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Congress Includes Special Fund for Border States in 2014 Budget

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The inclusion of a special fund to help residents of northern states that border the US helped ensure easy passage for the 2014 expenditures budget (Presupuesto de Egresos de la Federación) in the Chamber of Deputies. The budget—approved by wide margin of 441 to 26 with four abstentions—obtained support from the majority of the deputies from the center-right Partido Acción Nacional (PAN). The PAN had adamantly opposed President Enrique Peña Nieto's proposal to charge a uniform value-added tax (impuesto al valor agregado, IVA) of 16% to all states in Mexico. The northern states were previously charged an IVA of 11%.

**Broad support for expenditures budget**

The expenditures budget, which calls for outlays of 4.47 trillion pesos (US$345 billion), only needs Peña Nieto’s signature to become law. The blueprint—put together to match the revenues budget approved in October (SourceMex, Oct. 23, 2013)—projects a deficit of 1.5% of GDP for 2014, compared with a 0.4% deficit built into the 2013 budget. The revenues budget was approved shortly after Congress passed a tax-reform plan that contained many of Peña Nieto’s proposals, including extending the IVA to all states.

Several provisions in Peña Nieto’s plan drew opposition from the PAN. In addition to the proposal to make the IVA a uniform tax in all states, the administration’s tax-reform plan would have imposed new taxes on private-school tuition and on mortgages (SourceMex, Sept. 18, 2013). In negotiations with opposition parties, the leadership of the governing Partido Revolucionario Institucional (PRI) agreed to remove taxes on tuition and mortgages, likely winning over many members of the PAN. The removal of those taxes, along with an increase in spending on social programs, also helped gain the support of the center-left Partido de la Revolución Democrática (PRD) for the budget plan.

The removal of the mortgage and tuition taxes, however, reduced the projections for new tax revenues to 180 billion pesos (US$13.8 billion), compared with the original estimate of 240 billion pesos (US$18.5 billion) contained in the president’s plan.

If the PRI had given in to PAN legislators and rescinded the IVA increase for border states, the projection for new revenues would have been lower. And, in the end, only 18 of the 114 PAN members in the lower house cast a nay vote on the budget. These legislators were joined by one member of the PRD, 11 from Movimiento Ciudadano (MC), and four from the Partido del Trabajo (PT).

The PAN members had originally opposed extending the IVA to border states because of concerns that this could hurt the maquiladora industry and raise the price of goods and services for people who reside along the border.
**Assistance for border communities**

Deputy Manlio Fabio Beltrones, the PRI floor leader, said his party took into account the concerns expressed by legislators from border states about the impact of a higher IVA on the citizens of Chihuahua, Baja California, Sonora, Tamaulipas, Coahuila, and Nuevo León. As a compromise, the PRI agreed to create a special fund of 3 billion pesos (US$230 million) in the 2014 budget for use in economic-development activities for all border states, including those along Mexico’s southern border: Campeche, Quintana Roo, Chiapas, and Tabasco. The border fund provides subsidies for employment and construction and improvement of infrastructure but does not directly address the expected increase in prices for goods and services in border states.

Some analysts said creating the fund was intended not only to appease the PAN legislators but also some of the PRI members who represent the border states. "Of course, there might have been a negotiation with the PAN and party leaders from the affected states," financial columnist José Yuste wrote in the Mexico City daily newspaper Excélsior. "At the same time, the PRI might consider [the fund] a damage-control measure to prevent losses in the midterm congressional elections [in 2015]."

The fund failed to mollify a handful of PAN members in the affected states, including José Luis Ovando Patrón, the party's president in Baja California. Ovando, who served in the Chamber of Deputies in 2009-2012, suggested the increase in the IVA was intended to "feed the federal bureaucratic apparatus and support populist actions [by the PRI]."

Calling the proposal "a joke," Ovando said the measure amounts to "taking away 50 pesos (US$3.85) from each border resident and then providing a refund of 20 pesos (US$1.53)."

Beltrones, however, defended the tax by suggesting that businesses in border communities have not been paying their fair share of federal taxes. He said many business owners were earning higher profits by charging a lower IVA and thus boosting their profits. "We urge you to reconsider your position," the PRI legislative leader said, referring to PAN legislators and business organizations that opposed extending the 16% IVA to the border states. "We do not want to argue any more with those who for so many years illegally pocketed that differential of 5% [in the IVA]."

Beltrones also made a point to emphasize that the Congress should not be perceived as opposing the business sector because of its decision to extend the IVA to all states. "We are not the enemy of the business sector or of the principle of profits," said the PRI legislative leader.

**Guerrero state receives disaster assistance**

The expenditures budget also contained a special fund of 7 billion pesos (US$540 million) to help Guerrero state recover from the devastation caused by Hurricane Ingrid and Tropical Storm Manuel. Even though the two storms caused significant damage in most of the country, the worst problems occurred in Guerrero, where many roads and bridges were washed out and entire communities were buried by mudslides (SourceMex, Sept. 25, 2013). The special fund for Guerrero, which will be used primarily to help repair and replace infrastructure, will be administered the Fondo Nacional para Desastres Naturales (FONDEN).

In its latest report on the impact of Ingrid and Manuel, the Secretaría de Gobernación (SEGOB) said the two storms killed at least 157 people around the country, with 101 of those deaths occurring
in Guerrero. A total of 60,000 people in the state were evacuated, and about 13,700 homes were
damaged.

State and federal authorities had estimated the cost of reconstruction in Guerrero at more than 18
billion pesos (US$1.39 billion), but that was a preliminary projection in October, and the final tally
has not been determined.

The money allocated under the special fund will be added to the 1.7 billion pesos (US$131 million)
available to Guerrero under regular FONDEN programs. Other states affected by Ingrid and
Manuel will receive assistance through those programs.

The last time the Congress created a special fund for reconstruction efforts was in 2010, when nearly
3.1 billion pesos (US$239 million) were allocated to help the state of Nuevo León recover from the
impact of Hurricane Alex (SourceMex, Aug. 11, 2010). Congress has responded to other disasters,
such as Hurricanes Stan and Wilma in 2005, by boosting funding for FONDEN (SourceMex, Jan. 4,
2006)

Beyond disaster repairs, the Peña Nieto government intends to put a major emphasis on
infrastructure in 2014. "The biggest winner in this budget was infrastructure," Yuste wrote in
Excélsior. "The expenditures for communications and transportation are going to increase by about
50%. That’s where the administration intends to boost economic growth: through promoting public
works projects."

In a press conference following the approval of the budget in the Chamber of Deputies, Finance
Secretary Luis Videgaray confirmed this priority, announcing that the administration had created an
infrastructure fund of 500 million pesos (US$38.5 million), which would be devoted to improving and
expanding communications networks throughout the country.

The emphasis on public works to boost the economy was a common strategy in Mexico under the
administrations of former Presidents Ernesto Zedillo, Vicente Fox, and Felipe Calderón (SourceMex,

Videgaray pledged to boost overall public spending by 30% in 2014, emphasizing that all allocations
would be spent for their intended purpose. Recent presidents—particularly Fox—have been accused
of taking austerity measures to an extreme by spending less on programs than Congress authorized
(SourceMex, Jan. 3, 2007).

Videgaray said the government would be able to meet its expenditures targets because the Congress
authorized a 0.4% deficit for this year. At the same time, Videgaray pledged that the administration
would keep tight control on the manner in which funds were spent by ensuring that all money is
spent wisely.

The 2014 budget also contains some important increases in spending on public education, health,
and other social areas. Two important new programs are a universal pension for Mexicans 65
and older and unemployment insurance. [Peso-dollar conversions in this article are based on the
Interbank rate in effect on Nov. 19, 2013, reported at 12.96 pesos per US$1.00.]

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