the proposed fiscal deficit in the budget. The Fox administration has proposed a zero deficit, while Congress is willing to allow a deficit of 0.22% to 0.30% of GDP. Another potential area of disagreement between the Congress and the administration is the level of expenditures.
Fox's proposed expenditure level of 1.88 trillion pesos (US$175 billion) is higher than the budget of 1.74 trillion pesos (US$162 billion) proposed by the administration for 2005. The administration's proposal is, however, almost 6% lower in real terms than the projected expenditures for 2005. The administration has proposed cuts in spending on highways and education but increased funding for health, public safety, social development, and economic promotion.

Syndicated columnist Sergio Sarmiento said Fox's conservative budget is an indication that the president has opted for economic orthodoxy rather than political gain in the last year of his administration. "Many presidents in an electoral year would prefer to boost spending to promote artificial growth," said Sarmiento. "[Such a strategy] would make citizens feel better and convince them to vote in favor of candidates of the party in power."

Administration officials have said a cautious budget for 2006 is necessary to ensure economic stability in an election year. "We hope the legislative branch, and in particular the Chamber of Deputies, takes a responsible attitude to agree on a budget that the country needs," said presidential spokesman Ruben Aguilar.

PRI Deputy Alberto Aguilar Inarritu said the budget contains very few measures to lift Mexicans out of poverty. "Because of this, we will use all our constitutional faculties to reconstruct this budget," said Aguilar. Congress has a deadline of Nov. 15 to debate, modify, and approve the 2006 budget.

**Governors convince Fox to veto PEMEX tax reform**

Several legislators are pushing the Fox government to allocate a large share of oil-export revenues to PEMEX, especially since the president has vetoed the tax-reform proposal approved by Congress in June. The proposed plan reduced the amount of "taxes" that PEMEX had to pay on its revenues, in effect allowing the company to retain more of its profits (see SourceMex, 2005-07-20.)

The plan was opposed, however, by the Confederacion de Gobernadores (CONAGO), which raised concerns that the reduction in funds going to the federal treasury would translate into reductions in the amount of money allocated to states. After heavy lobbying from CONAGO, Fox returned the PEMEX fiscal legislation to Congress with certain recommendations. These include a suggestion that Congress reduce the revenues that PEMEX is allowed to retain. Congress criticized Fox for exercising the veto while giving lip service to the need to modernize PEMEX. "I cannot understand how the president can veto a tax proposal that offered a solution for PEMEX to find the funds to modernize and strengthen its operations," said PRI Sen. Enrique Jackson. "This is an initiative that had the support of all parties in both legislative chambers."

Presidential spokesman Aguilar said the Fox government is expected to sit down with members of Congress to discuss a compromise. PRD floor leader Pablo Gomez said the Congress would discuss an alternative proposal with Fox. However, Gomez criticized CONAGO for taking a shortsighted approach to PEMEX revenues. "There was excessive pressure from the governors on both the executive and the legislative branches," said Gomez.
PEMEX officials acknowledged that any compromise would result in a significantly watered-down tax reform, which would force the oil company to continue financing projects through the international debt markets.

Unions protest proposal to tax benefits

While the administration gave in to CONAGO on the PEMEX fiscal plan, its joint proposal with Congress to enact some general tax reforms appears to be in trouble. These reforms included a plan to impose an income tax (impuesto sobre la renta, ISR) on some worker benefits. The ISR proposal immediately received strong opposition from a wide array of labor organizations.

In an unprecedented show of unity, the PRI-affiliated Congreso del Trabajo (CT) and Confederacion de Trabajadores de Mexico (CTM) joined forces with the independent Union Nacional de Trabajadores (UNT) and the Confederacion Revolucionaria de Obreros y Campesinos (CROC) to organize massive protests against the tax. The CT cooperation with the UNT may reflect a change in the leadership style of the labor organization. The CT recently elected Joaquin Gamboa Pascoe to replace Leonardo Rodriguez Alcaine, who died in early August (see SourceMex, 2005-08-17).

The CT, UNT, and CROC threatened to call for a national strike if the president and the Congress decided to proceed with the tax. Furthermore, the labor organizations said they would make their discontent known at the ballot box in the 2006 presidential and congressional elections. "This warning is for all the political parties," said CROC leader Isaias Gonzalez Cuevas. In the end, the CT and its affiliate the CTM are unlikely to cast a vote against their long-time ally the PRI. The situation is different for the UNT, which has tended to side unofficially with the PRD.

After the state-of-the-union speech, UNT and allied unions such as the Frente Sindical Mexicano (FSM) and the Sindicato Mexicano de Electricistas (SME) called on all workers in Mexico to refrain from voting for either the PRI or the conservative Partido Accion Nacional (PAN) in the presidential election. The three labor organizations warned that many members of the PRI are complicit with the PAN administration of President Fox in squashing the rights of Mexican workers. "Mexican labor, which represents 5 or 6 million votes, could determine the outcome of the election," the unions said.

The PRD, meanwhile, is courting the teachers union (Sindicato Nacional de Trabajadores de la Educacion, SNTE), a traditional ally of the PRI. The SNTE, which has more than 1 million members, has threatened to break with the PRI after the union's leader, Deputy Elba Esther Gordillo, lost a power struggle within the party. In early September, the PRI executive council (consejo ejecutivo nacional, CEN) voted to appoint former party president Mariano Palacios Alcocer as its new leader. In making that decision, the party snubbed Gordillo, who has taken the matter to electoral authorities.

Palacios' appointment is seen as an attempt by outgoing party president Roberto Madrazo Pintado to enhance his chances of winning the PRI nomination for the 2006 presidential race. Furthermore, several members of the PRI have proposed that Gordillo be expelled on charges that she has been disloyal to the party. The maneuver by the PRI leadership against Gordillo is expected to create a
major schism in the party. Arturo Montiel, Madrazo's opponent for the PRI nomination, has soundly criticized the move, as have several of the PRI state leaders.

Two former PRI presidents, Dulce Maria Sauri Riancho and Humberto Roque Villanueva, told El Universal that Madrazo's numerous power struggles within the party "have had a negative impact and have really complicated the future of the PRI."

Gordillo, meanwhile, has carried through with her threat to bring the matter before the federal electoral court (Tribunal Electoral del Poder Judicial de la Federacion, TEPJF). She claims the party statutes give her the right to assume the PRI presidency without the need for a new election (see SourceMex, 2005-08-17).

While Gordillo insists that she remains a loyal PRI member, she may end up having to leave the party. She is expected to consider proposals to join the PAN and the PRD but could end up in the Partido Nueva Alianza (PNA), a party formed by members of the SNTE. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sept. 7, reported at 10.73 pesos per US$1.00] (Sources: The New York Times, Los Angeles Times, The Chicago Tribune, Copley News Service, 09/02/05; Agencia de noticias Proceso, Spanish news service EFE, 09/01/05, 09/05/05; Associated Press, 09/05/05; Notimex, 08/23/05, 08/24-26/05, 08/28/05, 09/02/05, 09/05/05, 09/06/05; El Economista, 08/25/05, 09/05/05, 09/06/05; La Cronica de Hoy, 08/17/05, 08/22-26/05, 08/29/05, 09/01/05, 09/02/05, 09/06/05, 09/07/05; El Financiero, 08/15/05, 08/16/05, 08/24/05, 08/26/05, 09/01/05, 09/02/05, 09/05-07/05; La Jornada, 08/19/05, 08/22/05, 08/23/05, 09/02/05, 09/03/05, 09/05-07/05; La Crisis, 08/19/05, 08/22/05, 08/23/05, 08/29/05, 09/02/05, 09/05-07/05; El Universal, 08/19/05, 08/23/05, 08/24/05, 08/29/05, 09/02/05, 09/05-07/05; The Herald-Mexico City, 08/24/05, 09/01/05, 09/02/05, 09/05-07/05; El Diario-Ciudad Juarez, 09/07/05)

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