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President Felipe Calderon has announced plans to boost social expenditures to help alleviate poverty, but opposition members contend that the increases are more than offset by net reductions in some important educational and social programs. Calderon sent his 2007 budget proposal of 2.17 trillion pesos (US$200 billion) to Congress on Dec. 5. The president's proposal increases spending by almost 10% from the final budget approved for 2006 (see SourceMex, 2006-01-04).

Calderon acknowledged that his budget proposal was austere, even with the slight increase from last year, but he was faced with an anticipated reduction in oil-export revenues and the lack of proposals to boost taxes significantly in 2007. This meant that any increased spending in some areas had to be offset by reductions in other areas. As part of his commitment to maintain a balanced budget, Calderon offered to cut executive-branch spending by 10%, including a reduction in his salary and those of his Cabinet secretaries and other high-level officials.

The president also directed department heads to reduce expenditures for gasoline and electricity, travel, cell-phone calls, and other nonessential expenses. The austerity measures could provide the government with an additional 25 billion pesos (US$2.3 billion) to devote to social programs. "For decades authorities have asked the people to tighten their belts and the people have done that," Calderon said. "Today the government must make the effort first."

In announcing the austerity measures, the president offered to make all expenditures public. "We will give accounts of every peso that citizens have given to the government," Calderon said. "Transparency and accountability are the responsibility of every democratic government."

Legislators from the opposition Partido Revolucionario Institucional (PRI) and the Partido de la Revolucion Democratica (PRD) criticized Calderon's proposal as insufficient. Deputy Manlio Fabio Beltrones, who heads the PRI delegation in the lower house, recommended to Calderon that he take further steps, such as eliminating some unnecessary departments in various government ministries.

The PRD noted that its presidential candidate Andres Manuel Lopez Obrador, who lost the election to Calderon by fewer than 250,000 votes, had promised to slash the presidential salary in half, not just by the 10% proposed by the president.

Lopez Obrador, who created a "parallel" government after electoral authorities declared Calderon the winner (see SourceMex, 2006-09-20), has drafted his own budget plan, which proposes major increases in social programs. This proposal, which places expenditures at 2.26 trillion pesos (US$208 billion), would be presented by legislators from the PRD and other center-left parties who would bring it to the floor of the lower house during debate on Calderon's budget.

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Revenues could be a problem in 2007

A major problem for Calderon is the potential lack of new revenues to meet a commitment to boost expenditures on social programs, particularly in light of the president's commitment to a balanced budget. The budget proposal contains no major increases in taxes. And even the taxes that have been proposed, such as one on tobacco and another on soft drinks, will be opposed by the industries and opposition legislators.

The Asociacion Nacional de Productores de Refrescos y Aguas Carbonatadas (ANPRAC) took a full-page advertisement in several Mexico City daily newspapers warning that the special tax (Impuesto Especial sobre Produccion y Servicios, IEPS) proposed by Calderon could reduce demand for soft drinks and carbonated water by 638 million liters annually. This tax, which comes on top of a 15% value-added tax (impuesto al valor agregado, IVA), could cost Mexico 36,500 jobs, including those of sugar-cane harvesters and mom-and-pop vendors, said industry sources. "Taxes on beer, cigarettes, and soft drinks are the easiest to collect," Alfredo Paredes, chief executive of Big Cola soft drink manufacturer Ajegroup, told the Los Angeles Times. "That is why they are targeting us."

Daniel Arenas, director of economic studies for ANPRAC, said the tax would especially hurt poor families, who spend 5.2% of their income on the purchase of soft drinks, compared with 6.5% for tortillas and 4% for beans. Consumption of soft drinks has increased significantly in recent years, with Mexicans consuming an average of about 150 liters of soft drinks per capita each year (see SourceMex, 2003-06-11).

The Calderon administration has also proposed a new tax on cigarettes, cigars, and pipe tobacco. The tobacco industry is expected to strongly oppose the measure, which they say could drive tobacco sales to the black market. As is the case for soft drinks, the government sees the taxes on tobacco products both as a source of revenue and as a means to reduce consumption, which in the end would help reduce health-care costs. "[This tax] brings an additional benefit to existing public-health programs, given that each increase of 10% in the price of tobacco will reduce consumption by about 5% or 6%," the administration said in the proposal presented to Congress.

The taxes on tobacco and soft drinks are compatible with the administration's plan to expand the government-sponsored universal health-insurance program known as Seguro Popular. Critics say the government should not be using the tax system to regulate the health habits of Mexicans. "I have no doubt that the consumption of tobacco and soft drinks is detrimental to a person's health," said syndicated columnist Sergio Sarmiento. "Ideally consumers could be convinced to make that decision on their own through a public-service campaign or other promotional means."

A projected slowdown in the Mexican economy could also affect collections of income and value-added taxes. Calderon's budget proposal has projected GDP growth for 2007 at 3.6%, about half a percentage point below the rate of at least 4.3% anticipated for 2006. Revenues could also be restricted by a projected reduction in oil-export revenues, a result primarily of the expected continuing decline in the global oil market in 2007. Mexico, which ranks fifth in global oil production, depends on oil-export revenues for 40% of its federal budget.

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The state-run oil company PEMEX contributed about US$54 billion to the federal treasury in 2006. Calderon projected the average export price for Mexican crude oil at US$42 per barrel in 2007, compared with US$54 per barrel in the first seven months of 2006. This higher-than-expected price for Mexican crude oil created a huge budget surplus during the last year of former President Vicente Fox's administration, but prices have been declining gradually in the last quarter of 2006. Fox used most of that surplus to pay debts and to make modest increases in state programs.

Calderon is being careful not to count on such a surplus when drafting the 2007 budget. "One of the arguments that stands out the most in the budget proposal is the projected decline in oil-export revenues, not only because of a lower price but because of reduced production," said the Mexico City daily newspaper La Jornada, in reference to the recent and projected declines in output at the giant Cantarell oil field.

PEMEX claims to have discovered a major oil reserve in the Gulf of Mexico, but supplies from this source would not be available for several years (see SourceMex, 2006-03-22 and 2006-06-21).

Critics question cuts in higher education, other programs

The proposed expenditures in Calderon's budget have drawn strong criticisms from the PRI, the PRD, and other parties. The president's budget places a strong emphasis on two areas: expansion of Seguro Popular and a major increase in funding for public safety. The public-safety money would go toward creating new jobs and increasing pay in law enforcement. At the same time, the budget makes only marginal increases to programs that deal with housing and primary and secondary education.

Conversely, the proposed budget reduces allocations for public universities, with the money for the Universidad Nacional Autonoma de Mexico (UNAM) cut by 100 million pesos (US$9.2 million). The proposed cuts for university programs have created an uproar in Congress, including with some members of Calderon's Partido Accion Nacional (PAN), who pledged to oppose the reductions. "The Chamber of Deputies reiterates its commitment to the education and research centers and recognizes their contribution to Mexico, especially on the part of UNAM," said a resolution passed in Congress. "The budget committee (Comision de Presupuesto) is urged not to accept the 2007 budget reduction and to analyze and draft formulas for maintaining the 2006 funding levels."

Another item in the president's budget that received strong protests in Congress was the proposed elimination of subsidies to the government milk program LICONSA (whose original name was Leche Industrializada CONASUPO). The agency buys surplus milk from Mexican dairy producers, sometimes at above-market prices, and then sells the milk to low-income citizens at a reduced price. LICONSA is seen as inefficient and a drain on the federal budget. Conversely, the program has helped Mexican dairy producers remain competitive against an increase in imports of powdered milk (see SourceMex, 2006-03-15) and has provided low-cost milk to 5.8 million Mexicans.

Legislators, particularly members of the PRD, have pledged to restore funds for the agency in the final budget. PRI and PRD legislators have also criticized the Calderon administration for providing insufficient money for a program that allocates federal funds to state governments (Programa de Apoyo al Fortalecimiento de las Entidades Federativas, PAFEF). Calderon has proposed allocating

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17.5 billion pesos (US$1.6 billion) to PAFEF, but opposition legislators contend that the funding should be as high as 30 billion pesos (US$2.7 billion).

The Fox administration was able to boost funding for PAFEF in recent years because of the windfall from oil-export revenues (see SourceMex, 2005-10-26 and 2006-01-04). PRI Deputy Jorge Estefan Chidiac, who chairs the finance committee (Comision de Hacienda) in the lower house, foresees a tug-of-war over the PAFEF expenditures, which were 22.5 billion pesos (US$2.07 billion) in the 2006 budget. "The administration wants to cut this allocation by 5 billion pesos (US$460 million) while we want to increase it by 8 billion pesos (US$737 million)," said Estefan Chidiac. "This will result in a contentious debate."

Still, despite the animosity and the difference of opinion on certain budget items, the Calderon administration and the Congress have expressed willingness to work closely on a compromise. "The administration has shown some willingness to dialogue on its proposals to cut funding for states and municipalities and for higher education," said Deputy Francisco Elizondo Garrido, a member of the Partido Verde Ecologista Mexicano (PVEM).

Legislators hope that the administration's willingness to compromise will help expedite passage of budget legislation, which by law must be approved by Dec. 31. Estefan Chidiac said legislators planned to approve the revenues portion of the budget by the third week of December and the expenditures portion shortly thereafter. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Dec. 13, reported at 10.84 pesos per US$1.00] (Sources: The New York Times, 12/08/06; Associated Press, 12/03/06, 12/05/06, 12/11/06; La Cronica de Hoy, 12/07/06, 12/11/06; Reuters, 12/03/06, 12/05/06, 12/12/06; Los Angeles Times, 12/12/06; La Jornada, 08/18/06, 12/04-06/06, 12/08/06, 12/11-13/06, 12/13/06; El Universal, 12/04/06,12/05/06, 12/11-13/06; El Financiero, 12/04/06, 12/05/06, 12/07/06, 12/13/06; El Economista, 12/04/06, 12/05/06, 12/07/06, 12/08/06, 12/11/06, 12/13/06; Milenio Diario, Excelsior, 12/04/06, 12/05/06, 12/07/06, 12/08/06, 12/11-13/06; Reforma, 12/04-13/06; Notimex, 12/07/06, 12/13/06; The Herald-Mexico City, 12/11/06, 12/13/06)

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