Priorities of the Vicente Fox government

Areli Sandoval Terán[1]

To generate more resources for social development, Mexican President Vincente Fox promoted a regressive tax reform during 2001. The real objective was to achieve, at any price, a lower level of public debt, as demanded by the international financing agencies. While social development is not a priority, payment and redemption of public debt are ensured.

President Fox's *Criteria*

In the *General Criteria for the 2002 Economic Policy*,[2] the federal government explains Mexico's present economic deceleration in terms of the close trade and financial ties with the United States and the increasing synchrony in the trends of both economies. The Mexican economic situation is determined to a great extent by the evolution of the world economic cycle, which in turn is mainly determined by the performance of the United States economy. Within this framework, the main points of the strategy proposed in the *General Criteria* are: tax discipline, responsible, transparent and efficient implementation of public expenditure and the promotion of the structural reforms necessary to strengthen the basis of the economy.

According to the *General Criteria*, the main challenge facing Mexican economic policy during 2002 will be to regain jobs lost in 2001 by restoring dynamism within an uncertain and unstable world economy. The macroeconomic goals of the Fox government for 2002 are, first of all, to step up the pace of economic activity, generating formal jobs and increasing the real income of families. In particular, it proposes reaching an effective rate of GDP growth amounting to 1.7% per year. The second goal is to reduce inflation. In close coordination with the Bank of Mexico, the tax policy will contribute to keeping annual price increases below 4.5% per year. Thirdly, the country's foreign account balance must be maintained at moderate and healthy levels. On the basis of forecasts on economic growth in Mexico and the United States and on international oil prices, it is estimated that the current balance of payment account will show a deficit equivalent to 3.5% of GDP in 2002.

Although the Fox government recognises that there are serious inequities existing between different ethnic groups, regions and generations in Mexico, it claims that it lacks the resources to promote and strengthen social programmes that address the country's most pressing needs, such as poverty abatement, food, education, housing, health, rural development, infrastructure and justice. To generate more resources for social development, Fox promoted a tax reform in 2001. The social costs of this reform are only partially recognised and include a ridiculously low compensation to the lowest income families.

Many sectors have questioned the executive's proposal. From the standpoint of the organisations promoting economic and social rights, the tax reform is regressive in terms of basic rights such as health, food, education, culture, enjoyment of scientific and technological progress and housing, as it places a 15% VAT (value added tax) on drugs, food, books, schooling, transport and income. If this reform is adopted, Mexico will be violating several articles of the International Covenant of Economic, Social and Cultural Rights to which it has been party since 1981 and which obliges it to progressively increase social spending, distribute wealth more fairly and struggle against the growing concentration of income in a few individuals. The social impact of this increase in VAT will be enormous, while the economic impact will be very small, as it will only generate additional resources equivalent to 1.7% of the GDP.

A better way to build up domestic resources for development would be to widen the base of contributors by taxing luxury goods and national and foreign speculative capital, which generate large private profits but no social benefits. The proposal for a tax on monetary transactions is, in fact, one of the ideas that will be discussed at the International Conference on Financing for Development.

The real objective of the tax reform promoted by the Fox government is to achieve, at any price, a lower level of public debt to meet the demands made by the International Financial Institutions (IFI's) for structural adjustments, which have been applied in Mexico for 20 years now and have worsened the living conditions of millions of Mexicans. According to Autonomous Metropolitan University (UAM) economists, the IFI's "have practically forecast the programme for Fox's six year term in office,"[3] by making the payment of foreign debt the priority of economic policy.

TABLE 1

Foreign and domestic debt indicators

AS A % OF THE GNP	2000	2001*	2002*
Total foreign debt	26.0	24.8	23.5
Public sector foreign debt	14.7	13.8	12.5
Private sector foreign debt	11.3	11.1	11.0
AS A % OF EXPORTS OF GOODS, SERVICES AND TRANSFERS			
Total foreign debt	119.0	123.7	118.3
Total foreign debt service	42.1	31.6	26.5
Public foreign debt service	26.0	16.1	12.1

*IMF forecast. **Source:** www.imf.org

1 Coordinator for Mexico Social Watch, DECA Citizen Diplomacy Programme, Team Pueblo, A.C., a member organisation of the Organizing Committee for the Global Forum: Financing for the Right to Sustainable and Equitable Development "for a just distribution of wealth," Mexico, 14 to 16 March 2002, prior to FfD.

2 *Criterios Generales de Política Económica Para 2002 (General Criteria for the 2002 Economic Policy) in*: www.shcp.gob.mx

3 Juan Moreno Pérez, Professor at the UAM, quoted by Agustín Vargas Jiménez in "El gobierno se doblega ante el FMI", Mexican weekly *Proceso*, No. 1305, 4 November 2001, p. 39.

IMF approval

In the IMF's latest report on Mexico (Article IV Consultation)[4], the Fund congratulated the Mexican Government on its cuts in public expenditure and on its commitment to making further cuts if necessary in order to reduce the deficit (Paragraph 49). The IMF also welcomed the proposal for tax reform (Paragraph 51) and indicated that without it, public debt would increase and the economy would be more vulnerable to external pressure and fluctuations in oil prices (Paragraph 52).

For its part, the World Bank in its Country Assistance Strategy (CAS) for 1999-2000 indicated the structural reforms that the Mexican government should promote in order to obtain support from the Bank: tax and financial reforms, reforms in the health sector of the Institute for Social Security and Services for State Workers, and labour reforms.[5] These reforms are funded through a portfolio containing 23 projects including such goals as direct reduction of poverty.

Regarding the country's situation in terms of availability, allocation and distribution of development resources, the 2002 Draft Expenditure Budget (DEB) submitted by the President of the Republic to the Chamber of Deputies in November 2001 for examination and adoption, foresees a total net expenditure of MXP 1,410,654.4 million (approx. USD 153 billion at an exchange rate of 9.2 pesos to the dollar), which represents a real growth of only 0.3% over the previous year and, as a proportion of the GDP, a four-tenths of a percentage point decrease.

Programmed expenditure (including social expenditure) will be MXP 980,095.7 million (approx. USD 106.5 billion) representing a real cutback of 1% with respect to the closure expected for the present year. As a proportion of the GDP, it will drop from 16.3% to 15.9%. Programmed Expenditure represents 69.47% of the Total Net Expenditure.

Less social expenditure

Expenditure on Social and Human Development is set at MXP 592,091.7 million (USD 64.3 billion), which will represent 60.4% of Programmed Expenditure and 41.97% of the Total Net Expenditure. However, the DEB 2002 cut back social expenditure with respect to the previous year "from 10.7% to 9.6% of the GDP, subject to a tax reform that, even if it were to be adopted as it stands, would have a meagre effect on returns if one considers that presently tax income represents 11% of the GDP and, at the most, this would increase to 13%."[6] The largest budget transfers are found in bank redemption (0.7% of the GDP in 2002 and a tenth of a percentage point per year from 2003 "a forecast validated by the IMF)."[7]

Conditions placed on health

Various programmes in the health sector depend on a USD 350 million loan over the next five years, to be granted by the World Bank under the condition that the above-mentioned tax reform be adopted. Thus, actions such as health and food for indigenous peoples, prevention of HIV/AIDS, the consolidation of wider coverage and the proposal to set up an insurance programme for the people would be seriously limited. Regions and municipalities where 13.6 million people live in extreme poverty would cease to receive benefits.[8]

Education: bank redemption comes first

Education is the centre of the human and social development policy of the Fox government according to the 2001-2006 National Development Plan. However, provisions are to spend MXP 50 billion on higher education over the six-year period, while MXP 70 billion will be spent on bank redemption in just two years.[9] The DEB 2002 proposal foresees a cutback of up to MXP 2.5 billion in higher education, a decrease of 3.3%. In Science and Technology, the cutback represents almost 18%.[10] For example the National Polytechnic Institute will see its budget cut by 7.49% with respect to 2001 and the Autonomous Metropolitan University by 8.26%. With these cutbacks, the goal of investing 8% of the GNP in education will not be reached. The cutbacks in higher education expenses will not only cause labour problems such as outbreaks of strikes in universities due to the 4.5% salary retention indicated by the Finance and Public Credit Secretariat, but also lower investments in scientific and technological research and development.[11]

Cutbacks in the budget affect the indigenous peoples

The National Institute for Indigenous Peoples (INI) will have a 6% cut in its 2002 budget, mainly affecting the area of the Justice Office, which had asked for a 200% increase. With this cut there will also be cuts in staff; the programme for helping to release indigenous people from prison in the various states will be limited, advice and legal defence in cases of abuse will be reduced and the agreements with 263 indigenous organisations, NGOs and academic groups in the country will be impacted.[12]

The Fox government must fulfil its obligations regarding social issues by assigning available resources to social policy as a priority. Social development cannot be contingent upon attaining domestic and foreign investment, however great the need, while, with the income generated by the Mexican people, we ensure bank redemption and punctual payment of the debt.

Finally, no scheme for financing development will be fully effective as long as globalisation, which is seriously eroding the economic, social and cultural rights of the Mexican and world population, remains the financial model. Because of their principles of equity and justice, human rights must be the foundation of economic policy. ■

DECA Equipo Pueblo, A.C. – Programa Diplomacia Ciudadana
[DECA Team Pueblo – Citizen Diplomacy Programme]
<pueblodip@laneta.apc.org>

4 Country Report No. 01/190 Mexico: 2001 Article IV Consultation-Staff Report, Staff Statement, Public Information Notice on the Executive Board Discussion and Statement by the Executive Director for Mexico October 2001, at: www.imf.org

5 Country Report No. 01/190, *op. cit.* p. 46.

6 Armando Labra M. "Budget, terror; macabre talent". *La Jornada*, national daily, 26 November 2001, p. 35.

7 Juan Moreno Pérez, *op.cit.*

8 Ángeles Cruz. "Financial conditions for the signature of a WB loan for health tied to the adoption of the tax reform". *La Jornada*, national daily, 26 November 2001, p. 30.

9 Karina Avilés. "The Fox government does not fulfill the education law". *La Jornada*, national daily, 26 November 2001, p. 29.

10 *La Jornada*, 29 November 2001, p. 16.

11 *Ibid*, p. 15.

12 *La Jornada*, 10 December, 2001, p. 13.