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NÚMERO 63

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THE BUDGETING PROCESS IN MEXICO

1. Introduction

This analysis proposes that political and social development, as well as the economic conditions and policies since 1997, have affected the formulation and approval of the Federal Expenditures budget in Mexico differently than they did in the past. This change has been triggered, technically, by the absence of an absolute majority of the Institutional Revolutionary Party (PRI) in the Chamber of Deputies, the body that approves the annual expenditures plan presented by the Executive Branch through the Secretariat of the Treasury and Public Credit (SHCP).

An analysis of this phenomenon is relevant for two important reasons. First, because it presumably allows the demands and interests of the citizenry, through participation of the Congress, a new means to be reflected in the process and composition of *government* expenditure. And second, the legislators of different political parties thereby not only have the opportunity to include in the government agenda the issues they have committed to with their electors and sympathizers, but also share with the executive branch, a real responsibility for the successes or failures associated with the assignment of funds.

In order to explore the implications of this transition, we will examine the participation by the players involved in drawing up the expenditures budget of previous years—a process that did not allow citizen participation through the Congress, despite the fact that the law assumed that this would occur. Later, we will show that although negotiation of the expenditures draft did not include representation by the citizenry as such, it did include a process of collaboration among different interest groups, both inside and outside of the administration, that addressed specific social needs and demands. We will later comment on the instruments used in drawing up the budget and the particular trends that over recent years have followed in forming it. To conclude, we will analyze the role of the New Programmatic Structure as an instrument for the operational dimension of the Expenditures Plan, and we will describe the guidelines for Fiscal 1998 that consider the new, plural participation and authority that the Chamber of Deputies has acquired.

2. Key Players in Expenditure Policy

A generally accepted standard for a democratic system of government is for the Congress of a country, paid and popularly elected, to have the “pocketbook power,”—that is, the power to authorize all the expenses, credits and any other revenue that the state collects.¹ Paradoxically, the Congress’ power is reinforced by

¹O’Toole, Larry, in “sigma Policy Brief No. 1: Anatomy of the Expenditure Budget,” OECD.

guaranteeing authority to the Executive Branch to give orders about public monies. Congress' action is exercised, then, by demanding a accountability by the Executive Branch. Therefore, if the secretaries do not have the necessary tools to carry out government expenditure, Congress' control over the Executive Branch is meaningless. Based on the foregoing, we can state that the measure to which Congress has the power to amend the budget draft is fundamental.

2.1. Legal Basis of the Budgetary Process — Stages

In our country, the power to influence the Federal Expenditures Budget, and the schedule and terms under which the Secretariat of the Treasury and Public Credit has to present it, is governed by the Political Constitution and a variety of federal laws, organic acts, and decrees. This legal context defines the following:

- Federal public expenditures are based on budgets drawn up for programs that specify objectives, goals and units responsible for their execution;
- It is the exclusive power of the Chamber of Deputies² to annually examine, discuss and approve the Federal Expenditures Budget that the President submits for its consideration; and
- The Federal Expenditures Budget will be the one contained in the decree approved by the Chamber of Deputies.

The legislation recognizes four stages of the budget process. Figure 1 presents these stages, the players involved in them, and the laws and decrees that rule the players' participation.

² In Mexico, there is a formal separation between the Revenue Law and the Expenditures Budget. The only restriction on the Chamber of Deputies' power to modify the budget is that both chambers of the Congress must have previously approved the necessary funds for the proposed expenditure (art. 74 of the Constitution). The Chamber of Senators is excluded from the processes of examination, discussion and approval, and control and evaluation of the budget, but not from the processes of proposal, integration and initiative, nor obviously, exercise.

Figure 1

<i>Proposal, Integration and Initiative</i>	<i>Examination, Discussion and Approval</i>	<i>Exercise</i>	<i>Control and Evaluation</i>
<p><i>Proposal:</i> EXECUTORS OF EXPENDITURE: Legislative, judicial and executive branches, and the Federal Electoral Institute Integration and Initiative: EXECUTIVE BRANCH</p>	<p>CHAMBER OF DEPUTIES</p>	<p>EXECUTORS OF EXPENDITURE: Legislative, judicial and executive branches, and the Federal Electoral Institute</p>	<p>EXECUTIVE BRANCH: Secodam³, SHCP, Internal Comptroller's Offices of the Agencies and States CHAMBER OF DEPUTIES: Top Accounting Office of the Treasury</p>
<p>Political Constitution: Art. 74, Sect. IV Planning Law Law of Budgeting, Accounting and Federal Public Expenditure and its Regulation General Law governing Public Debt Organic Act of the Federation Federal Law governing Partially State-Controlled Entities and its Regulation Law governing Public Purchases and Works</p>	<p>Political Constitution: Art. 74, Sect. IV Decree approving the Federal Expenditures Budget</p>	<p>Political Constitution: Art. 74, Sect. IV Law of the Federal Public Budget, Accounting and Expenditure, and its Regulation General Law governing Public Debt Law of the Federal Treasury Service and its Regulation Organic Act of the Federation Federal Law governing partially State-controlled Entities and its Regulation Law of Public Purchases and Works Decree approving the Federal Expenditures Budget</p>	<p>Political Constitution: Art. 74, Sect. IV Law of Federal Public Budget, Accounting and Expenditure, and its regulation General Law governing Public Debt Organic Act of the Federation Federal Law governing Partially State-controlled Entities and its regulation Law of Public Purchases and Works Federal Law governing Responsibilities of Public Servants Organic Act of the Top Accountancy Office of the Treasury Decree approving the Federal Expenditures Budget</p>

These stages are in turned formed by phases whose annual timeline is presented below in Figure 2.

³Secretariat of the Comptroller's Office and Administrative Development.

2.2. Schedule of Budgetary Process Phases

Figure 2

<i>Feb-Aug</i>	<i>June-Aug</i>	<i>July-Aug</i>	<i>July-Aug</i>	<i>Aug-Oct</i>	<i>Sept-Oct</i>	<i>Nov-Dec 15</i>
Arrangement of programmatic structure	Preparation of preliminary budget	Determination of preliminary expenditure references	Preparation of annual operative programs	Determination of final expenditure ceilings	Formulation and integration of budget draft	Examination, discussion and approval of draft

One deficiency in the standards that just recently became important is the lack of an emergency mechanism to avoid the problem of reaching January 1 without an approved budget. This is stated in Article 126 of the Constitution that stipulates that “No payment may be made that is not included in the budget or determined by a later law.” However, faced with the novelty and difficulties presented by the 1997 process, the factions in the Chamber of Deputies have repeatedly told the media of their desire to achieve approval of the budget by December 15. Likewise, they anticipate that they will otherwise agree on an extraordinary term that does not go beyond January first.

Also considering the possibility of an extreme situation, a review of the budgetary institutions in Latin American countries with presidential systems, done by Maria Amparo Casar (CIDE researcher), revealed four alternative models for actions to be taken in cases of disagreement among the players involved in the budget process:

- the previous year’s budget goes into effect;
- the version of the budget proposed by the Executive Branch goes into effect;
- the government must present a new initiative;
- expenditures are prohibited.

As Amparo Casar notes, “From the political point of view, the nature of the mechanism adopted will increase or reduce the probabilities of reaching an agreement, will define the costs of not reaching an agreement for the different players involved, and obviously, will define the alternatives opened up if the agreement is not reached.”⁴

⁴Maria Amparo Casar in the magazine *Nexos* 239, November 1997.

3. Experiences of Joint Effort in Drawing Up and Deciding on the Budget Draft

3.1. Previous Budgetary Processes

Despite the fact that beginning in 1997, the citizenry has become more aware of the process of forming the federal budget, the expenditures program has always been the result of a negotiation process. This negotiation that until today was outside the legislative branch, has, however, been evolving over time, making it possible to accommodate certain proposals and demands from different sectors of society.

We could say that the new composition of the Chamber of Deputies has contributed to the scope of this evolution since, jointly and simultaneously with other political processes, it has resulted in the unusual participation of the political parties imposing new rules, and opened up a different direction of negotiation to include the citizenry that elected its members.⁵

Each year in July and August, agencies and entities submit proposals to the SHCP in which they establish the next year's budget needs for their operating programs. When developing these proposals, the government agencies consider the demands of the different organized groups of society—from rural workers or small land owners, to laborers, artists or businessmen—who from their own circles exert pressure for more funds, goods or services, on the public administration bodies that are closest to their needs. Thus, for example, the rural workers ask for funds from Banrural or Procampo,⁶ subsidies from former Fertimex,⁷ and control of or guaranteed prices from the Secretariat of Agriculture.

Based on these demands, these bodies or agencies make their projections of the funds needed to satisfy the requests. With this, they can present a complete annual budget to the SHCP, or only the budget of specific projects to be carried out. Up to this point, the negotiation occurred clearly in an inter-institutional sphere of the Executive Branch, where the SHCP, through its Investments Unit, had the last word in determining which project was acceptable and which was not.

As the time for presentation of the expenditures plan approached, the Secretariat of the Treasury usually made certain information public in the media about how the different aspects of the budget would be formed. (For example, they would announce the growth of expenditure for certain programs in the next year, promise to eliminate or increase certain subsidies, etceteras) These announcements brought new pressure from organized groups of society that had not yet benefited from the Treasury's decisions. These groups would not only express their demands to the agencies that attended to them directly, but would also begin to make their claims to the general bureaus and sectorial units of the Secretariat itself.

⁵Interview with Alma Rosa Moreno, Coordinator of the Liaison Unit with the Congress of the shcp, November 11, 1997.

⁶National Bank of Rural Credit and Farming Promotion Program

⁷Mexican Fertilizers

As regards allocations for states and cities, throughout the year there was a constant interaction among governors, mayors and state and local business groups and the SHCP and other government agencies. In these encounters, new projects were proposed and expenditure needs to be authorized included in the expenditures plan of the next year. The work of the Secretariat's officers is permanent throughout the year in this type of petitions.

At the end of the day, the process of forming the draft of the budget was the product of the constant political management and negotiation (lobbying) that occurs within the public sector in the sphere of the Executive Branch and especially the SHCP. As a result of this, in many cases, the decision on expenditures assignments has been a process that was very much removed from those that ultimately or legitimately benefit from it.

When it was Congress' turn to give its official view of the expenditures plan, it only managed minimal integration of some of its concerns at the end of the process, since "for decades the legislators abdicated the *'pocketbook power'* and up to now they have been limited to approving the budget more than examining, discussing and modifying it."⁸ Officers and former officers of the Treasury (who today are deputies or advisors on the Chamber's Budget Commission) have said that for a long time there has been considerable ignorance on the part of the legislators of the task and techniques involved in forming the budget. They noted that the parties did not have specialists nor an understanding of the SHCP's daily task in order to be able to understand, give justified opinions, and have any real, positive pragmatic influence on the final composition of the expenditure budget.⁹

Furthermore, the negotiation in which the parties' representatives participated was characterized by posturing based on political position, rather than a discussion of specific interests, whose justification was too complex. With this, the discussion was even farther removed from society, since what it represented was an all-out political struggle to generate opposition, show discontent, or simply be heard.

Because of this, we can say that despite the fact that since 1874 the approval of the annual expenditures budget has been an exclusive power of the Chamber of Deputies, and although it apparently has a central role in the process—considering the formal authority conferred on it by the constitution—the deputies play a secondary role in practice. As we saw, the legislators do not participate in designing the budget, but neither do they have the resources or the tradition of developing their own budget.¹⁰

During the period from 1970 to 1996, the budget was always approved based on party lines, with the Institutional Revolutionary Party (PRI) voting always in favor, and the opposition in a growing tendency against.

⁸Maria Amparo Casar, *op. cit.*

⁹Interview with Alma Rosa Moreno, Coordinator of the Liaison Unit with the Congress of the shcp, November 11, 1997.

¹⁰Luis Carlos Ugalde in *Enfoque*, of the newspaper *Reforma*, August 31, 1997.

*Figure 3*¹¹
Voting on the Expenditures Budget, 1970-1993

<i>Year*</i> <i>Selected</i>	<i>Quorum</i> <i>(%)**</i>	<i>Percentage</i> <i>of votes in</i> <i>favor</i> <i>***</i>	<i>Percentage</i> <i>of votes</i> <i>against</i> <i>***</i>	<i>Presence</i> <i>of Opposition in</i> <i>the Chamber (%)</i>
1970	68	100	0	16
1972	70	90	10	16
1974	75	100	0	18
1976	90	100	0	18
1978	83	100	0	18
1980	78	79	21	25
1982	83	77	23	26
1984	61	97	3	26
1986	74	75	25	28
1988	84	60	40	48
1989	78	84	16	48
1990	76	65	35	48
1991	63	89	11	36
1992	70	80	20	36
1993	77	76	24	36

* Year when the budget was voted and approved to be put into effect in the following year.

** The quorum is calculated by dividing the number of those attending the session on the day of the vote by the size of the corresponding Chamber, according to the legislature. This varied in the period studied.

*** Percentage with respect to the quorum at the time of the vote.

Before voting on the budget, the Programming , Budget and Public Account Commission of the Chamber of Deputies drew up an official opinion in order to influence and inform the deputies' vote. Once the official opinion was read, the debate took place in the sessions room. This forum has been the traditional place where the opposition criticizes the country's economic policy and the PRI defends it.

In order to understand the most significant effects of the legislative participation in the expenditure plans of recent years, an analysis of the debates in the Chamber of Deputies concerning budgetary processes during the period from 1970 to 1996 shows us the following trends, as described by Luis Carlos Ugalde in *Enfoque*:

- "Prior to 1982, debate was scant, the deputies of the National Action Party (PAN) being the most active. The criticisms did not refer to the general objectives of the economic policy instruments, but only to very particular aspects.
- Since 1983, the deputies of the "left" began to criticize the direction of the budget and to denounce its presumed lack of social content. These criticisms

¹¹Ibid.

coincide with the start of the economic crises of the eighties and have been accentuated in recent years, where adjectives such as “neoliberal,” “imperialist” or “technocratic” are used frequently to criticize the drivers of economy policy.

- The PRI deputies have always defended the budget draft, arguing that it guarantees long-term economic stability. In recent years, the members of the PRI have denounced the economic proposals of the opposition as “populist”, since although they can stimulate short-term economic growth, they cannot be financed in the long term.
- Lastly, the opposition has criticized the short period of time available for analyzing and approving the budget. From the time the project is sent to the Chamber around November 15 until it is voted on around December 15, there are only four weeks to process and evaluate a preliminary draft whose design takes months to be prepared in the Executive Branch. This period is even shorter at the beginning of new Administration, since the budget draft is presented around December 15.”¹²

We can see in Figure 4 how much effect the legislators’ criticisms have had in terms of amendments to the budget presented by the Executive Branch in recent years.

*Figure 4*¹³
Amendments to the Federal Expenditures Budget, 1981-96
Modifications

<i>Year</i>	<i>Amounts</i>	<i>Administrative, writing and form</i>	<i>Recommendations</i>
1981	No	No	Yes
1982	No	Changes in sectorial classification of the federal government	No
1983	Branch 23 drops 0.8%	The budget of the Legislative Branch is presented separately	No
1984	No	Authority is conferred on the SPP ¹⁴ to promote dissolution of semi-state controlled companies	No
1985	No	Changes in the writing	No
1986	Branch 23 rises 0.9% Article 2 rises 0.12% Article 6 drops 0.1%	Budgetary movements are established as a result of the disappearance of the IMCE	No
1987	No	No	No

¹² Ibid.

¹³ Ibid.

¹⁴ Secretariat of Planning and Budget

figure 4 cont.

<i>Year</i>	<i>Amounts</i>	<i>Administrative, writing and form</i>	<i>Recommendations</i>
1988	Article 2 drops 9.8% Article 3 increases 2.9% Article 4 drops 2.8% Article 6 drops 6.08% Article 7 drops 15.4% Changes in the budget of several state controlled companies	No	No
1989	No	Changes in writing and form of several articles	No
1990	Article 2 drops 0.01% Article 4 increases 5.2%	Changes of writing	No
1991	Article 2 drops 0.01% Article 4 increases 3.9%	Changes of writing	No
1992	Article 2 drops 0.05% Article 4 increases 17.5%	Writing and form. One transitory article changes in order to provide funds to the IFE and the legislative branch	No
1993	No	No	No
1994	No	Writing	Increase in the budget for the legislative Branch is provided
1995	Article 8 increase 0.04%	Form	No
1996	No	Writing	No

As is apparent, the modifications to the original budget that the deputies have made up to the present have been scant, and when they exist they are marginal. Sometimes amounts are changed, but usually by less than one percentage point. On other occasions, the amendments introduced only changed the wording or the order of the articles. This is why the amendments observed have never changed the fundamental direction or content of the original draft of the budget.

3.2. Current Budgetary Process

Finally, there is a perception today among the SHCP officers and the legislators of a different situation. The Secretariat works with the different groups of advisors of the parliamentary factions, training and teaching them in the task of budgeting. There is also a recently created Unit for Liaison with the Legislative Power that is attempting to simplify the task for the political groups of finding data and getting specific information during the budget working period. This Unit tries year-round to serve as a formal connection for the deputies to channel their management work that they provide to the citizens who conferred authority on them. These tasks range from arranging appointments with high officials, to outlining local topics (a task that has

historically been a job of the deputies).¹⁵ With these actions, we see the emerging concern of the Executive Branch to establish formal lobbying channels with the branches of the Union.

Likewise, in designing the 1998 budget, for the first time, there have been connections between high officials of the SHCP and the representatives of the parties prior to discussion and approval of the expenditures plan. These encounters have taken place for the purpose of exchanging views and concerns, as well as serving as an opportunity for informing and influencing the deputies that any participative political process involves. The Unit for Liaison also expects for the first time, to support different groups of organized society or interested individuals who request information to analyze aspects related to the budget and the expenditures law.

Faced with these dynamics, the Coordinator of the Unit for Liaison with the Congress has highlighted the need to professionalize the legislative task. The investment that has been made in training and making the budgetary process more transparent will have been costly and inefficient if there is a high turnover of the group of "specialists" who support the deputies. This may also be the case if the deputies do not exercise their individual vote. This phenomenon occurs in Mexico because, among other reasons, the deputies cannot be re-elected for the subsequent term, and must wait at least one period to seek re-election. Thus, rather than attending to the needs of constituencies who cannot re-elect them immediately, the deputies have the incentive to stay on good terms with their party, casting the vote as a block, so that the party appoints them as a candidate again, includes them in another plurinominal list or proposes them for the Senate. This is not a minor particularity proper to the Mexican political system.

3.2.1. Instruments for Formulating the Expenditures Draft

As part of the process of putting together the federal budget, the Secretariat of the Treasury requests that each agency provide its expenditures draft of the next fiscal year. To do this, it makes the following instruments available to the administrative units in charge, so as to receive standardized proposals at the outset that comply with basic principles of content and form.

- Guidelines for Arranging the New Programmatic Structure (for Fiscal 1998);
- Guidelines of Expenditure Policy for Drawing up Annual Operative Programs;
- Expenditure Policy Guidelines;
- Public Sector Catalogue of Units of Measure;

¹⁵Reforma newspaper, October 31, 1997.

- Catalogue of Responsible Units;
- Catalogue of Branches, Agencies and Entities of the Federation;
- Catalogue of Programmatic Categories of the Federation; and
- Planning and Budget Manual.

3.2.2. Determination of the Budgetary Ceiling

An instrument that delimits the general dimensions of the Expenditure Plan is the budgetary ceiling. To determine it, the goal for the Public Balance must be established in congruence with the Economic Policy objectives (growth and inflation goals). The estimate of Public Revenue from the projections of the macroeconomic variables and the tax, price and tariffs policies is added into the budgetary ceiling equation. Subtracted is the calculation of the Financial Cost in relation to the estimate of interest rates and balance of the debt and the participation derived from the estimate of the participable tax collection.

3.2.3. Structure of Public Expenditures — Dimensions

In order to understand conceptually the perspectives from which the public sector in Mexico has thought of budgetary planning, we will define in Figure 5 the dimensions into which the tasks are classified and the executors of the public expenditure plan.

Figure 5

<i>Administrative Dimension</i>	<i>Economic Dimension</i>	<i>Functional Dimension</i>
Who applies the public funds? Who spends?	What input is purchased?	Why is the expenditure made? To achieve what? To do what?
Responsible branches and units	Current expenditure and investment expenditure; chapters, items and entries	Sectorial and special programs, institutional activities and projects
<i>Support Instruments</i>		
Catalogue of Responsible Units and Catalogue of Agencies and Entities of the Federation (Figure 6)	Classification by Purpose of the Expenditure (Figure 7)	Catalogue of Units of measurement of the Public Sector and catalogue of Programmatic Categories (Figure 20)

We will also show below, the spheres of administrative and economic dimensions, in figures 6 and 7 respectively, as preamble and reference for the following section on trends in the assignment of public funds in previous years.

We will deal with the functional dimension later, since up to today use of that dimension by the daily executors of the expenditure has been very limited. In Section 4.1 of the document, we will show the functions of the New Programmatic Structure that will come into effect with the 1998 budget.

3.3 Budgetary Public Sector — Administrative Dimension

As shown in Figure 6, the administrative dimension refers to the powers, branches, bodies and entities of the public sector, classifying them in keeping with their autonomous, centralized or decentralized nature.

Figure 6

<i>Powers and Autonomous Bodies</i>	<i>Centralized Public Administration</i>	<i>Semi-state Controlled Public Administration</i>
Legislative	Office of the President of the Republic	Decentralized bodies Institute of Social Security and Services for State Workers Mexican Institute of Social Security National Lottery for Public Welfare Airports and Auxiliary Services Federal Toll Roads and Bridges and related Services National Railways of Mexico National Company of Popular Subsistence (Conasupo) Federal Commission of Electricity The Electrical Company Pemex
Judicial	Legal Advisory Office of the President	
Federal Electoral Institute	Secretariat of the Interior (Gobernación)	
Litigious Administrative:	Foreign Affairs	
	National Defense	
Agrarian Courts	The Navy	
	Secretariat of the Treasury and Public Credit	
Federal Tax Court	Social Development	
	Environment, Natural Resources and Fisheries	
	Energy	
	Commerce and Industrial Development	
	Agriculture, Cattle Farming and Rural Development	
	Communications and Transport	
	Office of the Comptroller and Administrative Development	
	Public Education	
	Health	
	Labor and Social Benefits	
	Agrarian Reform	
	Tourism	
	Office of the Attorney General of the Republic	
	<i>General Branches</i>	<i>Majority State Participation Companies</i>
	Social Security Contributions	Paper Producing and Importing Company
	Salary and Economic Provisions	
	Public Debt	
	Contributions for Basic Education in the States and Mexico City services	
	Overcoming Poverty	
	Share for Federal and City bodies	
	Expenditures for financial correction	

Discretionary Expenditure¹⁶ Classification — Economic Dimension

Figure 7

Discretionary Expenditure	
<i>Economic Classification</i>	<i>Classification by Expenditure Purpose</i>
Current	Personal Services Materials and Supplies General Services Other expenditures
Capital	Physical investment Financial investment

The economic dimension serves to identify the specific input and factors that the public sector acquires for its operation. Its importance lies mainly in the control and evaluation of the expense from a macroeconomic perspective, distinguishing between current and capital expenditures.

4. Trends in Assignment of Public Funds

Mexico is a country with a relatively low per inhabitant income, with a high concentration of wealth and income, which translates into situations of extreme poverty for a significant segment of the population. Adequate orientation of the Federal Expenditures budget is therefore considered crucial to attaining the objectives of an aggressive social policy aimed at achieving higher levels of well-being for families.¹⁷ Likewise, in recent years in its struggle to achieve a successful economic policy, the Executive Branch sees the budget as both a tool and a blueprint (to a greater or lesser degree), of the frame of reference used to draw up the economic plan.

With this reasoning, we can see certain governmental intentions reflected in the budgets of previous years. For example, we will see in the following figures, the government's efforts to attain sustained reduction of public expenditure and to correct the economy, and a growing concern to prioritize social expenditure and strengthen federalism. The trend in these last two areas appears as a consequence, among other things, of the social demand for better living conditions, reduction of poverty, and political pressures by the opposition and the popular sector.

In addition to the intentions of the governing or citizen demands, the formation of the expenditures plan shows signs indicating the economic cycle the country is

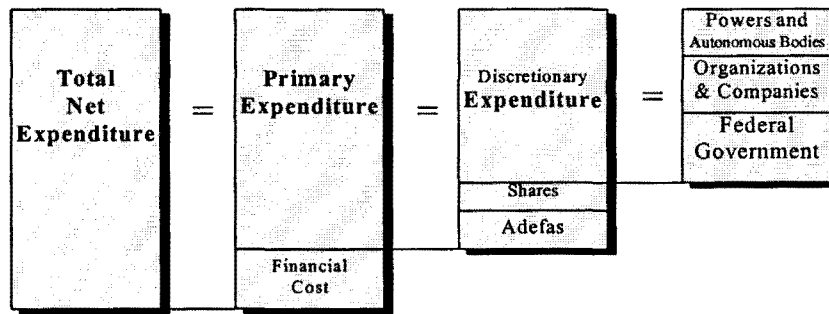
¹⁶ In Mexico known as Gasto Programable.

¹⁷ Santiago Levy in the magazine, Nexos 239, November 1997.

going through; a clear example is seen in the composition of the public expense resulting from the crisis at the end of 1994, that marks a very steep slope for 1995, which nevertheless also marks a clear recovery that in just a couple of years already appears in the national accounts.

First, it is useful to explain that the composition of the Total Net Expense is as follows:

Figure 8

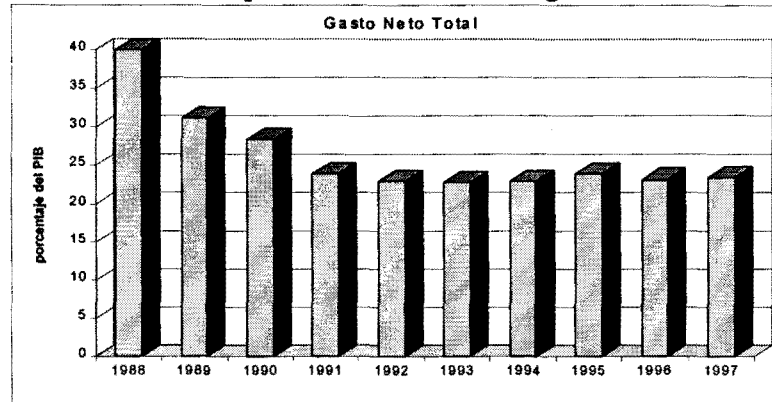


Adefas: Debt from previous fiscal years

We can see in Figure 9 that the Total Net Expenditure, formed by all of the expenditures of the federal public sector less the amortization of the debt, has dropped in real terms, as well as in relation to the size of the economy. While in 1988 this was almost 40 percent of the gross domestic product, by 1993 it already represented less than 23 percent, a ratio that has been maintained practically to date, although in real terms the growth that was observed from 1996 to 1997 was 5.2 percent.¹⁸

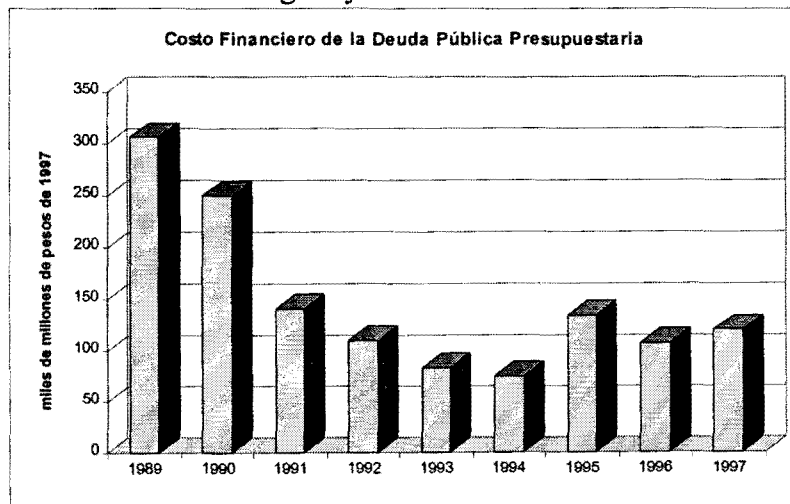
¹⁸Office of the President of the Republic, in Public Expenditure Policy, of the Federal Expenditures budget for Fiscal year 1997 and other, previous years. This is the source of the following figures, unless otherwise specified.

Figure 9
Total Net Expenditure as a Percentage of the GDP



Likewise, we can note the progress of correction of economic policy. The financial cost of the debt, as observed in Figure 10, has shown a sustained drop since 1988. However, we see that the effect of the 1994 crisis is reflected in the real increase of 1995. In addition, the increase in 1997 of that cost, from 106.9 to 119.7 (mm of 1997 \$) responds to the fact that almost 11 billion pesos were used to meet the fiscal cost of programs and agreements for debt restructuring, such as mortgage loans, for capitalizing of the development bank, development fund financing programs, and the Savings Protection Fund (Fobaproa).

Figure 10¹⁹
Financial Cost of the Budgetary Public Debt in millions of 1997 Pesos

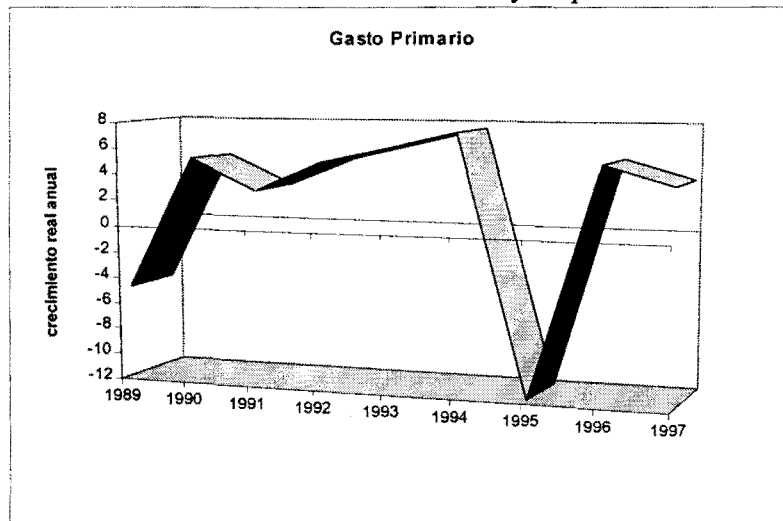


¹⁹ The term “1997 pesos” refers to the fact that all the figures were restated, using the expected inflation rate defined in the General Political Economy Criteria for 1997, which was 15%.

The primary budgetary balance measures the public sector's ability to sustain governmental operations and investment with tax revenue, non-tax revenue and the proceeds from the sale of goods and services, regardless of the balance of the debt and its cost. In order to follow up the fiscal discipline, the primary expense is calculated (figures 11 and 12), the expenditures aggregate that excludes the payments of interests and commissions on the public debt from the net expense. Therefore, the primary expenditure is the sum of the shares of the federal states and the cities, as well as all the current and investment expenditures made by the federal public sector.

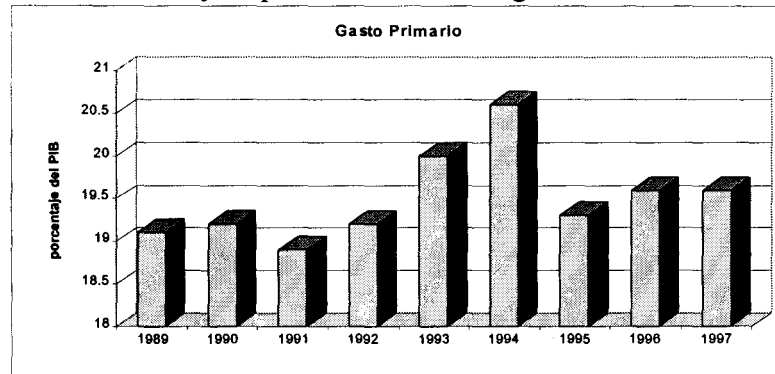
Figure 11 shows how in 1997, for example, the primary expenditure grew an annual real percent of 3.9 over 1996, an increase less than what was forecast as the growth of the economy.

Figure 11
Annual Real Growth of Primary Expenditure



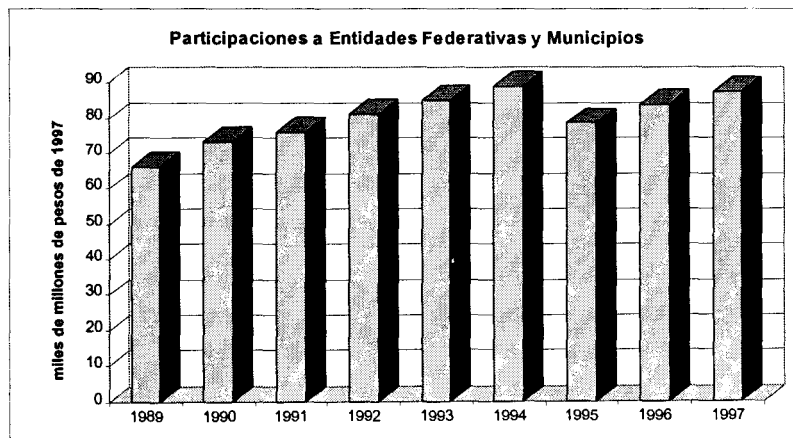
However, despite this growth, Figure 12 shows that in recent years there has been an attempt to maintain a primary expenditure proportion with respect to the GDP, of 19.6 percent.

Figure 12
Primary Expense as a Percentage of the GDP



In reference to the interest expressed by the government in strengthening federalism, Figure 13 shows that since 1995 the shares for the states and cities have experienced a sustained rise. Although this growth results mainly from the expected evolution in economic activity, as well as from the efforts made to widen the taxpayer base, for the 1998 budget the partisan demands point toward even greater growth. Under the flag of a real federalism, the opposition expects an even more significant increase in this area.

Figure 13
Shares for States and Cities in billions of 1997 Pesos



The discretionary expenditure (figures 14 and 15) summarizes the use of public funds to comply with and look after governmental functions and responsibilities, as well as to produce goods and provide services. In recent years, this reorientation has meant an increase in resources for the social sector (for a detailed explanation, see the Figure 19). Also, since 1995 there is an increase observed in the sustained discretionary expenditure, of 0.1 percentage points per year.

Figure 14
Discretionary Expenditure
in billions of 1997 pesos

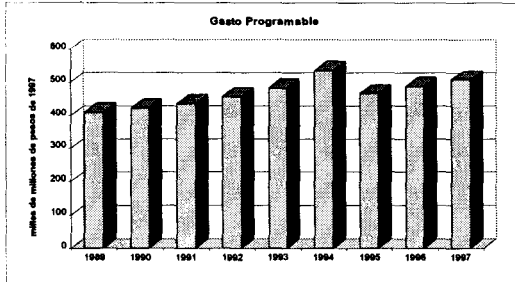
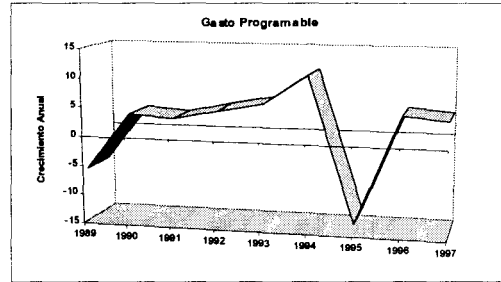
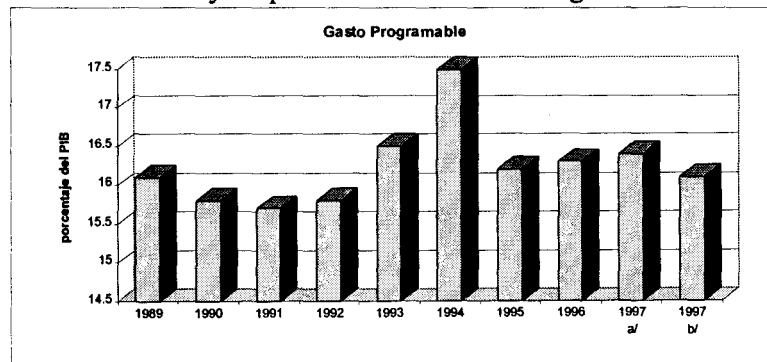


Figure 15
Annual Growth in Discretionary Expenditure



The entrance of the new Social Security law into effect was considered in the projection of the 1997 budget. This law included an increase in the contributions by the federal government to the Mexican Institute of Social Security for 18 billion 592.1 million pesos, the amount that was considered for the 1997 budget. Without this consideration, the Discretionary Expenditure as percentage of the GDP would have been at the lowest level in the last five years. This fact can be attributed to the strict discipline aimed at increasing efficiency and efficacy that has governed public expenditures in recent years.

Figure 16
Discretionary Expenditure as a Percentage of the GDP

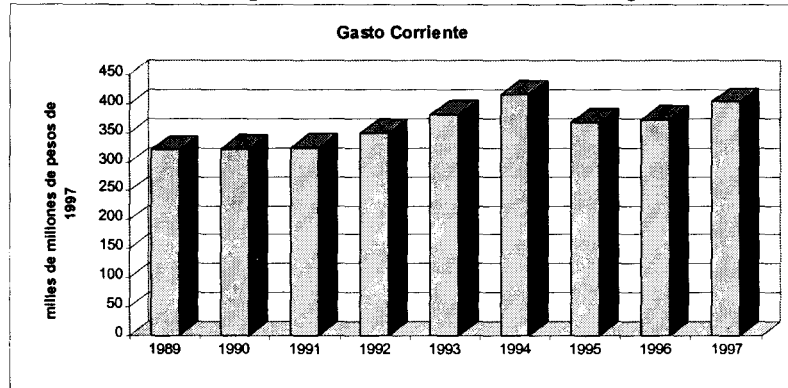


a/ Includes the reform of Social Security b/ Excludes reform of Social Security

Within the Discretionary Expenditure, the main economic heading is the current expense (Figure 17) that includes all the expenditures by the Autonomous Powers and Bodies, the Federation, and the semi-stated controlled companies. This is where we see the resources used for the tasks of legislating, imparting justice, and organizing and overseeing electoral processes. Further, it considers the acquisition of necessary input for the production of goods and services whose sale makes it possible to get revenue to expand infrastructure and maintain its financial viability. Included

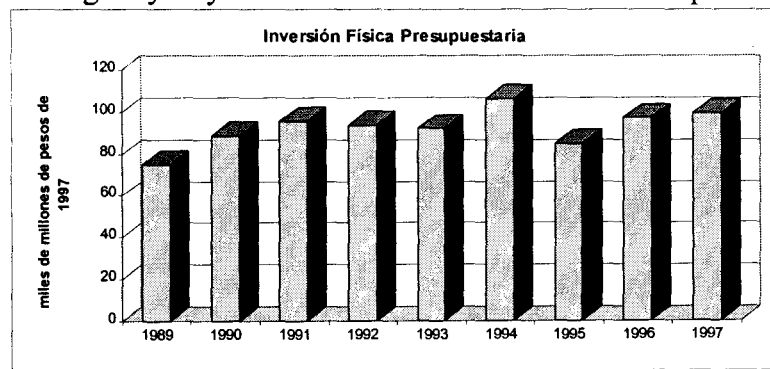
here are expenditures in personal services, in materials and supplies, including general services where the pension payment comes in. The increase we observe for 1997 fundamentally reflects the strong support assigned to the social development programs and the cost of social security and health reforms.

Figure 17
Current Expenditure in billions of 1997 pesos



The Capital Expenditure includes those expenditures that contribute to expanding the social and production infrastructure, as well as to increasing the patrimony of the public sector. The greatest part of the Capital Expenditure has been used in the last years to drive economic growth through investment in infrastructure. Figure 18 shows that in 1997, Physical Investment will grow a real 26.7 percent in relation to 1996.

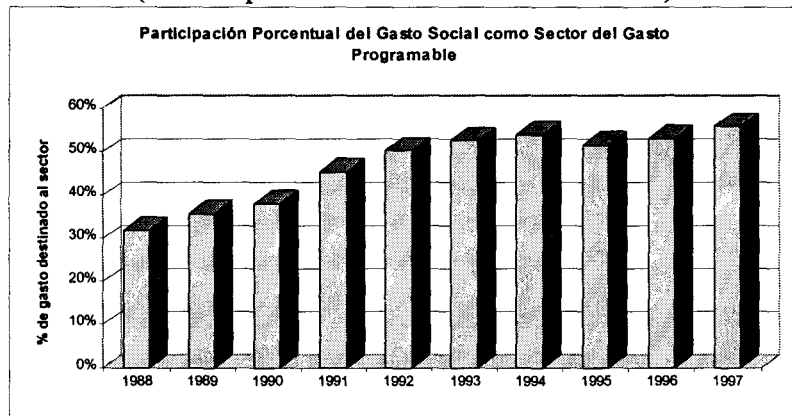
Figure 18
Budgetary Physical Investment in billions of 1997 pesos



As seen in Figure 19, Social Expenditure has been the main component in the Discretionary Expenditure (particularly since 1992) and its participation has not dropped from 50 percent. This sector groups together the spending on education, health, social security, labor, supply and social welfare programs, as well as regional

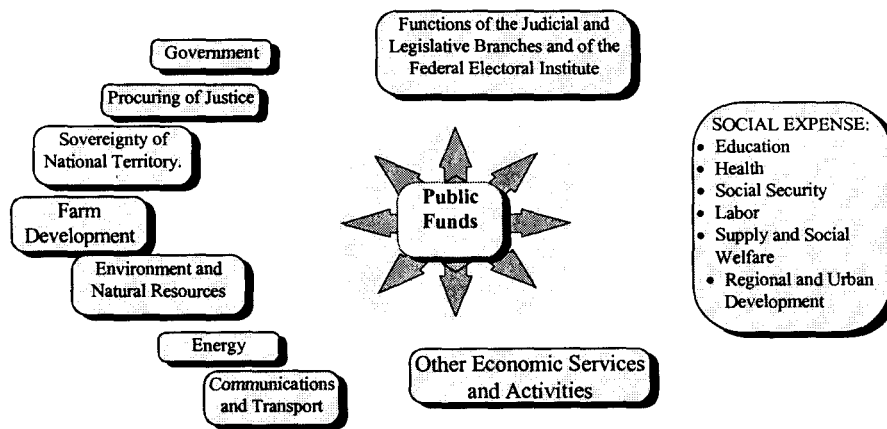
and urban development. It is expected that by 1997 the social sector will account for 55.8 percent of the discretionary expenditure.

Figure 19
 Percentile Share of Social Expenditure as Discretionary Expenditure Sector
 (% of expenditure destined for the sector)



4.1. Functions of the 1998 New Programmatic Structure — Functional Dimension

Figure 20



Source: Chávez Presa, Jorge. *La Nueva Estructura Programática*, Unidad de Política y Control Presupuestal, SHCP, 1997

With the purpose of providing society with public goods and services of greater quality and in a more efficient manner, the Secretariat of the Treasury and Public Credit has promoted reform of the budgetary system which includes joint arrangement of the 1998 New Programmatic Structure (NEP), and introduction of

strategic indicators to evaluate and monitor the programs, as well as the main governmental activities. With this, the SHCP seeks progress toward an administration focused on results and to provide those who execute the expense with managerial capability. This will largely involve planning, programming, the budget, exercise, follow-up and evaluation of the public expenditure for the purpose of modernizing the public sector.

Until before this reform, the budgetary documentation that took eight months of intense work to put together, was used on two occasions: during the period of approval and during presentation of the Account of the Federal Public Treasury. Those who executed the expenditure directly used the programmatic forms and contents only marginally and not as tools to provide useful, practical follow-up of the operation in terms of programs, subprograms, projects and goals, as they have been defined, the programmatic structure that has been used does not facilitate the financing of public policies of the governmental programs, nor the activities of the agencies and entities. Nor does it make it possible to understand and finance the products and services through which the public sector seeks to have an impact on the well-being of the target population.

The budgetary reform outlined by the SHCP is based on two innovations: an integral reform of the programmatic structure, and the integration of strategic indicators to evaluate and monitor the programs, as well as the main governmental activities. The development of the new definitions for the categories and elements will permit, on the one hand, simplifying the process of joint arrangement of financing and negotiation of the budget, and on the other, introducing a new context for motivating those who execute it to concentrate on the generation of products and rendering of services directed at obtaining the results sought by the public policies.

The NEP's main objective is to give feasibility to the planning, programming (definition of activities, goals, times, executors, action instruments and resources necessary to achieve the medium and long-term objectives defined in the National Development Plan) and budgetary exercise, specifically strengthening the functional dimension of the process.

4.1.1. The President's Sectorial Programs

Article 22 of the Planning Law establishes the sectorial programs, defining them in accordance with the National Development Plan. The old programmatic structure does not incorporate the sectorial programs in the budget, meaning that from the programmatic viewpoint, the Federal Expenditures Plan has a weak connection to the National Development Plan. Thirty-two sectorial programs are considered:

- 1) Program for Procuring Justice
- 2) Program for a New Federalism

- 3) National Public Safety Program
- 4) Civil Protection Program
- 5) Social Protection and Reintegration Program
- 6) National Population Program
- 7) National Women's Program
- 8) National Development Financing Program
- 9) Program to Overcome Poverty
- 10) National Urban Development Program
- 11) Housing Program
- 12) Development of Indian Peoples Program
- 13) Program for Modernization of Government Administration
- 14) Program for Development and Restructuring of the Energy Sector
- 15) Program for Internal Trade, Supply and Consumer Protection
- 16) Program for Industrial Policy and Foreign Trade
- 17) Farm and Rural Development Program
- 18) Program for Development of the Communications and Transport Sector
- 19) Data Processing Development Program
- 20) Educational Development Program
- 21) Culture Program
- 22) Science and Technology Program
- 23) Physical Education and Sports Program
- 24) Health Sector Reform Program
- 25) Program for Employment, Training and Defense of Labor Rights
- 26) Tourism Sector Development Program
- 27) Environment Program
- 28) Fisheries and Aquaculture Program
- 29) Forestry and Soil Program
- 30) Hydraulic Program
- 31) Program for Attending to the Sustainable Development Agenda
- 32) Agrarian Sectorial Program

5. *Guidelines for Fiscal 1998*

For fiscal 1998, the SHCP put together its Federal Expenditures Draft seeking to comply with:

- The growth and employment objectives established in the 1997-2000 National Development Financing Program (Pronafide); and
- The fiscal goals established in the 1995-2000 National Development Plan.

Likewise, the principle of austerity continues, and implies:

- Limiting expenditure to the availability of stable, permanent resources; and
- Reducing application of current and capital expenditures with standards of efficiency and efficacy.

The fiscal setting that the SHCP considers for the 1998-2000 period in preparing the Expenditures Budget Draft forecasts that:

- The economic deficit of the public sector, as a proportion of the GDP, will be reduced by one percentage point in the next three years;
- The budgetary income will only grow by 0.4 percent of the GDP during the 1998-2000 period;
- The fiscal cost of the social security reform and financial correction programs, and support for debtors, will involve pressure on public finances of around 2 percent of the GDP in each of the years of the period; and
- Consequently, discretionary expenditure of the public sector, without including the cost of the social security reform, will have to drop by 0.3 percent of the GDP in the next three years.

The SHCP's strategy to achieve the foregoing consists in redirecting funds to two of the main sources of economic growth: investment in human capital and accumulation of physical capital. With this, they establish that the priority will be social development and the creation of production and social infrastructure.

The objectives of the economic policy that the SHCP has outlined for 1998 are:

- To persevere in generating a stable macroeconomic environment;
- To reach a GDP growth rate of at least 5.0 percent;
- To obtain a primary surplus, as proportion of the GDP, of 3.7 percent without considering the cost of social security reform;
- To create and strengthen the sources of internal saving in a sustained, permanent fashion;
- To improve the levels of society's well-being, particularly of the groups with lowest income; and
- To increase resources for investment in public infrastructure.

Objectives of the public expenditure policy for 1998.

The SHCP establishes that the agencies and entities of the public sector will direct their efforts to contribute through their programs, activities and projects, to:

- Promoting economic growth;
- Raising the well-being of the population; and
- Increasing efficiency, efficacy and quality in using public funds.

Direction of the public expenditure:

- To prioritize assignment of funds toward the programs, institutional activities and projects related to the following: education, health, social security, employment, nutrition and housing, in order to raise the population's capacities and productivity;
- To promote economic growth through support of important basic infrastructure projects, mainly in hydrocarbons, electric power, communications and transport, and hydraulic infrastructure that consolidate and ensure the future flow of public sector revenue;
- To consolidate the processes of decentralization with the purpose of bring those who make the expenditure closer to the direct beneficiaries of public goods and services; and
- To contain the non-priority current expenditure in order to use more resources for investment.

6. Conclusion

In this analysis, we have dealt with budget practices in Mexico from two perspectives. One of them, the viewpoint of the central government office responsible for the overall control and management of expenditure, the other one, the means by which citizen representatives have attempted to forward their interests in the federal budget and influence the certification process of the amounts to be controlled and managed. The aim of this effort is to include in further research activities key issues we identified to be defining the budgeting process in Mexico. Such issues are, among others, an ill defined legislation, lack of both professional civil and legislative services, ignorance of the public at large and the monopoly of the SHCP's control in the process.

Part of the political phenomenon that triggered the awareness in the federal budget is the growing participation of diverse organizations in alerting and instructing the public about their right to be informed and to be heard. The interest of

CIDE in this dynamic is to provide public servants as well as interested citizens with analytical and practical tools for more effective management and informed participation.

This Working Paper describes the budget process and sets a general agenda for further research. It explains how the Federal Expenditure Budget was prepared prior to 1997, and presents the technical details of how the budget was formulated, as well as how it is spent. It also presents the governmental and administrative offices that receive budgetary allocations. In another part of this document, we briefly examine how budget allocation decisions are influenced by bureaucratic and social groups. After laying down the general lines of how the government now attempts to plan and make its expenditure (the NEP), the document also presents the general lines of discussion between the government and the two main opposition parties regarding the content of the Federal Expenditure Budget for 1998. Again, this paper is only a first attempt of a broad and deep discussion that has just begun in Mexico.

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