

1-3-2007

Congress Shows Unexpected Unity in Approving 2007 Budget

LADB Staff

Follow this and additional works at: <https://digitalrepository.unm.edu/sourcemex>

Recommended Citation

LADB Staff. "Congress Shows Unexpected Unity in Approving 2007 Budget." (2007). <https://digitalrepository.unm.edu/sourcemex/5059>

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.

Congress Shows Unexpected Unity in Approving 2007 Budget

by LADB Staff

Category/Department: Mexico

Published: 2007-01-03

In an unexpected display of harmony, the three major political parties and President Felipe Calderon Hinojosa reached an agreement fairly easily on the 2007 budget. Analysts had expected the debate on the budget to become a battleground between the Calderon administration and the center-left Partido de la Revolucion Democratica (PRD).

The PRD was expected to push for presidential candidate Andres Manuel Lopez Obrador's priorities, which included significant expenditures on social programs. Instead, the administration, the governing Partido Accion Nacional (PAN), the opposition Partido Revolucionario Institucional (PRI), the PRD, and five other smaller parties agreed relatively quickly on both the revenues and expenditures budgets, which under law must be considered separately. In its consideration of the budget, the Chamber of Deputies made relatively modest adjustments to the blueprint presented by Calderon.

Legislators eliminate proposal to tax soft drinks

In a unanimous vote on Dec. 18, the lower house set the revenues budget (Ley de Ingresos) at 2.264 trillion pesos (US\$207 billion), 30 billion pesos (US\$2.7 billion) above the amount originally proposed by the administration. The revenues budget omitted the tax on soft drinks that had been proposed by Calderon to fund health programs but included an increased levy on tobacco products (see SourceMex, 2006-12-13).

The Chamber of Deputies at first supported both taxes but later backtracked after the Senate came out in opposition to the tax on soft drinks, which it called a "tax on the poor." Per-capita consumption of soft drinks in Mexico is among the world's highest, particularly among low-income groups (see SourceMex, 2006-03-11). Congress came up with the additional funds by setting the projection for the average price of Mexican crude oil in 2007 at US\$42.80 per barrel and by approving the withdrawal of money from the Fondo de Estabilizacion Petrolera, a special fund created several years ago to hold surpluses obtained from crude-oil sales. Mexican crude was selling for US\$44.09 on Jan. 4, and state oil company PEMEX reported the average export price of Mexican crude at US \$53.34 for the January-November 2006 period.

The Congress also reduced its own budget, as well as those for the judicial branch, the electoral court (Tribunal Electoral del Poder Judicial de la Federacion, TEPJF), and the federal electoral institute (Instituto Federal Electoral, IFE). The expenditures legislation (Ley de Egresos) was approved on Dec. 22 by an overwhelming vote of 449-20. Expenditures were set at 2.260 trillion pesos (US\$207 billion), about 71 billion pesos (US\$6.5 billion) above the president's proposal.

Congress boosts funds for some social programs

The Chamber of Deputies channeled the increased funding to agriculture, infrastructure, pensions, education, and cultural programs. The infrastructure allocations will place a high priority on roads and highways and on water-related projects. "This is a reasonable budget given the circumstances, but it is insufficient given the needs of our country," said PRI Deputy Jorge Estefan Chidiac, who chairs the budget committee (Comision de Hacienda) in the lower house. Legislators also sent a message to Calderon that they would like education to take a higher priority in 2007. The Congress increased funding for basic education by about 6.5 billion pesos (US\$596 million) above the amount proposed by the president.

The funding for basic education was not as contentious as that for higher education, which Calderon had reduced in his original budget proposal. In doing so, the president challenged the universities to implement a system of fundraising. The reduction in funding for public universities led to major protests from the Universidad Nacional Autonoma de Mexico (UNAM) and other institutions of higher learning. These protests resonated with the Congress, which voted to increase allocations for public universities by 8 billion pesos (US\$734 million) for UNAM, the Universidad Autonoma Metropolitana (UAM) in Mexico City, and other public institutions of higher learning around the country.

Still, the funds channeled to the university system were only about half the 15.9 billion pesos (US \$1.46 billion) requested by the Asociacion Nacional de Universidades e Instituciones de Educacion Superior (ANUIES). In a victory for the PRD, the Congress allocated 6.2 billion pesos (US\$569 million) for pensions. These funds will be used primarily for a program to service the needs of retirees in communities of less than 2,500 inhabitants, said Deputy Javier Gonzalez Garza, a PRD floor leader in the lower house. "This pension proposal was part of our original budget plan," said PRD secretary-general Jose Guadalupe Acosta Naranjo.

The PRI, with support from the PRD and the PAN, also helped craft a mechanism to channel some of the oil-export windfall to a special fund for states and municipalities, the Programa de Aportaciones para el Fortalecimiento de las Entidades Federativas (PAFEF). Under the plan, the PAFEF would get an additional 10.5 billion pesos (US\$964 million) if Mexico's oil-export price averages about US\$50 per barrel.

Legislators also strengthened the PAFEF by approving a clause that guarantees that the program will receive 1.4% of government revenues each year. "This clause creates certainty for states," said PRI Deputy Javier Guerrero. "They will no longer be forced to negotiate their budget from year to year." PAN officials said the Calderon administration, including Finance Secretary Augustin Carstens, took an active role in helping to reach a compromise during the budget negotiations, remaining in constant communication with all the players who had an interest in the budget, from congressional delegations to governors to party leaders.

"Various interests were pulling in different directions," said Arturo Garcia Portillo, the PAN's secretary for electoral affairs. "The ability of all parties to forge a compromise is a positive signal to the Mexican population," noted Garcia, who praised the Congress for its ability to put aside the

animosity that followed ex-President Vicente Fox's final State of the Union address and Calderon's inauguration. The PRD and its allies disrupted both events to protest what they considered was electoral fraud in the 2006 presidential elections (see SourceMex, 2006-09-06 and 2006-12-06).

Despite the changes to the original proposal, Garcia said Calderon was satisfied with the final budget. PRI legislators said they would keep a close eye on the Calderon administration to ensure that the funds allocated are actually spent. Opposition parties accused Fox of underspending to attain a budget surplus. "We hope, after this grueling process, that the agreements that we were able to construct are recognized by those in charge of managing expenditures," said PRI Deputy Guerrero.

PRD officials were also pleased with the manner in which differences regarding the budget were resolved. "Even though it was not entirely to our satisfaction, the final budget was much improved from the proposal presented by Calderon," said Acosta Naranjo. "We feel we had an influence in these changes." Acosta said the PRD would have liked the budget to include greater expenditures on social programs but legislators realized that resources would not be sufficient to accommodate those needs. "We didn't have sufficient financial resources to attend to the series of problems that need greater attention," said the PRD leader. "But we still managed to reallocate some of the expenditures and stop reductions in some important areas."

Other legislators said the effort to forge a compromise and allow the Congress to meet the constitutional mandate to approve a budget by the end of December precluded more comprehensive changes. "I acknowledge that this budget is not much different than proposals that have been passed in recent years," said Estefan Chidiac. "But we managed to avoid a fiscal crisis in the transition from one administration to the next."

PRI delegation to push for major tax reform

Estefan said the Congress should place a high priority on approving comprehensive tax reform, which would ensure that more funds are available during future budget deliberations. "The PRI delegation is willing to push for discussions on such reforms at the beginning of January," said the budget committee chair. "We have to include discussions on income, expenditures, transparency, and federalism, as well as make comprehensive reforms to the pension system and the fiscal structure of the energy sector."

One of the main goals of tax reform would be to eliminate loopholes that allow many Mexicans to avoid paying income taxes. Mexico has one of the lowest tax-collection rates in Latin America, forcing the country to depend too much on oil-export revenues to finance government operations. PAN Deputy Moises Alcalde Virgen said the Congress made a mistake by agreeing to a compromise too quickly. He raised concerns that funding was cut by 9% for agencies that serve an important function in Mexican society, such as the Secretaria de Funcion Publica, which ensures transparency in government operations. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 4, reported at 10.89 pesos per US\$1.00] (Sources: Agencia de noticias Proceso, 12/18/06, 12/19/06; The Herald-Mexico City, Excelsior, Milenio Diario, El Financiero, 12/19/06, 12/20/06; La Jornada, 12/15/06, 12/19/06, 12/20/06, 12/23/06; El Universal, 12/19-21/06, 12/23/06; Reuters, 12/23/06; Reforma, 12/19/06, 12/21/06, 12/24/06, 12/26/06, 12/27/06; Notimex, 12/23/06, 12/28/06; El Economista, 12/15/06, 12/19/06, 12/26/06, 12/29/06; La Cronica de Hoy, 12/19/06, 12/29/06)

-- End --