

## **Mexico's Distorted Expenditures on the Public Debt and a Two Part-Proposal for Relief**

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The ability of Mexico to overcome its economic slowdown and to begin to resolve social problems caused by deferred social expenditure since 1982 depends greatly upon how much discretionary funding remains in the central government budget after payment of amortization and interest on the foreign and domestic public debt. It also depends importantly on the real value of the Mexican foreign debt and the liquidity of the country's banking system. Let us analyze these matters.

About payments on the debt, the Mexican presidency has been caught in a "catch 22" situation because, on the one hand, it would like to show to the international banking community that the service on the foreign debt is excessive in relation to the country's capacity for repayment. On the other hand, for domestic political purposes, the government has sought to understate the importance of all public debt payments. Under President **Miguel de la Madrid** domestic political considerations won out and Mexico lost much of its negotiating power with the international community, including the U.S. Treasury Department.

Thus, the government has presented the share of foreign debt payments in relation to GDP rather than to central government expenditure on foreign and domestic debt. Foreign debt payments are seen, then, to be only 5 percent of GDP, which sounds manageable.

Also the government has downplayed the share of expenditure on all of the debt by removing it from its presentations on public expenditure, further obfuscating issues. Hence, few observers inside or outside Mexico have been fully aware of the internal impact of the country's entire debt problem.

My investigations into the trend of debt payments as a share of central government expenditure show below that the percentages are not manageable and reveal the dire straits into which Mexico has fallen. I calculate the total public debt (internal plus external) payments as a share of the central government outlay rather than as a share of the entire public-sector expenditure (central government plus parastate of decentralized expenditure) because outlays in the parastate sector are not discretionary. Most parastate agencies either lose money and require subsidies, operate with feather-bedded inefficiency, or both. In any case the important agencies collect their own revenue and expend it.

Only the central government channels its tax collections into the Treasury where it is allocated by the Secretary of Planning and Budget to cover the myriad of Mexico's needs. Only the central government has discretionary spending, but that discretion also has been seriously compromised by subsidies needed to cover the deficits of most parastate agencies. To recover what discretion it has, the central government has moved to sell to the private sector many parastate enterprises, close enterprises, or merge them to cut costs.

President **Carlos Salinas de Gortari's** plans to reform the giant and corrupt PEMEX enterprise offers a case in point. Although PEMEX was able to end central

government subsidies and also to pay taxes and rents to the central government since the oil boom of the late 1970s, PEMEX could have generated much more for the national treasury and for central government discretionary funding had it been run honestly and efficiently.

PEMEX corruption at all levels and especially the nefarious union veto power over management decisions, control over assignment of workers (including bribery and sale of jobs), and control of contracts (reduced from -50% to 2% under De la Madrid) by the infamous PEMEX union leader **Joaquín Hernández Galicia** ("La Quina") has had grave consequences for Mexico. "La Quina's" power not only damaged the government's ability to marshal national resources but hurt Mexico's image abroad.

Foreign bankers, IMF officials, and U.S. Treasury Secretaries **James A. Baker III** and **Nicholas F. Brady** have argued that Third World debtors including Mexico would never clean up rampant corruption as seen in PEMEX if debt relief were to come prematurely.

Apparently Salinas met in early January 1989 with "La Quina" to tell him of his plans to divide PEMEX into three separate enterprises (exploration and drilling; distribution and sales; and secondary petrochemicals), with only exploration and drilling to be retained without private investment. "La Quina" rejected the plan and sealed his own fate. On January 10 Salinas sent army troops to arrest "La Quina" and over 80 of his cronies for hoarding guns and being involved in corrupt activities: at the same time Salinas put oil refining and gas distribution under temporary military guard to prevent mysterious explosions such as that of San Juanico in 1984. (After that explosion at the San Juan Ixhuatepec gas distribution center leveled 30 acres of Mexico City and killed up to 1,000 persons, De la Madrid effectively aborted his campaign to clean up the PEMEX unions.)

If this context of state corruption and inefficiency were not enough, the central government has also found itself trapped in the rising share of its outlay needed to cover the foreign and domestic debt. Much of this debt was acquired in 1982 as the result of nationalizing the country's banks, an act which ironically saved the private sector from bankruptcy.

The results of my investigation into the share of central government outlay devoted to the debt are given in Table 1, which reveals the extent of Mexico's predicament. Where

Table I

Average Central Government Shares of  
Actual Outlay Devoted to Service  
the Public Debt.<sup>1</sup> By President,

1900- 1988

| President <sup>2</sup>    | Average %         |
|---------------------------|-------------------|
| Díaz (2)                  | 30.1 <sup>a</sup> |
| Madero (1)                | 25.5              |
| Madero/Huerta (1)         | 23.8              |
| Carranza (4) <sup>b</sup> | 3.5               |
| Obregón (4)               | 8.5               |
| Calles (4)                | 12.7              |
| Portes Gil (1)            | 7.0               |
| Ortiz Rubio (3)           | 4.7               |
| Rodríguez (2)             | 12.3              |
| Cárdenas (6)              | 10.9              |
| Avila Camacho (6)         | 17.0              |
| Alemán (6)                | 15.4              |
| Ruiz Cortines (6)         | 16.2              |
| López Mateos (6)          | 25.7              |
| Díaz Ordaz (6)            | 23.5              |
| Echeverría (6)            | 13.5              |
| López Portillo (6)        | 23.6              |
| De la Madrid (6)          | 52.4 <sup>c</sup> |

1. Amortization + interest on the foreign and domestic debt of the central government.  
Excludes service on the debt of the parastate sector.
2. Number in parentheses is the number of years in average.
  - a. Sample years for Díaz, 1900/1901 and 1910/1911.
  - b. Includes 1920 interim government of Adolfo de la Huerta, president for seven months.
  - c. Includes projected (not actual) percent for 1988.

SOURCE: James W. Wilkie, *La revolución Mexicana (1910-1976)* (México. D.F.: Fondo de Cultura Económica, 1978), pp.142 and 368; and since 1977, calculated from data in Miguel de la Madrid, *Quinto and Sexto informe de gobierno, tomo estadístico*, p. 103 and p. 55, respectively.