Mexico: President Calderon calls for “doing more with less”

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14 September 2009

Mexican President Felipe Calderon called for doing “more with less’ when he presented his 2010 budget to Mexico’s Chamber of Deputies Last Tuesday. The austerity budget, designed to resolve a 480,000 million peso fiscal deficit, calls for increases in almost every tax that affects the working class and poor, including the Value Added Tax (IVA,) taxes on internet services, mobile telephones, income taxes, and bank deposit taxes. And, in its present form, the budget further dismantles the last remnants of Mexico’s nationalized industries.

The document, now in draft form, will undoubtedly undergo modification by the legislature before a final budget is approved in November. However, in the context of Mexico’s participation in the North American Free Trade Agreement, the country’s ruling elite has no more choice in this matter than do California or Michigan. Like the US states, the Mexican government is under the thumb of Wall Street and the financial sector.

Whatever its final form, the 2010 budget and Calderon’s fiscal reform will reduce living standards and channel millions to big business and the banking system.

On top of the current 15 percent IVA, a 2 percent sales tax will be applied to both food and medicines—items that historically had been free of taxes. Ironically, the budget document refers to the new tax as a “fund to combat poverty,” a nod to a paltry increase in some programs for the very poor. It proposes increases in electricity and gasoline prices. Beer and cigarettes will also both be taxed at higher rates.

In short, the Mexican government plans to resolve its fiscal crisis largely on the backs of the working class and peasantry through a bundle of regressive taxes and cuts in social programs, while the wealthy, the political class, and the union bureaucracies continue to benefit from a system that, awash in corruption, is dominated by big businesses and banks and fully integrated into the North American economy.

In addition to the tax increases, the draft budget also contemplates cuts in expenses, including the consolidation of three government ministries—tourism, civil service, and agricultural reform. Education will be cut 16.7 percent; cultural activities will be cut 11 percent across the board; public transit will be cut 6.7 percent. Together with the tax increase these measures would reduce the budget deficit to 60 billion pesos (US $4.5 billion,) a sum that the government plans to borrow in the capital market.

In comparison, the budget document contemplates a continuing financial drain from the nearly permanent “war on drugs.” Since 2007 the Public Security budget has exploded by 140 percent. The national defense budget has increased by 33 percent.

In his budget statement Calderon claimed for his administration a timely response to the current recession—Mexican society is suffering through the deepest economic slump since the 1930s. This year economic output (GDP) is expected to fall by ten percent. Calderon blamed the crisis on the impact of the US financial crisis, a reduction in remittances from Mexican immigrants and the fall in world oil prices. He suggested that Mexico’s recovery would follow the supposedly expected recovery of the US economy later this year.

The Mexican president pointed out that the country’s economy is closely tied to that of the US, the destination of 80 percent of Mexico’s exports. Other large Latin American economies have, so far, not shown as severe a decline as Mexico in part because

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their trade is more diversified, with exports to India, China, Western Europe, and the rest of Latin America.

Calderon mentioned that Mexican oil prices have declined from last year's astronomical US $130 in mid 2008 to $70, suggesting that his government had anticipated that last year's windfall would continue and had not planned for the 300,000 million peso drop in oil revenues that actually took place.

The draft budget got a lukewarm reception from national and international bond rating agencies and by the banks, many of which interpreted it as a continuation of the so-called fiscal discipline that has characterized the Calderon administration, a code word for enforcing low wages and benefiting exporting industries.

Sergio Kurczyn, a manager of Banamex, Mexico's second largest bank and a subsidiary of Citibank praised Calderon. "This fiscal proposal sends an appropriate signal of fiscal discipline at the same time that it realistically concentrates resources among the weakest layers," said the banker.

Pedro Tuesta, of *4Cast*, a Washington-based bank services firm also voiced his approval for the IVA increase and sales tax. "This was the correct response, Mexicans are not taxed enough," he said. However, he added, "one could comment that the budget cuts are too small."

Not all were happy however, *RBC Capital Markets*, a firm that calls itself a "premier' investment bank hinted that Mexico threatened to lower its rating in October, demanding that the Calderon government impose more budget cuts. *Finch* and *S&P* echoed this threat. On the day following Calderon's announcement, the value of the peso fell, as some speculators began to repatriate their debt.

What makes Wall Street speculators doubly nervous is that the budget needs to be approved by the Chamber of Deputies, dominated by the PRI. In July, Calderon's party, the PAN, lost control of the lower chamber of Congress. PRI deputies have objected to the draft budget and have called on Calderon to initiate a budget stimulus instead.

In accordance with the demands of international banks and speculators, the proposed budget is a turn away from measures that would stimulate domestic demand through a fiscal stimulus package. Government economists hope that the Mexican economy hit bottom in June and will begin to recover soon. They claim that an increase in values in the Mexican stock exchange signals an anticipated recovery, based on the so-called "green shoots" in the US economy. For that reason, they argue, there is really no need for those policies.

The draft budget coincided with the release, later in the week, of an alternative proposal by a panel of academic economists, linked to the National Autonomous University (UNAM).

The UNAM experts include two figures from the past: Jesús Silva Herzog Flores, and Cuauhtémoc Cárdenas Solórzano. Herzog was a minister under the PRI Governments of Miguel De La Madrid and Carlos Salinas in the 1980s, when the Mexican ruling class was making the transition from policies of economic corporatism to the imposition of free-market, export-oriented economics. At the time, Cardenas had led the opposition to this transformation.

The report disputes that the recession is over. While it recommends a slightly more aggressive government intervention in the economy, coupled with structural reforms to end a regressive tax system that protects the privileges of the business elites, the UNAM report is a confirmation that there will be no going back to the past.

At all levels of government, Mexico is nearly bankrupt. According to an estimate that appeared in *Mexican News and Analysis*, an online site funded by the United Electrical Union (UE) some 95 percent of Mexico's 2,400 municipalities do not have the resources to pay public employees. Most have cut back by 20 percent. Many of them are demanding federal assistance.

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