Non-embedded Autonomy: The Political Economy of Mexico's Rentier State, 1970 - 2010

Gabriel Farfan-Mares

This dissertation is submitted for the degree of Doctor of Philosophy

London School of Economics and Political Science

Department of Government

---- October 2010 ----

Declaration

I declare that this dissertation is the result of my own work and includes nothing which is the outcome of work done in collaboration except where specifically indicated in the text.

Gabriel Farfan-Mares Date: 27 October 2010

I dedicate this research to the people of Mexico.

To the memory of Berta Ulloa and Horacio Labastida.

"… people may go to the barricades to fight a tax increase, but will they shed blood over an increase in the marginal reserve ratio coupled with interest rate penalty provisions for excessive allocation of credit to retail trade? … "

(Koehler 1968: 60).

"An anecdote by budget specialists, probably apocryphal but completely revealing, concerns Ortíz Mena's practice of calculating budget parameters –income, expenditure by sectors, borrowing requirements– on an index card he kept in his jacket pocket and divulging the figures only at the annual budget presentation to congress. Another legend, exaggerated but based in fact, was the practice of preparing two budgets, one for presentation before congress (understating investment expenditure and debt requirements) and another (calling for higher levels of investment and debt) which was actually implemented at the outset of the fiscal year"

(Bailey 1984: 78).

"The young woman stood up to speak. 'I'm really nervous', she blurted out. Seated at her left was Carlos Salinas de Gortari, the presidential candidate of Mexico's long-governing Institutional Revolutionary Party (PRI) … She focused on one of the community's key problems. They had very little drinking water, she said, adding that they could go for several days without any drinking water at all: 'And so, my neighbors and I turn to you, because we think you are like a god. And, like god, we want you to give us drinking water' … Salinas rose to respond … He paused for an effect and then asserted, 'El Arbolito demands water. El Arbolito shall have water'. Like the pre-Columbian Tláloc, Salinas had become the god of rain … Before the rally at El Arbolito he had learned that a water project had already been approved for that area. 'I know how much it will cost, how long it will take, how much they will have to pay. Oh yes, I know the project'. Tláloc, alas, had had technical assistance"

(Domínguez and McCann 1996: 1).

Non-embedded Autonomy: The Political Economy of Mexico's Rentier State, 1970 – 2010

Abstract

Due to its competitive political system and strong non-oil export capacity, Mexico is not considered an oil Rentier State. Yet, the consistent and intensive use of crude oil has fundamentally altered the trajectory of its political economy. State institutions, which had consistently relied on oil rents to finance their operations, tend to preserve social stability and political consensus rather than promote development.

The central bureaucracy's need to control oil rent strengthens and reinforces the role of budgetary institutions within politics and administration. Budget institutions provide the government with an inordinate degree of discretion to allocate the budget, a capacity that supports the State's political legitimation and helps to overcome economic turmoil. Paradoxically, oil produces a policy curse that reinforces the State's socio-political embeddedness at the expense of its economic leverage. Thus, undermining the incentives for public officials to tax and deliver expenditure quality, thereby deepening the State's detachment from normal economic behaviour.

Oil rent maximization serves to increase the size and cost of public employment and the magnitude of transfers and subsidies at the expense of gross fixed public investment, the maturation of a merit-based bureaucracy, and the Legislature's role in controlling the Executive. In addition, rents short-term logic is inimical to the country's long-term strategic planning because they do not provide public and sectoral policies with a sound financial basis. Rentier behaviour is enforced within the State apparatus by a structure of incentives where budgeteers and elected officials are largely exempted, given budgetary secrecy and discretion, to make enforceable and accountable commitments.

In order to provide for valid causal inferences and increase explanatory leverage, research findings are supported by a comprehensive use of quantitative and qualitative primary sources (period 1970-2010) as well as pertinent comparative observations from other oil endowed States. Finally, by considering Mexico an outlier, this research refines some of the theoretical and methodological insights of the available literature on rentier States.

I declare that this dissertation consists of 88,543 words (including footnotes/endnotes and excluding primary and secondary references) Gabriel Farfan-Mares.

Table of Contents

APPENDIX I.

Methodological Strategies and Primary Sources

I. Electronic Databases

II. Printed sources

III. Comments on Primary Sources

IV. Primary Sources (detail)

List of Tables

List of Figures

List of Diagrams

Acronyms [1]

ADB	Asian Development Bank
ADEFAS	Adeudos de Ejercicios Fiscales Anteriores
AFDB	African Development Bank
ASF	Auditoría Superior de la Federación
AU	African Union
BANOBRAS	Banco Nacional de Obras Públicas
BANXICO	Banco de México
CAP	Comisión de Administración Pública
CBPP	Center for Budget Policy Priorities
CD	Cámara de Diputados
CEFP	Centro de Estudios para las Finanzas Públicas
CEPAL	Comisión Económica para América Latina
CGF	Comisión de Gasto-Financiamiento
CIDAC	Centro de Investigación para el Desarrollo
CIDE	Centro de Investigación y Docencia Económicas
CLAD	Centro Latinoamericano de Administración para el Desarrollo
CMH	Contaduría Mayor de Hacienda
COFOG	Classification of the Functions of Government
COG	Clasificador por Objeto del Gasto
COMI	Comisión de Inversiones
CONACYT	Consejo Nacional de Ciencia y Tecnología
CONAGO	Conferencia Nacional de Gobernadores
CPHF	Cuenta Pública de la Hacienda Federal
CPR	Common Pool Resource
CS	Cámara de Senadores
DOF	Diario Oficial de la Federación
DPEF	Decreto de Presupuesto de Egresos de la Federación
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EPEM	Empresas de Participación Estatal Mayoritaria
EU	European Union
FLACSO	Facultad Latinoamericana de Ciencias Sociales
FONADIN	Fondo Nacional de Inversiones
FSTSE	Federación de Sindicatos de Trabajadores al Servicio del Estado
FUNDAR	Fundar, Centro de Análisis e Investigación
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFS	Government Financial Statistics
IADB	Inter-American Development Bank
IBP	International Budget Project
IEPS	Impuesto Especial de Productos y Servicios
IFAI	Instituto Federal de Acceso a la Información
IFE	Instituto Federal Electoral
ILO	International Labour Organisation
IMF	International Monetary Fund
INAP	Instituto Nacional de Administración Pública
INEGI	Instituto Nacional de Estadística, Geografía e Informática
IPC	Indice de Precios al Consumidor
ISI	Import Substitution Industrialization

[1] Acronyms are presented in the language of its original source.

ISR	Impuesto sobre la Renta
ISSSTE	Instituto de Seguridad y Servicios Sociales de los Trabajadores al Servicio del Estado
IVA	Impuesto al Valor Agregado
LCF	Ley de Coordinación Fiscal
LFRH	Ley Federal de Responsabilidad Hacendaria
LI	Ley de Ingresos
LPCGP	Ley de Presupuesto, Contabilidad y Gasto Público
MoF	Ministry of Finance
NAFINSA	Nacional Financiera
NAFTA	North-American Free Trade Agreement
NOC	National Oil Companies
OECD	Organisation for Economic Cooperation and Development
OPD	Organismos Públicos Decentralizados
OPEC	Organisation of the Petroleum Exporting Countries
PAN	Partido Acción Nacional
PDVSA	Petróleos de Venezuela
PEF	Presupuesto de Egresos de la Federación
PEFA	Public Expenditure and Financial Accountability
PEMEX	Petróleos Mexicanos
PFP	Policía Federal Preventiva
PIDIREGAS	Proyectos de Infraestructura Productiva de Largo Plazo
PISA	Programme for International Student Assessment
PPEF	Proyecto de Presupuesto de Egresos de la Federación
PRD	Partido de la Revolución Democrática
PRI	Partido Revolucionario Institucional
PRM	Partido de la Revolución Mexicana
PROMAP	Programa de Modernizacion de la Administración Pública
PSE	Pacto de Solidaridad Económica
SAT	Sistema de Administración Tributaria
SDM	Stabilizing Development Model
SEBINIA	Secretaría de Bienes Nacionales e Inspección Administrativa
SECODAM	Secretaría de la Contraloría y Desarrollo Administrativo
SECOGEF	Secretaría de la Contraloría General de la Federación
SEDESOL	Secretaría de Desarrollo Social
SEGOB	Secretaría de Gobernación
SEPAFIN	Secretaría de Patrimonio y Fomento Industrial
SEPANAL	Secretaría de Patrimonio Nacional
SFP	Secretaría de la Función Pública
SHCP	Secretaría de Hacienda y Crédito Público
SIARE	Sistema Integrado y Analítico de Información sobre Reforma del Estado
SNTE	Sindicato Nacional de Trabajadores de la Educación
SOE	State Owned Enterprises
SPC	Servicio Profesional de Carrera
SPP	Secretaría de Programación y Presupuesto
SPRE	Secretaría de la Presidencia de la República
SRE	Secretaría de Relaciones Exteriores
SSE	Subsecretaría de Egresos
SSI	Subsecretaría de Ingresos
TLCAN	Tratado de Libre Comercio de América del Norte
UN	United Nations
USC	Unidad de Servicio Civil
VAT	Value Added Tax
WBG	World Bank Group
WDI	World Development Indicators

Acknowledgements

When I began to write the first lines of this section, I have to admit that this research took by far more time than was originally planned. My direct involvement in the 2006 presidential race and participation in its economic team, as well as academic activities, consultancy projects, and the public posts, all worked against my intent to end on time. Fortunately all were directly related with the topic of this research (oil, budgets, and administration), so I never stopped working on the thesis. The good news is that at the end of the day this dissertation combined not only academic research, but professional and practical experience.

Therefore, I vindicate myself thinking that it was necessary to try to understand the complex interaction between politics, finance, and public policies upon my direct participation into the many day-to-day experiences of budget management and its corresponding political, legal, technical, and bureaucratic predicaments. Besides, I could have saved considerable time by not writing the articles and giving the numerous presentations, conferences, and courses on the topic. Since this thesis could not have become a reality without all the ingredients mentioned above, I suppose it was finally worth taking more time than expected.

This research is the result of a 10 year effort. It started when I entered the Masters program in Latin American Studies at Georgetown University. Although I am entirely responsible for its content, it has greatly benefited from the generosity of many of institutions and individuals, who have provided for financial or material resources, shared their time, ideas, and borrow their personal skills. I start the list of institutions by mentioning Mexico's National Council for Science and Technology (*Consejo Nacional de Ciencia y Tecnología*, CONACYT), which provided for

economic support throughout the Masters and the Doctorate. A special mention goes to the Council's supportive role during my academic diaspora by giving its approval to continue my doctoral studies outside of Mexico City and Washington, D.C. The Council was extremely indulgent to authorize the change of my original plan when asking to support the continuation of my studies in Europe, rather than the U.S. I thank the many individuals who supported my request at the Council.

As the costs of moving to London with a scholarship budgeted in dollars required additional support, I was impelled to look for additional financial support. In this regard, the Centre for Mexican Studies (Oxford University), the London School of Economics and Political Science (Hardship Fund), were particularly helpful. Furthermore my Mother's strategic financial mentoring provided for financial help in critical junctures of my doctoral studies. Therefore, I owe her a special credit.

Other institutions also gave their support by providing a space to work and a conducive environment to carry on my research. Institutions such as *Universidad Iberoamericana*, the *Centro de Investigación y Docencia Económicas*, *El Colegio de San Luis*, The Washington Center for Scholars, Georgetown University, the Ecole National D'Administration, Harvard University John F. Kennedy School of Government, *Universidad Autónoma de Nuevo León*, and the Institute for Development Studies at Sussex University, among others, all gave me the opportunity to discuss and share my ideas, to teach and research using their resources.

Before doing any recognition of both the individuals and institutional contributions to this academic endeavour, I would like to thank Professor George Philip, my supervisor and academic mentor at the LSE Government Department. Aside from the fact that he is one of Britain's top researchers regarding two central topics of my research (Mexican politics and oil), I have also greatly benefited from his always pertinent and expeditious intellectual feedback, as well as from his infinite patience to wait for me to finally finishing this thesis. Throughout this academic journey, George had the gift of hearing and discussing most of my ideas and claims no matter how ambitious and pretentious they were. He always was happy to contribute with insights and solutions -rather than impediments- particularly at critical junctures. In all, his advice and comments were always edifying.

Institutional backing is important, but after all, individuals are ultimately the ones who make a difference by providing their support and inspiration. Many friends and people helped me to keep the belief that I needed to keep working in the research as it was innovative and relevant. They always responded enthusiastically by reading parts of the manuscript when I asked for their comments, thoughts, and insights on broad or specific, more technical issues. I would like to thank to my dearest friends Aldo Flores Quiroga, José de Jesús López González, Jorge Rebolledo, Salvador Delgado, Alejandra Betanzo, Gerardo Tamayo, Paolo Benedetti, and Juan Pardinas for being available at all times to discuss my ideas and thoroughly revise in many occasions parts of the manuscript. Their support and generosity is priceless.

I would like to recall some of the people who I met prior to my arrival to London, and whom I consider decisive for being admitted –and able to finish- this PhD. I would like to mention John J. Bailey and Nader Nazmi for inheriting me the passion of studying Mexico and Latin America's political economy and for their trust and confidence in supporting me to embark on graduate studies in Britain. Also, without the intellectual depth and methodological integrity of my highly esteemed professors at Georgetown University, John Tutino, Timothy Wickham-Crowley, and Oscar A. Echevarría, I could not handle the difficult decision to chose my dissertation

topic. Doubtless, the decision to start my graduate studies in the U.S. was a wise decision.

Yet, London’s rich and global knowledge network was also a great choice to continue my studies. The dissertation greatly benefited from a continuous intellectual exchange that took place with many colleagues and people who were deeply engaged in academia. Of these, I would like to begin mentioning the presentations and discussions which took place within LSE’s both Doctoral Seminar in Political Economy and Government and the Latin American Research Seminar. These gave my research a broad and in-depth perspective on budgets, public administration, and politics. Among the individuals I would like to explicitly thank for their kindness to discuss my work are: Professor Rodney Barker, Francisco Panizza, Mark Thatcher, Simona Talani, Simon Hix, Armando Jiménez San Vicente, John Stuart Astill, Tristan James Mabry, Joachim Wehner, Victoria Robson, Paola Mattei, Jaime Niño, Francisco Paris, Daniel Linsker, Jaime Torres-Melo, Shenaz Bunglawala, Stephen Green, Eva Maria-Nag, Gita Subrahmanyam, Alfredo Toro, and Javier González Gómez.

During my stay in Madrid, Helsinki, Mexico City, Boston, and Washington, D.C and my courses in San Luis Potosí and Monterrey many people supported directly or indirectly this endeavor. It is worth mentioning Luis Carlos Ugalde (Centro de Investigación y Docencia Económicas, CIDE, Instituto Federal Electoral, IFE and Instituto Tecnológico Autónomo de México, ITAM); Helena Hofbauer and Jorge Romero (Fundar, Centro de Análisis e Investigación); Onésimo Flores, President of the Harvard University Mexican Association (HUMA, JFK School of Government); Pilar Mendiola and Erik Ramírez (The Washington Center for Scholars); Verónica Baz (Centro de Investigación para el Desarrollo, CIDAC); Ana Covarrubias (Centre for Mexican Studies at Oxford University); Roberto Castellanos (Fundación Este País); María del Carmen Pardo, Gerardo Esquivel, Carlos Marichal, Lorenzo Meyer, and Tania Rabasa (El Colegio de México); Edgar López Garza (Universidad Autónoma de Nuevo León); Jorge Nieto Montesinos and César Verduga Vélez (Instituto Internacional para la Cultura Democrática); Rafael Velázquez, Carlos Elizondo, Andreas Schedler, and Laura Sour (CIDE); Roberto García López (Inter-American Development Bank, ICF-PRODEV); Alfredo Cuevas Camarillo and Fabian Bornhorst (International Monetary Fund, IMF); Jussi Pakkasvirta (University of Helsinki); Andrés Mejía Acosta (Institute for Development Studies at Sussex University); Ana Laura Martínez de Lara, Cuitláhuac Estrello, Humberto Guzmán, Jorge Chávez Presa, and Carlos Hurtado (Secretaría de Hacienda y Crédito Público, SHCP/ Undersecretariat for Expenditures); Ricardo Guadarrama, Alejandro González, and Angel Capetillo (Mexico City's Ministry of Finance / Undersecretariat for Expenditures); Juan Pablo Guerrero Albarrán (Instituto Federal de Acceso a la Información Pública, IFAI); José Luis Méndez and José Mejía Lira (Office of the President of Mexico, Presidencia); René Delgado and Ernesto Núñez (Diario Reforma); Ricardo Raphael (El Universal); Minister Rodrigo Labardini (Mexican Embassy in Washington, D.C.); Francisco de la Lama (Ministry of Foreign Affaire-Mexican Embassy in Madrid); Luis Payán (Georgetown University); Rogelio Ramírez de la O (Economic Analysis for Company Planning, Ecanal), and Mara Hernández (Centro de Colaboración Cívica). I particularly thank Heidi Jane Smith (Florida International University) for thoroughly revising several drafts of the present thesis. Her experience and familiarity with public finance was strategic.

Finally, without the help of José Antonio Ibarguen, Jose Alberto Moreno, Fernando Guerrero, David Dávila, Haydee Paredes, and Carolina Varela, the research

broad quantitative data gathering, computer processing and analysis, the research would have lacked its quantitative robustness.

Chapter I. Introduction. A Theoretical and Methodological Assessment of Mexico's Rentier State

1.1 Introduction

Why should a country privileged with the endowment of abundant resources have such difficulties in using them productively? Is it possible that richly endowed countries represent an anomaly? Or is it possible to find enough common features between these countries to claim that indeed some "law or principle" exists, adding some scientific value to our knowledge? How can we prove that oil abundance produces specific, if any, mostly "bad" and not "good," outcomes?

Moreover, is it possible to isolate oil's effect from other independent variables which might produce similar outcomes? In other words, using scientific language, does oil by its sole presence has the power to considerably affect a dependent variable? When thinking about a complex phenomenon such as a country's developmental path (economic, social, political), how and to what extent we can coherently and consistently argue that a single independent variable —the presence of crude oil— might affect to a country's political economy? This dissertation tries to provide an answer to the aforementioned issues based on qualitative and quantitative empirical research, as well as case and comparative studies, to demonstrate whether Mexico is affected by the intensive and consistent use of oil.

Oil has been a key asset for Mexico. The country ranked second among the world's producers (just after the United States) in 1921, providing a fourth of global production (Moreno-Brid 2009: 73-74). From 1924 onwards Mexico declines as a major producer (falling to the fourth place) and began using oil until 1975 for internal use only. Exports multiplied 23 times between 1975 and 1981 when production went from 653,000 bpd (1974) to 2,748,000 bpd (1982) (Gavin 1996), peaking to 3.5 million barrels per day between 2003 and 2004 (Petróleos Mexicanos 2008).

Petróleos Mexicanos, or Pemex, is currently the fourth largest oil company in the world (See Table below). Yet ranks sixteenth when measuring its reserves and is the second source of crude oil to the United States, just after Canada (2009).[2] The role of oil and Pemex is important since it provides for a third of all State's income and an array of transfers and subsidies for the population (Secretaría de Hacienda y Crédito Público 2010). The data below suggests the importance of Pemex on the economy, but also exposes the country's reliance on crude oil, which is a symbol of national identity and sovereignty (López Portillo y Weber 1975; Meyer and Morales 1990).

Table 1.1.1 Crude Oil Production 2008 [3]

Company	Country	Production (mbpd)
1. Saudi Aramco	Saudi Arabia	9,369
2. NOIC	Iran	3,924
3. BP	United Kingdom	3,802
4. Pemex	**Mexico**	**3,172**
5. KPC	Kuwait	2,594
6. Exxon Mobil	United Status	2,383
7. PDV	Venezuela	2,360
8. Shell	Holland	2,000
9. Petrobras	Brazil	1,900

Table 1.1.2 Crude Oil Reserves 2008

Country	Million Barrels
1. Saudi Arabia	264,251
2. Canada	178,592
3. Iran	138,400
4. Irak	115,000
5. Kuwait	101,500
6. United Arab Emirates	97,800
7. Venezuela	87,035
8. Russia	60,000
9. Libia	41,464
10. Nigeria	36,220
11. Kazakhstan	30,000
12. United States	20,972
13. China	16,000
14. Qatar	15,207
15. Algeria	12,200
16. Mexico	**12,187**

[2] U.S. Energy Information Administration, Crude Oil and Total Petroleum Imports Top 15 Countries, June 2010 Import Highlights: August 30, 2010, accessed 15 September 2010.

[3] Hernández , Alma. 2009. "Es Pemex el cuarto productor." Pp. 2 in *Reforma*. Mexico City.

There is an existing consensus among the Mexican ruling class to rely on oil. They believe that it is a sustainable *solution* to Mexico's structural fiscal crisis (the official or governmental view) and its underdevelopment (the Left's view). While in other countries governments obtain rents mainly from exports, Mexico depends on its oil not only for domestic consumption but for its development. Regrettably, oil has represented a mere *palliative,* which generates a *policy curse* rather than a positive, reliable, and long term asset or developmental *solution*. Following the government's rationale, most of the recent policy recommendations and analyses revisit the idea that Mexico has "only" to increase non-oil revenues instead of widely analyzing oil's effect on the State to build a comprehensive policy reform, thereby avoiding a wasteful management of oil revenues.

With a few exceptions (Heberto Castillo), the Mexican "rentier development model" or "resource-based industrialization" had been mostly overlooked (Auty 1993; Auty 2001; Castillo 1981; Cordera 2008; Cordera and Tello 1981). The country's overwhelming dependency on oil as a detriment to the State apparatus and the public sector has not yet been studied or analyzed. The academic aspiration of this research is to fill this gap in the literature.

This dissertation claims that hydrocarbons —particularly crude oil— indeed shapes State institutions and its relationship with the private sector, the political system, and society. In order to find both correlation and causality between oil use and State institutions, this dissertation builds a specific case study on Mexico and uses quantitative data from 36 countries. Oil is important to explain institutional outcomes, but this analysis also finds that some countries are more affected by oil than others. Undoubtedly, its outcome varies depending on each country's path dependency (Mahoney 2000; Pierson 2000).

Pre-existing conditions are crucial to understand why some countries are able to resist "oil's temptation" path to growth and development while others fail to do so. The nature of the political system and culture, its level of development, or a country's accumulation and specific sequence of events might be useful to explain why a country has been potentially "cursed" with oil. Yet, while there is abundant empirical knowledge —mostly case studies— regarding these alleged causes for a country to fall into the "oil trap," it is difficult to coherently systematize information and use robust parameters (Rosser, 2006).

The absence or the presence of ill-designed institutions may cause countries to develop the oil curse. The available literature associates oil with a vast number of institutional shortcomings (Mehlum 2005) which make a country to develop bad practices (i.e. poor economic growth, violence, poverty, ethnic division, etc), and require sooner or later support from oil revenues. Therefore, do specific institutions taking into account its formal and informal rules become prerequisites for a country to misuse its oil endowment?

While it is impossible to fully consider the bulk of knowledge produced on oil rich countries, they offer plenty of insights and contradictory findings. There is a further importance of addressing the issue of causality, i.e. a direct, observable and measurable effect of an independent variable over a dependent variable which must not be overlooked. The research might become too complex, but it is central to determine which are the variables that explain the phenomena we trying to substantiate, i.e. which variable adds more explanatory power to the phenomenon we are addressing.[4]

[4] King, Gary, Robert O. Keohane, and Sidney Verba. 1994. *Designing Social Inquiry*. Princeton, New Jersey: Princeton University Press.

This dissertation claims that the variable that best explains the nature of the State's pre-existing institutional performance is tax capacity (Prest 1978). This independent variable is useful to assess the institutional framework prior to the availability of oil revenues, either if these were obtained from domestic (i.e. production and consumption) or international origin (i.e. exports). Taxation provides an accurate idea of the State's bureaucratic and technical capacities, the degree of its reliance on the market economy, and ultimately, the extent to which the State depends and can be held accountable by its citizens. In a broader perspective, a State's capacity to raise taxes describes its legitimacy, its degree of socio-political and economic embeddedness, and its reliance on citizens contribution. In all, tax capacity is a good indicator of a broader issue: the degree of fiscal legitimacy. As the works of Schumpeter (1918) and Wagner (2007) emphasize, taxation is one of the central theorems of fiscal sociology and the basis for a political economic analysis of the State's finances.[5]

While pre-existing institutions or the degree of fiscal legitimacy are fundamental issues, they are both insufficient to explain why and how a country ultimately turns resource abundance into a source for underdevelopment. For example, these pre-existing conditions serve to explain why a country is more prone to follow a certain developmental path over another. Yet it is insufficient to explain the specific processes and mechanisms for why such a path is taken and enforced. Nor does it describe the deep and prevailing reasons why a State decides to use oil in the first place to solve a particular predicament.

---

[5] Schumpeter, Joseph A. 1918. "The Crisis of the Tax State." Pp. 99-140 in *Joseph A. Schumpeter. The Economics and Sociology of Capitalism*, edited by R. Swedberg. Princeton, New Jersey: Princeton University Press, Wagner, Richard E. 2007. *Fiscal sociology and the theory of public finance: an exploratory essay*. Cheltenham, United Kingdom: Edward Elgar. Prest defines tax capacity as "the ration of tax to GNP as predicted by the regression equation", see Prest, Alan Richmond. 1978. "The Taxable Capacity of a Country." p. 21.

Historical and rational schools of thought address the problem of institutional continuity in different ways. Historical institutionalists tend to focus on group and individual routine and inertial behaviour that is constrained by formal and informal rules (Haggard and McCubbins 2001; Hall 1997; Milner 1997; Steinmo, Thelen, and Longstreth 1992). Rational and public choice theories emphasize the importance of calculation, cost-benefit analysis, group and individual decision-making within a fixed environment (Bueno de Mesquita 2000; Geddes 1995; Levi 1997; North 1990; Ostrom 1990; Shepsle and Bonchek 1997). Both perspectives are applicable for the use of oil since most States use oil as a response to long-term predicaments and as a "strategic" temporary palliative.

Nevertheless, these "occasional expenditures" become eventually a solution to general, ordinary, and *permanent* needs. To use a more succinct argument: when States use oil to solve a variety of problems, this policy is not abandoned in the short-run and the State finds it difficult, if not impossible, to refrain from using oil into the future. The State consistently and increasingly relies on oil to meet its needs and societies' demands instead of increasing taxation. Apparently, it seems that the costs of abandoning such policies greatly exceed its benefits, thereby confronting groups and individuals, who are unwilling to depart from such behaviour.

In time, this becomes an addictive pattern. Institutional theory has found intriguing examples of why "bad" institutions prevail despite the fact that "better" alternatives are available. The economics of QWERTY is a case in point, where the cost of abandoning a specific institutional pattern is greater than the potential gains associated with a policy change (David 1985).

The above, macro perspective frames this research. Yet in order to provide realistic and operational diagnoses and analyses, it is important to also emphasize micro dimensions, i.e. where, when and how groups and individuals interact, providing the basis for macro processes. When oil revenues are fully incorporated into the State's apparatus, they contribute to a political economic logic which reshapes institutions. This take place by creating and enforcing an entirely new collection of incentives both among individuals and groups (inside and outside the government) which are also useful to explain the design, development, and enforcement of formal and informal rules.[6]

Historically, social scientists have tried to solve the "resource curse" puzzle by using historical and comparative institutional analysis (Dunning 2008; Karl 1997; Mehlum, Moene, and Torvik 2005; Robinson, Torvik, and Verdier 2003; Smith 2004). Yet it is an extremely difficult task to identify the causes of why countries, which were supposedly predestined to be successful, eventually generate a perverse policy cycle. Many social scientists have tried to answer this paradox by using different scopes, methods, and data instead of conducting a comprehensive study of all actors and variables involved in the problem (Cuddington, Ludema, and Jayasuriya 2007; Hausmann and Rigobon 2002; Lederman and Maloney 2007; Manzano and Rigobon 2001). Thus many have been unable to build a consensus. Furthermore, some researchers attempted to search for an "underlying principle,"[7] which may or may not explain, independently from the differences between the cases analyzed, why some countries not only waste abundant resources, but also keep them underdeveloped (Collier and Hoeffler 2005; Karl 1997; Karl 2007; Ross 1999; Ross 2001; Ross 2008; Ross 2009).

[6] The importance of self-enforcing rules has been addressed by Avner Greif in a political analysis that describes the institutional and historical sources of equilibrium. See Greif, Avner. 1998. "Self-Enforcing Political Systems and Economic Growth: Late Medieval Genoa." Pp. 23 - 63 in *Analytic Narratives*, edited by R. Bates, A. Greif, M. Levi, J.-L. Rosenthal, and B. R. Weingast. Princeton, New Jersey: Princeton University Press.

[7] For example, some had claimed that oil is a direct cause of political protraction. See Friedman, Thomas. 2006. "The First Law of Petropolitics." *Foreign Policy* 154:28-39.

This dissertation builds on historical and rational institutionalism to study the macro and micro effects of oil abundance on a country's political economy. It attempts to bridge the gap between the analytic benefits offered by historical and rational institutionalism (Hall 1997; Shepsle and Bonchek 1997; Steinmo, Thelen, and Longstreth 1992). It substantiates claims on three broad inputs. First, case and comparative data are used to analyze "oil-dependent" States, which are considered the world's major producers and exporters during the last century.[8] Second, the Mexican government's formal and informal rules and public policies are used to understand how oil abundance is processed between 1970 - 2010. Third, this research uses a quantitative data set to build a historical and long-term series of public finance indicators (revenue, expenditure, debt, and financial assets) to gauge how oil affects the State's public finances and public policies.

1.2 The Mexican State's Non-Embedded Autonomy

As the dissertation title denotes, the issue of the State's connectedness or embeddedness is central to this research. The title's theoretical component of "non-embedded autonomy" is derived from *Embedded Autonomy: States and Industrial Transformation,* Peter Evans' seminal contribution to comparative studies on development (Evans 1995). Departing from a comparative analysis of different countries' national development paths, Evans claims that a successful national developmental formula is produced by a weberian bureaucracy that provides the State with "corporate coherence". The State apparatus needs to enjoy, "a certain kind of 'autonomy' [which has to be] embedded in a concrete set of social ties that bind the

[8] Algeria, Angola, Azerbaijan, Bahrain, Brunei, Cameroon, Chad, Congo, Ecuador, Ecuatorial Guinea, Gabon, Indonesia, Irán, Kazakhstan, Kuwait, Libya, Mexico, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, Sudan, Syria, Trinidad and Tobago, United Arab Emirates, Venezuela, Vietnam, and Yemen. Data was processed in agreement with the International Monetary Fund.

State to society and provides institutionalized channels for communication. For the combination by itself would not work… Only when embeddedness and autonomy are joined together can a State be called developmental" (Evans 1995: 12).

The phenomenon of "embeddedness" is not only constrained to the private sector, but it also includes social arrangements. In his earliest writings, Evans defines embedded autonomy as a framework that "joins well-developed, bureaucratic internal organization with dense public-private ties" (Evans 1989: 569). For Evans, embeddedness "implies a concrete set of connections that link the State intimately and aggressively to particular social groups with whom the State shares a joint project of transformation" (Evans 1995: 12). Furthermore, as Evans recognizes, "in the original formulation, embedded autonomy implied dense links not with society in general but specifically with industrial capital… Could embeddedness be built around ties to multiple social groups? Comparative evidence suggests that sometimes it can be" (Evans 1995: 17).

Evans concept emphasizes the importance of cooperation between the government, business and social groups to build a genuine developmental formula. States that base their existence on rents extracted from crude oil lack the incentives for the above actors to cooperate. Public officials can make decisions without consulting business and other social constrains since they do not entirely depend from their financial contributions. This also impedes cooperation with the government from firms and individuals regarding public policies.[9]

[9] Evans recognizes that there is also a political dimension for the State's embedded autonomy, yet there are caveats for this to help towards a developmental formula. Japan's Liberal Democratic Party, a model that could be an example of how "to complement the embedded autonomy that connects industry and bureaucracy with a political network, based on a single, broad, conservative party [providing] additional channels of elite influence [yet] it increases connectedness at the expense of insulation … since connectedness remains very skewed in favour of elite actors, it offers little in the way of increased external scrutiny to compensate for diminished insulation. Degeneration in the direction of clientelism is a potentially serious problem" (Evans 1995) 234-235.

Surprisingly, Mexico enjoys a certain degree of autonomy (understood as a bureaucratic capacity and cohesiveness) and is socially and politically embedded. However it has been unable to build a sustainable pattern of economic growth and development.[10] The Mexican State is not "embedded" in the country's productive structure, according to Evans' view, but is "autonomous" and deeply rooted, from a domestic perspective.

The nature of an oil-based autonomy resembles Evan's definition of predatory States, or states that deprive national resources for the benefit of public officials. Evans describes predatory State as one that extracts

> "a larger share from a shrinking pie [which is] the only way consistent with [its] survival. The disorganization of civil society is the sine qua non of political survival for predatory rulers. Generating an entrepreneurial class with an interest in industrial transformation would be almost as dangerous as promoting the political organization of civil society. For predatory states, 'low-level equilibrium traps' are not something to be escaped; they are something to be cherished" (Evans 1995: 248).

The Mexican State is similar to Evans' definition above. Yet it is difficult, if not inappropriate to compare Mexico to Evans' paradigmatic example of predatory rule: Zaire. The opening of the economy upon trade liberalization has turned Mexico into one of the major exporters in the world (rank 16th) where oil exports barely account 11.4% of total and it has pacifically evolved into a full competitive democracy after more than seven decades of authoritarian rule. Moreover, it keeps inflation and debt low and delivers the conditions to attract foreign direct investment.[11]

Mexico resembles the State's embedded autonomy *à-la-Evans* because of its strong bureaucratic cohesiveness and social and political connectedness. Moreover, countries like Iran or Venezuela, to mention some examples on oil-rich do not have

[10] Countries like Norway or Russia had escaped the resource curse because of their States' strong tax capacity, which existed prior to global oil bonanzas.
[11] INEGI, Balanza comercial de México / Estadísticas Económicas, January 2010, p. 31

disorganized societies, but strong civil participation in elections and yet a patchy, developmental national strategy. So it is possible that democratic standards and a certain degree of civil society organization might cohabit with a country's oil dependency. Evans' typical example of Zaire predatory State is an extreme case which might easily be discarded from a large-N sample.

Consequently, the theoretical component of this dissertation's title "non-embedded autonomy" embraces Evans concept yet it also claims that a State such as Mexico, with its high degree of autonomy and embeddedness, has been unable to deliver economic growth and development. Evans misses the importance of the capacity of a State to raise taxes from individuals and firms, or the fiscal dimension of the State's embedded autonomy. States that depend on oil, foreign aid or some other kind of remittance, are unable to build a developmental model because the weberian bureaucratic-autonomy is oriented to legitimate the political system and surrogate political representation by delegating public affairs. Governments do this instead of advancing a national, long-term development project, and considering the private sector more than an occasional ally.[12]

Mexico can mislead an external observer regarding its State relation with business and the private sector. Although erratic, Mexico has experienced strong private sector participation in public policies, for example specially during the North American Free Trade Agreement (NAFTA) negotiations. Nevertheless, Mexican business organizations have not been structurally associated with a strong socio-political or governmental alliance towards a long-term developmental project. They are more an instrument for the government to build corporatist structures within the Import Substitution Industrialization (ISI) also known as the "Mexican Miracle" era

[12] The division between public administration and politics in oil based States is often fuzzy.

(1954-1970). Moreover, the private sector is almost fully excluded from direct political participation and is highly discouraged to join the public service decision making processes. Schneider addresses this apparent contradiction when comparing Mexico's State-business relations with other countries:

> "of the large countries of Latin America … big business in Mexico was the best organized [and] in Mexico government support fostered several strong, encompassing associations [yet] Mexican businessmen were more excluded from politics than they are in most capitalist countries … what is more unusual about Mexico, in fact almost unique in the second half of the twentieth century, is the near-complete absence of personnel involvement between the public and private sectors" (Ross Schneider 2004). 8, 16, 73, 74

For Schneider, Mexico's State-business relations reflect a more ad-hoc, temporal alliances than a consistent developmental long-term developmental project, or a deeply socio-political alliance that such cases like Brazil and Chile might exemplify.[13]

Therefore, while the Mexican State has promoted the private sector through large or encompassing sectoral associations, its public sector, bureaucracy, and the political parties had never accepted its direct participation. The State has never allowed partial or significant incorporation of the private firms within public decision-making process, which might produce the conditions for sustainable economic growth (as Evans exemplifies with the Korean and Brazilian cases). The Mexican government has relied on the private sector to support macroeconomic and monetary policies rather to build a virtuous synergy of cooperation and collaboration towards higher stages of growth and development.

[13] Moreover, Mexico's extreme organization of business upon governmental initiatives derived into strong corporatist and elitists organizations, which often sided the government at crucial junctures, such as the 1968 student massacre or the numerous fraudulent elections during the 1980's, a decade characterized by the strong collaboration and incorporation of business strategic objectives into the government's agenda Ross Schneider, Ben. 2004. *Business Politics and the State in Twentieth-Century Latin America*. New York: Cambridge University Press.

1.3 State Autonomy and Rentier States

Autonomous to what? For Evans autonomy is a weberian capacity embedded in private activities and for Marxist thought is a class feature, which helps the State to live independently from the capitalist class –or explicitly to work against capitalists. Both features, which in industrial developed countries would be impossible to coexist, are indeed simultaneously reinforced by the presence of oil rents. These make the State to disentangle from economic activity and tends to create a privileged rentier caste.

Marxism often frames State autonomy vis-à-vis the capitalist class, either from a domestic or international standpoint. Particularly for the Marxist-structuralist school, the State is a key arena (the *palestra*) for the economic system to operate. This is because it is not an independent, isolated, closed bureaucratic or administrative entity (as Weber might claim), but an instrument of a specific social class, this is known as the *instrumentalist* perspective (Dryzek and Dunleavy 2009; Habermas 1976; Hamilton 1982; Laclau 1983; Miliband 1969; Poulantzas 1978). The State is a class instrument and it cannot develop a genuine autonomous capacity or an identity.

Marxists consider the possibility of an autonomous existence of the State. Yet as Hamilton (1982) and others stress, the State in less developed polities greatly depends on specific and somewhat extraordinary circumstances. Hamilton and others use the example of Mexico's oil expropriation in 1938 its participation in World War II, and the relationship with its northern neighbour as a strategic source of power for the State's elite to describe this phenomenon (González 1983; Hamilton 1982). Marxist analysis on Mexico's State autonomy places its control over national resources as a way to address its sovereign power, particularly vis-à-vis the United States and its linkages with international and domestic firms. This narrative feds

Mexican nationalism which is greatly associated with the 1938 oil expropriation (López Portillo y Weber 1975; Meyer and Morales 1990; Pazos 1979; Philip 1982).

For Mexico, a Marxist discussion on the State's autonomy offers interesting insights. But is does not sufficiently explain the existence and behaviour of a State which is not fully devoted to reproduce capitalism, and is not fully dependent on the economic cycle. It is somewhat impossible to imagine that the Mexican State has been trying to overtly erode firms or live independently from the Mexican capitalists during the last four decades. Specially when Mexico entered into the General Agreement on Tariffs and Trade (GATT), privatized its banks, enacted NAFTA, and approved major mergers of Mexican firms with foreign ones. Furthermore it should also be mentioned that its neighbour is probably the most capitalist country in the world, the United States. The Mexican State has no incentives to erode the basis of a market economy or the capitalist class because the State is funded by a source that is connected to global, not domestic capitalism, which controls the production and export of oil.[14]

For example, States in capitalist, advanced industrial democracies overcome economic crises, like the recent global crisis of 2009, by funnelling large amounts of capital and budgetary resources into local capital markets and various methods of production in order to spur consumption. This is because they are affected by the overall economic slowdown. Less economic growth implies State's receiving less taxes to operate and deliver public services not to mention mounting social and political turbulence associated with economic slumps. In oil dependent, less developed or emerging economies such as Mexico, the State is structurally impeded and incapable of coming up with a successful economic rescue package through

[14] Rentier States political leadership often show, sometimes radial, anti-capitalist discourse yet they are unable to break its link with global capitalism, since industrialized economies greatly depend from the demand of hydrocarbons, yet they use this narrative to discourage domestic firms to get involved in politics. Venezuela is a good example of this logic.

public spending. The issue of regulation is a case in point within a Rentier State and the first and foremost casualty of oil's presence. This is because the institutional endowment is crafted largely to distribute oil rents, to enforce both political consensus and social stability while avoiding political legitimacy to deteriorate. As the recent economic crisis demonstrates, the Mexican State capacity to spur economic growth was poor, if not absent.[15]

Notably, Marxists such as Engels and Lenin did address the issue of a "non-capitalist" and "non-socialist" State by referring to it as a Rentier State. However, they reduced the existence of States that depend on the control of natural resources as mere historical anomalies, calling it a type of "parasitic capitalism" which was condemned to disappear (Lenin 1982). For the Marxist perspective, an autonomous State such as the Rentier State that is able to live independently from the faith of the market without controlling the means of production and at the same time not living under a socialist arrangement was an odd and temporal outcome.

Rentier States are not a historical abnormality and they are not short-lived. Approximately 36 oil rich countries have managed to be ruled for decades by Rentier States which are financially dependent on the extraction of oil rents (Bornhorst, Gupta, and Thornton 2008; Bornhorst, Gupta, and Thornton 2009). They use these to build a crucial feature for State-building, *infrastructural power,* a capacity "to penetrate civil society, and to implement logistically political decisions throughout the realm [as a mean] to penetrate and centrally coordinate the activities of civil society through its own infrastructure" (Mann 1984:113-114).

---

[15] For example, the Mexican government created and generously funded the Fondo Nacional de Inverstiones, or FONADIN (National Investment Fund), administered by the Development Bank, BANOBRAS (*Banco Nacional de Obras Públicas*), yet the Fund and its resources were not used because there were no institutional capacity and policies to allocate those resources. From the National Infrastructure Program (Programa Nacional de Infraestructura), only a 17% has been used between 2007 and 2010 (Aguilar, 2010).

Rentier States might —as Venezuela, Iran and Bolivia exemplify— go against local and foreign-based capitalism. They can risk challenging and constraining the private sector's operation as they are resourceful. Paradoxically, because of its role at the international commodity market, the Rentier State is directly *connected, exposed, and eventually dependent* on the global capitalist economy and the energy needs of developed industrial and capitalist democracies. The Rentier State might demonstrate to be autonomous in the short run, but is unable to deliver a capitalist-type or *developmental* pattern in the long run.[16] The Rentier State is chronically threatened by global fluctuations of oil and energy prices, which affects its economy and finances often by experiencing huge deficits at the balance of payments. Those States can do whatever it finds appropriate to address this fundamental problem but in the long run they are seriously affected, just as the Mexican case demonstrate.

Gerschenkron and Hirschman influential contribution in developmental economics find the State's gross fixed capital investment role as crucial to exit from underdevelopment (Gerschenkron 1962; Hirschman 1968). Rentier States are incapable to play this role as they lack the abilities or are unwilling to recognize a direct and positive return from massive infrastructure investments. These States are not interested in supporting capitalism because they already have secured a mean of survival –and largesse- such as crude oil. Furthermore, they acquire a degree of unrestrained autonomy that produces partial or total detachment from economic rationality, society's oversight and accountability.

[16] Of course, this matter greatly depends from the time length of any analysis since there are rentier States, such as Venezuela and Iran, which will clearly outpace Mexico's Rentier State in duration.

1.4 The Resource Curse Thesis and the Nature of the Rentier State

The "resource curse" literature represents the most comprehensive and multidisciplinary attempt to explain the effects of oil over hydrocarbon intensive States.[17] Overall, it assumes that oil by itself or the nature of the commodity is what causes countries misfortunes. This fact has prompted many researchers to use oil as an independent variable to explain diverse features of a country's past and future prospects.[18] In general, it is claimed that the less-developed countries that have weak State's institutions, poor democratic standards, and social inequality are "cursed" rather than "blessed" with oil abundance (Auty 1993; Humphreys, Sachs, and Stiglitz 2007; Robinson, Torvik, and Verdier 2003; Rosser 2006).

Social Scientists use the "resource curse" approach to argue that for the past half-century many States highly dependent on oil revenues, so-called oil Rentier States or Petro-States, tend to portray similar path dependent processes and produce negative outcomes. As Karl (1997) stressed,

> "the list of costs to the oil exporters speaks for itself: lower than expected growth; barriers to economic diversification; poor social welfare indicators; high levels of poverty, inequality and unemployment; higher than average corruption; poor governance; outright authoritarian rule or its omnipresent threat, weak rule of lay; a culture of rent-seeking; often devastating environmental damage; human rights violations; and greater risks of conflict and war."[19]

Instead of the resource abundance as means to overcome economic, social, and

---

[17] An example of global awareness of the issue is the existence of the Extractive Industries Transparency Initiative (EITI), is supported by the United Nations (UN), the European Union (EU), the African Union (AU), the International Organisation of La Francophonie (OIF), the Organisation for Economic Co-operation and Development (OECD), the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the International Monetary Fund (IMF), and the World Bank Group. See, http://eitransparency.org/

[18] It is important to note that this dissertation tries to assess oil's role -an input- in policy outputs, not policy outcomes. It assesses how oil alters the potential results of public policies from the source.

[19] Karl, Terry Lynn. 2007a. "Ensuring Fairness: The Case for a Transparent Fiscal Social Contract." Pp. 256-285 in *Escaping the Resource Curse*, *Initiative for Policy Dialogue at Columbia*, edited by M. Humphreys, J. Sachs, and J. E. Stiglitz. New York: Columbia University Press.

political underdevelopment, oil is normally seen as a barrier for countries to improve its overall development. Often the focus derives from path dependent processes which is defined as the State's social, political, economic or even cultural trajectory over a long period of time. The literature departs from a holistic perspective and argues that countries are somehow "predestined" to suffer oil's negative effects.

Oil abundance seems to reinforce institutional weaknesses, eventually building its own "resource trap." As Karl notes,

> "what matters for the social consequences generated by petroleum dependence are, first, the type of pre-existing political, social and economic institutions available to manage oil wealth as it comes on-stream and, second, the extent to which oil revenues subsequently transform these institutions in a rentier direction" (Karl 2007b: 3).

Ross also stresses the important issue of incentives when recalling that, "…we must also explain why governments fail to take corrective action… The failure of states to take measures that could change resource abundance from a liability to an asset has become the most puzzling part of the resource curse" (Ross 1999:307).

Broadly speaking, "Rentier States" are defined in the literature as countries, which are intensively dependent on oil exports to finance the government (Beblawi and Luciani 1987b; Luciani 1987; Mahdavy 1970a; Mahdavy 1970b; Shambayati 1994). Often Rentier States are associated with negative outcomes, and the literature often addresses the many *curses* oil causes the government, economy, and society. Remarkably, only few researchers associate positive features to oil rents, arguing that they reduce costs of raising taxes and support a regime's democratic promise and social and political stability (Dunning 2008; Smith 2004). Finally the last set of research finds no relationship and inconclusive elements arguing that it is highly difficult to demonstrate that oil has any effect at all (Lederman and Maloney 2007).[20]

From a strictly economic viewpoint, rents produce financial returns that are not produced by the interaction of work and labour, but also originate from ownership of land. Beblawi suggests that a rent is,

> "not merely an income for landlords, but generally a reward for ownership of all natural resources … is thus more of a social function than an economic category, and [the rentier] is perceived as a member of a special group who, though he does not participate actively in the economic production, receives nevertheless a share in the produce and at times handsome share. The distinguishing feature of the rentier thus resides in the lack of absence of a productive outlook in his behaviour" (Beblawi 1987:49-50).

The full appropriation, management and control of rents by the State that feeds the Rentier State concept originates from Hossein Mahdavy's (1970) insights on the important changes Iran's political economy faced during the 1950s. The Iranian government's decision to increase crude oil production in order to export, and include a large inflow of financial resources under the State's control, substantiated Mahdavy's seminal insights and reflections.

Mahdavy defined rentier states "as those countries that receive on a regular basis substantial amounts of external rent. External rents are in turn defined as rentals paid by foreign individuals, concerns or governments to individuals, concerns or governments of a given country" (Mahdavy 1970b: 428). The availability of rents importantly affects the State's nature. He emphasizes that

> "The low share of direct taxes in government revenues reduces the redistributional power of fiscal policy… The government can only act through the expenditure side [and therefore] greater reliance must be placed on monetary policy… Although there is no reason why the governments of the oil producing countries should not be able to exercise greater fiscal control, at least over the expenditure side of their

[20] Although inconclusive literature typically focuses on economic phenomena.

> budgets, in fact they seldom do so: they spend whatever they receive" (Mahdavy 1970b: 453).

Rentier States eventually face important policy dilemmas when deciding to engage into rentier behaviour since they usually lack capital and investment capabilities. They normally have

> "the choice of spending or saving these resources [and] If the temptation to use these resources for internal security or for other current government activities is resisted, and if the investment projects are not altogether worthless, the very utilization of these resources, unless carefully planned, creates certain structural problems within the country" (Mahdavy 1970b: 264-265).

For example, it was not until the Mexican central government took fully control the oil rents in 1982 that their external accounts were distorted. This was particularly evident in the current account, since the large inflow of capital greatly overvalued the currency and damaged the country's productive structure.

Beblawi expands Mahdavy's concept by analyzing the effects of rents over its national economy. For Beblawi a Rentier State is enforced as long as:

> "the *government* is the principal recipient of the external rent in the economy. This is a fact of paramount importance, cutting across the whole of the social fabric of the economy affecting the role of the state in the society. The role of the government as the principal recipient of the external rent is closely related to the fact that only few control the external rent … A predominantly Rentier State will accordingly play a central role in distributing this wealth to the population" (Beblawi 1987: 52).

Oil rents directly rival regular taxation and economic development. Because the State is unable to give rents a productive use, they negatively affect the incidence of economic growth, thereby reducing the expected long-term return, via taxes and other optimal investment decisions.[21] Rents hinder taxation of a country because neither the government nor the society has incentives to generate additional revenue. As one of the classic contributors of oil rentier states theory states, “where state capacity embedded in tax authorities may have previously existed, oil rents tend to be undermining. With the discovery of oil, these tax authorities are often disbanded since they appear to be no longer necessary” (Karl 2007b: 17).

Nevertheless Karl and her colleagues assume that when oil substitute taxes there is no need for building strong institutions or bureaucracies. This is an issue that greatly contrast with Mexico, where the State was created overtime by the trial-error of many administrative reforms. Furthermore the Mexican example shows rent management may also require sophisticated and complex bureaucratic capacities, i.e. Evan’s idea of autonomy. Mexico might appear to be the most extreme case of a Rentier State’s institutional development since it has been able to avoid the economic curses associated with oil (such as Dutch disease, inflation, debt, and exchange rate volatility) (Edwards 1995).

Rentier State theory follows that of fiscal sociology theory which states that for non-commodity or non oil-dependent countries taxes are directly associated with the economic and political cycles, particularly for a liberal political culture, but not for richly endowed ones. Of course, in oil rich countries people and firms pay taxes. Yet both are unable to identify the impact of their contribution to the State’s development. Often, information is scarce and non-reliable (Global Witness 2007; Transparency International 2008).

[21] Taxes are either considered as other type of rent and/or are needed when oil rents are down which often coincides, due to the openness of the Mexican economy, with an economic downturn. The need to increase the State’s taxation capacity usually does not enjoy a positive environment since a decrease in rents coincides with economic slowdown.

Oil rents are associated with the kind of political culture that requires abundant fiscal resources to cement *illiberal* alliances. These alliances greatly help to support a political system that downgrades representation and strengthens unaccountable and unrestrained bureaucratic delegation. Furthermore, these alliances may also benefit from patronage and clientelistic behaviour. This also hinders the existence of a sense of strong citizenship by the civil society and impedes creating a liberal and perhaps more genuinely democratic society (Zakaria 1997).

This dissertation doest not seek to contest or falsify oil's associated positive blessings and/or negative curses broad outcomes.[22] This knowledge can be borrowed from case or comparative studies (qualitative, "large-N", or statistical/econometric models), available from different sources which are largely contested and find inconsistent (Lederman and Maloney 2007; Rosser 2006). The aim of this dissertation is to relocate, reassess, and contribute to the discussion on the intensive and consistent extraction of oil rents with a particular emphasis in oil booms. This is analyzed by *identifying, analyzing, and measuring oil's effects on the State apparatus from a political economy and public policy perspective using public finance and budgetary data*.

The resource curse thesis has failed to properly identify the State's internal preferences, incentives and mechanisms which enforce and amplify the broad and diverse phenomena associated with crude oil production and use. Budget institutions considered as macro and micro rules that govern public expenditures and its corresponding network of bureaus along the entire federal, state, and local public administration, are the specific devices which enforce the maximization of oil rents.

[22] Oil has been associated by the available literature with ethnic division, poor economic growth, authoritarianism, environmental damage, civil and inter-state wars and violence, high indebtedness, poverty, etc… but also with democracy, regime stability, social peace, and political institutionalization.

1.4 Enforcing Non-embedded Autonomy: the Role of Budget Institutions

While most Rentier States are unable to overcome their structural dependence from oil, Mexico has been able to successfully tackle most of the macroeconomic management challenges by *de-petrolizing* its economy, but not its public sector.[23] In this respect, it has enjoyed an impressive degree of autonomy, both from the perspective of Evans as well as Marxist theory. Yet the State's central apparatus and public policies have developed a policy curse that is strongly enforced by a complex collection of institutional devices.

Taking into consideration that oil prices are volatile, depending on many unpredictable global variables such as a civil war in Nigeria, the fall of production in Qatar, higher production costs in Venezuela, it is difficult to accurately predict and produce realistic and productive budgets in the long term.[24] In order to reduce the risk associated with unpredictable oil revenues, budgetary authorities in oil rich States tend to importantly transform their budget management institutional framework.

Governments often devise strong budgetary institutions to provide a high degree of flexibility and discretion on resource allocation. These institutions and rules of the game are successful to insulate the economy from oil's negative macroeconomic effects while avoiding Dutch Disease or protect the country's investment grade.

The creation of strong, discretional, vertical and hierarchical budgetary institutions serve to support the economic fundamentals that the private sector and market reforms need to advance, particularly in an export-intensive country such as

[23] The Mexican rentier example is somewhat unique since oil based rentier budgetary institutions had been used to support market reform and economic opening. They had focused on balancing budgets and delivering sound macroeconomic fundamentals (i.e. low inflation) but at the cost of greatly damaging the State's authority and hampering public policies impact.
[24] Jorge Díaz Serrano, Pemex director from 1976 until 1981 forecasts of the oil price were right. The government, however, did not believe him.

Mexico. Nevertheless, a technocratic solution designed by public officials without legislative or social oversight gravely neglects the political and social macro decisions that an oil rentier based budgetary management system requires.

Budgetary institutions are unable to resist spending pressures from interest groups, including the rentier coalition which support the government's viability. As a result of socio-political embeddedness, budget institutions find it difficult to manage oil revenues in a strategic fashion. This is exacerbated since the State's budget bureaus main goal is to deliver stable and credible macro fiscal rules and monetary policy and balanced budgets upon tight and short-term micro operations to avoid incurring into deficits. On one hand, budget bureaus are able to deliver predictable and sustainable macroeconomic indicators, but on the other hand they tend to disregard in a broader sense the importance of the budget's expenditure quality and composition. This problem is a direct consequence of an oil-based extreme centralization of budget decision-making.

In general, budget bureaus at the federal, state, and local level tend to allocate oil rents as soon as they receive them. Many do this without any strategic or long-term concern and to a great deal improvising. They also have trouble to insulate from rent-seeking groups and spend excesses on them. Budgetary authorities tend to allocate budgets financed by oil rents proportionally, rather than strategically, reinforcing a incrementalist approach.[25] This is of particular concern regarding current expenditures, which in the long-run turn budgetary policy highly rigid, making oil-based public policies practically unsustainable. Specially, since oil rents finance the State's operation and consumption. They also serve to finance subsidized products

[25] Their functions are located within the Ministry of Finance, particularly at the organisational branches that encompass the federal budget's chiefly formulation, programming, and execution. Defined as an inertial and sustained growth of public expenditures, which is partially fed by the inclusive nature of the authoritarian regime.

and services, social and anti-poverty programs such as massive cash transfers, which are fundamental for the State's overall socio political survival.

For example, the former British Chancellor of the Exchequer, Gordon Brown, adopted the "golden rule" which meant that the government would only borrow to invest and not to finance current expenditures. In developing countries, debt issuing and oil rent management have been closely intertwined often to finance current expenditures (Manzano and Rigobon 2001; Warner 1993). As the Mexican case demonstrates, this also has become a persistent way to finance governmental operation and social programs.

De facto oil-based budgetary institutions produce and maintain broad, uncoordinated and frequently unnoticed alliances of interest groups, many of which seek to benefit from public expenditures financed by oil rents. Since budgetary bureaucracies have legal authority, attribution and technical capacities to enforce the oil rentier status quo, they also have full control of the oil profits, and therefore develop their own political and economic agendas.

Oil based national budgets create strong and perverse alliances between the bureaucracy and politicians. Normally, there are several groups who are frequently excluded from the structure of incentives that enforces oil rentierism.[26] They include the non-clientelistic political representation; non-organized interest groups (such as the middle class and civil society) and public servants that are hired on a merit-based system.

Bureaucratic clusters whose main goal is to build long-term policy planning objectives such as developmental, planning, or strategic areas are often displaced from budgetary decision-making. This is because they represent a threat to the short-term,

[26] For example, the emergence of "Weberian islands" had been tolerated in areas which are not associated to economic policy or budgetary management.

flexible, discretional, politicized, and opaque financial management of the rents. Oil based budgets support Mexico's political regime restless need for social stability and political consensus. This is after the cost of greatly decreasing the State's potential for producing a developmental public sector. [27]

The full incorporation of oil rents into budgeting and the reduction of social, political, and economic costs of tax compliance greatly complicates the government's effort to refrain from its long-term dependence. Moreover, those rents are perceived as a "social right", due commonly to oil-based nationalism, and they are tightly identified with the State's authority, ideology, and legitimacy. This makes it highly difficult for the State to refrain from rentier policies. The budgeteers need a friendly and flexible framework to support macroeconomic fundamentals. Additionally politicians need to deliver private goods in exchange for popular support. These two groups feed the rentier structure of incentives and adamantly reject any policy departure from the status quo at the federal, state, and local level.

1.5 Oil and the State Apparatus: Questions and Hypotheses

To what extent has Mexico's endowments shaped the political economy of the State and its public sector? In particular, which specific features of oil-based Rentier States can be confirmed or rejected using Mexico as a case? This dissertation attempts to respond the following questions:

> **Question 1.** How has the consistent and intensive use of oil revenues by the Mexican State during the last four decades affected the cost and size of bureaucracy, the functioning of budgetary institutions, public sector's planning and investment capacities, the executive's predominance over the cabinet and the legislature, and its national oil company, Pemex? (descriptive inference).

[27] Surely, this is the role of a rentier and non-rentier budgetary authority in any country, but the presence of oil greatly increases their institutional and financial standard boundaries becoming de facto political players.

> **Question 2.** Considering the latter, which are the State's institutional devices that enforce the political economy of Mexico's oil Rentier State and how and to what extent does these determine policy outcomes? (causal inference).[28]

Overall, oil as an input produces indirect and direct effects on the government's institutions (outputs) and indirect and direct impacts (outcomes). The research claims that there is sufficient knowledge and data to demonstrate that oil causes indirect and direct institutional outcomes on the State. The indirect effect can be understood by considering oil as a substitute to government revenue. Oil provides the State with additional financial resources that apparently solve the government's pre-existing and structural financial predicaments, given its incapacity to effectively and consistently raise taxes.

When oil is used to substitute taxes, or to deliberately avoid raising taxes, it provides what regular taxes do: pay for the government's operational expenses. This includes the cost of bureaucracy and services that the government needs to operate. Oil rents also provide the financial basis for the products and services that the government delivers without causing the population to pay for them. This is an "indirect" use of oil, since oil is actually acting as a "regular" tax but essentially is not since it is really a *rent* or the excess of profits.

Typically, a significant increase of oil financial benefits treated as a standard government revenue provide for what regular taxes do but in bigger quantities, less associated costs, and often quicker pace than regular, market-adjusted taxes. Oil can

[28] Verba and others had stressed the importance of identifying "the causal mechanisms [which are required to produce a] causal inference … that is, to demonstrate the causal status of each potential linkage in such a posited mechanism, the investigator would have to define and then estimate the causal effect underlying it … hence [the] definition of causality is logically prior to the identification of causal mechanisms … identifying the mechanisms by which a cause has its effect often builds support for a theory and is a very useful operational procedure [since] can sometimes give us more leverage over a theory by making observations at a different level of analysis into implications of the theory" King, Gary, Robert O. Keohane, and Sidney Verba. 1994. *Designing Social Inquiry*. Princeton, New Jersey: Princeton University Press.

offer huge and low-cost production returns with centralized control. Regular or normal taxes somehow maintain the State "connected" or embedded within the national economic system. In contrast, rents are linked to the degree of control over national assets, i.e. the nation's oil patrimony. They constitute as fixed income, which as long as it is not exhausted, is independent from private or state-ownership considerations.

A third of Mexican State finances have depended on oil revenues between 1976-2010. During the initial years of the second major boom in the country's history it reached 50% of total revenues. These rents have not been aligned with the economic cycle, but are a reliable source to finance for the basic functions of the State.[29] Therefore, it is normal to see an increase in the number and cost of employees, as the government's consumption increase, an issue that can or cannot be tied to the government's production of goods and services. Number increases even more when international price or production/export are higher or a deliberate policy to maximize the rent associated with oil is implemented. This is certainly an indirect effect of oil on the State since rents are substituting taxes.

> **Hypothesis 1: Oil increases the cost and size of bureaucracy and impedes its improvement.** If oil rents substitute regular taxes and this takes place consistently (long period of time) and intensively (on a high proportion), their volatile nature considerably affects resource allocation in the long run. Abundant resources translate into a consistent increase of the cost and number of public employees yet oil's volatile nature

[29] While it can be argued that oil rents observe in general different patterns than those of economic growth, they also are linked to global economic growth, since oil constitutes one of the main energy sources of industrial production. Oil prices are linked to global growth, and in the case of Mexico this is more relevant since the economy is strongly tied to the United States and the industrial countries. Yet, oil bonanzas, particularly the ones which are related with a strong demand from economic growth, produce abundant resources that cause a substantial increase in government current expenditure and consumption. Aizenman, Joshua and Brian Pinto. 2005. *Managing Economic Volatility and Crises: A Practitioner's Guide*. New York, NY: Cambridge University Press, Devlin, Julia and Michael Lewin. 2005. "Managing Oil Booms and Busts in Developing Countries." Pp. 186-213 in *Managing Economic Volatility and Crises*, edited by J. Aizenman and B. Pinto. New York, NY: Cambridge University Press, Gavin, Michael, Ricardo Hausmann, Roberto Perotti, and Ernesto Talvi. 1996. "Managing Fiscal Policy in Latin America and the Caribbean: Volatility, Procyclicality, and Limited Creditworthiness." Inter-American Development Bank, Office of the Chief Economist, Washington, D.C.

> enforce negative incentives among civil servants which impede the building of more professional, merit-based bureaucracy.

An increase in tax rates and revenue collection can translate into higher expenditures, but it is important to acknowledge that oil revenues are more elastic than regular taxes (the Mexican government refers to them as “non-oil revenues”). Oil revenues are exposed to a number of factors that can change dramatically. For example, an attack on an oil field in Nigeria, the increasing energy demand from the so-called BRIC’s (Brazil, Russia, India and China), or some other unexpected event such as the recent oil spill in the Gulf of Mexico can alter the oil price per barrel and global production. In contrast regular taxation to individuals and firms is considerably more stable. Private consumption and the demand for goods and services from which taxation depends observe a stable behaviour.[30]

The classic public finance expert, Adolph Wagner, once claimed as a conventional principle that the government’s current expenditures and consumption always tend to increase because of population growth, demographic shifts, migration and other phenomenon (Peacock and Scott 2000). The latter rationale is evident for the case of Mexico, where the number of employees and its cost increases as long as oil revenues are higher. This is independent from the growth rate of the national economy.

Particularly in the early 1970s Mexico, had a deficit in many public services that had to be covered with high investment in all sectors specially education, transport, and health. Investment in these sectors was financially supported during

[30] Independently from oil revenues volatility and regular taxes stability, the consistent and intensive presence of oil revenues substitute regular taxes in the long run, as many had demonstrated Bornhorst, Fabian, Sanjeev Gupta, and John Thornton. 2009. "Natural Resource Endowments and the Domestic Revenue Effort." *European Journal of Political Economy* doi:10.1016/j.ejpoleco.2009.01.003, Tijerina-Guajardo, Jose A. and Jose A. Pagan. 2003. "Government Spending, Taxation, and Oil Revenues in Mexico." *Review of Development Economics* 7:152-164.

Luis Echeverría's presidency (1970-1976) with debt and during the Presidency of José López Portillo (1976-1982). For example, since the third and last oil boom in the country's history and despite the fact that Mexico had meagre economic growth (a GDP variation of 2.1% between 2004 and 2010), the amount of public expenditures had steadily increased from 20.8 to 26.2% of GDP, a variation of 3.5% (Secretaría de Hacienda y Crédito Público 2010).

Typically, crude oil's total production either for domestic or external purposes (the *plataforma de exportación*, or export ceiling) provides for a gradual contribution to current expenditures. It is considerably more predictable than international oil prices. An oil windfall is very volatile and unpredictable. Each affect the State's structure in different ways.

When oil is not treated as a regular tax but as an extraordinary gain or unexpected income (i.e. windfall or extra bonus), it has a direct effect. The presence of oil's extraordinary revenues increases the Ministry of Finance budgetary discretion (resource allocation) within its pairs among the cabinet. In addition despite the political transition period initiated in 1997 (when the PRI lost its majority at the Chamber of Deputies) the allocation power of the Executive Power vis-à-vis the Legislature increases. When oil revenues are higher than expected (according to what is publicly acknowledged as Revenue Law negotiations with the Senate), the Executive automatically increases the amount of resources under its control.[31]

> **Hypothesis 2: Oil produces powerful budget institutions which strengthen the role of the Ministry of Finance and jeopardize the role of the Legislature.** Within the Executive Power, budget bureaus need to shield the economy –particularly fiscal policy- from oil rent's volatile nature produce strong incentives to develop an array of formal and informal rules to control and centralize resource allocation decision making. This causes the Ministry of Finance, as a regulator of all budget

[31] Prior to 1970, Mexican budget bureaus enjoyed more discretion within the Executive Power and vis-à-vis the Chamber of Deputies, and certainly an oil rent existed. Nevertheless after 1976, discretion was directly associated with an external rent, a rent that is originated from oil exports.

bureaus, to substantially reduce the influence of the cabinet and the role of the Legislature.

The indirect or substitution effect when considering oil rents as taxes is gradual and progressive. During a production increase or a price hike the direct or discretionary effect is immediate and volatile. Both effects, taken as outputs, importantly affect State institutions. Indirect effects provide a source for State's budgetary inertial tendencies. Extraordinary revenues provide for the Executive's strategic and quite politicized objectives. Both are often internally processed and rather uncontested.

Indirect and direct effects can be attributed to oil according to the available empirical analysis. The qualitative and quantitative empirical data also serves to identify the impacts on State institutions. Particularly, those effects that last longer or alter the essence and functioning of the formal and informal rules that govern the allocation of public expenditures and budget institutions. Oil helps to create and develop specific institutions which endure, independently from the presence of lower or higher oil revenues. This is the case of budgetary centralization, which can be considered a direct outcome.

The use of oil revenues to feed the operational and consumption needs of the public sector importantly changes the bureaucracy formal and informal institutions that govern the budget. Since ordinary and extraordinary revenues of oil are difficult to program and calculate in advance for more than a short-term period (i.e. a fiscal year), they generate strong competition and pressures within the status quo (inside or outside the cabinet). The response to these problems is centralize decision making to prevent any serious damage of the State's fiscal position, for example bigger budget deficits.

Centralization serves to resist pressures for more spending from competing groups within the extended cabinet and the political system. Since oil production is geographically concentrated, it also serve to neutralize the fiscal pressures coming from states and municipalities.[32]

Another consequence is that central authorities tend to devise rules and regulations that respond to the public administration control, oversight, and comptrollership function, rather than create budgets based on performance or results-based management. The immediate effect of this policy turns central budget bureaus —at central, federal, state, and municipal levels— into a tough veto point. They also have the faculty to analyze, validate, and authorize regular or extraordinary spending from line-secretariats, decentralized agencies, and parastatals (public enterprises). As one high level senior budget official who headed the budget bureau of the extinct Secretariat of Programming and Budget (*Secretaría de Programación y Presupuesto*, or SPP) stated, "instead of just releasing rules, guidelines, and regulations for an efficient budgetary management, budget bureaus and administrative officials increasingly became validating and authorizing expenditure ceilings, ordinary and extraordinary —liquid or compensatory— expenditures, exposing public servants from all levels to suffer an intense lobbying from their clients —i.e. agencies— or to be bribed (Farfán-Mares 2008)".[33]

---

[32] Most of oil rich countries tend to create institutions that greatly centralize oil revenues given the fact that oil production is often geographically concentrated and the property of oil companies are commonly of state ownership. Venezuela and Ecuador are cases in point, among others, as Diaz-Cayeros comparative study on centralization emphasizes Diaz-Cayeros, Alberto. 2006. *Federalism, Fiscal Authority, and Centralization in Latin America*. Cambridge, New York: Cambridge University Press.

[33] A recent OECD Report tacitly recognized this situation when including among its recommendations to reform Mexico's budget institutions the need for officials to rotate the personnel within the Central Budget Bureau (Susbsecretaría de Egresos, or SSE), to avoid "favoritism" or partially of their allocation decisions, see OECD. 2009. "OECD Review of Budgeting in Mexico." *OECD Journal on Budgeting* 2009:174.

In lieu of delivering more analysis on medium and long-term public policies trajectories, budgeteers concentrate a great deal of their daily activities to validate and authorize expenditures at all aggregations occupying nearly 90% of all their working time (Farfán-Mares 2009a; Farfán-Mares 2009b). Prior to the 1977-1985 oil boom, Mexico's budget institutions were similar to what the U.S. Office of Management and Budget, OMB mission. According to OMB official site, this agency, which depends directly from the Office of the White House,

> "assists the President in overseeing the preparation of the Federal budget and evaluates the effectiveness of agency programs, policies, and procedures, and works to make sure that agency reports, rules, testimony, and proposed legislation are consistent with the President's Budget and with Administration policies. In addition, OMB oversees and coordinates the Administration's regulatory, procurement, financial management, information technology, and information management policies".[34]

The oil-led development greatly accentuated Mexico's budgetary management policing *modus operandi* rather than shifting their effort to monitor and evaluate the quality and welfare impact of public expenditures.

Budget managers at lower levels of government —whether at the administrative unit, bureaus, or outside agencies— are constrained by central budget authorities to spend their initial allocated resources. Often, their budgets are gradually altered and downsized because of central authorities' need to mobilize unused resources for other "strategic" purposes. As this constitutes a generalized budgetary practice, it greatly reduces the quality of overall public policies. Specially considering that all finances are scant, unreliable and always subject to negotiation. Consequently, the budget process and its many phases —ex-ante during exercise or ex-post after the analysis— loses credibility.

[34] http://www.whitehouse.gov/omb/open, "Office of Management and Budget: Open Government", 15 September 2010.

Public Expenditure and Financial Accountability (PEFA) indicators state that beyond 5% of change of total spending the budget looses credibility. Prior to 1970, Mexico reached more than 100% of change and during the oil-export era (1976-2010), it had reached 20% of change.[35] This means that the Mexican budget is unreliable for budget officials and any long-term developmental strategy.

As stated above, the tight control of central budget bureaus result in a constant need from managers at decentralized agencies to seek the approval from the central budget. Authorities at agency level must request approval to spend money from their central counterparts generating strong uncertainty around the financial foundation of public policies. A top budget official from Mexico City (Under Secretariat for Expenditures) explained why he was forbid to use the word "authorize" but was ordered to use the word "validate" or "revised." Apparently, after a series of corruption scandals at a city's borough (*Delegación or municipal level authority*), prosecutors found that the authorities which appropriated public funds and those who permitted such financial operations in the first place were both guilty of embezzlement. Thus pointing the blame at medium and low-level public officials that belonged to the budget office. (Farfán-Mares 2009b).

In general, budget pressures in mineral and non-mineral economies of this kind occur around the world (Alesina and National Bureau of Economic Research. 1996; Alesina and Perotti 1996; Blais and Dion 1991; Edwards 1995; Hallerberg, Scartascini, and Stein 2009; Roubini and Sachs 1988; Roubini and Sachs 1989; Rubin 1993). Yet in the presence of oil budgetary centralization and discretion greatly increase because the incentives for budgeteers are stronger to control resource

[35] These are very aggregated numbers, yet, for the period 1970-2010 there are variations of more than 100 percent per sector (i.e. health, education, and transport).

allocation.[36] Budget institutions evolve into obsessive control devices, greatly increasing the transaction costs associated with resource allocation. Many budget officials jeopardize the financial basis of public policies, and, to some extent, incorporate extraneous and improvised criteria for activities that they barely know or understand. This is of particular concern when sectoral policies such as health and education are involved specially in a middle income developed country.

Overall extreme budgetary decision-making centralization produce a short-sighted public sector. This process also gradually dismantles all institutional devices built to plan, program, and budget within a medium and long-term perspective. The result is the following process: because current expenditures (the government's operation and consumption) do not need significant managerial effort and do not imply a medium or long-term perspective. Therefore, the current expenditures often increase at the cost of other type of expenses. Typically, given the extreme micro-management of budgetary operations where central bureaus need to control and balance revenues and expenditures it also creates a myopic management for future projections.

A good example is the case of capital spending. Public investment projects (fixed or gross capital investment) require a strong institutional effort such as the integration of a project's profile, feasibility diagnosis, study, and cost-benefit analysis. These are developed within a bank or portfolio of investment projects. Often capital expenditures exceed a fiscal year. So when budget bureaus find it difficult to apply such expenditures they ask for authorization to transfer from capital to current

[36] Budgetary institutions in mineral or oil-dependent States present important similarities in many respects. Regional or territorial expenditure centralization is common, micro regulation and budget operation, and the number of employees that work in budget affairs is high, see OECD. 2007. "OECD Budget Practices and Procedures Survey." Pp. 40, edited by P. G. a. T. D. P. G. Committee: Organisation of Economic Co-operation and Development. The composition of public spending also shows common patterns, such as current expenditure growth and decreasing capital expenditure.

expenditures from central budget bureaus. This is an odd and extraordinary rule since most countries earmark their capital budgets. They do not even have the option to ask the central bureau to use capital expenditures for covering current expenditures (such as salaries or new programs which subsidize or transfer goods to the population). This is an abnormal rule that was, according to the latest OECD survey on budgetary practices and procedures emphasized for the Mexican case (OECD 2007).

The poor quality of oil financing for medium and long-term projects go exactly against any effort to provide higher rates of investment and infrastructure. In the long run, oil produces a short-sighted public sector, which can only adapt and adjust to short-term objectives. In all, oil's indirect and direct effects inhibit a State to think and act based on medium and long-term objectives, de-linking the State from economic rationale.

> **Hypothesis 3: Oil-induced budgetary centralization and discretion exposes budget management to organized groups and downplays medium and long-term strategic objectives.** The Ministry of Finance' extreme control and centralization of budgetary decision making turn it into a target of organized and political actors which eventually turns budget management into a short-sighted feature that allocate resources to operational and current expenditures rather than capital expenditures which holds back the State to build long-term policy targets.

In conclusion, oil produces effects which importantly shape institutions. Oil use by the State creates new institutions that in the long-run play a central role in enforcing the State's dependence on oil. This also helps to keep the quality of public expenditure and State policies underfinanced, ill-designed, poorly oriented, and consistently subdued.

1.6 Methodological Approach

This dissertation's theoretical and methodological research are built on a discussion from a single "least-likely" case. Mexico can be considered an "outlier" or crucial case that may serve to confirm and/or refine some of rentier theory main tenets (George and Bennett 2005; Gerring 2001; Gerring 2007; Gerring 2008; King, Keohane, and Verba 1994).

Generally, methodologists are reluctant to admit that a single case study (n=1) is useful for testing hypotheses. As some of the most authoritative voices on the subject stress: "The most difficult problem in any research occurs when the analyst has only a single unit with which to assess a causal theory, that is where n=1 we… argue that successfully dealing with it is extremely unlikely" (King, Keohane, and Verba 1994:209). Nevertheless, they also stress the fact that "a single observation can be useful for evaluating causal explanations if it is part of a larger research agenda. If there are other single observations, perhaps gathered by other researchers, against which it can be compared, it is no longer a single observation" (King, Keohane, and Verba 1994: 211). This dissertation belongs to the rentier or "resource curse" research community. While it focuses on the Mexican case, it fully incorporates where pertinent, the observations that can be useful from a quantitative or qualitative macro or micro process perspective.

As many comparativists recognize, the research method of case studies has substantial benefits for the researcher (Ragin 1987; Ragin 1991; Ragin 1994; Ragin and Becker 1992). George (2005) stresses that case studies serve to test hypotheses and theory development because of

> "their potential for achieving high conceptual validity [identification and measuring of indicators most representative for the theory through context analysis]; their strong procedures for fostering new hypotheses [powerful advantages at new variables and hypotheses identification

> from deviant or outlier cases]; their value as a useful means to closely examine the hypothesized role of causal mechanisms in the context of individual cases [observe at a larger number of pertinent variables]; and their capacity for addressing causal complexity" (George and Bennett 2005: 19-22).

In addition, studying Mexico opens the possibility of contributing to the larger knowledge on Rentier States. Because a case study can add fine-grained analysis that comparative and "large-n" broader studies are unable to provide. Through process tracing and knowledge on the specific mechanisms on how the rentier phenomenon works, this case study on Mexico aims to contribute to the available knowledge in the field. In short, this "crucial" case offers the possibility of strengthening the available theory and methods on the effects of oil abundance on States. In conclusion, although this dissertation is built on a single case study, it cannot be fully considered an attempt to build causal inference (induction) from one observation but from many to be falsifiable (King, Keohane, and Verba 1994; Curd and Cover 1998; Popper 1998a; Popper 1998b).

Therefore, after carefully revising and redefining some of the theoretical and methodological tools produced on the field, this dissertation claims that not only *Mexico can be categorized as a Rentier State, but it might also confirm and strengthen the research agenda on Rentier States by providing a more narrow and operational –theoretical and methodological analytical– frameworks*. Its purpose is to shed light on the mechanisms and procedural features on how and why the rentier effect takes place. Why some States had been more exposed to become oil rentier than others, and how they preserve their status over time.

The question of which Rentier State characteristics Mexico possesses, and which it does not, can only be approached via a detailed analysis and discussion of specific features of the Mexican State's public finance. This dissertation uses financial (debt), budgetary data (revenues plus expenditures), and statistics on public employment over a long period of time (1918-2010) to assess of major numeric and policy trends and changes. To have an idea of the level of detail data analyzed for this dissertation, budgets in Mexico comprises 39 items (data lines), expenditures 72 items, and public employment 68 items. Data series on public employment are the most disaggregated of all since the data base comprises all administrative units of the extended public sector (approximately 325 bureaus of different size and cost). Revenues, expenditures and debt, and public employment data are fully complete at its most disaggregated level from 1970 until 2010. Prior to 1970 data availability is incomplete or at best, available at a very aggregate level.[37]

Beyond process tracing mentioned above, this dissertation also employs qualitative analysis of legal primary and secondary laws and by-laws, a description and analysis of the organisational trajectory (public administration evolution and reform), and interviews to high rank appointed and elected officials directly involved in the budget making process. Dependent variable is budgetary institutions and independent variables are socio-political embeddedness and economic detachment, i.e. transfers and subsidies and social policy and public investment.

Furthermore, process tracing aims to observe all the potential implications of the resource curse thesis and rentier theory, rather than only address observable effects regarding budgetary institutions (dependent variable). Once these implications and micro processes are identified on how a theory's independent variables causes change or continuity in the dependent variable, they are then tested empirically through interviews to elite and detailed data analysis. As George and Bennett stress, "process-tracing method attempts to identify the intervening causal process between

[37] Data bases also include the same number of items for State and Local (municipalities) for years 1980-2008 and 1989 – 2008, respectively.

an independent variable (or variables) and the outcome of the dependent variable" (George and Bennett 2005: 206).

Additional data was obtained either from electronic or printed sources. Printed documents, specially the older ones were also very difficult to obtain because they are often missing from government shelves or historical archives. For example, copies of the Executive's Budget Project which is sent to Congress annually and the Public Accounts became irrelevant over time. All documents, particularly in years previous to 1980 were highly difficult to obtain and in many cases they were incomplete. The aforementioned problems required to physically search the documents in Libraries and other institutions.

The main challenge for this dissertation was to put together a reliable data set based on primary sources according to its research goals in three of the State's macropolicies which include the following variables: fiscal (revenues, expenditures, and debt), energy (investment, production, and exports), and the federal government's public employment (number, type, and cost). Since the current research bases its findings from the coverage of a long period of time (1970-2010), the challenge of collecting and integrating a reliable primary source material data set was substantial. Therefore, information gathering focused on comparing the periods of time, aggregation, and methodology in order to confirm or discard data reliability.

Data validation went through three processes: revision of the methodology used to collect and integrate the data, simultaneous comparison of all available sources on the topic (to see if they matched), and adjustments or calculations from all the sources (a way to control variation between them).[38] An additional difficulty was

[38] For example, the different items which comprised revenue and expenditure historical series from Latin American Economic History Database (Oxford University) were recalculated and merged into a single one using the data from the Mexican Ministry of Finance to update the other, since the Database ended in year 2000.

missing information. In that case, the strategy was to revise all the specialized papers and reports published on the topic to see if other authors provided for missing data, additional information or any sort of analysis which could remedy the problem. Once the data was appropriately collected and validated, it was crossed and compared with other data bases not strictly related with the State's policies mentioned above.

The primary source printed material for the period 1970 – 2010 included the following items: 1) Revenue Law (40 documents revised), 2) Executive's Budget Proposal (Project) sent to the Chamber of Deputies (40 items revised) which included the administrative (bureaus and administrative units who are responsible for spending the budget) and economic classification (inputs used in operating the government and offering the government's services); 3) Chamber of Deputies Budget Decree (39 items revised) with the administrative classification: 4) Executive's report (Public Accounts) for each year (38 revised) with both budget economic / administrative classification.

The data collection, validation, analysis and standardization regarding public employment policy focused on three areas: 1) The number of employees throughout the longest possible period of time and disaggregated by the type of employees (with an emphasis in international comparative data); 2) The cost of these; and 3) The type of institutional arrangements that governed both managerial components and discretionary outlays, items: trust, unionized, temporary, and professional services.

The available information on public employment reflected more an administrative lack of managerial skills and chaos, rather than a deliberately opaque and politically controlled issue. As many public officials recognized which was particularly mentioned during interviews conducted, public employment information was highly scattered. Not to mention incomplete, outdated, and unreliable in most cases.

The task of integrating and merging different databases and compiling numbers from different official sources was enormous. Not only was a problem to understand the exact number of public employees which do in fact existed no matter rank or legal/labour condition, but to know how much cost to the State. Finally, it was a problem to build an exact and reliable data set on these variables including number and cost but also to build a historical series to determine how both variables changed over the years.

In addition, even if it was possible to compile all the required information (number, cost, and time), Mexico's "public employment policy" was represented by a collection of practices that were not standard and highly responsive to institutional (sectoral) features of specific administrative units or Ministries. The policies that governed the Mexican public sector ranged from a full patronage system to an almost pure civil service or "weberian island", where the strongest mechanism of control by central authorities was of budgetary or financial nature.

As a result of the many interviews and data sets analyzed, it should be recognized that the control of bureaucracy in Mexico was through budgetary tools rather through established public employment policies or human resource management standard approaches. The main source of public employment policy and control (and not surprisingly of information) was numeric and budgetary: how many by its salary. Therefore it was then necessary to obtain more information on how wage bill worked.

After requesting information through non-official methods (requests based on personal contacts) for about a year (2003-04), I requested the data through official means. The authorities took almost four months to respond with partial information using Transparency Law (requested 10 December 2004, delivered 31 March 2005). The central budgetary authorities of the highest rank (Chief of Staff of the *Subsecretario de Egresos*) responded through two archives with details on the evolution of the budgetary coding from 1970 until 2004 of both the salaries and extra payments mentioned above. The Ministry of Finance, through the Transparency Law responded that they did not have the information as a data set and had only for some years data on the extra payments. It then became clear that the central budgetary authorities did not have the control of these extra payments in the way they were allocated and only had broad and aggregated information on the whole public administration. The amount of resources was approximately 500 million dollars between 1993-1997. The non-legally binding payments eventually were "legalized" and became part of the salaries benefits since some public officials used the courts to challenge the intent of the authorities to deduct these from his payment. Therefore, the rigidity of the wage bill became much stronger, particularly during Fox and Calderón *sexenios*.

Finally, interviews were often useful for confirming or discarding existing information but they were rarely useful to obtain new directions for analysis or information. Most of the public servants requested not to be quoted or expressly asked to keep secret or out of public eye their comments. Overall, the context in which the interviews (43) were conducted was constrained by individuals.

1.7 Thesis Structure

The present Chapter (I) discusses the research highlights and its scope, literature review, theory, main questions and hypotheses, and methods —qualitative and quantitative. Chapter II describes and analyzes Mexico's oil-dependence structural and long-term trajectories; the evolution and importance of budget practices for guaranteeing the State's socio-political embeddedness and enforcing the predominance of the Executive Power over the Legislature. The aim of this chapter is to think the research on a broader context and extended period of time to distinguish pre-existing and path dependent conditions that determine to some extent how and why things evolved the way the did once the country engaged into massive oil exportation (1977).

As the present introductory Chapter claims, while it is not advisable to discard the collection of pre-existing conditions of the phenomenon we want to address, it is important to correctly identify the variable that provides more explanatory power. Chapter III provides an analysis of taxation and its correspondence with expenditures (i.e. Mexico's budget output), making relevant comparisons with other oil richly endowed countries. Both the case study and comparative exercise show that taxation capacity determines to a great extent why countries are unable to refrain from oil revenues to finance their State apparatuses and avert the "resource curse". The processes and mechanisms that work within the State apparatus to enforce the curse is described at Chapter IV, which describes and analyzes how oil rents are processed by State institutions (i.e. budget bureaus) and how these serve to substitute taxes, simultaneously maintaining a gradual but consistent upward pattern of resource allocation to social spending (transfers and subsidies).

Chapter V shows that oil-based budget institutions had been successful in delivering macroeconomic stability (controlling budget deficits and debt), yet they had also been detrimental to sectoral policies and other ministries' strategic objectives. Perhaps more important to note is the fact that, particularly during

Mexico's transition to democracy, the existing budgetary institutional framework has severely constrained if not totally inhibited the Legislatures' role at the appropriations process.

Chapter VI and VII demonstrate that oil bonanzas directly serve to increase the cost and number of public employees, helping to impede the institutionalization of a true professional, merit based bureaucracy. Though not directly addressed, these chapters provide varied insights to explain why oil Rentier States are prone to increase a political bureaucracy, where patronage and clientelist practices abound.

Finally, Chapters VIII and IX show how and why Mexico's cabinet ministries which were organizationally devoted to build long-term, developmental projects were gradually displaced —and eventually dismantled— by the oil-induced budgetary institutional arrangement. Based on a specific case (the oil company Pemex), Chapter IX provides a detailed analysis on how the national oil company works as a function of fiscal policy, rather as a tool for economic development, eventually producing a myopic sectoral policy which main and most pressing issue has been Mexico's depletion of reserves.

Chapter II. Mexico's Rentier State: Path Dependency and Structural Determinants

2.1 Introduction

The contemporary oil-based Mexican Rentier State is rooted in long-term, historical, and structural trajectories. It has had a permanent need to look for alternative ways for financing itself, and it has been able to sort its financial predicament with success using a variety of resources (silver, henequen, debt, privatization). Oil happens to be the most recent source or revenue to finance State activities but, in contrast with the others, it has required the State to significantly alter its shape and operation. In a nutshell: its need for resources is constant but the management of such resources, varies a lot, particularly considering oil's nature.

When oil bonanza began developing in early 70's, the Mexican State found *another*, perhaps more compelling reason to maintain its full control of oil industry monopoly and refrain from increasing its fiscal legitimacy by effectively raising taxes. Mexico already expropriated oil in 1938 but in the midst of 1970, instead of solving the fiscal process long-standing problems, the *priísta* ruling class decided to preserve the continuity of the regime and the State's existing institutions by becoming an oil rentier country.

As other Rentier States, Mexico began to export massively the excess of oil in order to increase the availability of resources without improving its domestic revenue effort. Yet, what ultimately institutionalized the country as a pure Rentier State, was the fact that, particularly after 1982, oil was used mainly to fix short-term fiscal and political goals rather than developmental, long-term objectives.[39] The difference between the first phase of building Mexico's Rentier State (1976-1982), and the second one (1982-2010), can be identified by analizing the *purpose* of such policies. The first phase used oil as a generalized economic leverage. The second phase used oil as a function of fiscal and monetary policies (i.e. budget balancing).

The Mexican revenue authorities' effort to increase taxation has been genuine, although it has not been consistent. Often, it has been politically attacked from within the State. As one of the most renowned and senior public servants, Undersecretary for Revenues and President of the Revenue Administration Service (*Servicio de Administración Tributaria*, or SAT), Mr. Rubén Aguirre Pangburn confided me: "the main obstacle to increase effective taxation is that the courts, either because of imperfect legislation or cooptation from organized interests, does not side with the government, forcing it to give back substantial amounts of money which were initially paid as taxes to the government" (Farfán-Mares 2009c).

There had been several attempts to increase taxation. Many public officials have also truthfully highlighted the importance for the State to build revenue raising capacity. Nevertheless, it seems that this drive has not been consistent and permanent. As Luis Rosendo Gutiérrez, Mexico City's Treasurer once complained "We make an extra effort to raise more revenue but nobody puts attention to the importance revenue raising policies and focus instead on how to spend better" (Farfán-Mares 2010). Revenue and tax officials often complain that their role is seen as an administrative process rather than a central policy for the public sector to deliver.

From a historical perspective, there are several examples that authorities were aware of the importance for the State to build tax capacities. For example, taxation

[39] In this respect, it can be claimed that the Mexican neoliberal and Rentier State are bound together by an inextricable fate. The first is supported by the second one from a political and economic perspective.

was improving prior to the oil boom in the mid 1970s (Elizondo 1994). Yet in the following decades oil greatly hindered this effort.[40] This is consistent with the fact that oil rich countries had experienced a decrease in domestic revenue effort during the midst of the oil bonanza (Bornhorst, Gupta, and Thornton 2008; Bornhorst, Gupta, and Thornton 2009; Tijerina-Guajardo and Pagan 2003).

Each time that Mexico has initiated a full-fledged oil rentier policy and oil prices had increased, taxation had lost momentum. Particularly since 1982, oil not only represented an obstacle to taxation and turned *inconsequential* for growth[41] but transferred a substantial amount of oil revenues to the government, the economic actors, and society, deteriorating the State's economic leverage and fiscal legitimacy.

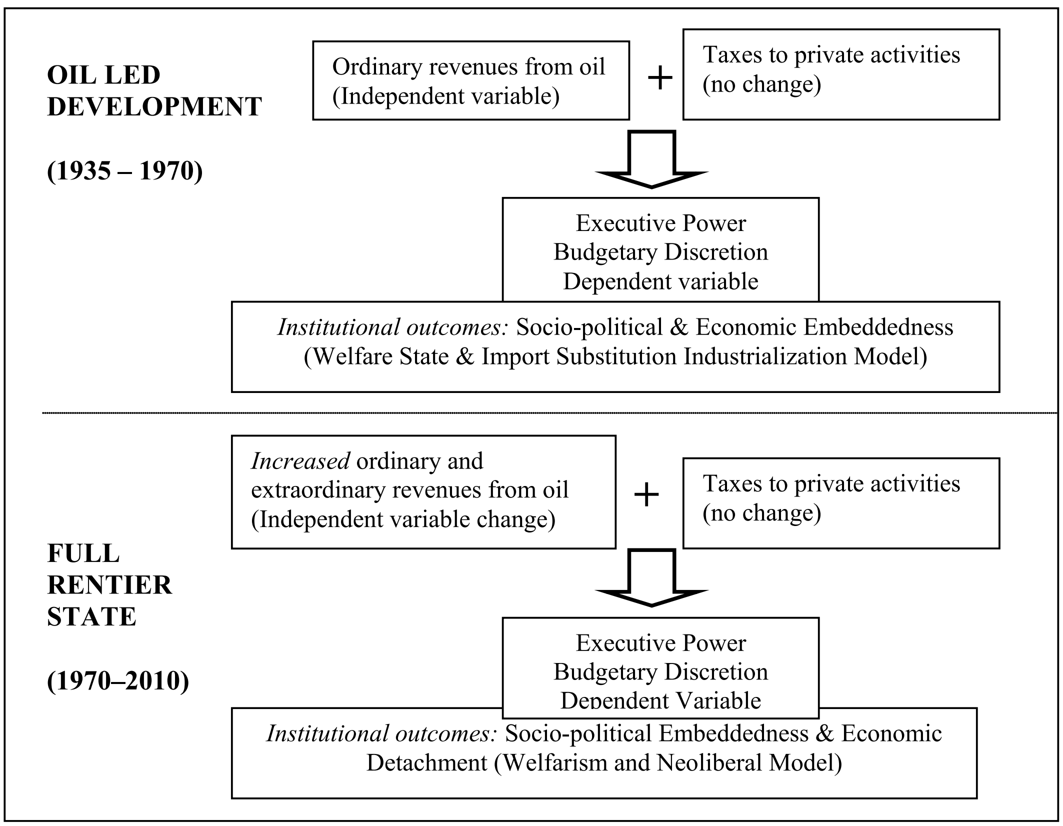
In the long run the problem of Rentier States is not that they lack institutions but they enforce a specific set of institutions which are inimical to economic development, markets, and citizen's civic engagement. They are not institutionally weak but their institutions enforce another type of political economy than industrial countries. Karl characterizes Rentier States as institutionally weak (Karl 1997; Karl 2007b). Yet, Mexico capacity to seize the oil rent, keep stable revenue maximization, and deliver a proper macroeconomic management. Thus denotes a remarkable political, institutional, and bureaucratic capacity. The capacity to increase taxation when rents are experiencing a downward trend and vice versa reflects the presence of a politically embedded, technically competent, and organisationally strong financial bureaucracy (Petrei, 1998).

[40] The most striking fact is that Mexico's oil rentier policy has been designed on a yearly basis tax plans which main discussion is the level of production (extraction) and the price of oil, rather than a productive, economically concerned, or strategic tax policy for firms and individuals Cámara de Diputados del H. Congreso de la Unión. 2009. "Ley de Ingresos de la Federación para el Ejercicio Fiscal de 2009." Pp. 34: Diario Oficial de la Federación.

[41] Public investment and capital expenditures in general, which are supposedly positive for promoting economic growth were severely cut from 1982 onwards.

Moreover, it can be claimed that rents indeed helped to build the State and not, as Karl claims, oil has substituted Statecraft (Karl 1997). Rents had helped Mexico to build its State through a strong process of fiscal centralization, institutionalization, and the creation of a strong –politically and technically speaking- bureaucracy. In addition, oil has provided for the many products and services and diverse welfare benefits to the population that otherwise could not have been delivered. In all, rents had helped the public sector to deliver what would otherwise could have been impossible to achieve.

Figure 2.1.1 Oil Based Development Comparison with the Rentier State



Source: own elaboration.

The figure 2.1.1 above summarizes, a rentier and not a developmental policy towards oil production and exportation help the Mexican State to be able to continue with the ISI model and eventually generate the basis of the "neoliberal" model.[42] This dissertation addresses the issue of Mexico's oil rentierism as a mean of State's survival (and perhaps the country's territorial integrity) and an impediment for the erosion of the social, political, and economic order (Cheibub 1998; Smith 2004; Dunning 2008). Within a long-term perspective, oil rents had been positive. They had helped to build a State and reduce social and political conflict, independently from its quality or its long-standing future sustainability.

2.2 The State's Taxation Capacity: Path Dependency and Oil

Why in the first place States are unable to raise taxes? Dryzek and Dunleavy's (2009: 2-5) build a typology on State features which are compulsory for them to exist in the short run and identify others (which are optional but strongly needed in the long run) and that any State needs to survive. These authors find that the *developing of a (weberian) bureaucracy and a tax system* as basic requisites for the State's viability in the long run.[43]

As Marxists claim on the State's impossibility to survive without capitalism (or socialism), Dryzek and Dunleavy argue that any State is inviable if these characteristics –a weberian bureaucracy and the State's taxation capacity- are not eventually developed. Again, the presence of Rentier States challenges both interpretations. Under what circumstances could it be justified that States had been

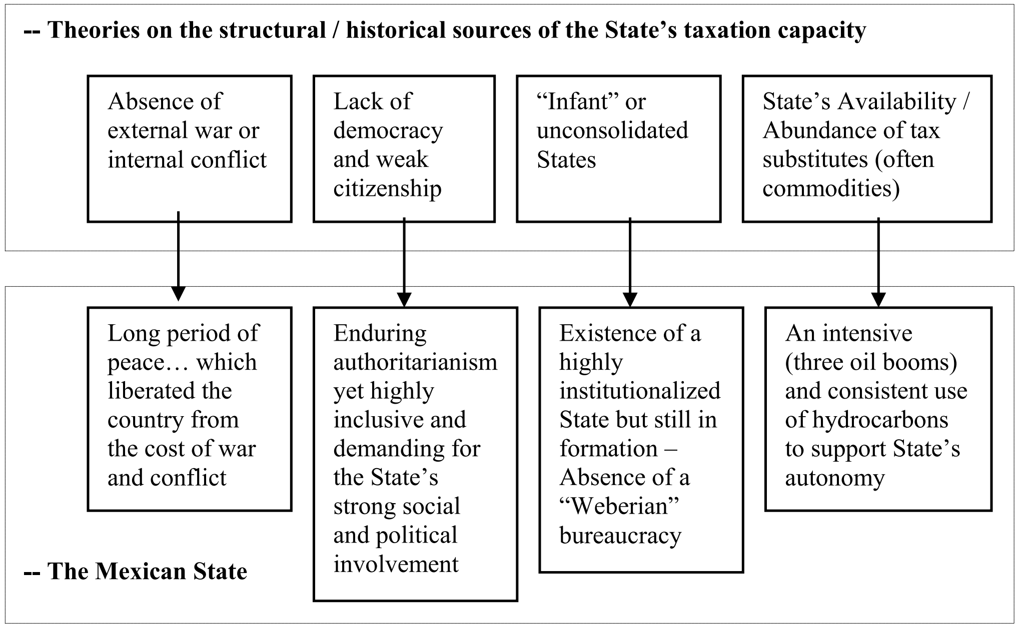
[42] The second oil boom (1977-1985) was a direct factor of Mexico's State growth in size, according to the participation of public spending as a percentage of GDP. Although during the "neoliberal" era it reduces its participation in the economy and certainly, in GDP, around a third of the State size can be attributed to oil revenue today. Public employment, as it will be demonstrated had never been reduced consistently and denotes a State much bigger than its Latin American counterparts and similar to OECD members.

[43] Among the first are a unified set of institutions which have control over a given territory and distinct society, the enforcement of collectively binding decisions, the monopoly of the legitimate use of force, the quest for sovereignty, an operation through a distinctive public realm, and the definition of citizenship and barriers to entry. The second, or optional include the claim to advance the common interests, the acceptance to be legitimate by significant groups, the operation of a constitution and a legal system, its recognition as a State by its peers (Dryzek and Dunleavy 2009: 4).

unable to build strong (professional and merit-based) bureaucracies and an effective command over tax policy from a comparative standpoint?

The literature on public finance and fiscal policy has tried to explain this through varied hypotheses. Particularly the presence of persistent fiscal (tax) weakness through the falsification of variations of independent variables such as: the absence of war or strong internal conflicts (Centeno 2002; Centeno 2009; Tilly 1975), the lack of a genuine and democratic political representation (Bates and Donald Lien 1985; Bates 1989b; Bräutigam, Fjeldstad, and Moore 2008; Cheibub 1998; Collier and Hoeffler 2005; Haber and Menaldo 2009; Herb 2002; Moore 2004; Niskanen 2004; Ross 2001; Ross 2004; Steinmo 1989; Turley 2006), the poor or lack of State's capacity, which considers an array of dependent and independent variables, (Arbetman and Johnson 2007; Arbetman and Kugler 1997; Bradford 1994; Evans 1995; Huber 1995; Jackman 1993; Moore 2004; Poggi 1990), and, lastly, the availability of substitutes to taxation where income generated from global commodities, where hydrocarbons outstand in particular (Beblawi 1987; Beblawi and Luciani 1987a; Beblawi and Luciani 1987b; Chaudhry 1989; Chaudhry 1994; Karl 1997; Luciani 1987; Mahdavy 1970b; Rosser 2006; Shambayati 1994; Yates 1996). The following Figure compares the broader insights and findings of all the aforementioned four epistemic communities and makes specific comments regarding Mexico.

Figure 2.2.1 State's Taxation Fragility vis-à-vis the Mexican Case



Source: own elaboration.

As Figure 2.2.1 shows, Mexico combines some of the features which had been identified by the literature as structural causes for the State's poor taxation capacity. The country is characterized by the absence of major internal conflicts or conflicts with foreign countries for prolonged periods of time. Without building a truly national and strong military, Mexico had chosen to avert the risk of internal and politically-led military coups and struggles. Finally, with genuine liberal and capitalist values absent, the availability of resources substitute taxation (covered by a nationalistic and anti-foreign narrative). These structural constraints on taxation prevailed over time with oil production.

Oil has not been marginal in the country's profile. Mexico's held the second position as the world's most important producer (just after the United States) in 1921, participating with a fourth of total world's production (Moreno-Brid 2009:73-74). From 1924 onwards Mexico declined as a major producer (falling to the fourth place) and began using oil, until 1975, for internal use only. Mexico was self-sufficient from 1940 until 1971, when it became a net importer (Palacios 2002).[44]

Until 1975, the country was able to meet its internal energy demand and export again the excess of crude oil. Yet, it was not a deliberate policy of exporting oil. Exports grew 23 times between 1975 and 1981, proven reserves grew almost three times in just one year (1976-1977). It took just other two years to multiply three times again (1977-1979), when production went from 653,000 bpd (1974) to 2,748,000 bpd (1982) and price went from 8.85 (1973) to 38.18 (1980) per barrel (Gavin 1996). Notably, after the 1982 crisis reserves, even world price remained the same, exports had a significant hike from 1,152 to 1,604 (Gavin 1996).

Which reasons can be set forth, independently from the Mexican State's need for legitimation, and poor taxation capacities that might explain the Mexican State's need for oil exports? Public finance literature have identified some of the common causes for State's expansion in the economy (i.e. the growth of government). It is generally assumed that population, internal migration, and economic production patterns, such as an economy more oriented to services or manufactures for example, impels the State to intervene as all the "regulatory" functions demand a stronger and a bigger government. The SDM and ISI model generated a strong population pressure when the agricultural sector experienced a strong decay. Gradually, millions of people were moving to urban areas and the demand for services added another spending demand for the government.[45]

Finally, the issue of greater pressure coming from middle and small sized firms and middle classes complicated even more the government's try to enact a tax

[44] Though it imported gasoline prior to this year.

[45] According to the last census, Mexico urban-rural relationship in 1970 was 25/75. By the year 2009, the proportion was the inverse: 75/25. For example rural population decreased from 71.5 percent according to its participation in total population, to 25.3 Anzaldo, Carlos and Eric Alan Barron. 2009. "La situacion demografica de Mexico 2009." Pp. 14: Consejo Nacional de Poblacion.

reform. Tax increases might enjoy of greater support among society if the government offers clear and credible benefits from (earmarking), waste, corruption and mismanagement are not ubiquitous. But taxes might be adamantly opposed if society distrusts the government and/or simply feels alienated from it.

In sum, if some key elements and important values, which are apparently not strictly related with public finance, are absent the State's taxation capacity will unlikely increase on a consistent basis (Bates and Donald Lien 1985; Bräutigam, Fjeldstad, and Moore 2008; Cheibub 1998; Dahl 1971; Lieberman 2002; Moore 2007; Ross 2004; Schumpeter 1918; Steinmo 1989; Tanzi and Schuknecht 2000). In addition, taxes are associated with a society's capacity to oversee and control the government (Bates and Donald Lien 1985; Bates 1989b; Bräutigam, Fjeldstad, and Moore 2008; Cheibub 1998; Lieberman 2002; Moore 2007; Ross 2004; Schumpeter 1918; Steinmo 1989). The Mexican State has lacked fiscal and political legitimacy to build a sound fiscal basis.

2.3 Mexico's Rentier State: One-Party Hegemonic Rule, and Presidential Power

It can be claimed that during the last decades (1970-2010) the profile of the Mexican State's rentier behaviour resembles a democracy (given its public spending pattern) and, though fuzzy, also a Welfare State (since it heavily invests in public services, transfers and subsidies, i.e. current expenditures are high). Yet, it is not clear why Mexico became a full-fledged Rentier State, in the first place.

Mexico's regime structural need for a socially inclusive, pro-poor and a Semi Welfare State was outstandingly threatened. First, at the beginning of 1970 a general deterioration of the Mexican economy, and later, a failed fiscal reform (1972) took place (Ojeda 1976; Ojeda 1986).[46] President Luis Echeverría Alvarez (1970-1976) tried first to cover this income gap with debt and his successor with oil. Both strategies failed as the first policy was unsustainable after global financial markets were drained (Bulmer-Thomas 2003; Gilpin 2001; Green 1976; Moreno-Brid 2009). The government of López Portillo heavily relied on oil to finance government's activities, so the second strategy for financing the State lasted as long as the world demand for oil remained high (1986). A combination of domestic and international factors importantly reduced the availability of resources to maintain the regime's need for socio-political embeddedness.

There are many hypotheses and explanations on why the Mexican government suffered an important revenue loss during 1970. One such issue that eventually reduced the availability of resources to be allocated secretively and discretionally during the fiscal year (as it has occurred in the past). Nazmi, for example, emphasizes the deterioration of economic fundamentals, in particular the fiscal position and the external balance of payments of the Mexican State (Nazmi 1997). This explanation is shared by others yet, Nazmi emphasizes the issue of presidential succession as one of the components of the Mexican government's loss of credibility. He estimates that the succession process did not achieve consensus before the candidacy of Luis Echeverría, which brought considerable doubts within the private sector (Nazmi 1996).

Independently from the reasons that explain the Mexican government's important loss of revenues, it was clear that the years of high budgetary discretion (1935-70) and high rates of growth (1954-1970) were over. First, debt and oil helped to give some degree of manoeuvre during 1976 – 1986 with oil heavily decreasing

[46] Nazmi argues that the incoming problems of President Echeverría were rooted within the Desarrollo Estabilizador model, which accumulated major and unsustainable long term imbalances Nazmi, Nader. 1996. *Economic Policy and Stabilization in Latin America*. Armonk, New York: M.E.Sharpe.

from 1986 until 2003. But budgetary discretion did not fully recover until the third oil boom arrived (2003). In sum, during the early 1970's debt and oil were used to gain an additional amount of revenue and feed budgetary discretion but never recovered until a third boom arrived between 2003 and 2004). Impressively during the years of lower than expected revenues (1986-2003) and low oil prices the hegemonic party regime experienced important political shifts, as explained later.

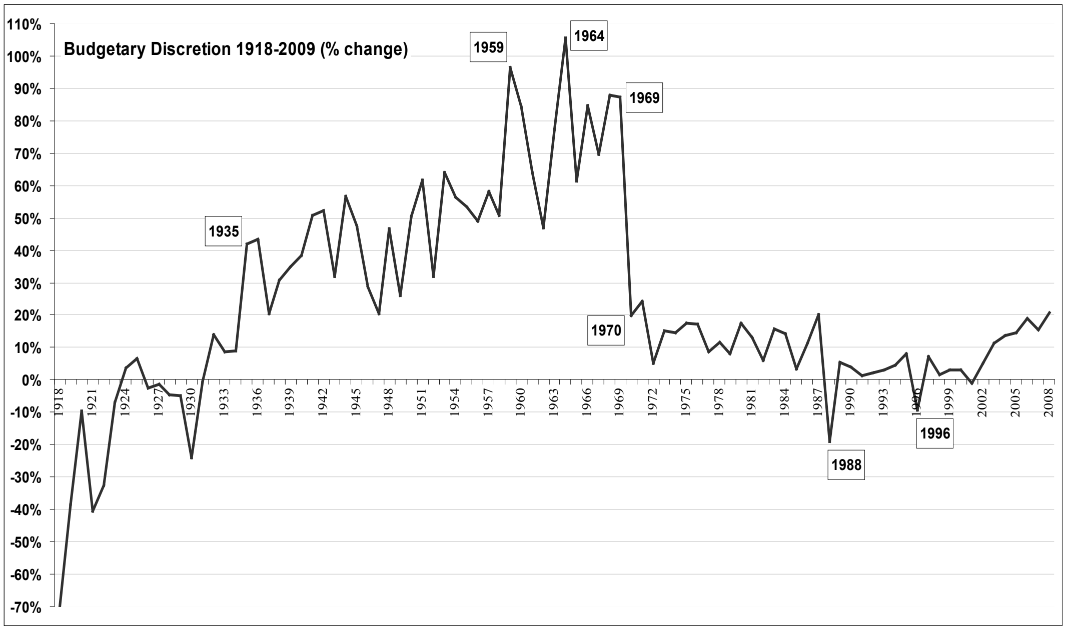
What is meant by "budgetary discretion" or budgetary degree of maneuver? These refer to the amount of financial resources which can be freely allocated by the Executive during a fiscal year. It appears that Mexico's long lasting policy of bold social and political inclusiveness upon the exercise of a high degree of Executive's budgetary discretion began in 1935, when President Lázaro Cárdenas began using public expenditures to cement the government's support. This policy ultimately institutionalized within the transition between the Partido Nacional Revolucionario (PNR, 1929-1938) and the Partido de la Revolución Mexicana (PRM, 1938-1946). Budgetary discretion greatly helped to support the regime's need for social and political inclusiveness from 1935 (the first Cárdenas Fiscal Year) to 1970 (the first President Echeverría's Fiscal Year).

It can be claimed that the President, as chief of the Executive Power (and the extended government at federal, state and local level), systematically used budgetary discretion to mobilize public expenditures. Appropriations proposals were inconsequential. Specially since both the proposal sent to the Chamber of Deputies to be approved, and its corresponding Decree barely varied among each other. In contrast, the amount of resources approved by the Chamber of Deputies (published 1st January) greatly differed from the effectively funds spent during each fiscal year (reported 31 December). As Cothran and Farfan-Mares clearly note, it was not the product of a technical incapacity to foresee future revenues but a deliberate policy to downplay revenues in order to use such gap in a discretional way (Cothran 1986; Farfan-Mares 2009g).

From a different perspective, Bailey also addresses this issue when he states that "An anecdote by budget specialists, probably apocryphal but completely revealing, concerns Ortíz Mena's [Minister of Finance from 1958 until 1970] practice of calculating budget parameters –income, expenditure by sectors, borrowing requirements– on an index card he kept in his jacket pocket and divulging the figures only at the annual budget presentation to congress. Another legend, exaggerated but based in fact, was the practice of preparing two budgets, one for presentation before congress (understating investment expenditure and debt requirements) and another (calling for higher levels of investment and debt) which was actually implemented at the outset of the fiscal year" (Bailey 1984: 78).

The amounts of available revenues that were available to spend, but were consistently kept out from public eye, were quite significant. For example, as Table 2.3.1 indicates, the first and last fiscal years of President López Mateos (1958-1964) the budget varied 96.56% and 105.64% respectively! The key year for identifying two clear, long-term and structural patterns is 1970. The government's budgetary discretion -or degree of manoeuvre to allocate the budget fell- from almost 90% in 1969 to less than 20% in 1970 (in real terms).

Table 2.3.1 Degree of Budgetary Discretion (1918 - 2008)



Source: own elaboration with data from (Cothran 1986) and primary data obtained from Executive's Budget Proposals sent to the Chamber of Deputies, Budget Decrees published at the D.O.F, and Public Accounts for the period 1970 – 2009 (CHPF).

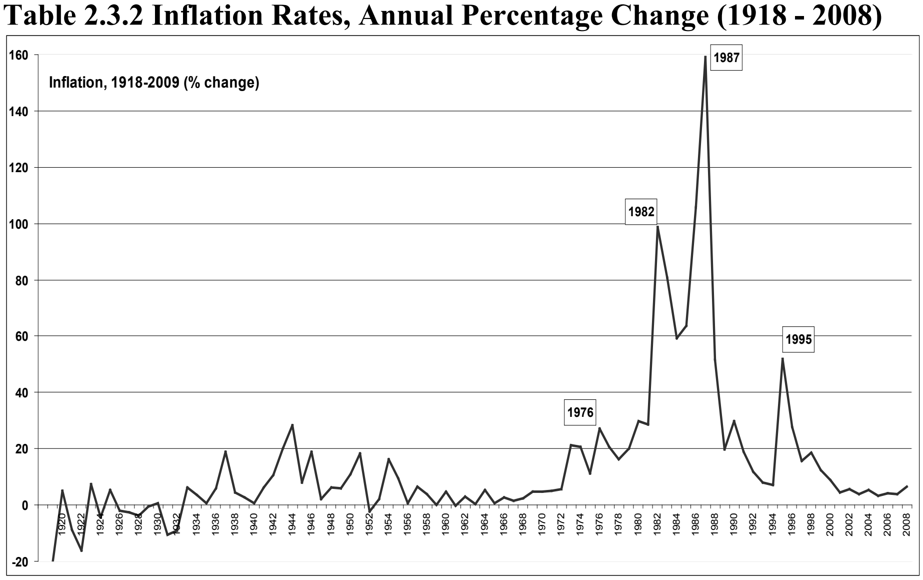
The era that begins with the Presidency of Echeverría Alvarez (1970-1976) explains which structural reasons of a more sophisticated method to allocate expenditures was used. While his Finance Minister, López Portillo, was unable to deliver a tax reform in 1972, he was capable of delivering small upward adjustments to taxation. His achievement and a robust economic growth in 1972-1973 (average 8.3%) and 1974 (6.2%) helped to regain some degree of budgetary manoeuvre. Yet, the Executive's budgetary discretion never returned (Nazmi 1996).

Which was the rationale for such discretional management? Cothran analyzes the Cárdenas government and concludes the following: "It seems plausible to suppose that [Cárdenas] did so [budgetary secrecy and discretion] for three major reasons: to balance the demands of competing groups in the revolutionary coalition, to increase the power of the presidency in a turbulent political environment, and to allow him to pursue specific policy goals that were somewhat at variance with his public image …

secrecy in resource allocation can contribute to a lessening of conflict in a political system that has not yet evolved a strong set of shared values or effective institutions for resolving conflicts." (Cothran 1986: 50, 56). All of Cothran insights can be applied to governments up to 1970.

As depicted by Table 2.3.1 after 1970, the degree of budgetary manoeuvre (% change between what the Legislature published as Decree and the Executive reported as spent) was severely reduced. From that time on, Presidents, or more exactly Executive Powers at all levels (federal, state, local), were able to manipulate the budget up to 20% (in current pesos). Nevertheless, while Cothran, and to a great extent Wilkie, do not incorporate the key issue of inflation in their analyses, it became clear that both in current or inflation-adjusted pesos (see Table 2.3.2), the Executive was increasingly constrained to use the budget as a tool for bribing internal and external potential allies within the governing coalition.[47]

Table 2.3.2 Inflation Rates, Annual Percentage Change (1918 - 2008)



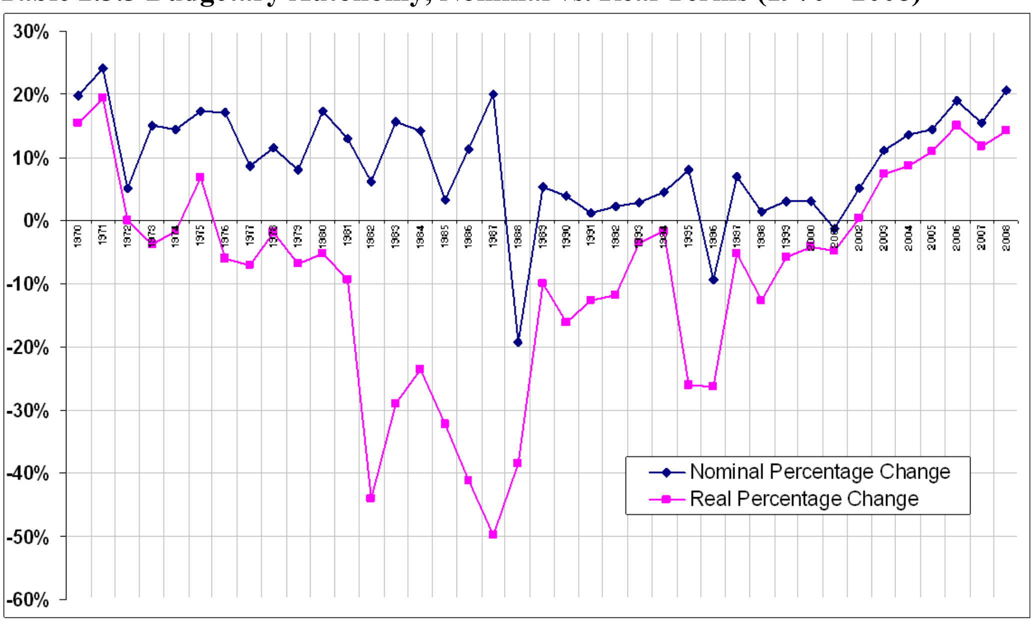
Source: own elaboration with data from the Bank of Mexico (Banxico).

[47] Table 2.3.2 is included to assess to what extent inflation became another negative factor for having less availability of budgetary resources and therefore less resources to enforce social and political support.

A comparison between the two Tables indicate that inflation reached significant levels during the years 1976, 1982, 1987, 1995, also in those years, budgetary discretion was substantially reduced in nominal and real terms. To no surprise, these years refer to moments of strong social, political, and economic distress that pushed the system to concede important changes.[48]

Table 2.3.3 makes a more detailed analysis of the Mexican State's budgetary autonomy and discretion during the last four decades. While nominal and real percentage change were helped by the availability of debt (1973-1976) and oil rents (1977-1986), its absence reduces even more the degree of budgetary discretion (1987-2003). It recovers for the first time since 1971 in *nominal and real terms* precisely because of the third oil bonanza in Mexico's history (2003-2008).

Table 2.3.3 Budgetary Autonomy, Nominal vs. Real Terms (1970 - 2008)



Source: own elaboration with primary data from and Executive's Budget Proposals sent to the Chamber of Deputies, Budget Decrees published at the D.O.F, and Public Accounts for the period 1970 – 2009 (CHPF).

[48] For reasons of space, the issues that characterized these years will not be mentioned or analyzed. The idea is to underscore the importance of budgetary autonomy to sustain the stability of the regime.

Finally, Table 2.3.4 extracts the percentages which are graphically depicted at Table 2.3.2. It presents the average of real budgetary autonomy taking in consideration the availability of debt (1970-1976), oil second bonanza (1977-1986), low oil prices (1987-2003) and the third oil boom (2003-2008). It is clear that the regime "transitioned" to democracy precisely in a period when oil rents (as a mean for discretion, vote buying and consistent political bribing) were not available. Furthermore, again under a more competitive and democratic period oil rents were strengthened by the clientelist and patrimonial source of the regime. This time rents were not centrally controlled but managed upon a strongly decentralized manner, as federal and subnational elections were competitive.

Table 2.3.4 Average of Budgetary Discretion (1970 - 2008) [49]

Period	**average change**
1970 – 1976	16.22
1977 – 1986	11.78
1987 – 2003	1.24
2003 – 2008	15.75

Source: own elaboration with data from (Cothran 1986) and primary data obtained from Executive's Budget Proposals sent to the Chamber of Deputies, Budget Decrees published at the D.O.F, and Public Accounts for the period 1970 – 2009 (CHPF).

Table 2.3.4 depicts the average of change between the Budget Decree made public in January each year and the final record of effectively spent funds budget. It is important to notice that precisely between the years (low oil prices) 1987 2003, the average change of variation between projected and spent budgets are practically zero. Only to recover to 1970s levels in 2003, when oil prices experience an important hike (and notingly inflation rates are low). To give an idea of how oil helped to recover

[49] Source: own calculation with primary data from Executive's Budget Proposals sent to the Chamber of Deputies, Budget Decrees published at the D.O.F, and Public Accounts for the period 1970 – 2009 (CHPF).

budgetary discretion, the Mexican mix oil price reaches 105 U.S. Dollars per barrel in July 2008 and the inflation reported was 5% on a yearly basis.

During this period several key political events took place. They included the elite division at the highest level within the PRI (the Corriente Democrática leaded by Cuauhtémoc Cárdenas, son of President Lázaro Cárdenas between the years 1986-1987), the PRI's presidential candidate's assassination (Luis Donaldo Colosio in March 1994), the loss of the PRI majority in the Chamber of Deputies (1997), the loss of the Presidency by the PRI (2000), and President Fox incapacity for his party to achieve a majority in the Chamber of Deputies (2003). At all junctures, low oil prices played against the incumbent.[50]

In conclusion, budget manipulation of the expected revenues and effectively spent resources were a regular feature of the Mexican State's institutional dynamic. Before engaging into massive oil exportation (70s decade), the Mexican budget authorities used the control over the production of oil exports to stimulate the economy and fine tune social needs within the political system. The shocks on the Mexican economy made this policy technically difficult to practice and unsustainable in the short run. Oil provided for the non-budgeted excess revenues that the Mexican authorities consistently and discretionally used to build the regime's economic and socio-political alliances. This can be demonstrated when looking at Table 2.3.4, where periods of low prices and low global demand match the lower levels of budgetary discretion. Between 1987 and 2003 there was a 1.24 of change between approved budgets and actually spent.

[50] Dunning has a similar analysis for Venezuela and to some extent Karl, arguing that lower oil prices translate into political and social instability Dunning, Thad. 2008. *Crude Democracy: Natural Resource Wealth and Political Regimes*, Edited by M. Levi. New York: Cambridge University Press, Karl, Terry Lynn. 1997. *The paradox of plenty: oil booms and petro-states*. Berkeley, California: University of California Press.

2.4 Mexico's Rentier State Socio-political Embeddedness

The fact that Rentier States are often unfriendly to a genuinely democratic society and a capitalist, market-driven and open economy does not automatically translate into a State that is detached from reality. In fact, it is deeply embedded, although upon an illiberal and non-capitalist manner. In oil richly endowed countries liberal and capitalist-type values and behaviour do exist. Yet the State does not totally build its power and autonomy from these.

The State, conceived as "a set of collectivities concerned with the institutionalized organisation of political power"[51], broadly refer to a simultaneous interaction, upon a tacit or explicit pact, between the government and society regarding power relations and authority (Lukes 1986). This definition of the State is particularly suitable for the Mexican case. The Mexican State has been able to survive by incorporating individuals and groups into an illiberal and non-capitalist (rentier) governing coalition through a consistent policy of social, political, and economic inclusiveness.[52]

Considering Mexico's difficulty in achieving a governing consensus since the first decades after independence (the period known as "*el periodo de anarquía*"), the political elite traditionally focused in producing a strong and ample governing coalition to give the country stability. This was particularly evident after the era known as *el Porfiriato* which ended in 1910 and the revolutionary movement began to settle down after 1920.

The postrevolutionary generation of political leaders failed to give full stability to the country until the arrival of President Lázaro Cárdenas del Río (1934-1940). He

---

[51] Giddens, Anthony. 1995. *A Contemporary Critique of Historical Materialism*. Basingstoke, London: Macmillan. Giddens 1995: 220

[52] What Pablo González Casanova defined in his classic work "La Democracia en México", as the regime's preferred political tactic: generalized cooptation (González Casanova, 1965).

defeated the last organized and military rebellion against the government and managed to incorporate all the political, social, and economic veto powers into the governing coalition of the *Partido de la Revolución Mexicana*, or PRM founded in 1938. The strong clientelist and corporatist profile of the new model of political party was able to give stability and elite circulation to the country for decades.

From that time on, Mexico observed patterns of social and political inclusiveness (i.e. embeddedness) rather atypical considering its authoritarian nature. Most authoritarian regimes in Latin America and elsewhere banned civilians out of politics and rejected, often violently, the inclusion of popular groups and bottom-up popular mobilization (Collier 1979; Linz 1973; Malloy 1977; Stepan 1988; Véliz 1980). While other countries repressed civilians and all independent movements from the government, the Mexican authorities promoted, through political tutelage (guided and controlled by the government), social and political mobilization. As the 1968 student massacre in Mexico City and other anti-systemic mobilizations (such as popular uprisings, rural upheavals, urban and rural guerrillas and rural armed groups) demonstrated, the regime also reacted violently to true participation and effective contestation (Zermeño, 1996).

Around the world and particularly in Latin America, military-led authoritarianisms had been characterized by the strong role of the Armed Forces, which often came at a high cost for public finances. In contrast, particularly after 1934, Mexico's military budget was consistently reduced and a growing number of political posts were filled by civilians, gradually displacing military cadres. For the remainder of the century, Mexican civil leaders were able to keep military in barracks. They also renew the political leadership parsimoniously, and systematically incorporated the opposition –even the political Left- into the governing coalition.

Furthermore, the Mexican authoritarianism was able to incorporate and "co-optate" individuals and groups which represented a potential danger to the postrevolutionary elite (González Casanova 1965).[53] As Magaloni emphasizes, the Mexican "electoral autocracy" built its long-term political strategy from the assignment of four functional roles to elections. These were designed as an established regularized method to share power. Second, they disseminate information about the regime's strength that eventually served to discourage potential divisions. Third, they provided information about supporters and opponents and finally trapped the opposition, so that it invests in the existing autocratic institutions rather than challenging them by violent means (Magaloni 2006: 8-9). Public spending policy had a central role both at temporal (elections) and permanent (political co-optation).

Public expenditures were massively allocated towards political and social ends. A *non-competitive and illiberal* political electoral cycle was recurrently stimulated by its strong increase prior to elections. The presence of a strong political business cycle demonstrates that the Mexican State comprehensively used its budgetary powers to buy political support independently from authoritarian or democratic periods (Farfan-Mares 2008a). A detailed analysis of the period 1970-2009 demonstrates the presence of a strong electoral cycle, as Table 2.4.1 summarizes.

[53] From a long-term perspective, the origins for such inclusiveness comes from the fact that Mexico has historically and structurally experienced high rates of poverty and inequality Levy, Santiago and Michael Walton. 2009. "No growth without equity? Inequality, Interests, and Competition in Mexico." Pp. 476 in *Equity and Development Series*. Washington, D.C.: Palgrave Macmillan / The International Bank for Reconstruction and Development - The World Bank, Thorp, Rosemary. 1998. *Progress, poverty and exclusion: an economic history of Latin America in the 20th century*. Washington, D.C., Baltimore, MD: Inter-American Development Bank; Distributed by The Johns Hopkins University Press. Also, the State was forced to include the masses because it lacked the power to repress, since it never was able to raise taxes and therefore it was not able to build a strong military Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: The Pennsylvania State University Press, Tilly, Charles. 1975. *The Formation of national States in Western Europe*. Princeton, New Jersey: Princeton University Press.

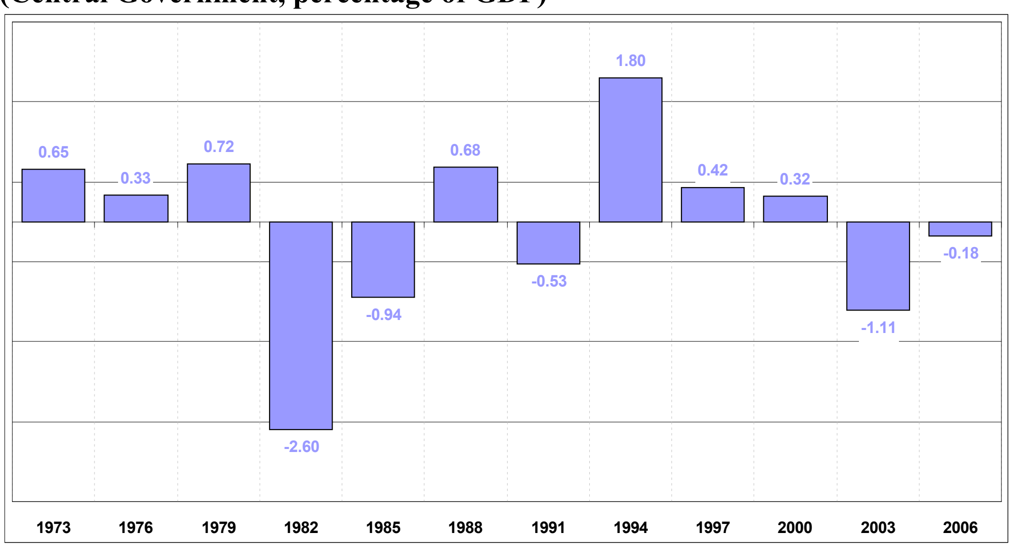
Deputies attempted, in general, to increase total expenditure by almost 3% of total expenditures prior to an election (general or midterm) and decrease expenditures by almost 5% (Budget Decree). Despite their efforts, it was the Executive which, using its budgetary powers, allowed the budget to increase only 1% prior to elections and "freeze" public spending more than 3% immediately after the election. Although both moments were calculated on a yearly basis, monthly budgetary data also denote the same pattern considering the spending speed before mid-July (when elections usually take place) and after these, though current and capital expenditures behave differently.[54]

Table 2.4.1 Electoral Cycle, 1970-2009

Type of Budget Document	Avg. increase of expenditures prior to election, % GDP	Avg. decrease of expenditures after election, % GDP
Deputies' Decree	2.76	-4.85
Effectively Spent	0.99	-3.32

Source: own elaboration and calculation (real increase in central government's cabinet expenditure), data the Executive's Public Accounts.

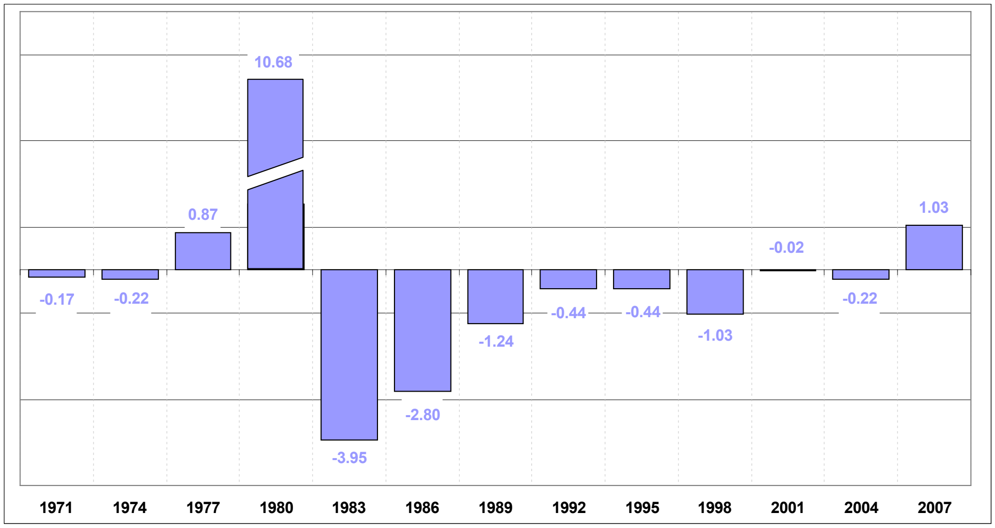
Table 2.4.2 Programmable (discretionary) Budgetary Increase Prior to Elections (Central Government, percentage of GDP)



Source: own elaboration and calculation (real increase in central government's cabinet expenditure) with data from Public Accounts by the Executive (Cuenta Pública de la Hacienda Federal, SHCP).

[54] Typically both types of expenditures and its corresponding items all increase prior to elections and capital expenditures, in particular, decrease much more than current expenditures after the elections.

Table 2.4.3 Programmable (discretionary) Budgetary Decrease After Elections (Central Government, percentage GDP)

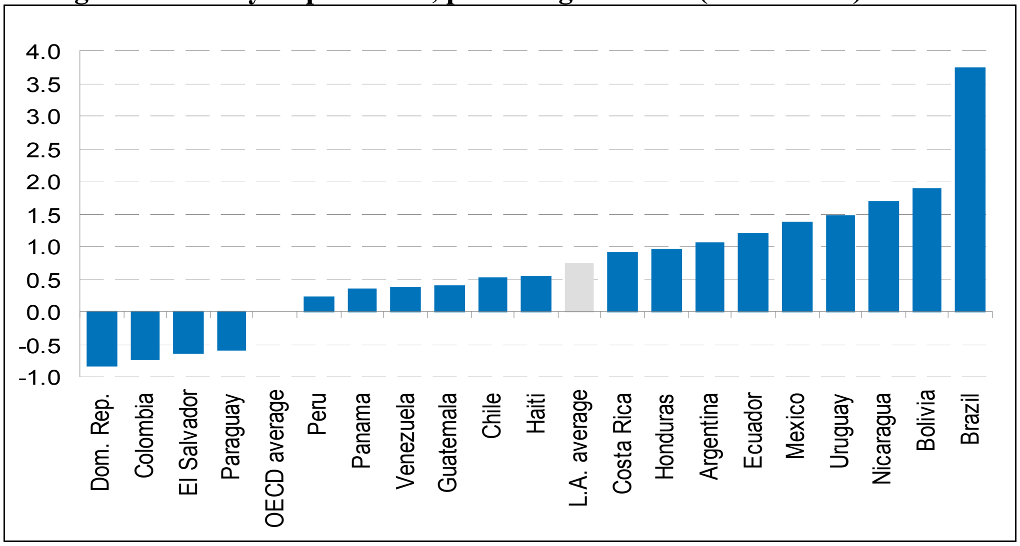


Source: own elaboration and calculation (real increase in central government's cabinet expenditure) with data from Public Accounts by the Executive (Cuenta Pública de la Hacienda Federal, SHCP)

It is important to note that the Legislature regularly requested more increased funds prior to elections than the Executive actually agreed. Yet, what is striking is that the Legislature decreased expenditures once the electoral cycle was over even more than the Executive did. The political transition to democracy might serve to explain why the Legislature behaved almost like the Executive particularly after elections took place. The Legislature adjusted almost nothing after 2000, 2003 and 2007 midterm elections. Yet there was an exception in 1998, which was the first effective year of the loss of the majority by the then-governing official party, the PRI.

After democratization, taking into account its need for socio-political inclusiveness, the Mexican State resembles its fully and genuinely democratic counterparts, since public expenditures and elections appear to go in tandem. Indeed, Mexico experienced political cycles prior to its full entrance into a process of democratization (1997) and comparative analyses indicate that it behaved like some of the countries, considered as most democratic in the region (i.e. Uruguay and Costa Rica), as Table 2.4.4 summarizes.

Table 2.4.4 Impact of Elections on Fiscal Policy in Latin American Countries, Changes in Primary Expenditure, percentage of GDP (1990 - 2006)[55]



Source: Nieto Parra and Santiso (2008b, forthcoming) based on Secretaría do Tesouro Nacional (in the case of Brazil); ECLAC ILPES, Public Finance database (for other Latin American countries) and OECD, General Government Accounts (for OECD countries) (http://dx.doi.org/10.1787/450175418864)

2.5 The Rentier State and Protracted Democratization

The arrival of economic and political liberalization in countries which have experienced long periods of authoritarianism are often prone to disenchantment. This is the result of unrealistic initial expectations as well as the slow pace of reforms (Stokes 2000). In 1997, the PRI enduring authoritarian and hegemonic party lost its majority in the Chamber of Deputies and later lost the Presidency (2000). Most of the Mexicans expected a genuine political change from *panistas* (supporters of the Partido Acción Nacional, or PAN). They hoped that the first non-PRI presidential term would radically alter the nature of the regime and the political system, spurring a period of robust economic growth.

President Vicente Fox (2000-2006) tried to deliver substantial reforms that challenged the basis of the *ancien régime* (i.e. energy, tax, transparency, civil service,

[55] a) The impact of elections on fiscal policy is calculated as the difference between the fiscal variable (as percentage of GDP) during the election year and non-election years. b) Legislature elections are used for countries with parliamentary political systems and executive elections for countries with presidential systems. Data on fiscal policy refer to central government.

pensions) but failed to do so. Particularly after the 2003 elections, when his party did not obtain a majority in Congress and traditional powers were effectively blocking a departure from the status quo. Furthermore since his first year in power (2000), the government's economic position was precarious. After September 11 attacks in the United States, the Mexican economy entered into a slump, and the sluggish growth of the world economy brought oil prices down.

As many researchers on the topic have emphasized, the budget has not only shaped Mexico's political culture but has proved to be determinant for the country's political economy, and particularly, the government's trajectory (Bailey 1980; Bailey 1984; Cothran 1986; Wilkie 1967). Fox did not enjoy a wide degree of budgetary manoeuvre, compared to former presidents. He was unable to renegotiate debt, privatize the public sector, nor enjoy a hike in oil prices (1989-91), that others benefited from an impressive boost in exports, given the strong devaluation of the peso (1994-5). Fox enjoyed the "political bonus" of being the first fully democratic elected President in Mexico's history yet it lacked the majority in Congress. Perhaps more important was the fact that he was leading a country with a structurally weak fiscal position and an economy with low productivity that was facing a difficult economic situation, mostly provoked by the US economic slump. Despite its democratic credentials, the economic powers of the Presidency were unusually constrained.

Regardless of these constraints, in 2001-2002 Fox tried to introduce a tax reform, yet, similar to what happened three decades earlier (1972), it eventually failed.[56] In all, he faced a strong opposition to keep the pace of reforms (i.e.

[56] Tax reform failed despite the fact that the Finance Minister (Francisco Gil Díaz) was known as an "iron levier" and whom inspired in Mexico the term of "fiscal terrorism". Tax reform also failed, according to Rubén Aguirre (former Undersecretary for Revenues and SAT President, *Servicio de*

transparency and civil service were among the major reforms which had success) and, as the former authoritarian regime's political party now in opposition regained congressional strength (particularly in 2003 elections), the PAN affiliates and supporters in both the government and Congress lacked the power to give the President meaningful support. Indeed, quite early in his term, President Fox turned into a lame duck.

Meanwhile, PRI governors, former politicians and public servants which were displaced by the first panista government remained active, maintaining and even strengthening their position as a "loyal" or "institutional", apparently proactive and supportive, opposition. The political Right, now in power, and the Left, traditionally displaced from power, began enjoying the benefits of a budget-supported State's political machinery. Similar to the *ancien régime*, they relied upon patrimonial and clientelistic practices to build its base of political support and legitimacy. These institutional features were traditionally associated to the PRI and the long-lasting authoritarian regime but they were extended to other political forces and obliged new parties to reproduce the same patterns of political engagement (patronage and clientelism).

It is important to note that the PRI's traditional practices are not exclusively related with the distribution of public posts upon a non-merit criterion (patronage), pork barrel or clientelism (the exchange of electoral or permanent political support for economic, often individual, benefits). In addition to these features, during all the successive electoral reforms, the PRI managed to preserve its legal-electoral entitlements by extending and increasing the government's public financing to political parties. From 2000 onwards (and particularly from 2003) a sizeable and

---

Administración Tributaria, i.e. the taxation branch of SHCP) because the courts often ruled against SHCP Farfán-Mares, Gabriel. 2009f. "Interview with Rubén Aguirre Pangburn." Mexico City.

consistent increase of public funding to political parties took place. As a result, the Mexican democracy became one of the most expensive in the world. For example, compared to its Latin American counterparts, the direct cost of each vote is 18th times higher than the region's average and more than the double from its closest competitor (International Foundation for Electoral Systems 2009: 69). In addition, it is worth noting that the proportion of financing to political parties that comes from public funds and the cost of the body that regulates elections (the *Instituto Federal Electoral*, or IFE) are among the highest in the world (Eisenstadt 2004: 7).

Since it intensively based its political embeddedness from the availability of public funds throughout the succession of political reforms, the PRI managed to guarantee the provision of public financing for itself and all other parties (Molinar Horcasitas 1991). These financial benefits were eventually extended –and formalized- for all the parties through complex formulas, according to the principle of equity. Upon a democratic façade, the PRI's right to allocate resources was enhanced and formalized.

Most of panistas and the political Left or *perredistas* (i.e. members of the *Partido de la Revolución Democrática*, or PRD) began claiming for themselves (political bosses or elected officials) increased public budgets on the grounds that the country's democratization and decentralization obliged the federal bureaucracy to give up part of its traditional hegemony. Decentralization has not evolved in tandem with genuine democratization and the patron-client budget-based system has been only decentralized but not totally eradicated. The public sector also experienced a major transformation. Public servants, whom careers and job stability greatly depended from the PRI, engaged into a strategy to reduce the risk of being fired or increase the costs of such predicament within other political parties where the PAN is a case in point.

As some of the most prestigious Mexican experts in public service emphasized, public sector's employees payment and severance policies, which in the past heavily relied on informal, provisional, and discretional criteria, were challenged through the courts and eventually formalized (Farfan-Mares 2005; Farfan-Mares 2006c). Taking in consideration that high and middle-rank public servants in Mexico are the best paid in the world (compared with other governments and the private sector's equivalent positions) (Carrillo and Guerrero 2002), the above strategy resulted into the entrenchment of their job benefits and special privileges, losing the opportunity to link merit and performance results to public servants professionalisation (Farfan-Mares 2003b; Farfan-Mares 2004e). This problem was particularly important since some Senators and progressive policy entrepreneurs were pushing for a deep reform of the public service (Farfan-Mares 2004b; Farfan-Mares 2004e).

Between 2003 and 2004, oil prices experienced an important hike, and, since such phenomenon appeared to be permanent, a strong pressure to increase public expenditures began to unfold. Surprisingly, the Mexican government, (the Ministry of Finance or *Secretaría de Hacienda y Crédito Público*, SHCP and the National Oil Company, *Petróleos Mexicanos*, Pemex) decided to maximize oil revenue by increasing the pace of extraction and exports (given the rising levels of global energy demand), and keep stagnant sectoral investment levels, despite the fact that oil production was beginning its decay and reserves were depleting at a quicker speed. Mexico's crude oil production peaked in 2004 (3,825 million barrels per day, mbpd) and in 2009 denoted a loss of more than 1 mbpd (2,607) (Petróleos Mexicanos 2009).

The old oil-rentier, hegemonic party authoritarian State turned into an oil-rentier pluralistic, electoral competitive, and *predatory* State where all the political forces were benefiting from the same pool, without caring for its enhancement and sustainability. Neoliberalism, democracy, and decentralization did not produced budgetary deficits as it was often feared by many experts in budget literature (Fukasaku and Hausmann 1998; Petrei 1998), but national patrimony deprivation and reserve depletion as it can be demonstrated, according to the available, often conservative forecasts, that Mexico will eventually turn into a net oil importer by 2012-13 (International Monetary Fund 2009a).

The huge amount of financial resources coming from the third oil boom in Mexican history (2003-2009) increased the central and subnational government's availability of financial means. Considering the strong patrimonial and clientelar accent of the existing political culture, these resources reinforced and brought a new boost for the political system's traditional players to recover and cement old and new alliances. The corporatist groups and organized interests that supported the *ancien régime,* which had the common ideological umbrella of Mexico's 1910 Revolution, recovered momentum as abundant oil resources were again available, demanding even more privileges than those which were historically allocated by the government.[57]

For example, programs and projects which in the past were "property" of the PRI, and which were particularly profitable for electoral purposes, were formalized upon a cooperative exercise between the central bureaucracy and Congress (through "*reglas de operación*" or criteria to avoid social and political bias). Instead of questioning the essence and ultimate purposes of these policy instruments, political

[57] As Lajous stated, panista governments had been soft with the unions and a much stronger position was built under priísta governments —. 2009a. "Interview with Adrián Lajous Vargas." Mexico.

parties claimed for themselves and their governments, their corresponding *illiberal* benefits (Zakaria 1997; Zakaria 2003).

Political opposition embraced a type of social policy that was created during the authoritarian period. They thought that it was only a matter of allocation rules to change the social-political bias of such policy. Paradoxically their effort institutionalized "welfarism" (asistencialismo) that reinforced a patron-client political culture.

The impressive extension of the PRI's traditional sources of budget-driven electoral power to other political forces played a key role at 2006 presidential elections, where the PAN and the PRD displaced the PRI as the main competitors.[58] The PRI and the *ancien régime* traditional allies were able to shift its political preferences in order to maintain its privileges. For example, the long time priísta teachers union, the *Sindicato Nacional de Trabajadores de la Educación*, or SNTE, shifted parties during the second half of Fox term and was decisive behind the pro-PAN electoral machinery which eventually gave the presidency to Felipe Calderón, during the 2006 election (it tried to simultaneously bargain political support for the Left's candidate during the election day) (Farfan-Mares 2006b). Even some formally priísta governors (originally sponsored and supported by SNTE) played a fundamental electoral role in mobilizing human and financial resources to support the PAN presidential candidate (currently in office).[59] Corporatist and clientelist organisations were able to survive *independently* from the PRI. They even managed to increase its

[58] At the PRI the main competitors (Carlos Madrazo and Beatriz Paredes) were basically resorting to the traditional vote-buying priíista electoral strategy (Madrazo Pintado and Garrido 2007).

[59] While the author served as the public spending policy main advisor to the Left's presidential candidate Andrés Manuel López Obrador, the leader of the teachers union, Elba Esther Gordillo approached several times, unsuccessfully, during the election day, to offer her support in order to change the result of the general election, which, according to her, had at the moment a negative leaning towards the Left's presidential candidate. This demonstrated that the corporatist organized interests were distributing its political risk evenly and were not acting anymore as a fixed ally of any Party.

presence as they were able to gain more privileges compared with the old regime. For example, after the 2006 election, SNTE obtained successive salary negotiations that were higher than inflation, and, as a former Director of Pemex recalled, panistas were rather soft, compared to their priísta predecessors, with the union (Farfan-Mares 2009a).

The 2002 tax reform did not increased taxation, so, how the Mexican government managed to support and build new alliances? Between 2000 and 2009, the Mexican government's total public spending (total discretionary expenditures, or *gasto programable*) increased approximately 56% or 72,000 U.S. million dollars (from 1,540 to 2,260 billion pesos) in real terms (Quintana 2009b). Public spending grew at a much more quicker pace than economic growth and higher than inflation rates. For example, between the first semester of 2000 and the same period for 2009, total public spending increased 7% percent in real terms while the economy grew only 1.8% (average 1st semester 2000 – 1st semester 2009).[60] Of total public spending approximately 60,000 million dollars were transferred from the central government to subnational governments (States and municipalities) (Quintana 2009c).[61] Without the increase in oil revenues, which came as a result from a strong hike in oil prices (2004-2009), it would have been impossible for the Mexican State to increase the amount of resources that were required to support decentralization, a more competitive political system, and a more demanding public sector.

As it happened during the other two oil bonanzas in Mexico's history (1919-1924 and 1977-1986), the cost (salaries) and size (number of employees) as well as the government's consumption greatly increased. Both the central (federal) and

[60] Calculations based with data from INEGI and SHCP Sarabia, Ernesto and Juan Carlos Orozco. 2009. "Crece más gasto que PIB." in *Reforma*. Mexico.
[61] Transfers to subnational governments are earmarked (*participaciones*) or discretional (*aportaciones*), through the Ramo 28 and 33 respectively.

subnational governments (state and local) enlarged its payroll and the number of public employees entrusted with administrative/managerial duties substantially increased (while public investment remained at best stagnant) (Instituto Nacional de Desarrollo Social and Instituto Nacional de Estadística 2001). This confirmed the public perception that resources were being wasted and mainly used to finance current expenditures (De la Torre 2004; Díaz 2004; Díaz and Barrientos 2006; Estrop, Salazar, and Guerrero 2009; Farfan-Mares 2008d; Reforma 2004; Sarabia 2004a; Sarabia 2004b; Yutzil González 2009). Opacity, the discretionary management of budgets, and an almost complete loss of accountability particularly regarding State Legislatures, became the norm.

The important increase of the "bureaucratic cost" of the government was a key policy issue during the 2006 presidential campaign. Andrés Manuel López Obrador, the Left's candidate (PRD) based his campaign economic platform on the reduction of current expenditures, in particular, the size and cost of bureaucracy. After the loss of the Left's candidate, the cost of bureaucracy, often at the expense of gross fixed investment and the quality of public spending, has greatly increased. For example, in the midst of the 2009 midterm elections it was now the PRI who questioned the panista government's human resource management, who publicly released a report which is summarized in the Table below.

Table 2.5.1 Growth of Upper Bureaucracy, Central Government 2001 – 2009

Central Government *	2001	2006	2009
Minister (Secretaría, Titular del Ramo o Dependencia)	0	512	762
Vice minister (Subsecretaría)	89	1,120	1,011
Top Administrative Officer (Oficialía Mayor)	579	272	354
Chief of Unit (Jefatura de Unidad)	69	1,201	1,212
General Director (Dirección General)	674	552	710
Adjunct General Director (Dirección General Adjunta)	1,396	5,978	6,845
Area Director	4,446	23,482	38,427
Other	556,944	463,374	432,163
Total	564,197	496,500	481,484

Source: (Estrop, Salazar, and Guerrero 2009)

As it can be noted, the trend that began under Fox, where high-rank positions and its corresponding salaries outrageously increased (Mexican public servants became the best paid in the world according to varied sources), continued and deepened during the first three years of President Calderón (2006-2009). The impulse behind the creation of additional and generously paid positions, responded to the President or panista allies need to place amicable people within public administration. Although the total of public employment within the central bureaucracy actually decreased, the strategy was to cut low-rank positions and merge them in order to create higher positions (i.e. two directors make one general director). This strategy greatly increased the size and cost of upper bureaucracy, salaries and bonuses that were not tied to a merit based system, representing the formalization of patronage (all ranks of public employment increased in number and cost in different areas of the central government).

The PRI recovery, the corporatist shift of parties,[62] the democracy's difficulty to mature, and the State's incapacity to give a productive use of the country's third oil boom (2003-2009) all factors fundamentally altered the trajectory of the current research. These developments resulted, between 2003 and 2004, into a general reassessment of the original and broad hypothesis of this dissertation. Both the budget's key political role and oil predatory policy were incorporated to the idea of the Mexican State's apparatus (not anymore exclusively a presidential domain) sources of autonomous behaviour.

---

[62] State corporatism became even more specialized and sophisticated as SNTE's (the Teachers Union) electoral mobilization during the last presidential campaign and the founding of its own political party, the *Partido Nueva Alianza*, PANAL, demonstrates. Even the Teachers National Union (*Sindicato Nacional de Trabajadores de la Educación*, or SNTE), broke its historical alliance with the PRI to join the PAN and its two Presidents (Fox and Calderón), in order to secure its privileges Raphael, Ricardo. 2007. *Los socios de Elba Esther*. Mexico City: Planeta.

Chapter III. Taxes and Expenditures: A Comparative Assessment of Mexico's Budgetary Outcomes

3.1 Introduction

In many ways, Mexico's profile is similar to "standard" oil Rentier States such as Venezuela, Nigeria, Saudi Arabia and Equatorial Guinea. Mexico increased crude production in 2004 to its maximum levels during the oil bonanza which greatly accelerated the depletion of reserves. In October 2008 the government approved an energy reform to guarantee the pace of extraction *mainly to avert the risk of losing oil rents*.[63] This decision was directly connected with the fact that the Mexican State has the lowest rank of taxation capacity, out of 54 OECD and transition economies (McGee 2007).[64] Furthermore, Mexico is 156 out of 179 countries in its ability to collect taxes. It ranks seventieth out of 80 countries which includes transition economies, low and middle-income, European Union and OECD members (Turley 2006: 133).[65]

The Mexican State is not alone in having low rates of taxation, but its condition is unique because it combines oil abundance, other minerals and raw materials with a huge population, a strong and globalized private sector and a

[63] Oil policy on rents represents a pattern that it is likely to persist. Policy change greatly depends on the availability of rents and its duration but not from deliberation on the problems that oil rents had represented for the country's development, see Cordera, Rolando. 2008. "El destino de la renta petrolera." Pp. 9 in *El destino de la renta petrolera y el desarrollo de México*. Mexican Senate: Mexican Senate, Fuentes-Berain, Rossana. 2008. *Petróleo en México: pozo de pasiones. El Debate sobre la Propuesta de Reforma Energética*. Washington, D.C.: Woodrow Wilson International Center for Scholars. Mexico Institute, Gasca Neri, Rogelio. 2008. "Futuro de la Renta Petrolera de México." Pp. 8 in *Foros de Debate Sobre la Reforma Energética*. Mexican Senate: Comision de Energia del Senado de la Republica, Rojas, Francisco. 2008. "Entrevista." Pp. 4 in *El Sol de México*. Mexico City, Wood, Duncan. 2009. "Mexican Oil Production and Exports." Washington, D.C.: Woodrow Wilson International Center for Scholars. Canada, Mexico, and Brazil Institute.

[64] Roughly 10% of GDP.

[65] http://en.wikipedia.org/wiki/List_of_countries_by_tax_revenue_as_percentage_of_GDP, accessed 20 June 2009 (the list obtained with information from The Heritage Foundation Economic Freedom Index).

diversified export sector. By relying on oil, it avoids depending on the private sector to finance public sector's expenses. At the same time that Mexico is able to produce large amounts of oil to export, it is able to meet its internal energy demand, which, because of its degree of development (industrialization and population profile), is substantial.

3.2 Revenues and Expenditures: the Fiscal Equation

Given the disassociation between the treasury and budget bureaus in Rentier States, taxation and public spending are often conceived and analyzed as separate policies. It is often presumed that taxation policy responds to the economic cycle or tax administration performance. From a strategic point of view it represents the government's alliances with the private sector. Yet researchers frequently overlook the fact that the State's income revenues are also *substantially dependent* on the availability of oil rents.

In Rentier States, oil rents availability and its apparent "contradiction" or detachment between the behaviour of taxation, expenditures, and rents, generates the impression that revenues and expenditures operate independently from each other. They are not. Taxes and expenditures are part of an equation that is represented by the budget. The main objective is to balance revenues and expenditures, avoid deficits, and manage indebtedness (Rubin 1993; Wildavsky 1978; Wildavsky 1992). Since Rentier States consider oil rents as a regular income or standard revenue, they are treated as regular taxation. Oil deserves the same policy management as regular taxation and Rentier States typically make fiscal policy decisions as non-rentier, developed industrial countries.

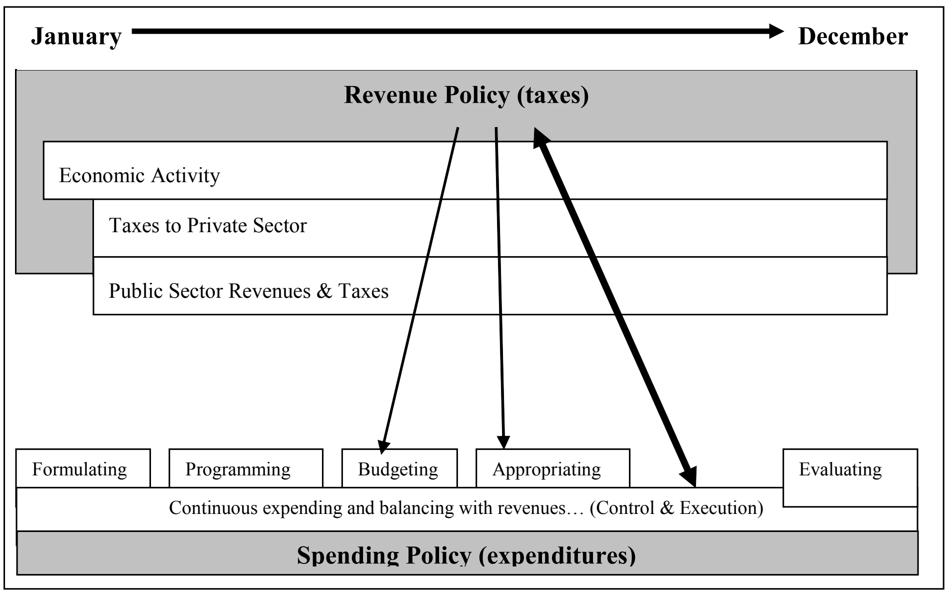
In capitalist, market-driven economies as well as in Rentier States, the policy of balancing the fiscal equation (i.e. balancing the budget) has the virtue of providing the government with creditworthiness and delivers sound financial statements. It is also important assets for the private sector, investors and markets to operate. Unfortunately, these short-term indicators, which are important for financial decision-making process and global markets, have strong limitations. It is difficult to assess non-financial and long-term issues such as the quality of government and public policies.

A regular financial indicator such as deficit control might give the impression that a country is performing well. Nevertheless, Rentier States are generally dependent from oil revenues and often present a poorly institutionalized policy framework. Financial indicators might have the unintended consequence of masking unsustainable finances and public policies. Particularly, Rentier States are highly volatile and have backward institutional environment. Therefore, debt avoidance through budget balancing does not automatically translate into policy sustainability, coverage or quality, not to mention government's legitimacy.

In developed industrial democracies budget management concentrates its efforts on macro analysis, policy design or advisory tasks. Rather, Rentier States are directly involved in the registration of financial operations, monitoring, the authorization of sectoral spending decisions and overall budgetary management. For the most part, developed countries have high institutional standards therefore their finance ministries and budget bureaus focus on primarily financial/budgetary issues rather than policy development. The use of this framework to oversee rentier and less-developed States, complicate the understanding of how oil revenues affect the State apparatus capacities and policy effectiveness.

As we can see in Diagram 3.2.1, tax and expenditure policy outputs are intertwined. Both are exposed to numerous and complex technical, legal, and particularly political pressures, which are also funnelled by interest groups. Revenues take into account legal and technical rigidities.[66] Typically, expenditures are the primal tool for balancing the budget since they can be controlled. For example, policymakers can manage the budget upon its size or the speed of spending.

Diagram 3.2.1 The Mexican Fiscal Equation



Source: own elaboration.

Rentier States need to control oil revenue volatility, rent-seeking, and strong spending pressures, which generates strong incentives to centralize all the phases of the budget cycle, particularly programming, budgeting, and its exercise. As a result, finance ministries and budget bureaus in Rentier States extend their role by involving directly in the public policy process (its design, monitoring, oversight and control, and evaluation). This also inhibits the decision making autonomy of cabinet-level

[66] The Mexican case even accentuates the typical rigidity versus flexibility issue between revenues and expenditures since the first are constrained by a Law and the second only by a Decree.

ministries and other agencies. By the same token, other bureaus that have an ex-post function like audit and comptrollership focus on impact evaluation. Also budget bureaus focus on the issue of control and legal enforcement. In sum, the whole budgetary process in Rentier States tends to focus on controlling and micro managing budgetary outlays upon a legal criteria rather than performance, results, impact evaluation or the quality of public policies.

The presence of rents within the fiscal process and budgetary management provides two strong incentives. The first is a constant search for alternative ways of financing like revenue policy and, the second is the need to develop strong fiscal institutions like expenditure policy.[67] In Mexico, both incentives are closely linked with the need to permanently develop a risk-aversion portfolio strategy, such as oil hedging, in order to maximize fund-raising and expenditure policies.[68] The first objective aims to build a policy mix of financial instruments such as debt issuing, enhancement of government's leverage over the economy through State Owned Enterprises. Furthermore it provides the introduction of new taxes such as trade and the Value Added Tax (VAT). The second objective seeks to create and enhance the power of budgetary institutions, like the collection of formal and informal rules that govern the allocation of the public purse. Can the Rentier States' incentives be empirically identified? This is the purpose of the following sections.

3.3 Mapping the Puzzle of Mexico's Fiscal Policy and De-petrolization

A long-term perspective on Mexico's fiscal political economy denotes a striking puzzle. From the 1910 Revolution to the present, the government was unable to raise

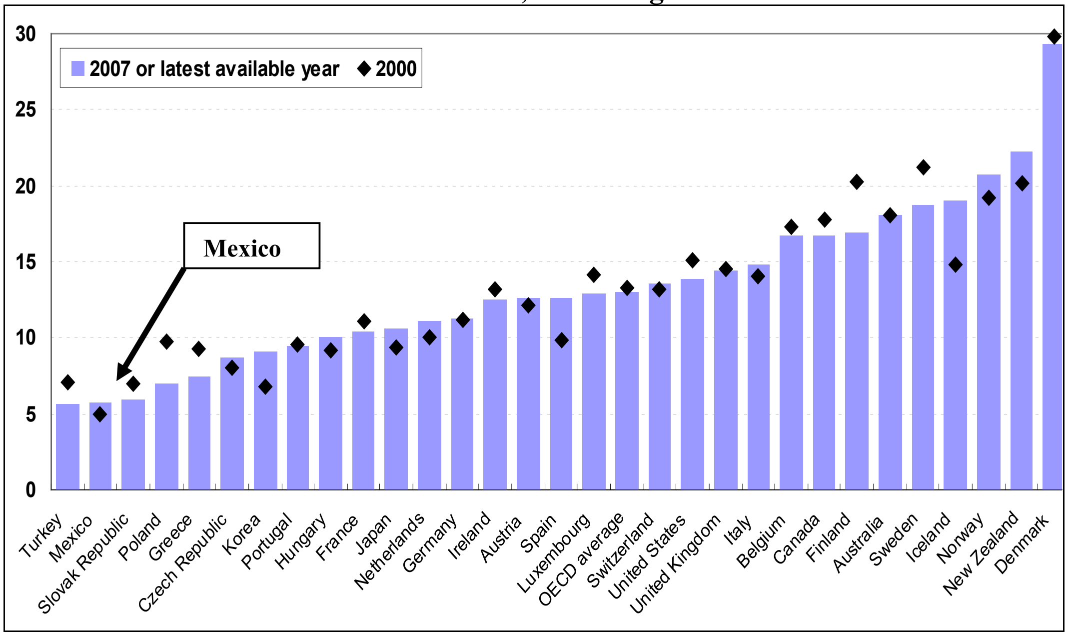
[67] Fiscal institutions are treated as the administrative units dedicated to raise taxes and spend those resources.
[68] The ambivalence and contradicting nature of financial ministers and budget bureaus in rentier States can be depicted by its simultaneous search for revenue substitution and its constant involvement in spending decisions at sectoral, ministry or agency level.

an adequate proportion of taxes from private activities. It has funded its operation and many policies from a variety of sources. Thereby leaving the proportion of taxes to the economy intact or unchanged.

The structural change of the country towards a more industrial and urban country in late 1960's added to the existing challenges that were originated by low taxation. This generated a strong financial pressure over the government as both the population and the national economy required the delivery of more products and services. Yet, the Mexican State has managed to muddle through many challenges without raising taxes.

To explain Mexico's many policy failures (such as its poor quality of health, education, and public security), it is often discussed that the State lacks the resources to effectively become an agent for development. Often these relates to the State's finances since the government barely raises a 11% of its GDP of taxation from private activities (average 1960-2009). Therefore, policy recommendations often focus on the need to raise more revenues than the importance of achieving a true fiscal reform (Foro Consultivo Científico y Tecnológico 2004). The latter view often results into an improper assessment of policy failure, since most of policymakers pay attention to the State's income problem. They ignore the fact that indeed many of the services which are produced by the public sector are over funded and that their performance is poor, rather than a mere budgetary or financial issue. In short, the emphasis on the need for more taxation greatly ignores the abundance of oil rents as a key financial basis for the State.

Table 3.3.1 Taxes on Income and Profits, Percentage of GDP



Source: OECD Factbook 2009: Economic, Environmental and Social Statistics, OECD's Online Library of Statistical Databases, Books and Periodicals, accesed 6 may 2009. It is worth noting that taxes on income and profits exclude the VAT and other taxes that might be considered as the State's effort to extract resources from private activities. Nevertheless, both personal income and enterprise profits are useful proxies for the Mexican State extractive capacity.

Table 3.3.1 indicates that either continental European States or other similar development countries have higher rates of taxation compared to Mexico. It is evident that the Mexican State can be properly considered as an inviable or failed State. A long-term perspective might give a comprehensive picture of the country's fiscal performance. After the 1910 revolution, Mexico increased taxes for about 1% of GDP every ten years for three consecutive decades. Yet, thereafter from 1960 to 1969 this effort clearly stagnated, yet recovered the following years by 3.45% (1970-1989).[69] Mexico clearly slowdown its pace of growth in taxation after 1990.

For the majority of the twentieth century, the Mexican State had great trouble to raise taxes directly from private activities as Table 3.3.2 demonstrates. Furthermore, it has not been able to raise its tax base until recently.[70] Taxation to

[69] It is worth noting that VAT started in 1980. This tax represented an increase of 2% of GDP.
[70] An official calculus of tax evasion claims that tax leakage represents 7.4% of GDP SHCP. 2007. "Presupuesto de Gastos Fiscales." Pp. 27, edited by S. d. H. y. C. Público: Secretaría de Hacienda y

private activities is strongly inelastic, increasing approximately by 5% points in a period of 77 years. This is evidently a structural fiscal crisis.

Table 3.3.2 Pace of increase, Taxes on Private Sector as % of GDP (1930 – 2007)

Period of time	AVERAGE	CHANGE
1930-1939	2.73	
1940-1949	3.73	1.00
1950-1959	4.71	1.02
1960-1969	4.51	0.20
1970-1979	5.81	1.30
1980-1989	7.96	2.15
1990-1999	7.41	-0.55
2000-2007	7.53	0.12

Source: own elaboration with data from Oxford Latin America Economic History Data Base (http://oxlad.qeh.ox.ac.uk/index.php -1930-1999-) and from SHCP and CEFP (www.shcp.gob.mx, www.cefp.gob.mx 2000 – 2007-)

The above data shows that the Mexican State presents a fiscal paradox. For almost half a century Mexico tax collection from the private sector increased only 1.3% of GDP each decade. In contrast, its revenues from other sources increased by 7.3%. Consequently, from 1970-2007 Mexico total taxation to the private sector was 10% of GDP but in fact the government spent three times that amount. The other two thirds of its total expenditures come from sources other than economic activity such as the extended public sector, which represents approximately 12.4% and oil rent 7.2% respectively.[71] One of the experts on Mexico's fiscal issues Elizondo has argued that the oil rent actually represents around 5% of GDP, since it has to be discounted the revenues that the central government receives from the paraestatal, Pemex (Farfán-Mares 2008c).

Despite the fact that oil rentier policies had operated until now within quite different economic and political contexts, the Mexican State has left intact the fiscal

---

Crédito Público. The OECD reports that Mexico has a level of Taxes on Income and Profits which account for 4.58 percentage points of GDP (average 1985-2005) OECD. 2006. "Revenue Statistics." Pp. 339, edited by C. o. F. A.-O. S. General and W. P. o. T. P. A. a. T. Statistics: Organisation for Economic Co-operation and Development.

[71] The term "State activity" comprises many elements such as the products and services the government delivers (and charges), the issue of domestic and foreign sovereign bonds, commodities revenue on production (extraction) and exports (oil).

policies associated with hydrocarbons.[72] This policy has observed a remarkable continuity. Eventhough the economy opened and diversified the structure of incentives that support the rentier model are not sustainable but to prevail and even increase. In short, the country's de-petrolization did not rule out the curses associated with oil, but partially solved the negative effects on the economy as a whole. This took place even controlling for the potential threats to the national economy associated with the phenomena known as the Dutch Disease, e.g. the damage of the export sector coming from the exchange rate appreciation (Edwards, 1995).

Table 3.3.3 Mexico's Fiscal Performance over half a Century (1960-2007)

ITEM	AVERAGE (%GDP) (1960-2007)	AVERAGE (%GDP) (1970-2007)	AVERAGE (%GDP) (1980-2007)
TAXATION TO THE PRIVATE SECTOR [1]	9.6	10.1 (+.5)	10.9 (+1.3)
REVENUE (PUBLIC SECTOR) [2]	13.3	14.7 (+1.4)	16 (+2.7)
TOTAL REVENUE [3]	16	21.7 (+5.7)	23.3 (+7.3)
OIL REVENUE [4]	N/A	N/A	7.2
TOTAL SPENDING [5]	16.7	18 (+1.3)	19.5 (+2.8)
TOTAL SPENDING [6]	N/A	31.1	28.6 (-2.5)

1 Includes Income Tax, Customs Tax, Taxes on Domestic Goods (VAT, since 1980); 2 Central Government Revenue (*Tributarios y No tributarios*); 3 Central Government Revenue (plus State Owned Enterprises); 4 Special taxes on oil production & value of exports; 5 Programmable expenditure (Liabilities not included, i.e. debt service); 6 Programmable and non-programmable expenditures (liabilities included); *Source:* own elaboration and calculation from SHCP, CEFP, and Elizondo (Elizondo 1994).

As Table 3.3.3 demonstrates, the Mexican State has indeed the availability of abundant resources other than taxes. It has managed to sustain its fiscal crises by guaranteeing a level of spending from independent revenue sources. Mexico's oil rentier political economy can be considered an example of a Rentier State. The sectoral composition of its economy, the strength of its private sector, the presence of

[72] For example, individuals look for their own good, acting rationally, but fully discarding the importance of caring for the common good, contributing to an irrational behaviour Ostrom, Elinor. 1990. *Governing the commons: the evolution of institutions for collective action*. Cambridge: Cambridge University Press.

trade agreements with other countries and NAFTA are all factors which prevent experts to categorize Mexico as an oil-dependent, *petrolized* country. In fact, the alleged success of two presidential terms (1988-2000) was precisely the *de-petrolization* of the national economy. Especially because trade and manufactures became the main drive behind the economy particularly after the 1994-95 crisis.

Likewise, Mexico has often not been included in more specialized research on oil-abundant and oil-dependent States, which typically use broad economic internal (% of GDP output attributed to oil) or external indicators (% of exports attributed to oil) to identify and measure oil's overall influence on the country.[73] In addition, some socio-political characteristics associated with governments that depend from oil like poverty, socioeconomic inequality, backwardness, and authoritarianism are certainly not pertinent for contemporary Mexico (Auty 1993; Humphreys, Sachs, and Stiglitz 2007; Robinson, Torvik, and Verdier 2003; Rosser 2006).

For example, researchers on oil-Rentier States normally look at countries with a low GDP per capita, OPEC members, and non-democratic regimes (mostly from African and Arab States), which all had provided for the "resource curse" main claims. Generally speaking, there is a "cloud effect" over Mexico and its economic and political dependence on oil.[74] Until now Mexico has been considered a democracy and a middle-high income "emerging economy". Conventional wisdom

[73] Terry Lynn Karl's classic contribution on oil booms and Petro States Paradox of Plenty, by far the most authoritative academic and book on the topic of Rentier and Petro-States, where Mexico is dismissed from being considered as a full-scale Petro State since its "boom occurred later than that of the OPEC countries and was the result of discoveries rather than a price hike … it is not part of the same comparison set" Karl, Terry Lynn. 1997. *The paradox of plenty: oil booms and petro-states*. Berkeley, California: University of California Press. Nevertheless, at a recent presentation, the author considered, out of 20 most important crude oil producers in the world, Venezuela and Mexico as the only countries that are currently democracies Karl, Terry Lynn. 2007c. "Oil & War." Pp. 21 in *Petroleum: Prospects and Politics*. University of Chicago.

[74] A probable reason why Mexico had escaped from many analyses is the difficulty of getting public finance comparative data, in particular the "oil-component" of the government's revenues.

assumes that it has apparently avoided the oil resource curse (Birdsall and Subramanian 2004).

Table 3.3.4 shows several variables for why Mexico has not been considered a Rentier State. For example, economists widely use oil exports to total exports and oil exports to GDP as a way to describe a country's dependency on oil. Nevertheless, when looking at public finance and socioeconomic indicators, the outcome of the analysis radically changes. Considering oil revenue as a percentage of total revenues, Mexico ranks above Indonesia, Ecuador, and Colombia and it is similar to Venezuela. Moreover, Mexico ranks above Nigeria, Indonesia, and Ecuador when considering rents per capita.

Table 3.3.4 Economic, political, and socioeconomic indicators on oil rentierism

Country	Oil exports to total exports (%)	Oil Exports to GDP (%)	Oil Revenue (% of total revenues) [75]	Oil exports per capita (USD)
Algeria	96.8	32.4	70	579
Angola	91.8	70.9	80	579
Colombia	27.4	4	9.4	275
Ecuador	41	8.4	25	158
Ecuatorial Guinea	96.3	93.3	85	5608
Indonesia	24	8	31.1	64
Iran	81.3	21.2	49.8	337
Kuwait	91.6	40	63	6481
Mexico	**11.3**	**2.9**	**32**	**181**
Nigeria	95.8	38.9	72.4	140
Venezuela	85.5	21.9	45.7	831

Source: data obtained from (Ahmad and Mottu 2002)

The above Table show how this specific phenomena might be overlooked. Different indicators might be used to categorize these countries by a economically driven or politically driven oil type of rentierism. Despite the fact Mexico's does not stand out, in many indicators and analyses associated with a country's political

[75] Ahmad, Ehtisham and Eric Mottu. 2002. "Oil Revenue Assignments: Country Experiences and Issues." International Monetary Fund, Washington, D.C.

economy of oil, the fact is that its government has steadily and uninterruptedly depended on its production. Therefore it can be appropriately considered a Rentier State.[76]

3.4 Overcoming the Economic Effects of Rents: Mexico's Policy Success

Many of the studies on Rentier States place their attention on the economic effects of rents (i.e. Dutch Disease) by using exports as a proxy to denote the presence or absence of rentier activity. These studies analyze the sectoral impact of oil revenues and exports to see if they actually debilitate the country's output (Everhart and Duval-Hernandez 2001). It is often assumed that if a large proportion of exports originate from oil, it will automatically damage the non-oil structure of the national economy. Therefore such country will experience some of the typical symptoms of Rentier States, characterized by overvalued currencies, low productivity, boom and bust cycles, and meagre economic growth.

Beyond economic effects, social scientists have also claimed that the presence of oil exports has political consequences (Auty 1993; Auty 2001; Chaudhry 1989; Chaudhry 1997). Focusing exclusively on exports is too broad to identify the political effects of a country's dependence from crude oil.[77] It is very difficult to identify countries by looking on how dependent is its export sector from oil, to understand if the government is *also* dependent.[78]

Three indicators are important for oil-rich countries and Rentier States, but they indicate different phenomena. The strong presence of oil in total exports of any country might be associated with the Dutch disease-type problem but it cannot

[76] A broad definition and the rationale behind the concept will be addressed later (theoretical chapter).
[77] A high degree of oil exports for example, denote a private sector incapable of exporting but not a strong State's dependence from oil as the case of Colombia, Ecuador, exemplify.
[78] For example, 54% of Russia's exports come from oil, but only 19% of the government's revenue depend from oil, and 26.7% of Colombia's exports do not reflect the State's dependence on oil (10%).

indicate whether oil affects the entire economy (GDP), its government relationship with the economy (oil revenues as percentage of GDP) or the extent that the government depends on oil (oil revenues as percentage of total revenues). The triangulation of such indicators do not show a clear pattern. Therefore oil exports must be treated as independent variables, and not dependent variables, to understand the larger phenomenon as the Rentier State.

Therefore, it can be claimed that Dutch Disease associated problems, such as a large and sustained inflow of capital typically from exports and is not properly sterilized can be caused by oil or not, as the pioneer works on rentierism properly pinpointed (Beblawi and Luciani 1987b; Chaudhry 1989; Chaudhry 1994; Chaudhry 1997; Mahdavy 1970b; Shambayati 1994; Yates 1996). This disease has the potential to damage the tradable sector and the prospects of economic growth, output and productivity.

Therefore, a non-economic or a pure economic phenomenon cannot be addressed using oil exports. Nor can it be analyzed as a proportion of whole exports or GDP, but instead the amount of oil revenue that the State actually extracts from the production or exportation of crude oil. This is according to total public expenditures which includes domestic and external rents. This is a better indicator to show how much a State depends on oil. Ultimately, public expenditure show how oil shapes the State's relationship with politics and society.

For example, while Indonesia (21%) and Vietnam (23%) have a somewhat similar proportion of oil exports from total exports compared to Mexico (17%), these three cases observe a remarkable similarity in the public sector's dependence from oil revenues (30 to 33%). Moreover, if we take the last indicator of public sector's dependency on oil many countries join the sample they influence on, which can include Azerbaijan, 33.3%, Cameroon, 27.7%, Ecuador, 26%, Kazakhstan, 25.1%, Norway 24%, Russia, 29.6%, and Trinidad and Tobago, 36.4%.[79]

Table 3.4.1 Hydrocarbon-Rich Countries, 2000-05

	Average Annual Hydrocarbon Revenues				**Average Annual Exports (Goods) 2000-05**		**Energy Depletion 2004**	**Reserves (2004)**
	Total revenue, % 2000-2003	Total revenue, % 2000-05	% GDP 2000-03	**% of GDP 2000-05**	In % of total exports (Goods)	In % of GDP	In % of Gross National Income	In % of world reserves
Azerbaijan*	47	33.3	11.9	**8.5**	87.3	36.1	54.6	0.59
Cameroon*	26.6	27.7	5.3	**4.8**	44.7	8.3	10.8	…
Colombia*	9.0	10.0	2.7	**3.0**	26.7	4.4	7.2	0.12
Ecuador	26.4	26.0	6.9	**6.6**	46.9	11.8	19.0	0.42
Indonesia*	31.3	30.3	6.1	**5.5**	22.8	7.3	9.4	0.36
Kazakhstan*	21.0	25.1	5.1	**6.3**	52.6	24.1	39.9	3.32
Mexico*	**32.2**	**33.3**	**7.0**	**7.5**	**17.2**	**3.0**	**7.4**	**1.24**
Norway	24.4	24.0	13.3	**13.0**	60.0	19.8	10.9	0.81
Russia*	39.7	19.5	6.8	**7.3**	54.0	17.9	29.7	6.07
Sudan	43	49.8	4.6	**8.3**	80.6	12.9	15.1	0.54
Trin. & Tob.	27.4	36.4	6.6	**9.3**	59.9	28.4	46.2	0.07
Turkmenistan	42.8	43.2	8.7	**8.7**	83.5	28.7	…	0.05
Venezuela	52.7	48.8	14.3	**15.8**	82.5	25.8	34.7	6.68
Vietnam	31.8	31.2	7.1	**7.4**	21.3	11.0	9.5	0.26

Source: data obtained from (International Monetary Fund 2005; International Monetary Fund 2007a).

Lastly, if we take the participation of oil revenues to GDP, the countries included in the Table above appear to be potential candidates for refining social and political rentier theory indicators. Take, as an example, the case of Russia and Ecuador and compare them with Mexico. The first two have a strong proportion of its exports (54% and 47% respectively) compared with Mexico's 17%. But they all denote a similar degree of revenues from oil (20%, 26%, 33%) and almost the same proportion of oil revenues as of GDP (7.3%, 6.6%, 7.5%). Therefore while it can be claimed that the economic consequences of oil might be important for the first two, the third case is not be traditionally analyzed. Yet the three cases yet all face the same

[79] Venezuela, despite Karl's and Dunning's focus on that country, is a rather common case to many other countries indicators. Nevertheless, it has been of their interest since it has been a democracy for decades. Numbers for Russia come from the average reported by the IMF taking two periods (2000-03 and 2000-05) International Monetary Fund. 2005. "Guide on Resource Revenue Transparency." Pp. 77, edited by F. A. Department: International Monetary Fund, International Monetary Fund. 2007a. "Guide on Resource Revenue Transparency." Pp. 66, edited by F. A. Department: International Monetary Fund.

problem when analyzing how much the State and the economy depend on oil. Whatsmore this is independent from the nature of property, if it is private or public (Stanford University 2006).

It is not enough to use the government's degree of financial dependence from oil. But this helps to understand how the government uses oil to finance its activities and leaves aside the important fact of the potential tax attribution that is left out fro the equation. Therefore, it is not only necessary to know the degree of government's dependence from oil but also to what extent this reflects the unwillingness of the private sector to pay their taxes. The proportion of oil revenues as percent of GDP provides an accurate description of both.

The Rentier State separates itself from other states because it does not need to tax. Rather it substitutes public spending with rents provided by oil. The high proportion of oil exports or any other commodity which causes the "Dutch Disease" syndrome is not sufficient to affirm that it is in fact we are looking at a Rentier State. One thing is to affirm that the tradable sector is damaged because of the appreciation of the exchange rate and other is to say that the government is using those rents to build State legitimacy. Taxation substitution with oil indicates to what degree the State depends on that commodity to survive. In addition, it indicates that the higher proportion of oil/commodity revenues, the higher the unpredictability and volatility of the State's revenue. This is a problem in itself because it does not reflect the degree or depth of rentier behaviour. It appears to be that the weight of oil exports in GDP and weight of oil revenues in GDP reflects the existence of a Rentier State. Nevertheless, Mexico is the only oil-rich country in the world that has a government that depends more than a third from oil revenues. Yet oil represents 2.5% of total GDP.[80]

This dissertation demonstrates that a least-likely case or an "outlier" such as Mexico indeed present many of the symptoms that the literature on Rentier States has identified. The above rationale suggests the following on "rentierist" indicators developed until now.

Table 3.4.2 Potential Universe of Rentier States

Indicator	**% of exports from total exports**	**% of oil revenues from total revenues**	**% of oil revenues to GDP**	**Highlights**
Indonesia	21.3	30.3	**5.5**	Indonesia has big exporting and private sectors, but low taxation capacity.
Vietnam	22.8	31.2	**7.4**	Vietnam has big exporting and private sectors, but low taxation capacity.
Ecuador	46.9	26.0	**6.6**	Ecuador has low exporting capacity, a big private sector, but low taxation capacity.
Russia *	54.0	29.6	**7.3**	Russia has low exporting capacity, a big private sector, but low taxation capacity.
Mexico	17.2	33.3	**7.5**	Mexico has a huge exporting capacity and a strong private sector, but low taxation capacity.

* Average between the two reports available since it observes high variance between the two reporting sources (International Monetary Fund 2005; International Monetary Fund 2007a).

Therefore, depending on the performance and depth of the above Table, it can be claimed that a country is predisposed to suffer the economic or political diseases oil normally produces. Consequently, the higher the percentage of oil revenues to GDP a country denotes and the higher the State's capacity to tax, it decreases the possibility of suffering the political consequences of rentierism (such as Norway). In summary, States that are rich in oil and highly depend on oil do not face political opposition for increasing taxes, since its private sector is small. Countries that have a small private sector and are unable to tax typically have poor tax administrative

[80] This number is reported by the IMF previous to the recent oil boom (2003-) and increases to 3% after the oil boom. Venezuela has 25.8%

capacity. Countries that are highly dependent on oil and at the same time they have a strong private sector –such as Mexico- face an enormous political challenge when trying to increase taxation.

3.5 Assessing the Mexican State's Policy Responses: the 2004-2009 Oil Bonanza

As of 2009, Mexico entered, for the second time in its history, into the fifth consecutive year of an oil boom.[81] Supposedly, policy learning process which took place within the public sector after its second oil boom or Mexico's profound social, political, and economic changes has not enough for policy innovation to take place and offer a productive allocation of unexpected and "unearned" oil revenues. Surprisingly, some of the policy mistakes which characterized the second oil boom (1977-1985) were repeated and additional ones took place recently. Why Mexico was unable to learn from its past?

There are two potential answers to the above policy enigma. The Mexican government, contrary to either the political system or the society as a whole no longer considers oil as a primary driver of internal revenues of the State. Specifically the presence of large windfalls of oil had resulted in the Mexican State to not develop productive public institutions.

If Mexico's ideology and values are positively associated with the effects of oil as the strong opposition to any kind of privatization is generally shared, the first hypothesis is unlikely to be valid. Consequently, the hypothesis that the Mexican State actually lacks the institutional endowment to developmentally manage oil revenues and that it is incapable because of a *deliberately* a *rationally* to use oil is more likely to be true. Yet, some questions remain unanswered. Has the Mexican

[81] In August 2008, the current boom was artificially prolonged since the Mexican government hedged most of its exports in order to assure that the price used to craft the Federal Budget remains at 70 USD per barrel, despite the fact that the price has slumped down to 37 USD.

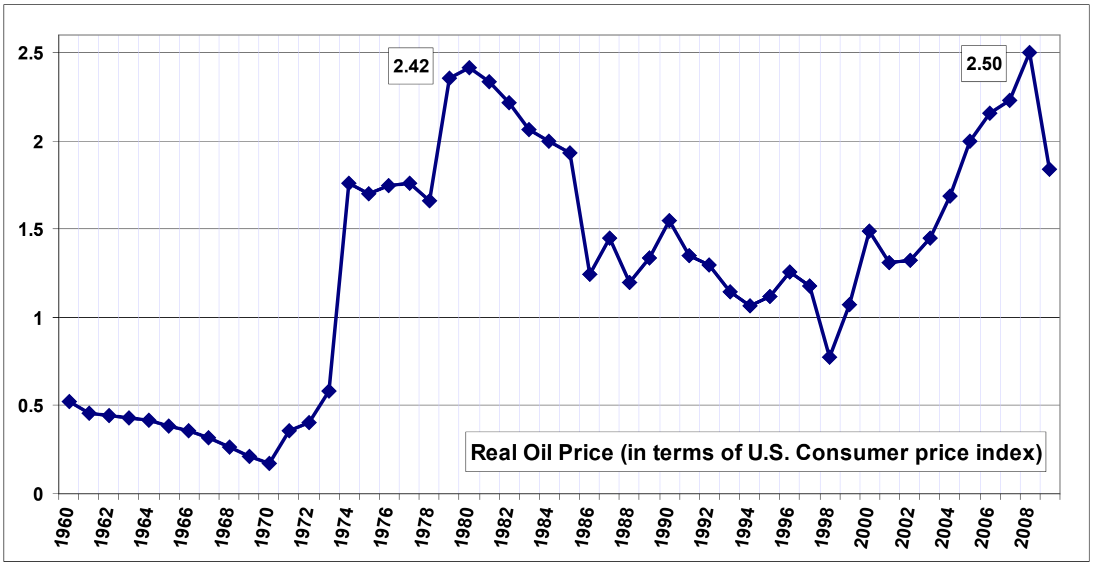
State failed to build better institutions because of oil or it represents a deliberate policy?

Similar to other States, Mexico's intensive use of oil has not only disconnected its public sector from its economy, but produced a generalized policy curse. It has been only able to accumulate oil financial resources through the creation of several funds, what international organisations refer as fiscal institutions (Davis, Ossowski, and Fedelino 2003; Ossowski, Villafuerte, Medas, and Thomas 2008). Increasing and decreasing current and capital expenditures because of oil's price and production volatility create a deterioration in the quality of public policies.

Table 3.5.1 shows that the pace, duration, and the elasticity (i.e. output) in Mexico's third oil boom (2003-2009) compared with the second (1977-1985) was indeed different.[82] To some extent this fact might explain why the Mexican government was unable to give a substantially different response to an unforeseen bonanza. The economy was already insulated from the negative economic effect of rents (i.e. de-petrolized, without Dutch Disease-type threats). Yet, from a public policy perspective, both the government and society never addressed the need to reform its budgetary institutions in order for rents to not damage the State.

[82] Although the fall of oil prices took place at the end of 2008, year 2009 is considered since the government artificially prolonged its duration by hedging oil price to support expenditures.

Table 3.5.1 World Oil Booms, Inflation Adjusted (1960-2009)



Source: (International Monetary Fund 2009b: 48). For Mexico the year base is 1976 since it was at that time that it could raise the production levels despite the fact that the real oil world price, as shown in the figure, began to increase in 1974. It is also worth noting that the figure takes into account the West Texas Intermediate (WTI) barrel price though Mexico's "mix" (Maya+Olmec+Isthmus) is somewhat lower but mirrors the behaviour of WTI.

The Mexican State was unable to give a developmental use of oil because the basis for the president's and the regime traditional need for centralized and discretional budget actually never left. Despite the loss of the PRI majority in the Chamber of Deputies in 1997 and the loss of the Presidency in 2000, as well as the PAN continuing rule in 2006, democracy has not transformed the State. The State apparatus still preserves an ample degree of discretional and maintains and opaque management of public expenditures. The arrival of democracy only decentralized and perhaps even increasingly institutionalized the need to assure a secretive and discretional budgetary management from all elected authorities and administrations at the federal, state, and local level.

In fact, as the following Table 3.5.2 demonstrates that controlling for presidential term President Fox received more oil revenues than any other presidential term in an oil bonanza such as López Portillo's (1976-1982). This provides additional data that confirms the importance of the third oil boom, when the country enjoyed a huge amount of additional public resources.[83]

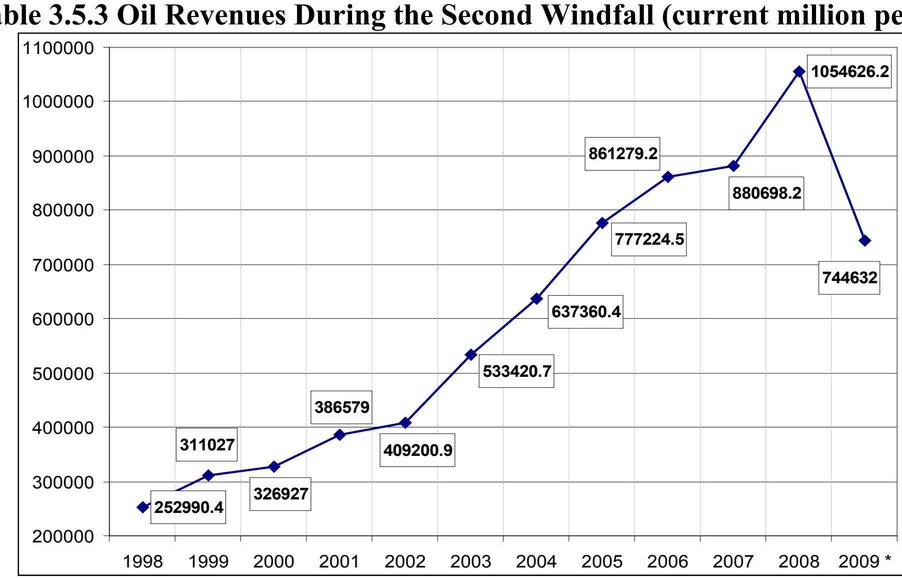
Table 3.5.2 Value of Oil Exports per Presidential Term (Thousands of constant 2006, US million dollars)

President	Value of Oil Exports
José López Portillo (1976-1982)	110.2
Miguel de la Madrid (1982-1988)	129.1
Carlos Salinas de Gortari (1988-1994)	72.0
Ernesto Zedillo (1994-2000)	79.1
Vicente Fox Quezada (2000-2006)	143.9

Source: (Reforma 2006)

The above Table indicates that the Fox presidential term was more important than López Portillo and De la Madrid's term, regarding the bulk of available resources generated. In addition, Table 3.4.3 demonstrates that Fox sustained this trend, which was reinforced in 2007 and 2008 by his successor President Calderón. Yet this was substantially reduced in 2009 because of the end of the oil bonanza which caused less production output and lower oil prices.

Table 3.5.3 Oil Revenues During the Second Windfall (current million pesos)



Notes and sources: Includes Pemex own revenues PEMEX, hydrocarbon rights, benefits over excess returns, gasoline and diesel IEPS (Tax on products and services) / * Own projection according to budgetary revenues calendar and trimestral results January – March 2009 (SHCP). Data obtained from 2. Ministry of Finance: Estadísticas Oportunas de Finanzas Públicas (SHCP).

[83] According to Enrique Quintana, one of the most renowned Mexican journalist in economic affairs, the third oil boom corresponds to the amount of resources that could have produced 7 fiscal reforms Quintana, Enrique. 2009d. "Siete reformas fiscales." Pp. 2 in *Reforma*. Mexico city.

3.6 Methodological Refinement: Delivering New Indicators on Rentier Activity

At a glance, it cannot be claimed that indeed Mexico fits the typical Rentier State profile. However, the stickiness of its oil dependency greatly contrasts with the country's liberalization and economic opening, and its political democratization process. How can a world-renowned institutionalized regime that enjoys the benefit of having an outstanding technocracy, such as Mexico, has delivered such an outcomes? Why, instead of increasing the States capacity through developmental public policies, has the bureaucracy indeed become a guardian of an oil rentier status quo?

To a great extent, the absence of research on the Mexican State's contemporary rentier nature can be explain in part why country is not easily associated with the typical profile of an oil Rentier State, specially since it also has a modern globalized image. From a strictly economic standpoint, it has substantial differences from the common profile of oil Rentier States with oil exports and oil's economic weight is low. Though, this dissertation claims that Mexico indeed presents many of the effects that the literature find associated with the intense presence of oil rents. So, why has Mexico not been domestically and internationally acknowledged as a Rentier State?

This puzzle is directly related with the selection of the case. Mexico has not been categorized by many social scientists, which either do quantitative and qualitative case studies or comparative research on rentierism. In fact, Mexico has been expressly dismissed by many studies because the indicators which are applied to distinguish rentier from non-Rentier States appear not to apply for Mexico.[84]

[84] i.e. high percentage of oil revenues, high percentage of oil exports, and/or poor GDP growth / other indicators of underdevelopment. A traditional outlier has been Norway, which has the highest raking at the Human Development Index, United Nations Development Programme. 2008. "Human Development Indices: A Statistical Update 2008." United Nations, New York.

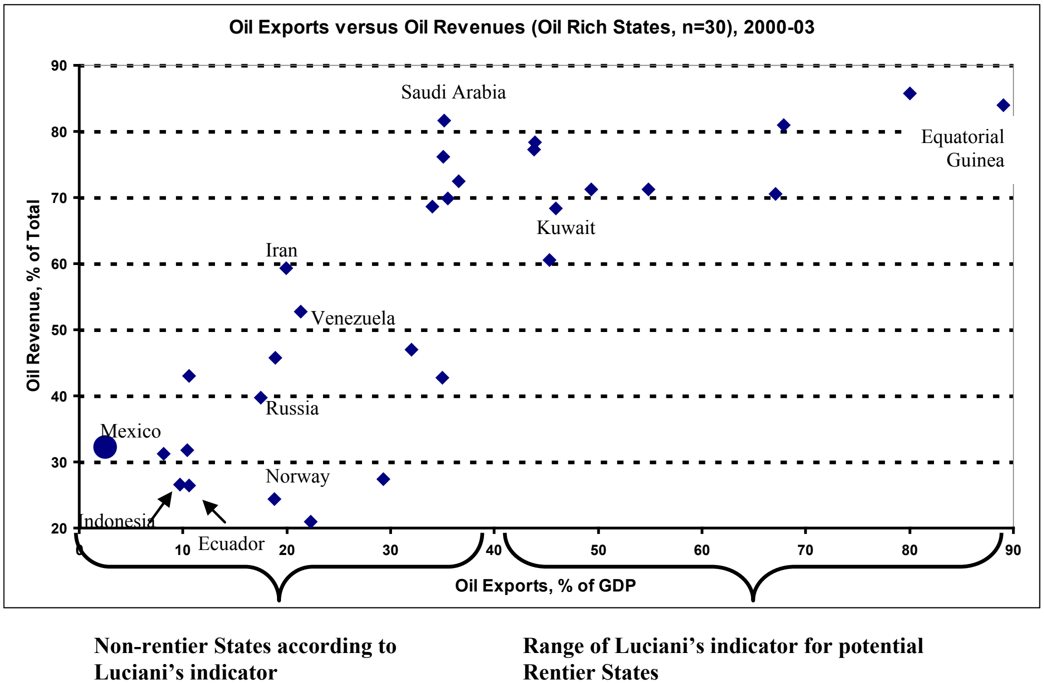
For example, Karl's general depiction of Rentier States identifies specific features that indicate the presence of a Rentier State, but have contradictory components as her definition.

> "Oil-led development means that countries are overwhelmingly dependent on revenues gleaned from the export of petroleum. This dependence generally is measured by the ratio of oil and gas exports to gross domestic product; in countries that live from petroleum rents, this figure ranges from a low of 4.9 percent (in Cameroon, a dependent country running out of oil) to a high of 86 percent (in Equatorial Guinea, one of the newest oil producers). Dependence is also reflected in export profiles, with oil in dependent countries generally making up from 60 to 95 percent of a country's total exports" (Karl 2007b: 4).

Therefore, she first underscores the importance of revenues obtained from exports and then compares these with the size of the economy (GDP), which is a very different measure from the amount of revenues obtained from exports. Therefore, Karl establishes the scope of real or potential Rentier States between very low (Cameroon) and very high numbers (Equatorial Guinea) according to its oil's dependency.

Aside from the methodological inconsistencies and the problem for finding reliable indicators, researchers had focused primarily on "typical or extreme cases" rather than "deviant" or "least-likely cases". These are the cases in which apparently the rentier phenomena effect of oil rents on the State do not apply. Norway has been the case in which many, if not all, of the attributed effects from oil rents had been absent. Therefore, normally Norway is left out from statistical and qualitative analyses. It is certainly easier to focus on Equatorial Guinea or some Arab or African countries which dependency from crude oil is overwhelming. As the introduction of this dissertation notes, Luciani is the sole researcher who has provided a specific indicator of rentier activity stating that its oil exports must represent 40% or more of total exports (Luciani 1987). The following Table depicts his methodology for the universe of hydrocarbon rich countries.

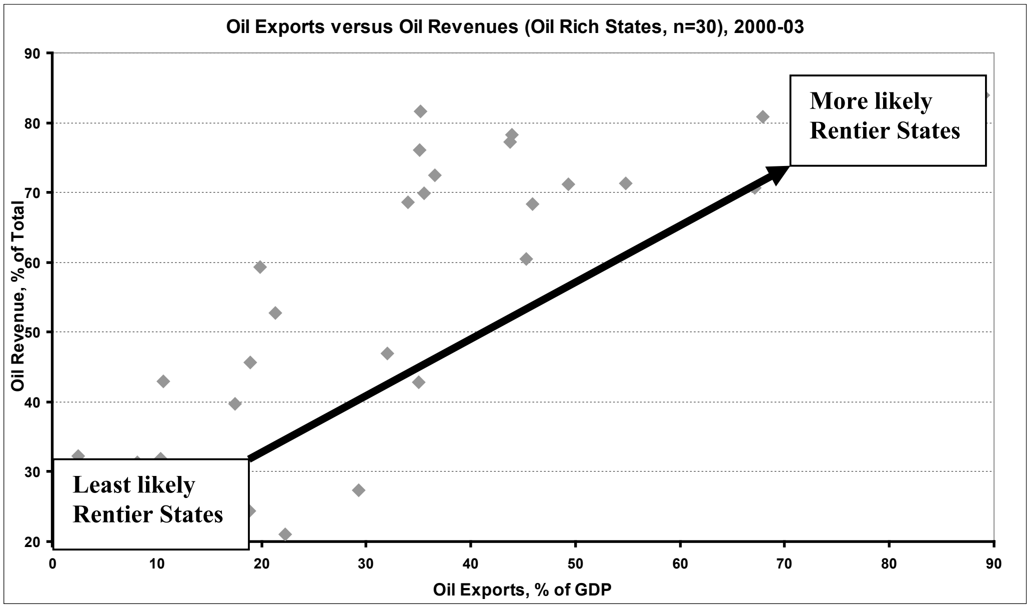
Table 3.6.1 Oil Exports and Revenues Methodological Scheme, Oil Rich States (2000 - 2003)



Source: own elaboration with data from (International Monetary Fund 2005).

Therefore, and according to Luciani, most countries located at the extreme left are least-likely cases or non-Rentier States. The Table below simplifies the prevalent view on the subject with the problem that some of the already discarded. Rentier States figure as potential cases (Norway) and others that has simply been previously discarded. Even more least-likely developers (Mexico), *have the problem that they resemble some of the typical Rentier States.*

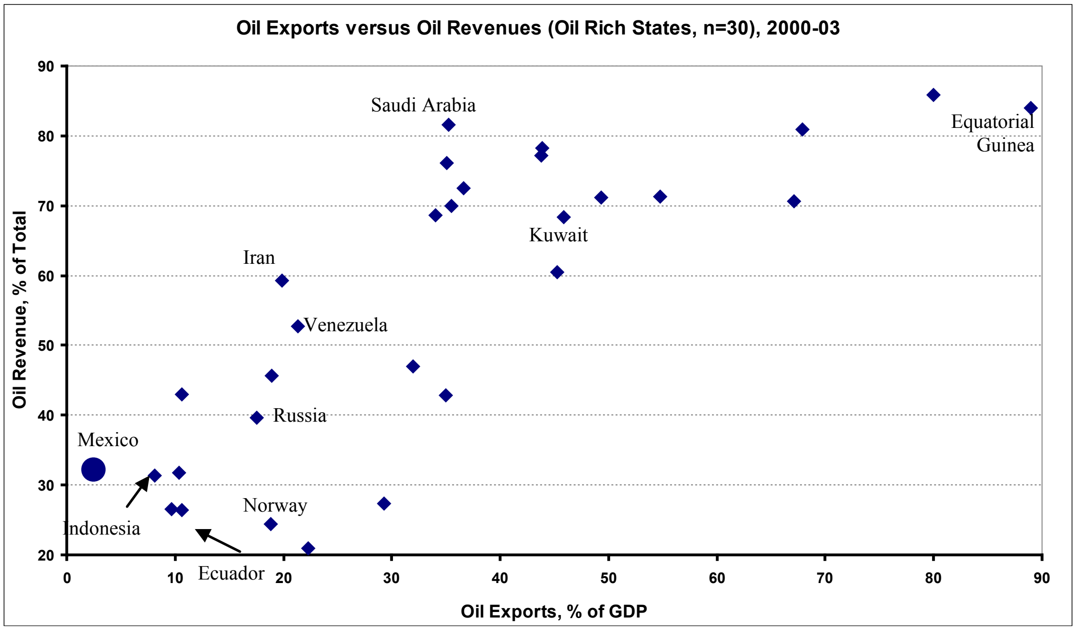
Table 3.6.2 Mapping the Method for Measuring Rentier Activity



Source: own elaboration with data from (International Monetary Fund 2005).

The available theoretical insights and its corresponding methodological tools indicate that the proportion of oil exports and the proportion of oil revenues, both as percentage of GDP, represent key indicators to determine whether or not a country is or has the potential to become a Rentier State. For example, and departing from the Table, the current state of the rentier literature will depict Equatorial Guinea as one of the world's most rentier country. Intermediate cases such as Saudi Arabia and Kuwait, and Iran and Venezuela which both had produced two of the often most cited works on Rentier States close to that position. The case of Norway, often cited as a non-Rentier State or rather a country that has escaped the "resource curse" has been ruled out from the rentier category because of the nature of the regime (democratic) and the geographical position of the country (European).

Table 3.6.3 Oil Exports and Revenues Recap



Source: own elaboration with data from (International Monetary Fund 2005).

The most surprising case is Mexico. According to the above Table, which integrates data from 30 countries from all oil-rich countries in the world,[85] it is a non-Rentier State or at least is an outlier. According to the data, Mexico's oil exports are the lowest among all the oil-rich countries considered to be a non-Rentier country before Norway.[86]

Therefore, it appears that if one uses the available theoretical and methodological oil rentier literature, Mexico would not qualify as a Rentier State. Furthermore, researchers might not observe any effect or syndrome of what the literature claims as the effects of oil over a country. In addition, Indonesia, Ecuador, Norway, and Russia could also be considered more-likely rentier cases than Mexico. To solve this puzzle, this dissertation proposes to re-conceptualize and therefore

[85] For example, the United States and Canada are not considered since oil is privately managed and it is not fully controlled by the federal government. Other cases such as Iraq are not considered since the information is not available.

[86] Mexico's oil exports are the lowest of all oil rich hydrocarbon countries and oil revenues are among the lowest. Although the graphic representation of these proportions does not include the amount of oil exports to total exports, data included at the Chapter 3, and that comes from the IMF reports that they represent barely 2.5% of total exports.

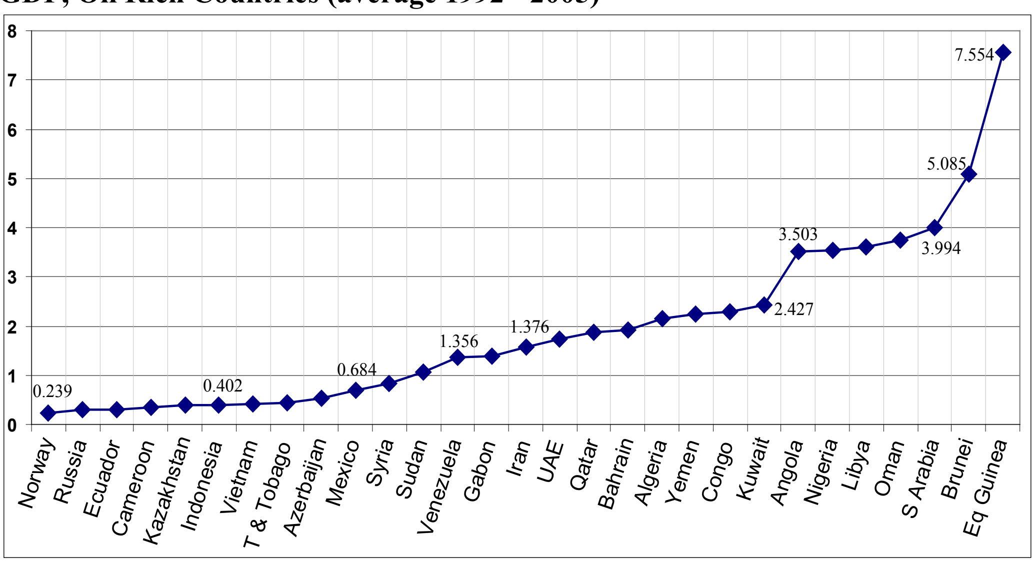
methodologically refine the literature on Rentier States in order to provide with an accurate picture. It uses new indicators to identify potential candidates in order to observe the oil rentier phenomena. The available theory and methodology predicts that the more a country displays in the bottom far left it will less likely develop the rentier effects. These are already observed in countries which are at the extreme upper right of the Table and had already been categorized as full-rentier States. Perhaps more important is the fact that if one has to agree to some extent that the insights and findings of the rentier literature are genuinely empirical they also unveiled many issues that can be correctly associated with oil. It might further be probably associated with different indicators for identifying a potential rentier phenomenon.

After producing one of the most comprehensive reviews of the literature on the resource curse, Andrew Rosser stresses.

> "While there is thus considerable evidence to support the notion of a resource curse, there are several reasons to treat this evidence with caution. First, some scholars have suggested that the findings … may not be robust to differences in the measurement of natural resource abundance [they] have measured natural resource abundance in terms of either the ratio of countries' natural resource exports to GDP or the ratio of countries' natural resource exports to total exports … Second, it is not clear that the ratio of natural resource exports to GDP or the ratio of natural resource exports to total exports are appropriate measures of natural resource wealth … most studies that attempt to explain the resource curse suggest that the main problem with natural resource abundance is not that it leads to economic dependence on natural resources or a skewed export structure per se but that it creates rents – that is, excess earnings above normal profits … it could be argued that rent-based measures of natural resource abundance provide a more useful basis for making judgments about the existence or non-existence of a resource curse". (Rosser 2006:10)

For example, two of the most compelling case studies on rentierism made by Karl and Dunning had focused on Venezuela (Dunning 2008; Karl 1997), a country which has figured for a long time as a major exporter but democratic –and Rentier State. Other case studies from Africa and the Middle East such as Equatorial Guinea, Saudi Arabia, and Nigeria are often cited as examples of oil's negative effects. This clearly reflects many of the syndromes that the early research on oil rentierism identified (Mahdavy 1970b). Yet while it is evident that countries with a high ratio (i.e. proportion) of hydrocarbon to non-hydrocarbon revenues are clearly rentier, the case of Norway, which has the lowest ratio in the following Table, has been traditionally depicted as a non-Rentier State. Therefore, a stronger predictor of the presence of rentierism, according to the literature's main theoretical claims is *the proportion of rents (domestic and external) which are under the direct and effective control of the State*. Taking into consideration the strong correlation between rents and taxation as a major claim of most of rentier literature, the proportion of rents has to be compared with the total amount of available fiscal resources for the State, i.e. non-hydrocarbon revenues (i.e. taxation).

Table 3.6.4 Ratio of Hydrocarbon to Non-hydrocarbon Revenue as percentage of GDP, Oil Rich Countries (average 1992 - 2005)



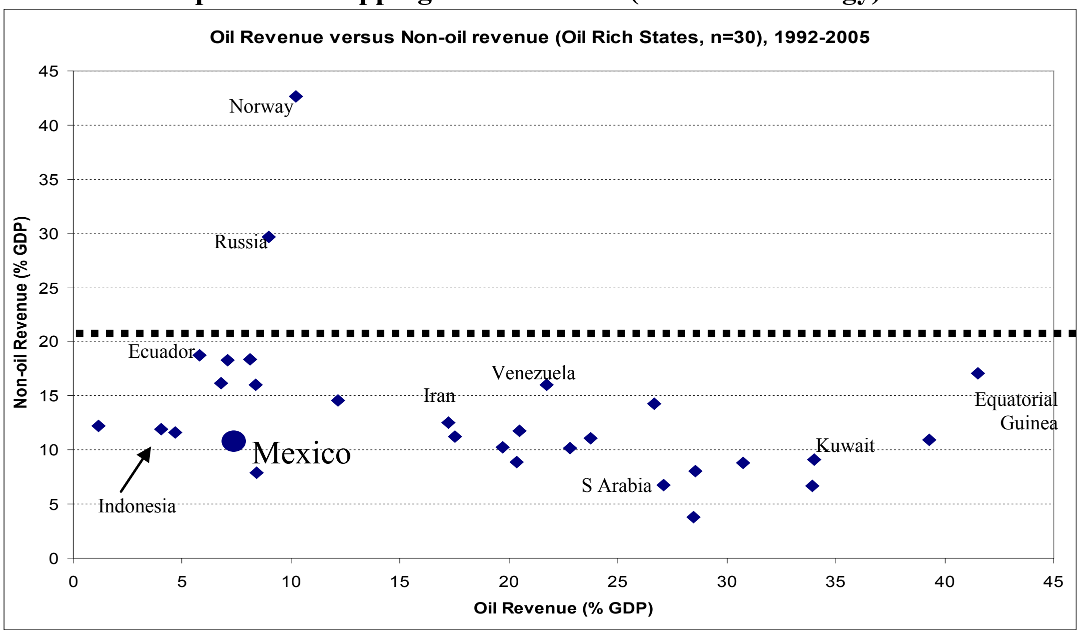
Source: own elaboration with data from (International Monetary Fund 2007a).

The above Table indicates that a higher ratio (i.e. proportion) of hydrocarbon to non-hydrocarbon revenues reflect the state of the art of the literature on rentierism.

Furthermore this is a good and robust predictor of oil rentierism and also provides an opening analytical space to begin researching on States. Yet because of the prevailing methodology, cases such as Mexico was left out of an initial research.

Under the new methodology and its corresponding indicators, the universe of Rentier States can be graphically summarized in Table 3.6.5:

Table 3.6.5 Proposal for Mapping Rentier States (New Methodology)

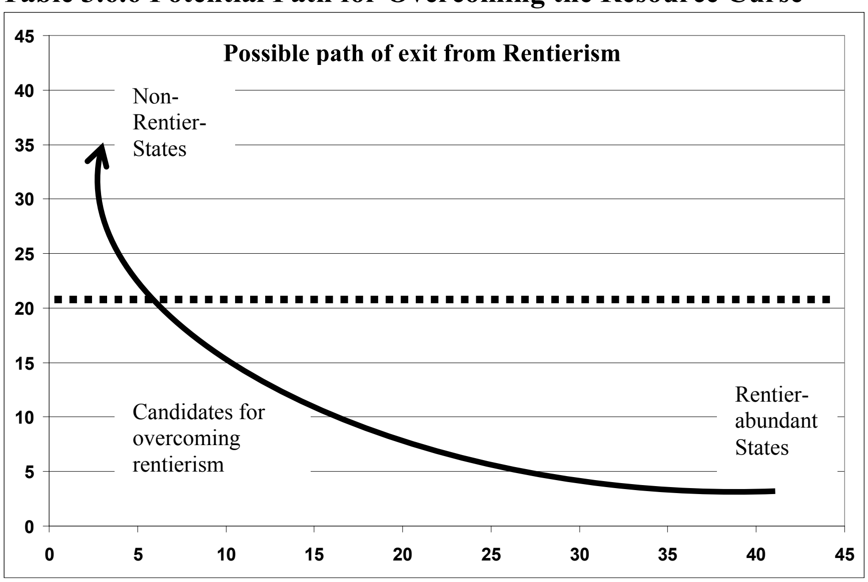


Source: own elaboration with data from (International Monetary Fund 2007a).

When applying the new approach, the available insights on real or potential Rentier States becomes more clear. As the cases of Norway and Russia offer an example they are clearly out of the scope of the "oil curse threat". Furthermore, Mexico is not located among many of States, which have been already identified as rentier. The rule now seems to be that *every country that has a low proportion of non-oil revenues and a high proportion of oil revenues according to the size of their economy (GDP) which is statistically significant over a period of time, will more likely remain as rentier State and escape from the negative effects (or curses)* *associated with oil.* Therefore, if a country were able to keep raising taxes and maintain and or increase its level according to the size of the economy, it would be insulated from the instability that oil revenues provide.

Therefore, it can be argued, as many rentier literature contributors had already stressed out, that the issue of oil rentierism has a strong link with the State's taxation size and how it has evolved in time. As long as the State can initially and consistently resist the temptation of using more intensively oil revenues to finance recurrent expenditures, it will be less likely to become or maintain its rentier status. This reflection is graphically summarized in the following Table.

Table 3.6.6 Potential Path for Overcoming the Resource Curse



Source: own elaboration.

In conclusion, the underlying hypothesis that refines the rentier literature, is built over a single but comparatively rich case study. Oil effectively hinders taxation and that depicts a key phenomenon that helps to explain why oil rich countries might develop and enforce the negative effects associated with oil. The "oil hinders taxation" hypothesis is the basis for the empirical Chapters in this dissertation.

Chapter IV. Oil Rents and the State Apparatus: the Role of Budget Institutions

4.1 Crude Oil and the State's Political Economy

Mexico's political economy during the last century has been greatly influenced by crude oil (López Portillo y Weber 1975; Meyer and Morales 1990). While the country has experienced only three booms (1919-1924; 1977-1986; 2004-2009), the use of oil use has been constant. In the first boom, oil fluctuated between a source of income to finance the State's minimal operation and an instrument for economic development. Oil supported the Import Substitution Industrialization (or ISI) model and served as a strategic asset for supporting monetary and exchange rate policies specially from the second half of the third boom, 1982 onwards.

In Mexico, oil is often associated with union and managerial corruption, electoral-driven embezzlement, environmental issues, local and regional disputes. For example, it was recently demonstrated how the PRI-affiliated oil union siphoned campaign contributions. The funds were originally transferred by the government to the presidential campaign of the *Partido Revolucionario Institucional*, or PRI, during the 2000 elections.

Unfortunately, the availability of studies that address the central problem of the Mexican political economy with the use of oil are at best, scant. Remarkably, an aside from political scandals, both academia and public opinion have only begun to focus on how oil rents shape and affect both the government's day-to-day performance and long-term prospects.[87] In all, they seem to be unaware of oil's main and direct beneficiaries. Academics have not conducted a comprehensive and macro

[87] Rents refer to *external* rents (exports) and revenues to both domestic and external oil's gross income.

assessment, in particular from a political economy analytic perspective, of oil's influence on the State.

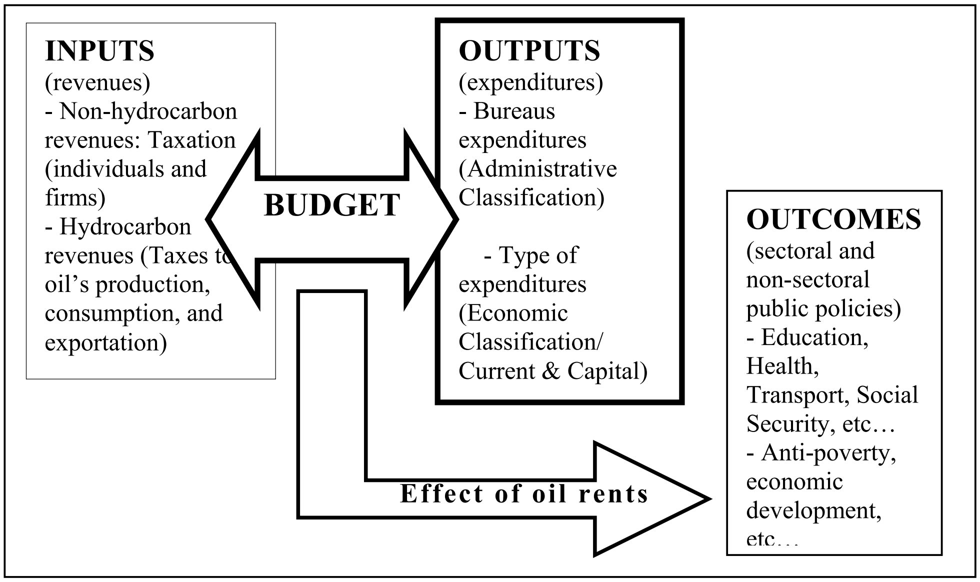
Traditionally, the available literature on the resource curse (or the negative effect of oil over a country) has focused on the link between oil and its grand effects (i.e. economic growth, democratization, poverty, violence, migration, etc…), failing to notice the importance of its observable and measurable behaviour on the State apparatus from an organisational, functional, financial, and public policy perspective. This dissertation describes, analyzes and empirically isolates a rather "intermediate" effect of oil rents. It identifies and analyzes which specific interests, processes and mechanisms enforce an oil-based policy institutional continuity and change within the State apparatus.

The resource curse thesis has failed to properly identify the State's internal preferences, incentives and mechanisms which enforce and amplify the broad and diverse phenomena associated with crude oil production. In this respect, a key institutional device that enforces the maximization of oil rents are budget institutions, which are considered as macro and micro rules and regulations on public expenditures. It also include the administrative branches, i.e. the network of budget bureaus at the federal, state, and local public administration. Figure 4.1.1 depicts the main analytic components of how budget institutions interact within the State apparatus.

Budgetary institutions are essential for the development of Mexico's political economy. The Secretariat for Programming and Budgeting, *Secretaría de Programación y Presupuesto* (SPP) created within the central bureaucracy as a specialized bureau to address budgetary affairs was the incubator of almost four consecutive presidents and a full generation of public servants and political leaders

(1976-1992). It is not a coincidence that the central bureaucracy, and in particular its magnified budget maximizer the SPP was the main source of substantial presidential power (Torres Espinosa 1999).[88]

Figure 4.1.1 Research General Framework



Source: own elaboration.

Figure 4.1.1 notes that the budget is the interaction between revenues and expenditures, which directly affects the State's many public policies. The present research analysis of the State apparatus focuses on budgetary institutions, understood as an extended and comprehensive set of formal and informal rules –which are operated by individuals who that govern the allocation of what has been called "the public purse" (Rubin 1993). Budget institutions serve as a prism that can expand or extract whatever input (negative or positive) is considered. This dissertation focuses on inputs and outputs budgetary policy rather than solely policy outcomes or the

[88] Typically, the analysis of the presidential profile comes from a radically different perspective such as professional skills, age, attended school, etc… but rarely analyze the structural determinants of how and why they actually were chosen (Ai Camp 2002; Smith 1979).

effects over the general welfare. To evoke Hood's analytic framework at impact evaluation (Hood 2008).

Oil and State formation in Mexico have evolved in tandem. Since the long lasting dictatorship of Porfirio Díaz (1877-1910) and the loss of the Presidency by the PRI (2000) to the current *panista* government, oil has been present at critical historical junctures. For example, when the country was leaving behind one of the most generalized violent moments of the 1910 Revolution with the Presidency of Alvaro Obregón (1920-1924), was turning Mexico into one of the first exporters in the world.

Immediately after expropriating oil companies from foreign nationals in 1938, the Mexican government began a successful and inward model of development from 1954-1970, meeting the country's energy demand through a policy mix of subsidies and price controls. In addition –a fact that has been greatly disregarded- oil has proved to be vital for the State to overcome the many economic crises, by always providing fresh new and abundant resources to cope with economic slowdown. This may be seen in the following years: 1982, 1994-95, 2009.[89] The discoveries of huge oil fields and the decision of the Mexican government to engage in a full fledged export policy forever changed the role of oil within the Mexican economy. The policy shift towards massive oil exportation during the second half of the 1970s pushed the federal government to centralize many of its functions. As Cordera and Tello (Cordera and Tello 1981) emphasize, this also eventually provoked one of the harshest struggles within the country's political and administrative elite.

Oil bonanza concurred with one of the most important efforts to reform public administration. This fact served to increase even more the power of the central

[89] Oil has been even used as debt collateral, particularly at the 1994-95 crisis. I thank Andrés Lajous for reminding me this point Farfán-Mares, Gabriel. 2009a. "Interview with Adrián Lajous Vargas." Mexico.

bureaucracy and the presidency, representing the continuation of a historical pattern that began under President Lázaro Cárdenas term from 1934-1940 (Cothran 1986; Wilkie 1967). José López Portillo, an academic and experienced bureaucrat, with long history of being advocate of public administration and public sector reform, became President in 1976 (he was President of the Public Administration Commission, or CAP established in 1965). At the height of a substantial loss of government's credibility and economic crisis, which was in part provoked by the Mexican State's structural financial weaknesses, López Portillo was able to refashion the entire bureaucracy *precisely* on the brink of discovering new, large oil fields.[90]

Both Mexico's administrative reforms and oil abundance helped to centralize even more the bureaucracy vis-à-vis the cabinet and subnational governments. The central bureaucracy experienced bitter internal political skirmishes between the developmental and the financial and monetary technocratic elites. Specially regarding the control of the newly acquired resources. This pattern also resembles other cases such as Indonesia, Venezuela, and some OPEC members (Diaz-Cayeros 2006; Usui 1997). At the federal level, the strong competition for such resources led President López Portillo to use all the presidential powers to enact a Fiscal Coordination Law (*Ley de Coordinación Fiscal*, LCF), which concentrated fiscal policy and the budget allocation powers in the hands of the central bureaucracy.[91] In the long run, the LCF greatly inhibited States and municipalities incentives to improve their taxation capacity, considerably decreasing their contribution to the country's taxation. States and Municipalities contribute with 0.29% of the country's total taxation, as a

[90] López Portillo conceived this reform since he headed the Public Administration Commission (*Comisión de Administración Pública*, CAP) in 1965.
[91] The strong regional tax centralization of rentier States can be considered a pattern. As Diaz-Cayeros demonstrates for the case of Venezuela, oil rents and fiscal centralization had been often simultaneous Diaz-Cayeros, Alberto. 2006. *Federalism, Fiscal Authority, and Centralization in Latin America*. Cambridge, New York: Cambridge University Press.

proportion of GDP (Arteaga 2009).

Despite the efforts to increase budgetary control, the political, bureaucratic, and financial profile of the oil company greatly increased, becoming a threat to the balance of power within the political elite and the higher echelons of the administration. As soon as the financial and monetary bureaucratic cluster took over Pemex in 1982, the oil led developmental model and the administrative reforms carried on by López Portillo were both fundamentally transformed.

Developmentalists and Cambridge-trained economists (the traditional Keynesian promoters of a stronger role for the State), and which are often the advocates for strong public investment and long-term State planning, were gradually expelled from all the key posts of the government (Babb 2001). The budgetary institutional architecture, once designed to deliver more and better public investment, was used to manage oil abundance, which it helped to financially support the "neoliberal" economic model which aimed at building a privately owned export sector. The generalized discredit of public enterprises led presidents from 1982 to the present to reduce public investment and divert expenditures to social and political ends.[92]

In short, López Portillo's administrative innovation and oil abundance were severely downplayed and strictly used as a means to provide social and political support to the authoritarian system. It simultaneously delivered macroeconomic stability and credibility to support a market economy.[93] The 1982 crisis and the demise of Pemex symbolized the loss of the Planning function for the government. This is depicted in the Figure 4.1.2 below. After 1982, the policy focused on deficit

[92] This is particularly evident when a financial analysis from 1982 onwards denotes a clear expenditure pattern highly beneficial to social spending and detrimental to public investment.

[93] It is important to note that the Ministry which was created by López Portillo to program and budget (not for the State's long-term planning) was entrusted to elaborate the National Plan and the Ministries originally created for these functions were eventually dismantled.

aversion with a tight budgetary control which hindered the government to deliver impact evaluation.

Figure 4.1.2 The Policy Framework

PLANNING	**BUDGETING**	**EVALUATION & CONTROL**
What we want to accomplish in the long run?	When and where are we going to allocate public expenditures?	Which were the results of our decisions?

Source: own elaboration.

During the of neoliberalism (1982 - ?), oil continued to be a vital component for the State. Yet its use radically changed. Oil served to support macroeconomic management, trade liberalization and privatization. Furthermore, it served as collateral for the Mexican government to overcome the effects of the Tequila Crisis (1994-95). Finally oil represented a way to keep the level of expenditures growing in real terms during the last oil boom (2003-2009), *despite the fact that all the other sources of income for the State were stagnant or decreasing due to sluggish economic growth.*

The presence of oil in the State's finances affected the institutional architecture of the public administration. A detailed analysis of Mexico's central bureaucracy during the last century reveals that the investment/debt and financial/monetary functions had been traditionally grouped into two separated, and often poorly coordinated, bureaucratic clusters. Successive presidents were interested in controlling and achieving innovations in public investment. While bureaus in charge of fiscal policy mainly represented by the Ministry of Finance and the Central Bank were traditionally more independent from political and presidential influence. This clash marked the first years of President's Echeverría government from 1970-76.

Venezuela offer an example of the importance of the relation between the central government and the national oil company. After trying to change the fiscal policy and investment strategic decisions of PDVSA in 2001, President Chávez faced a strong opposition which resulted in an attempt to overthrow him in April 2002. The Rentier State often experiences a strong power struggle between the central government and the public enterprise which directly controls oil policy.

Mexico experienced a similar process during the second oil boom when Pemex became increasingly autonomous from the central bureaucracy (Bailey 1980; Bailey 1984; Meyer and Morales 1990; Philip 1982; Székely 1983). Since Pemex political and economic status greatly increased due to oil bonanza, the President and other ministries immediately tried to control it more tightly. Initially, the President was unable to tight his grip over the oil company, and, particularly after the 1982 debt crisis, Pemex role was severely downgraded. As a result, industrial policies and public gross fixed investment became the first casualties of the incoming administration, which worked upon a tight and central control by the fiscal bureaucracy (Philip 1999), where SPP had a key role.

The 1982 debt crisis represents the demise of Pemex strategic *developmental* role and the bureaucratic cluster associated with the State's heavy investment projects. The centralization and the concomitant allocation discretion that characterized SPP from its origin (1976), its reinforcement (1982), and its demise (1992) served as a key institutional device to operate the transition from a "developmental" State to a "neoliberal" one which was *downsized* but can be called *Rentier* State. As Chapters VI and VII analyze, it is important to note that despite the many privatizations the State actually increased its size, if it is taken the size and cost of the extended bureaucracy (federal, state, and local).

4.2 Processing Oil Rents: the Role of Budget Institutions

From a macro and comparative perspective, the origins of the State's rentier behaviour cannot be properly analyzed by exclusively looking at oil exports or the weight of oil and its rents vis-à-vis the economy. But analysts also look at the domestic and external, i.e. *the total amount of rents which are under an effective control of the government*. These are the stronger predictors of the potential for a State to become or maintain a rentierist approach to public finance and policy. The rationale for this claim is described as follows.

Any State which display a high degree of decision making centralization, such as the Mexican, can manipulate a group of variables in order to substitute a loss in tax revenues. Oil Rentier States in particular are able, for example, to reduce the investment in the energy sector or general public investment to "release" public resources to balance budgets. This balance is not exclusively of economic but also political nature.

States in general, and particularly the ones which have a tight and direct control of oil production, might increase production or exports to maximize oil revenue. Any government that directly controls oil has the capacity to inhibit a revenue loss. This may originate from compliance or from an economic slump, by using a collection of policy measures that fully depend from the central bureaucracy.

The manipulation of oil production and public investment either within or outside the energy sector needs specific bureaucratic skills. These are very different from the ones needed to raise taxes. Taxation capacity entails a great deal of professional human resources and information technology as well as a strong (enforced) tax revenue policy based on cost-benefit analysis. All of which might seem out of place and rather capricious when oil revenues are available and relatively cheap. Moreover, a successful tax policy implies a tax policy design in tandem with the economic cycle as well as the existence of strong fiscal legitimacy, i.e. the citizen's belief that the government use taxes in an orderly and productive fashion. The performance of tax policy derives from a complex mixture of administrative, economic, political, and social factors.

From a policy perspective, under normal non-rentier circumstances, governments have at some point to ask whether decreasing or increasing taxes will give back financial returns or will positively contribute to the country's income distribution or overall economic welfare. Nevertheless, when oil rents enter the State's coffers fiscal and budgetary management greatly changes. This type of extractive but "unproductive" bureaucracy is consistently undermined. Specially since the type of calculus at the allocative (expenditure) bureaucracy is oriented towards distribution and not production (Luciani 1987).

This means that a large amount of resources do not respond directly to the principle of scarcity and efficiency and are not linked to productivity but to distribution. In sum, when oil rents are treated as returns they do not need a strategic calculus for its acquisition (cost-benefit analysis) and the responsibilities it entails (fiscal legitimacy). Public expenditure greatly base efficiency on distributing incrementally those rents, thereby loosing its strategic, non-inertial development potential. For example, common to the distributive approach to rents is an extremely inertial, incrementalist budgetary allocation. Therefore calling for concepts such as efficacy and efficiency (compliance indicators, or outputs), instead of performance and/or incidence (impact evaluation, or outcomes). Oil rich States might charge for products and services which are offered by the public sector. This causes eventually causes bureaucrats to raise some taxes from economic activities. Yet they intensively use oil revenues to finance either the government's operation or the State's many social responsibilities which are mostly represented by current expenditures.[94]

From a bureaucratic and organisational point of view, the Rentier State apparatus greatly develops allocative and expenditure-specialized bureaucracies[95] over the productive and revenue-specialized bureaucracies[96]. It also develops a type of institution which is devoted to allocate rents (private goods) instead of producing public goods.

Rents "help" the State by providing financial additional resources that cannot be easily and quickly obtained from the population or the economy. They are needed to deliver public goods such as: the provision of health, education, public security, social protection, economic and social welfare, etc… As in Mexico, oil rents help to match the government consumption with people's demand for products and services. Specially since it is presumed that economic development and population growth tends to demand more services since rural societies tend to become increasingly urban (i.e. the Wagner's Law thesis) (Peacock and Scott 2000).

For example, oil rents have played a crucial role in State formation. One should consider two criteria. The State expands its authority by increasing its size of its traditional functions (law, public security, etc…) and also extending the delivery of products and services. This study shows that the support of economic growth and development has made the State stagnant. Because of its lack of productivity an oil-

[94] Mexico basically raises a third of its total expenditures from oil, another third from the products and services provided by the public sector, and the last third from taxes to private activities (individuals and firms).

[95] This explains why Mexico has developed sophisticated social policies, an indication that the State wants to solve a distributive issue through oil-based spending rather than revenue-led redistribution policies.

[96] This differentiation comes from Giacomo Luciani's work Luciani, Giacomo. 1987. "Allocation vs. Production States: A Theoretical Framework." Pp. 63-82 in *The Rentier State*, *Nation, State, and Integration in the Arab World*, edited by H. Beblawi and G. Luciani. London: Croom Helm. and explains why Mexico has greatly developed budget institutions in contrast with tax administrations.

induced public spending does not translates into growth in the long run. Taxation will potentially decrease, while oil revenues will potentially increase.[97]

In a fiscal non-rentier framework the State behaves in a "fully capitalist" manner, since the State is interested in promoting growth in order to keep the speed and size of taxation either to finance its apparatus or other legitimation policies like education, health, social development, etc... Revenue policy is tightly associated with economic growth and its calculation is always sensitive to economic activity and the market. Revenue policy might also serve as an adjustment tool for regional or income inequality. Finally, within a fiscal non-rentier framework, expenditure policy is directly connected to the size and speed of revenue collection. The treasury acts as a "box" where the public money is kept and is available for execution at any time.

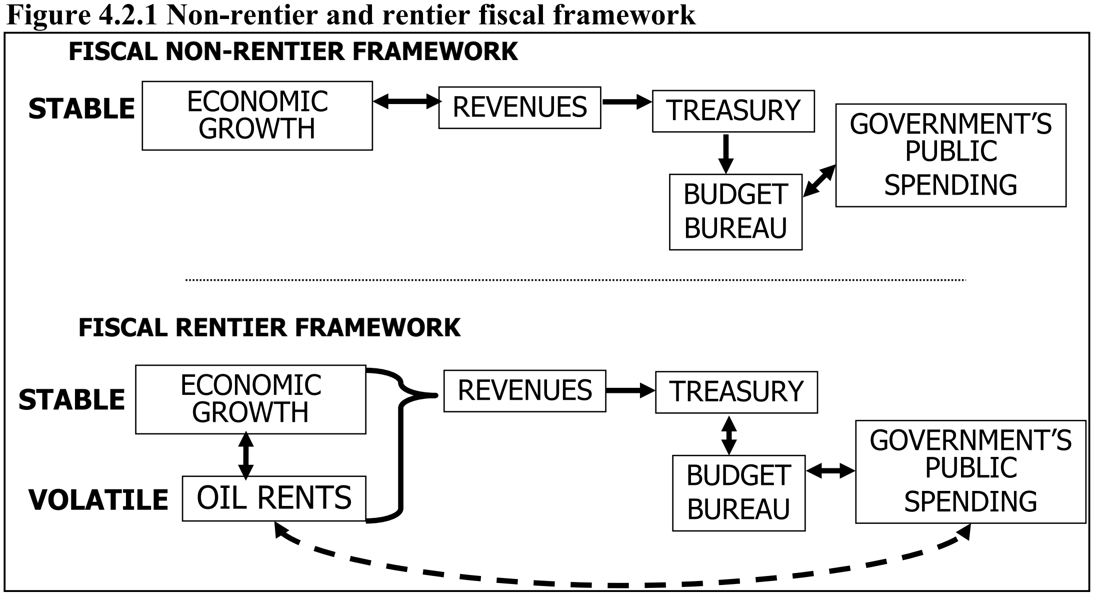
Therefore within a non-rentier non-oil environment, the budget bureau directly depends on the availability of financial resources reported by the treasury and what the revenue bureau is achieving. The only way for the budget bureau to escape the self-adjustment mechanism of the Treasury availability fund report is to ask for the issue of debt, which normally is an attribution of another bureau, i.e. the debt or public credit bureau (not to mention that in most countries debt needs the approval of the Legislature). Nevertheless, from a macroeconomic policy standpoint, the consequences of issuing government bonds or contracting debt are a complex and highly sensitive policy since they can greatly affect the country's creditworthiness and investment position. Ultimately, even the debt option to finance a gap (deficit)

[97] States that might developmentally use oil revenues are States that originate from a strong degree of embeddedness, i.e. States that strongly coordinate and cooperate with the private sector and ultimately with the society as a whole Evans, Peter B. 1995. *Embedded autonomy: states and industrial transformation*. Princeton, N.J.: Princeton University Press.

between revenues and expenditures directly depends on the capacity of the State to raise taxes.[98]

The fiscal rentier framework is depicted below in Figure 4.2.1. While the above discussion is still pertinent to describe the financial and management process of fiscal policy, the existence of oil rents represent available resources that are not connected with the economy. Since the government fully controls oil production and exports, the budget bureau can set a target to the National Oil Company, (NOC) in order to obtain $ for fiscal purposes, which is independently from the ordinary revenues.[99]

Figure 4.2.1 Non-rentier and rentier fiscal framework



Source: own elaboration.

For the budget bureau, the availability of rents helps to fill the fiscal vacuum left by the many problems that the country faces regarding tax collection. Most importantly, it places a bulk of resources in the hands of budgetary institutions,

[98] Public finance rationale is taken from Stiglitz, Joseph E. 1988. *Economics of the public sector*. New York: Norton.
[99] The main and higher post of the budget bureau, the Undersecretary of Expenditures (outlays) has veto power and represents the Minister of Finance at the NOC managerial governing body.

thereby disconnecting the economic rationality from the social and political needs. Therefore, the availability of oil rents are driven by expenditure demands and pressures rather than a previously designed expenditure policy.

Consequently, oil-based States are typically detached from the market –they are economically non-embedded- because they respond to the logic of extraction, production, and exportation of crude oil, energy subsidies and the corresponding revenue policy. Therefore, oil-based States are impeded to act in a productive, developmental, and embedded fashion such as other successful States. This is particularly evident in the so-called Newly Industrialized Countries (NICS). They are characterized by high levels of public-private cooperation and coordination with strong public investment in strategic economic clusters that are linked with the global economy.[100]

Oil rents availability induce a "fiscal trap", which impedes the development of the State's sound, productive capacity. The Mexican case demonstrates that if more oil revenues come into the government's coffers, taxes will decrease or remain stagnant either during a fiscal year and in the long run. As for other oil rich countries, it has been demonstrated that there is a strong and statistically robust negative correlation between oil revenues and taxation to private activities (Bornhorst, Gupta, and Thornton 2008; Bornhorst, Gupta, and Thornton 2009).

Both the case and comparative indicators portray a direct and observable effect of oil revenues on the State's overall fiscal capacities. The fact that oil hinders a State capacity such as taxation lead to argue whether oil endowed countries can simply overlook this potential pitfall for their developmental model.

---

[100] This is directly associated with Alexander Gerschenkron's backwardness association with a stronger State intervention in the formation of capital Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective: A Book of Essays*. Cambridge, Massachussetts: Harvard University Press.

4.3 Centralization, Budgetary Discretion and Executive's Pre-eminence

Oil greatly influences budgetary institutions design and operation. The need to control oil revenue volatility and insulate it from the economy has negative effects. Both the political leadership and the bureaucracy centralize their functions and entrust them with highly discretional powers. These serve to reduce expenditure demands by not disclosing strategic information and resist spending pressures from groups outside the government's coalition. This is the standard feature of budgetary institutions from a comparative standpoint (OECD 2005).

Nevertheless, the rentier feature of budgetary institutions' most single important function is the capacity to avoid potential spending rigidities. Providing the regime and political system with the financial means to build, upon economic coercion (i.e. clientelism and patronage), its legitimacy.[101] In short, the most important capacity of a rentier State's budgetary management and institutional arrangement is to assure the highest degree of discretion and flexibility to gauge the country's economic and political requirements.

Until now, rentier budgetary institutions had been able to control the rigidities inherited by former governments by helping to fine-tune the regime's political and economic needs and challenges. Yet, budgetary institutions allocation discretion has been gradually reduced as it can be confirmed by analyzing the behaviour of oil price in recent years. For example, while the Legislature began the newly democratic period (2000-2006) setting a price per barrel of $18 U.S. dollars per barrel, the real (observed) price during the same year averaged $18.61 U.S. dollars. The government, perhaps as a precaution or as a deliberate measure to increase its discretion over oil

[101] It is important to note that the use of oil windfalls during the two oil booms, which correspond to four presidential terms (López Portillo, de la Madrid, Fox, and Calderón), had, from an expenditure policy point of view, quite distinctive features. The first used oil to finance investment projects, while the second to improve deficit and debt management. Both Fox and Calderón allowed a "political" use of oil windfalls where most of them were allocated to current expenditures.

revenues, tried to keep "cheating" deputies by manipulating oil prices. The Executive power recurrently set a lower price than expected. This was to make sure that macroeconomic management would not be disrupted and also that in the event that an additional revenue will be available, the government would have a greater degree of manoeuvre to allocate additional resources.

As we can observe, the manipulation of the oil price increased as oil prices went beyond expected calculations. This became an important source of additional and discretional budgetary power for the State. As Table 4.3.1 shows, while at initial years the difference between the budgeted price and the observed price fluctuated between roughly $.50 a dollar and $5 dollars, last year's difference was of about $16.

Table 4.3.1 Oil Fiscal Performance (2000 - 2006)

Year	**Mexican Mix Average Price in U.S. dollars observed * (fixed price **)**	**Revenue in thousands of pesos Observed * (fixed price**)**	**Additional Revenue in pesos** (excedentes)
2001	18.61 (18)	111,762 (112,347)	-584
2002	21.52 (15.50)	129,448 (99,798)	29,649
2003	24.78 (18.35)	167,789 (125,329)	42,460
2004	31.02 (20.00)	229,709 (155,152)	74,460
2005	43.60 (27.00)	347,847 (207,847)	104,000
2006	51.73 (36.50)	597,445 ***	167,431***
Total		1,584,000 ***	418,000*** (38,000 US Million Dollars)

Sources: SHCP, Pemex, and own calculations. /* Pemex Report. /** *Criterios Generales de Política Económica*. Price set by the Chamber of Deputies, along with SHCP during the Budget discussion. /*** Forecast for October (taking as a reference the year average price).

This means that as the windfall increased, the government, through the Ministry of Finance had a sizeable new sources of funds to allocate on a "non-budgeted" basis.[102] The oil price greatly increased the power of the Ministry of

[102] Having additional resources does not translate into full discretion but the capacity of strategically decide and effectively veto many spending requests by bureaus or subnational governments.

Finance through discretionary expenditure, reinforcing the allocative discretionary powers that Ministries of Finance around the world traditionally enjoy.[103]

Notoriously, the composition of expenditures has greatly changed before and after the last oil boom. Both the budgeted price of oil began to importantly differ from the real or spent budget. For example between 2004 and 2005 the initial years of the latest oil boom current expenditures increased from barely more than 48% to 72% of total expenditure. As usual, current expenditures displaced capital expenditures and within them, gross fixed capital investment.

Table 4.3.2 Expenditures Composition

Expenditure	2004	2005
Current	48.2%	72 %
Capital	51.8%	28 %

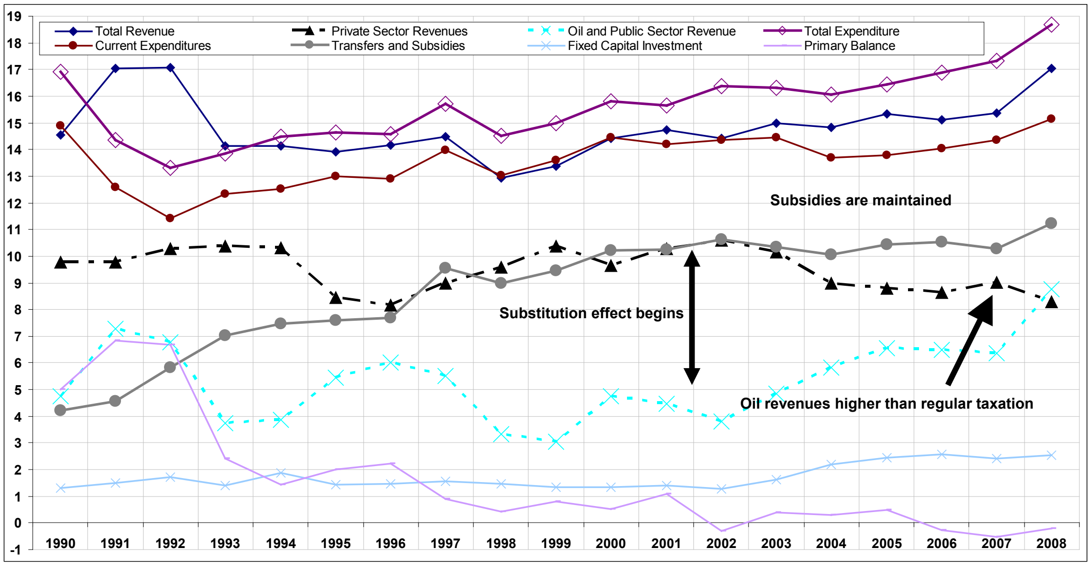
Sources: SHCP / Reforma, Department of Analysis.

An larger analysis in scope confirms the shift between current and capital expenditures prior and after a resource shock such as oil bonanza (See Chapter VII). There appears to be a tendency to keep transfers and subsidies about the same to support the socio-political embeddedness of the Rentier State, which keeps the economic system detached. As Table 4.3.3 demonstrates, while taxation decreased during the oil boom, oil revenues increased, providing for a slight increase in fixed capital investment. The most interesting part of both the interaction between taxation and oil revenues are the trajectory of transfers and subsidies. Oil revenues and these observe almost identical patterns with budget increases, which confirms that oil is used to sustain policy. Subsidies are maintained, the "substitution effect" between

[103] Oil regular "budgeted" revenues have to be allocated, through the use of a formula, to subnational governments. Extraordinary or unforeseen oil revenues are much more difficult to be demanded, and less transparently and rationally allocated, by the central government's authorities.

taxation and oil revenues widens to the point of being the last bigger in proportion than the first! [104]

Table 4.3.3 Expenditures Composition, percentage of GDP (2000 - 2008)



Sources: (CEPAL 2009)

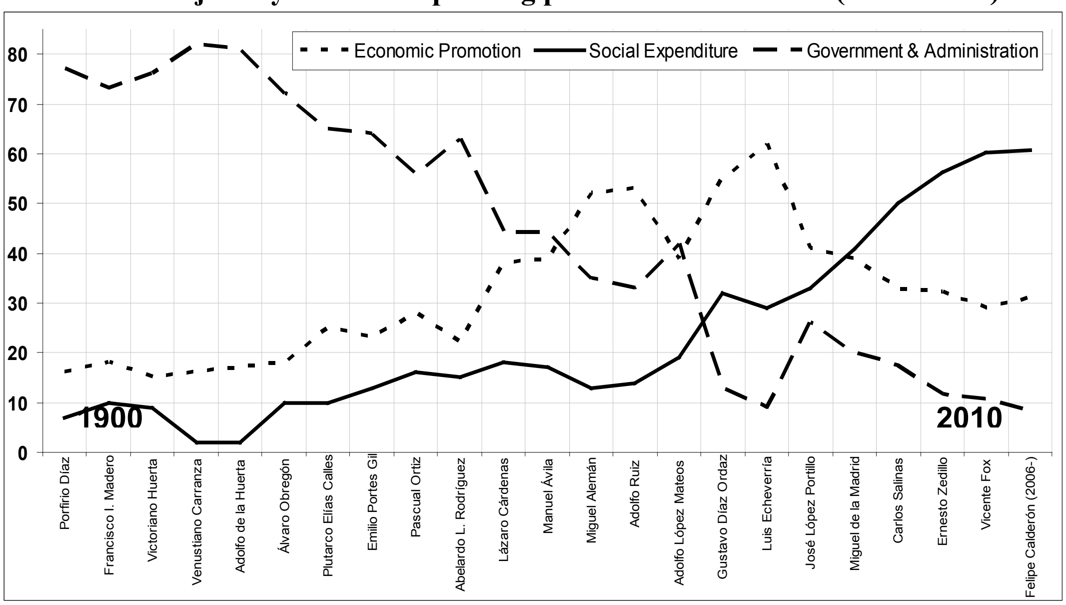
Therefore, rentier budgetary management cannot be easily discarded as a product of myopic, opportunistic, or a circumstantial "policy mistake" which is random. But as a deliberate course of action that is embedded into a structure of self-enforced interests from actors inside and outside the State's apparatus. In addition, the allocation of unexpected oil revenues to current, rigid and "unavoidable" expenditures derives from a technical and institutional capacity shortcoming that it can not be overlooked.

Finally, a larger historical series is depicted in Table 4.3.4. Government and administrative expenditures (i.e. cost of non-sectoral central bureaucracy) do not decrease until the Presidency of Lázaro Cárdenas. One can observe a hike in only two occasions. Once during the presidencies of Adolfo López Mateos (1958-1964) and the other with José López Portillo (1976-1982). Both periods undertook major

[104] Privatization greatly helps the government to keep a positive primary balance between 1990 – 1993.

administrative and public sectors changes. The State's major economic promotion efforts takes place from Cárdenas to the first half of Adolfo Ruiz Cortines (1955), observing a peak during the period of Luis Echeverría (1970-1976). Two clear patterns start with the country's second oil bonanza (1977-1986): the State steadily decreases its effort in promoting economic development and social expenditures importantly increase. The second oil bonanza and the country's entrance to a full rentier policy starts with José López Portillo as economic detachment and socio-political embeddedness continue until 2010.

Table 4.3.4 Trajectory of Public Spending per Presidential Term (1900 - 2010)



Source: INEGI, Sistema para la consulta de Estadísticas Históricas de México, 2009 (Porcentaje promedio de los gastos del presupuesto federal según clasificación funcional, años seleccionados de 1900 a 2008, http://dgcnesyp.inegi.org.mx/cgi-win/ehm.exe/T150, accessed 23 January 2010).

4.4 Delegation, Representation and Budgetary Legerdemain

Which are the broad results of an oil-financed socio-political and budgetary-supported embeddedness? Any State needs to develop specific capacities to survive by legitimizing its power and authority. Mexico is not an exception. Mexico has managed to build a highly politicized and resourceful bureaucracy that is strategically aligned with the regime's ideological and populist elective affinities, its economic shortcomings, and its population's trajectory. It was able to vertically/hierarchically penetrate and centrally coordinate society with controlled physical coercion and violence, but at the same time it *systematically hindered to the most possible extent civil society's genuine capacity of contestation*.

To accomplish these tasks, the Mexican State needed both a strong bureaucracy which enjoyed a strong delegation of public affairs, given the regime's illiberal and undemocratic nature. Key electoral rules, which were part of the authoritarian system served to build a strong delegation of public affairs to bureaucracy. The existence of non-consecutive reelection at all elected posts and the correlation of forces between powers with the Executive vis-à-vis the Legislature, and to some extent the Judiciary also served that purpose.

Many researchers offer the theoretical, analytical, and empirical basis for building the discussion on how delegation takes place between the Executive and Legislature, particularly in the midst of budget approval and execution (Casar 2001; Casar 2002; Cox 1990; Cox and McCubbins 1993; Cox and McCubbins 2001; Cox and Morgenstern 2002; Hallenberg and Marier 2001). The literature which focuses on Executive – Legislature Relations broadly agree that the Executive has many tools to override "or cheat" Congress power (Hallenberg, Scartascini, and Stein 2009; Hallenberg and Von Hagen 1998; Morgenstern and Nacif 2002; Nacif 2002; Santiso 2005; Shepsle and Bonchek 1997; Shepsle and Weingast 1984; Slomianski Marcovich 1998; Sour, Ortega, and San Sebastián 2003; Ugalde 1997; Ugalde 2000; Weldon 1997; Weldon 2002).

Social scientists agree that the Legislature prefers to delegate to the Executive's administrative, management and operative issues and behave more as a control and oversight mechanism (Huber and Shipan 2002). Yet, as the Mexican case clearly demonstrate, the Chamber of Deputies is greatly downplayed due to the existence of an unfriendly institutional context and specific tactics that the Executive uses to downgrade its budgetary/oversight role over public finances and policies.

The predominance of Mexico's Executive power over the Legislature would be impossible to achieve if strong, centralized, discretional and oil-based budgetary institutions were not in place. The Executive' superiority is evident for the Mexican case as, explicitly from 1934 onwards, congressional appropriations had been systematically overridden by central budgetary authorities, these ultimately controlled by the top political leadership of the governing coalition and the President (Cothran 1986).[105] The central Mexican bureaucracy –and more recently all state and local bureaucracies- have enjoyed a high degree of discretional, centralized and *unaccountable* autonomy which has effectively blocked political representation.[106]

Often, Mexico's central budget bureaus downplays expenditure and revenue projections to increase their discretion. They set expenditure ceilings under the realistic level of spending in order to give representatives at the Chamber of Deputies discretion during the fiscal year. This is harmless to the Ministry of Finance. The Treasury deliberately forecasts a lower level of revenues for the budget bureaus.

---

[105] The control of the bureaucracy by the political leadership was not full at all, and Principal-Agent problems prevailed through the extended central public administration Dunleavy, Patrick. 1991. *Democracy, bureaucracy, and public choice: economic explanations in political science*. London: Harvester, Leruth, Luc and Elisabeth Paul. 2006. "A Principal-Agent Theory Approach to Public Expenditure Management Systems in Developing Countries." Pp. 45, edited by F. A. D. a. O. i. E. A. D. a. O. i. Europe: International Monetary Fund, Niskanen, William A. 1973. *Bureaucracy: servant or master? Lessons from America*. London: Institute of Economic Affairs. For specific details on how bureaucrats used their technical knowledge to influence political leadership see Castañeda, Jorge G. 1999. *La herencia: arqueología de la sucesión presidencial en México*. Mexico City: Alfaguara.

[106] I use Schedler's concept of accountability –a self-restraining capacity- Schedler, Andreas. 2004. "¿Qué es la rendición de cuentas?" Instituto Federal de Acceso a la Información Pública, Mexico City, Schedler, Andreas, Larry Diamond, and Marc F. Plattner. 1999. "The self-restraining state: power and accountability in new democracies." Pp. 395. Boulder, Colorado: Lynne Rienner Publishers.

During the budget yearly exercise, they have a discretion to allocate more resources to policies that have been publicly disclosed when the Budget Decree was published.

Lower-than-real budgets generate the impression that they have lower revenues. This leave a degree for the political leadership, the bureaucracy, and organized interests (rent-seekers) to take additional, unexpected, and perhaps more important, *negotiable* advantages to the initial ones. Another, perhaps more technical strategy focuses on the level of aggregation and information that is *allowed* for Deputies to analyze (Farfan-Mares 2008d).

For example, representatives normally earmark their preferences at a high level of aggregation (such as a program), leaving for budgeteers the day-to-day execution micro-management. Micro operations have the potential, from a broad standpoint to override and revert representatives' original appropriation decisions. The differences between the budgeted, the approved, and the effectively spent resources are of significant importance to assess the power of the purse, of both the Executive and the Legislature.

Again, the type of budget institutions that exist within a Rentier State apparatus resemble its non-rentier counterparts in the way that they operate. Yet they have specific features that greatly outpace the appropriate comparisons. As in all bureaucracies, rentier bureaucrats maximize their programs and expenditures to their unique interests (Ayala Espino 1996; Blais and Dion 1991; Findlay and Wilson 1987; Niskanen 1971; Niskanen 1973).[107] Nevertheless, the nature of the Rentier State importantly reinforces the common characteristics of bureaucracies and budget bureaus taking bureaucratic maximization to an extreme.

[107] One of the most evident internal clashes within bureaucracy is the coexistence of highly technical non-rentier with the traditional and rentier type.

Chapter V. The Executive's Legislature Budgetary Discretion

5.1 Introduction

Often, the Executive's technical and policy capacities outpaces the Legislatures. This feature is particularly evident regarding the federal budget. The Executive enjoys a collection of formal and informal rules and institutional capacities which are often superior. How do oil rents affect this relationship? In Mexico oil rents importantly reinforce the Executive's prevalence over the Legislature which are often under the control of the Ministry of Finance.

The Executive's additional budgetary power comes from two features that are produced and reinforced by the presence of oil: centralization and discretion. Budget decisions are centralized within the central budget office and extended through the network of budget bureaus. According to the need of budgeteers, these are governed by rules and regulations which regularly experience many changes. Regulations are often expressed at micro level and are purposefully kept out of the public eye.

The Executive's budget centralization and discretion is the result of crude oil's geographical concentration, its production and prices volatility. Budgetary discretion helps to reduce oil's potential harms to the economy and the spending demands that it provoke. Yet, while these capacities might solve some economic and financial problems, they also serve to subdue the Legislature, cabinet ministries, and varied bureaucratic bodies. Mostly they affect subnational governments which depend on an average of nearly 95% on the central government to finance its activities.[108]

The Mexican Executive uses a variety of formal and informal institutions and budgetary practices of macro and micro-management nature to maintain budgetary

[108] For example, during the last oil boom, subnational governments consistently were less benefited than any other budgetary item at federal level.

discretion. This activity can be empirically isolated by the amount of financial resources which are available during the budget exercise of any fiscal year.

For example, there is a strong difference between the changes that the Legislature makes to the Executive's budget proposal and the changes that take place between the Executive's real or budget exercise during a fiscal year compared with the Budget Decree (an outcome which is the result of the Legislature). The Legislature barely changes the Executive's proposal, while the Executive and particularly the Ministry of Finance greatly changes the amount and composition of budgeted funds as the fiscal year advances.

In all, the Executive manages to maintain its budgetary discretion and is able to cheat Legislators and other bureaus. Data shows that the Ministry of Finance budget always increases compared to other ministries which often suffer important budget cuts during the fiscal year. In addition, budgetary behaviour is no greatly affected by the degree of electoral political competition but it is by the presence of oil rents, as the spending patterns of the Executive during the last boom importantly increases the Executive's budgetary discretion.

Political Science has increasingly focused on the Executive's effective *Legislative* powers. To what extent can the Executive's informal or formal institutional power be used to gain legislators' support for achieving presidential goals? Taking into account that Rentier States finance often kept budgets out of the public eye, processes such as the budget negotiation, discussion and approvals by the Legislature becames discretionary. Often the budget process becomes absolute.

From a budgetary perspective, most studies focus on legal framework that governs the budget (Krause 2009; Stein 1998; Stein 1999a; Stein 1999b; Wehner 2006; Wehner 2007). They seek to determine either the Executive or the Legislature has power of the purse. Often, this literature build indexes based in surveys that focus on specific variables which are pertinent to determine outcomes. These approaches often try to identify strengths and weaknesses and use indexes for comparative analysis.[109]

Other studies analyze the historical and empirical basis of formal and informal powers of the Executive in order to determine whether they correspond institutional capacities (Weldon 1997; Weldon 2002). These often emphasize the importance of the link between the Executive's head and the role of the political party in office (Hallenberg and Marier 2001; Hallenberg, Scartascini, and Stein 2009; Jones 2001; Nacif 2002; Shepsle and Weingast 1984). Lastly, research exists on the Legislature and its institutional devises as major contributors of budgetary outcomes (Allen 2002; Cox and McCubbins 2001; Lehoucq, Aparicio, Benton, Nacif, and Negretto 2005; Poterba 1994; Santiso 2005; Shepsle and Weingast 1984).

The current chapter uses a multidisciplinary approach to assess Executive-Legislature relations regarding the budget. It particularly focuses on how rents might influence this interaction. For such purpose, the analysis uses specific data to identify both powers institutional endowment in order to measure their effects.

5.2 The Executive's Effective Budgetary Power and Centralization

The Mexican State has tried to keep its budget autonomy. Particularly since 1970 the availability of oil rents (1977) were used to "infrastructural power" (Diaz-Cayeros, 2006). Michael Mann has defined this concept as "the product of the usefulness of enhanced territorial-centralization to social life in general … where states are strong,

[109] For example, Fundar, Centro de Análisis e Investigación (México) builds a Budget Transparency Index that is built upon a questionnaire. It has been made for the years 2003, 2005, 2007, and 2009. For details of the index, visit http://www.iltpweb.org/

societies are relatively territorialized and centralized" (Mann 1984: 135). The Mexican State observes a strong territorial and bureaucratic centralization.

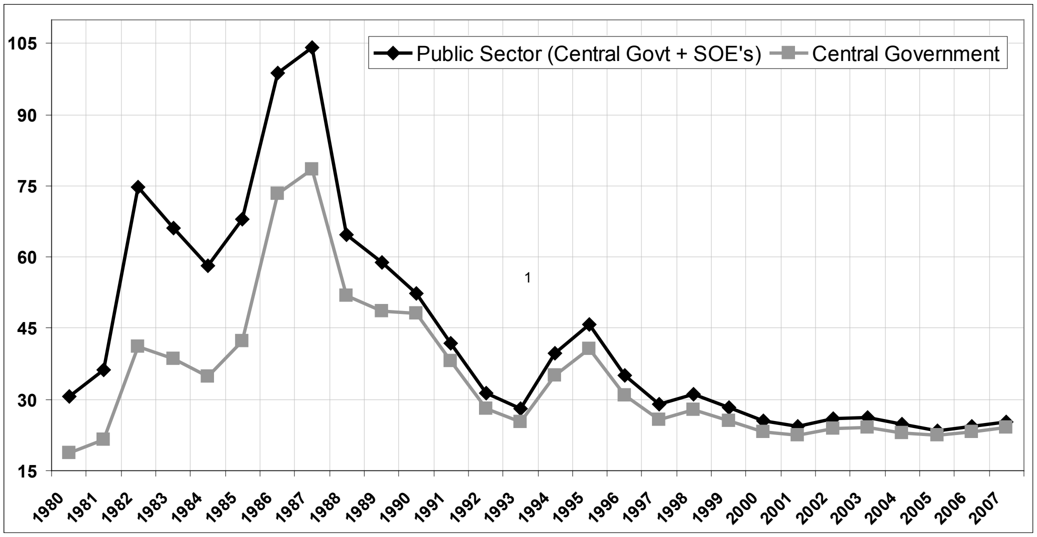
As for most Latin America the Mexican State tends to centralize its functions. Often placing metropolis and former capital of the Spanish territories as the head of the functional and territorial units. According to Mann's definition, this is a different nature. Territorial centralization means political, administrative and to some extent social centralization or nationalization that in all helps to build the Nation-State.

In Mexico, territorial centralization under went a major change when the Fiscal Coordination Law (LCF) was written in 1978 and finally enacted in 1980. It represented an important step towards tax standardization along with political and administrative centralization. Perhaps more important, the LCF symbolized the intent of the central bureaucracy to avert subnational governments which were a potential threat by claiming additional benefits from oil bonanza.

President López Portillo was able to use the PRI national power and oil rents to convince subnational states to give up their taxation capacities and other administrative and political issues (Diaz-Cayeros 2006).[110] In addition, López-Portillo refashioned the central bureaucracy by creating a collection of different institutional devices that resulted into a strong centripetal force for budget decision-making bureaucratic centralization. Mexican budget institutions has achieved impressive results with regards to its debt reference Mexico is now one of the least indebted countries and, as Table 5.2.1 demonstrates, it has accomplished a full control over public debt.

[110] Venezuela observes an almost identical pattern of fiscal centralization when its rentier status begins to institutionalize Diaz-Cayeros, Alberto. 2006. *Federalism, Fiscal Authority, and Centralization in Latin America*. Cambridge, New York: Cambridge University Press.

Table 5.2.1 Mexico's Debt Performance, Percentage of GDP



Source: own elaboration with data gathered by the Center for the Study of Public Finance, Chamber of Deputies, (Centro de Estudios de las Finanzas Públicas, or CEFP) with reported expenditure from Public Accounts (Cuenta de la Hacienda Pública Federal 1980-2007 and INEGI.

Mexico's rentier and centralized budgetary institutions has been to correct income and wealth disparities by extensively using expenditure policy rather than revenue policy. It has tried to address the important problem of poverty and inequality by substituting taxation with oil revenues. To a great extent, Mexico has a highly developed social development program which is internationally distinguished as effective pro-poor policies.[111] The fact that Mexico has delivered an internationally replicated social policy is the natural outcome of oil rents' presence.

The inordinate degree of budgetary centralization and discretion has greatly empowered the bureaucracy which is budgetary-allocative over a taxing-extractive.[112] Since the budget is an instrument of political and social inclusion and regime stability, and oil rents are typically volatile, the Mexican government has systematically

[111] The social development policy framework and anti-poverty programs had been a cornerstone of Mexico's "good governance" or "good practices" in social policy regarding international organisations such as The World Bank.
[112] Mexico is the only country that has created a Ministry or Secretariat (cabinet-level) that exclusively controls programming and budgeting. Although this institutional device lasted from 1976 until 1992, its functions, legal and technical attributions were transferred intact to the Ministry of Finance. These persist until this moment.

worked to centralize decision-making in order to resist any policy reform which could potentially erode the status quo.

Oil rents produce strong (insulated, vertical, and hierarchical) and highly autonomous budgetary institutions. They can exert control internally (inside federal, state and local bureaucracies) and externally from a highly centralized management approach. In comparison with its pairs around the world, the Mexican budgetary institutions have a strong and tight control, monitoring, and output evaluation of all the fiscally financed administrative units.

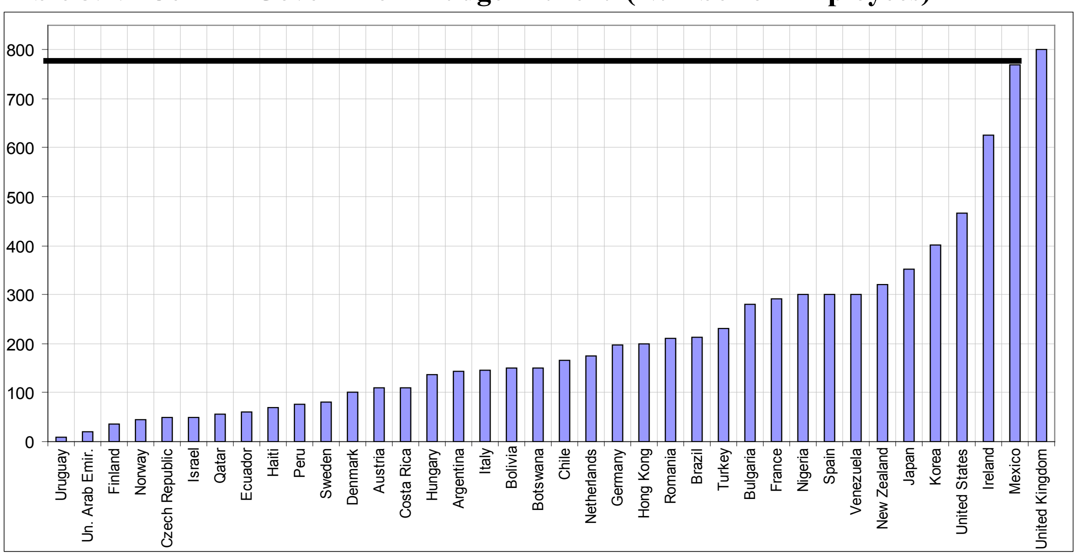
For example, the Mexican central government's budget bureau has almost 800 public servants directly involved in budgetary matters. While the average for the Organisation for Economic Co-operation and Development (OECD) members and other countries is below 100 (Organisation for Economic Co-operation and Development 2008b). This feature clearly reflects the importance of budget bureaus within the Mexican public administration. It needs many individuals which are often not appointed upon a merit-based basis to oversee, monitor, and control budgetary authorization and registration.[113] Since all budget bureaus in Mexico (at federal, state, and local level) work using the same formal and informal rules, as devised by SPP/SHCP, most of the behaviour –and its corresponding rentier policy curse- produce the same outcomes. Mexico's key difference, compared with other countries, is that budgetary authorities do not only devise rules and regulations to deliver budgetary governance, but they directly govern the budget. This is because they have the legal attribution to authorize spending demands, no matter the size or specific nature of an expense. Budget bureaus in other countries produce budgetary macro and

[113] Although the OECD survey does not address the issue of subnational government's budgetary management, there exists hard data which can be used as a proxy that demonstrates that individuals who are entrusted to manage administrative duties during the oil boom at subnational levels had actually mushroomed.

micro management rules as well as produce budget analysis, but very rarely authorize the release/hold of funds (Farfan-Mares 2008d; Farfan-Mares 2009b).

A recently released study by the OECD makes an update to the number of employees assigned to the central bureaucracy (i.e. federal government administration) budget bureau (OECD 2009b). It goes beyond previous research to state that 1,145 individuals work in the central Budget Office thus placing Mexico as the sixth country in the world (n=95) to have more employees devoted for centrally controlling the budget (OECD 2007b).

Table 5.2.2 Central Government Budget Bureau (Number of Employees)[114]



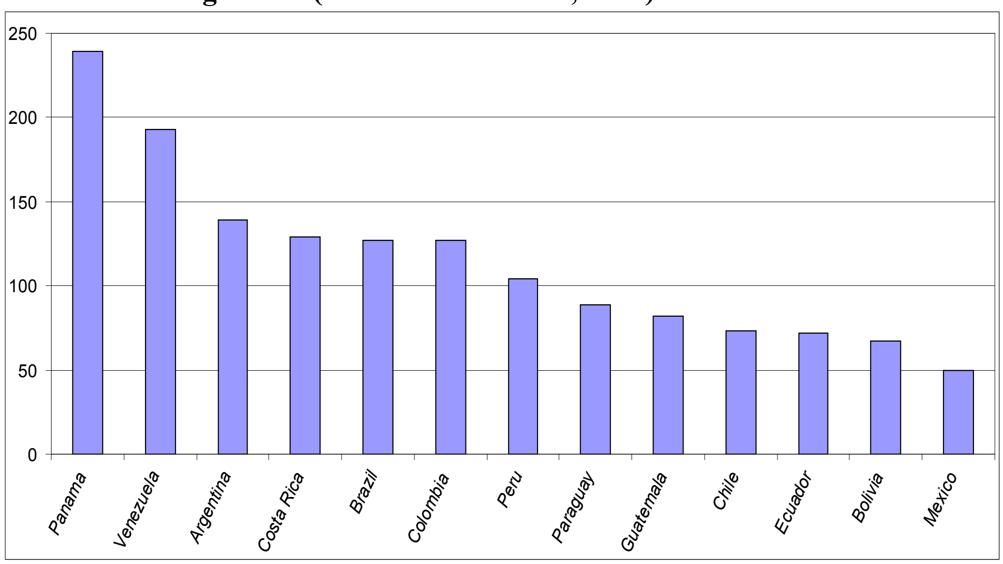
Source: own elaboration and selection from data (OECD 2007b).

Not only human resources but primary and secondary rules and regulations that budgeteers use on a daily basis, but also discretion that derives from a soft interpretation of legal technicalities to justify budgetary decisions. This can be properly assessed by the number of articles of the budget law compared with other countries. The rationale for keeping a small number of articles by the Mexican authorities is consistent with the great reliance that budgetary authorities have on

[114] For presentation purposes the other 10 countries which originally ranked first were discarded.

micro-management and secondary regulations to assure a high degree of discretion and opacity (Krause, 2009; Organisation for Economic Co-operation and Development 2008b).[115] Broad, abstract, and general guidelines greatly benefit budgetary authorities to devise rules and regulations that have a strong impact on budgetary outputs, such as measures to increase or decrease, upon a centralized management, of budgets.

Table 5.2.3 Budget Law (Number of Articles, 2005)



Source: own elaboration and selection from data (OECD 2007b).

Often, countries that "micro-manage" the budget create a series of secondary norms that govern budget allocation but that strongly influence policy outputs and outcomes. Mexico's budget bureaus have a strong tradition of generating various rules and regulations which are often changed on a yearly basis for the administrative units and ministries to design and operate expenditure policy. For example, Krause develops an index of macro and micro-management where Mexico out of a sample of 50 countries stands out for having the most centralized micro-management feature for

[115] Based on anonymity, several interviews conducted among high-rank officials at budget bureaus both at the Federal and Mexico's City Ministry of Finance confirmed these insights.

the budget (Krause 2009). Therefore, a law leaves an ample degree of space to interpret what is the best interest for the public administration, leaves Congress and other checks and balances out of the decision making process.

Another important determinant of Executive-Legislature relations from an ex-post basis is whether the first is constrained by the second during fiscal year. Outstandingly, the Mexican budgetary authorities are the only ones, compared with its Latin American counterparts to enjoy a free over hand of expenditure reallocation.

Table 5.2.4 The Central Budget Authority has the power to …

COUNTRY	Reallocate expenditures	Is Legislature approval required for this change?
Argentina	Yes, with restrictions	No
Bolivia	Yes, with restrictions	Yes
Brazil	Yes, with restrictions	Yes
Chile	Yes, with restrictions	No
Colombia	Yes, with restrictions	Yes
Costa Rica	Yes, with restrictions	Depends from specifics
Ecuador	Yes, with restrictions	No
Guatemala	Yes, with restrictions	Depends from specifics
Mexico	**Yes, without restrictions**	**No**
Paraguay	Yes, with restrictions	Yes
Peru	Yes, with restrictions	Yes
Uruguay	No	Yes
Venezuela	Yes, with restrictions	Yes

Source: own elaboration and selection from data (OECD 2007b)

Another important feature of Mexico's budgetary management is the issue of extraordinary or supplementary spending and authorization by the central budget office. Table 5.2.4 addresses this important feature by comparing the country with other cases. Mexico outstands in the list for not having restrictions or the need for the Legislature's approval for authorizing expenditures which were not originally included at the Decree. In sum, the Mexican budget bureaus have the power to authorize additional spending or reallocate (change its composition) almost without any other control rather than bureaucracy itself.

5.3 The Logic of Executive-Legislature Relations within a Rentier State

Which is the logic behind Executive-Legislature relations within an oil Rentier State? The literature which emphasizes the Rentier States and the resource curse rarely discusses the State apparatus. Moreover, in-depth public administration studies often ignore the importance of other actors different from central bureaucracies. Since most of oil Rentier States are authoritarian or not genuinely democratic (only two countries can be considered as democracies in oil rich States: Mexico and Venezuela), most authors assume that there is no point in looking at the relationship between the Executive and the Legislature. This is specially since the first fully controls oil and will surely prevail over the second.

It is important to analyze the existing relationship between these entities. Finally, as the Mexican case demonstrates, even in the case that the country is under a full authoritarian or hegemonic party system, the Legislature serves as a mean to channel the system internal demands. Also particularly recently it also manages the subnational governments preferences. As expected, in a Rentier State non-organized interests and citizens are largely ignored at budget design and implementation.

Mexico's Executive-Legislature relationship demonstrates, despite the many strategies that the first uses to override the second, that the Legislature does not act as a rubberstamp of the preferences of both the political and bureaucratic leadership. Mexican Deputies had profusely discussed and modified budgets for the most part of the twentieth century. Contrary to available studies which often discard its power to allocate the budget (Casar 2001; Casar 2002), legislators had remained consistently active.

Throughout Mexico's long-lasting authoritarian regime and its recent arrival to democracy, it has always incorporated oil rents into State's budgets. The percentage and composition of oil revenues are disclosed within the context of the Revenue Law Executive's negotiation with Congress Revenue Law, *Ley de Ingresos de la Federación*, (LIF). The corresponding expenditures allocated to produce oil revenue are placed within the Budget Decree, *Presupuesto de Egresos de la Federación*, (PEF). In the period 1970-2009, the revenues that Pemex generated were publicly disclosed and these were taken in consideration when the LIF was negotiated. Also Pemex budget was publicly disclosed at PEF and all the details of investment decisions were comprised by Public Accounts (Cuenta Pública de la Hacienda Federal, CPHF).

While revenues are considered by the two chambers that integrate Congress (Higher Chamber, Senators; Lower Chamber, Deputies). They can be considered a law. The budget is analyzed only by Deputies and therefore, it constitutes a decree, i.e. it is not strong as a law and it is not mandatory.[116] The legal status and the institutional involvement of both revenues and expenditures means that the first is more stable and rigid (taxes are specific and fixed) and represents a broader institutional agreement (both Senators and Deputies vote). The second is more flexible and reinforces the role of the Executive Power since Senators do not participate in resource allocation. In other words, while Revenues have two veto points, the budget has only one and greatly benefits the central government for increasing budget discretion. This was originated by an earlier stage of the Mexican

[116] There is a whole legal debate on whether a Law has the same hierarchy as a Decree, where the latter is considered merely an administrative and not a legal act which benefits the Executive over the Legislature.

State design as Ochoa Reza has pointed out began in the nineteenth Century (Ochoa Reza 2007).

While both chambers are entitled to approve the LIF, only the Chamber of Deputies can discuss and approve the PEF.[117] As the Constitution states, only initiatives discussed by both chambers can be turned into law. Therefore PEF is just a decree both the LIF and the PEF apply to one fiscal year only.

Deputies are legally empowered to examine, debate, and approve the budget as is mentioned by Article 74 of the Constitution. Only until recently there was no explicit mention of the power to amend the budget.[118] This power is established at Article 22 of the Law on Budget, Accounting and Federal Public Expenditure (*Ley de Presupuesto, Contabilidad y Gasto Público* (or LPCGP) from 1979, as amended on 21 December 1995), which and allows the legislature to reduce the budget, amend its composition, and even increase the budgetary ceiling, only if finds another way to finance the additional expenditure (IMF 2002: 9).

The first problem deputies face is a time constraint. According to law they have from November 15 to December 15 of each year to receive, read, analyze, propose, discuss, amend, and vote to approve the PEF. This was recently changed, since the *Ley Federal de Presupuesto y Responsabilidad Hacendaria*, LFPRH was passed in May 2006 to give more time for the Legislature to discuss the Executive's budget proposal. This new Law gives them almost 2 months and a half.

The Mexican Deputies have a disproportional short time period compared with the Executive's to renew the budget. Moreover, due to the extremely difficult coding

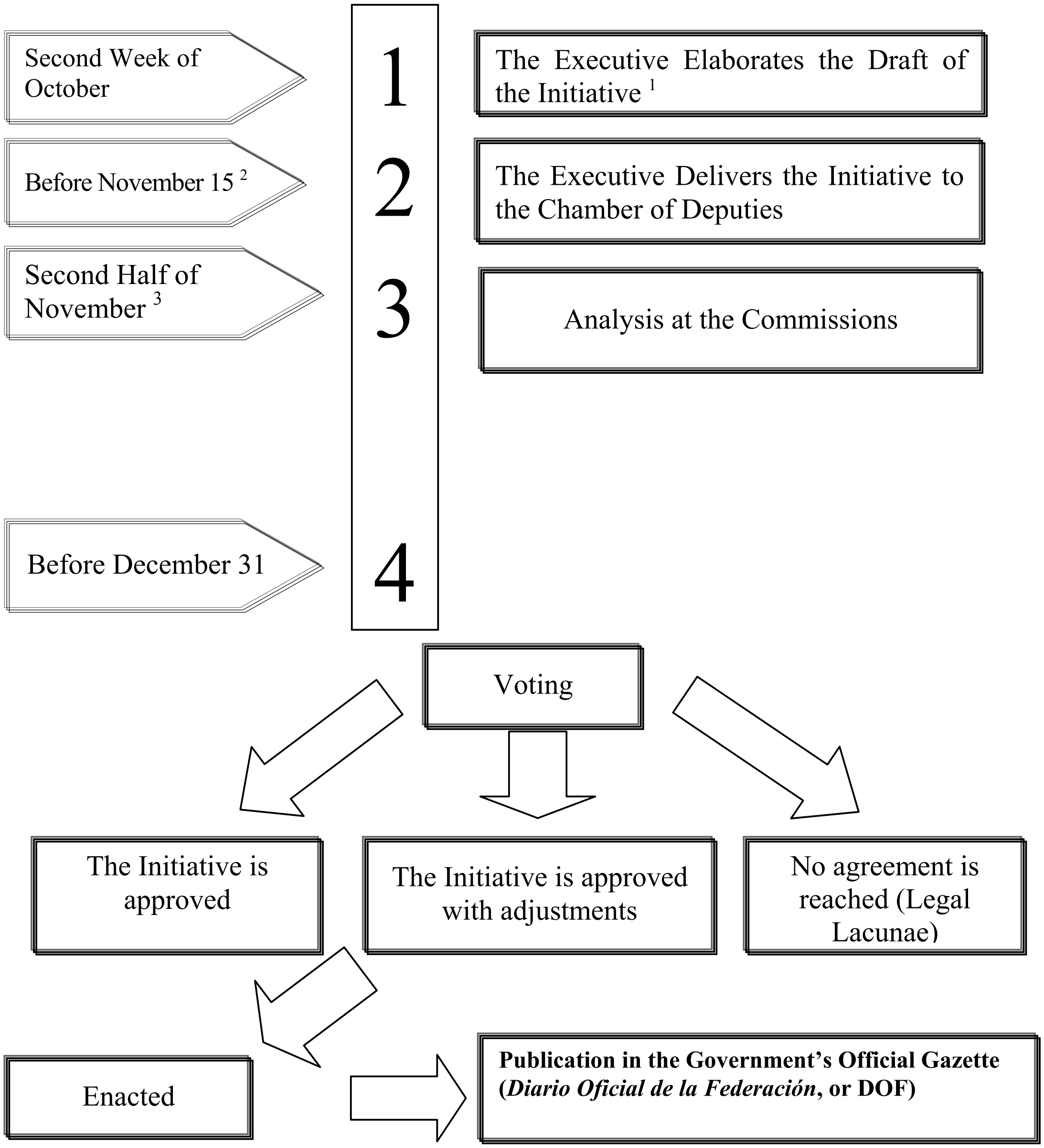
---

[117] A constitutional reform made in late nineteenth century Mexico (1874) –a awkward feature since in most countries both chambers of the Legislature power participate in the budget approval, left the faculties on the budget only to the Chamber of Deputies. The re-instauration of the bicameral system from a unitary left the spending attributes of both Chambers only to Deputies.

[118] The legal lacunae and the broad and aggregate nature of the Law actually generated a problem in 2005 since Deputies began substantially changing the Executive's proposal to the point of asking the Supreme Court to intervene in order to solve the controversies between both Powers.

and organisational format (IMF 2002:21) they depend, especially on spending decisions and financial ceilings, on the "generous and transparent" will of the Finance Secretariat officials. In words of a recent report on the Observance of Standards and Codes on fiscal transparency released by the International Monetary Fund, "the budgetary information as currently presented offers neither the benefit of a database that expert users can process nor the simplicity that would meet the needs of users seeking more aggregated information" (IMF 2002:26).

Diagram 5.3.1 Federal Budget Calendar



1. The Initiative is regarded as Federal Expenditure Budget (*Presupuesto de Egresos de la Federación*, or PEF); 2. When the new administration enters, the maximum limit to deliver the Initiative is December 15; 3. Recent changes, according to the recently introduced Budget Law (2007) orders the Executive to submit its Proposal to the Chamber of Deputies by September 8, and orders Deputies approve it 15 November of each year. Note: Diagram based on (Fundar 2001b).

Not only time constraints, but also the Executive's strategies reinforce the power of budget authorities over the Legislature. For example, during the discussion that took place for the Fiscal Year 2003, some deputies complained that SHCP was deliberately setting a lower price per oil barrel to then use the additional revenue during the following year to allocate resources without taking them in consideration . Deputies simply set the price higher from $17 to $18.35 USD dollars per barrel, which added an additional 13,000 millions of pesos to the budget most of which was appropriated to support States (Ramo 39).[119] Although there are clear rules to allocate any additional revenue the federation has, this small event clearly signalled how, in the past, the Executive used any means to achieve its initial spending plans.[120]

This "strategic" behaviour on the side of the Executive is actually an important factor not to be underestimated. It shapes the ways deputies' can influence public spending behaviour. The other major issue regarding the "budgetary power" over the public purse by the Chamber of Deputies is its weak institutional condition. There is a whole discussion on how the non consecutive reelection rule seriously weakens the capacity of Congress as a whole, particularly Deputies capability to play a decent role in public spending policy decisions (Ugalde 2000). As Slomianski, reflecting the complaints from the Executive's of Congress incapacities states,

> "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 … Officers and former officers of the Treasury [SHCP] 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 … it represented an all-out political struggle to generate opposition, show discontent, or simply be heard" (Slomianski Marcovich 1998:6).

Aside from technical difficulties or politically biased opinions, the congressional system lacks key factors that directly affect Congressional performance. Congress lacks professional and expert body of advisors, who can remain in office

[119] Milenio Diario, January 2003.
[120] A detailed analysis of public finances (revenues, budgeting, and spending) would be made in the chapter devoted to the economic dimension of the budget process.

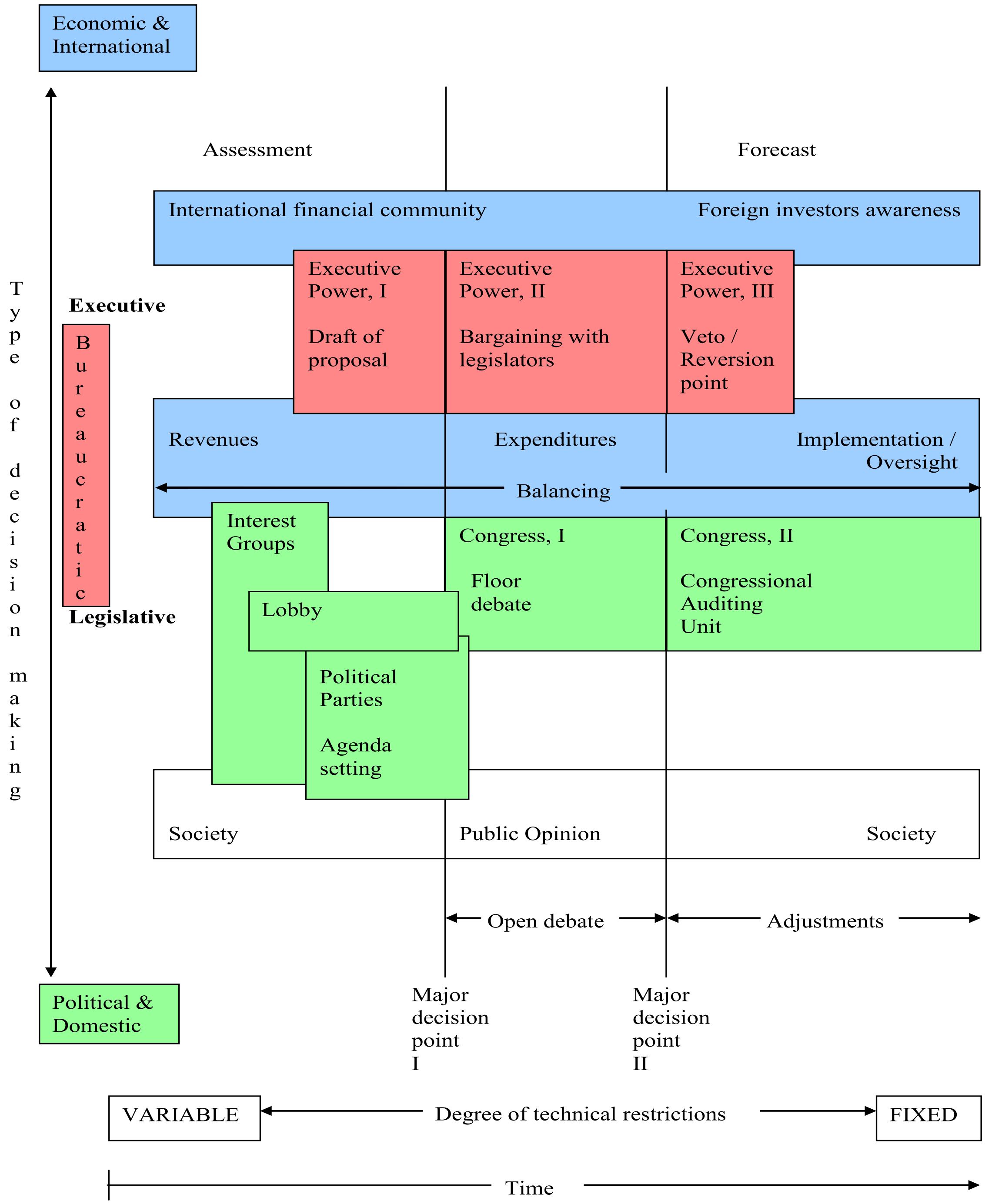
independently of who is elected. Although the Congress has moved consistently in recent years to shape a kind-of congressional civil service. The second aspect that clearly affects congressional leverage over the executive's is oversight, accountability, and transparency capabilities which only recently the Congress has taken seriously.[121]

The transition between the 1977 General Accounting Office (*Contaduría Mayor de Hacienda*, or CMH) to the 2000 Top Accounting Office (*Auditoría Superior de la Federación,* or ASF), still has to be understood and assessed. It is worth noting that the document (*Cuenta Pública*, or CP) that assesses the real spending for the FY 2002, which was discussed in Congress in December of 2001 was released by the Secretariat of Finance at the first days of June 2003. The ASF audits would not be made public with any misappropriation or inefficient public spending until March 2004. This means that the effective assessment of decisions taken in December 2001 would not be accessible until March 2004, making prosecution of any moral hazard highly difficult and politically futile.[122]

Diagram 5.3.2 depicts the macro institutional features of budgetary governance. The most important powers involved are the Executive and the Legislature which are constrained by interest groups, lobby firms, and political parties. Rents greatly affect all the features of budget governance introducing volatility, uncertainty, and other different management challenges. These features oblige the State to adapt institutions, depending on the existing degree of policy manoeuvre to be implemented.

[121] The Fox administration has clearly made significant advances creating a Law that rules public and transparent access to government's information and data.
[122] For analytic purposes it is important to encompass this process with the way electoral rules work: under the current system (where consecutive reelection is not allowed), deputies who took a "bad" or unpopular decision can not be blamed or penalized.

Diagram 5.3.2 Macroinstitutional Features of Budget Governance



Source: own elaboration.

5.4 The Budget Behaviour under the Rentier Era

Oil rentier budgetary institutions play a very special role vis-à-vis the Legislature. As it has been described earlier, the political leadership, the central bureaucracy's organisational features, and many legal and technical tools are on its side when the issue of budget control and discretion can be potentially reduced. This section identifies five features that greatly explain the relationship between the two regarding budgetary policy: 1. To what extent the Executive manipulates the integration and delivery of its Budget Proposal (*Proyecto de Presupuesto de Egresos de la Federación*, or PPEF) clearly, to its advantage; 2. How the Legislature finds great difficulty in revising, analyzing, discussing, and modifying the PPEF; 3. How the Executive greatly modifies and effectively overrides Congress initial mandate legally binding by the Budget Decree (*Decreto de Presupuesto de Egresos de la Federación*, DPEF); 4. How politics (midterm and general elections, i.e. electoral cycles) greatly affect Deputies appropriations and Executive's budgetary exercise, and finally, 5. How authoritarianism and the transition of democracy does not importantly affect budget governance.

5.5 Executive's Budget Proposal

The Executive's Budget Proposal is integrated by the central government's budget bureau. From 1976 until 1992, it was the main mandate of SPP and of the Subsecretaría de Egresos, or SSE (Undersecretariat of Expenditures), which was, after SPP's disbandment, placed within the organisational structure of SHCP.

The design and integration of the Executive's budget proposal starts early in the year and it is submitted the first days of September. Before 2007, the budget's deadline for delivery to the Chamber of Deputies was November 15. A much more reduced time for Deputies to oversee the Executive's budget proposal. SSE can manipulate the rules and regulations that govern the budget prior to its arrival to the Legislature. It can change the composition by registering expenditures into different items in order to hide new or extraordinary expenses. Since SSE controls the budget classifications as well as the different methodologies for allocation (Guerrero Amparán 2002; Guerrero Amparán and López Ortega 2000a; Guerrero Amparán and López Ortega 2000b; Guerrero Amparán and López Ortega 2000c), it can also change the expenditures composition to reflect more social expenditure or public investment, or less administrative costs as it likes. It has a wide degree of legal and technical discretion and information to magnify or downplay a specific item.

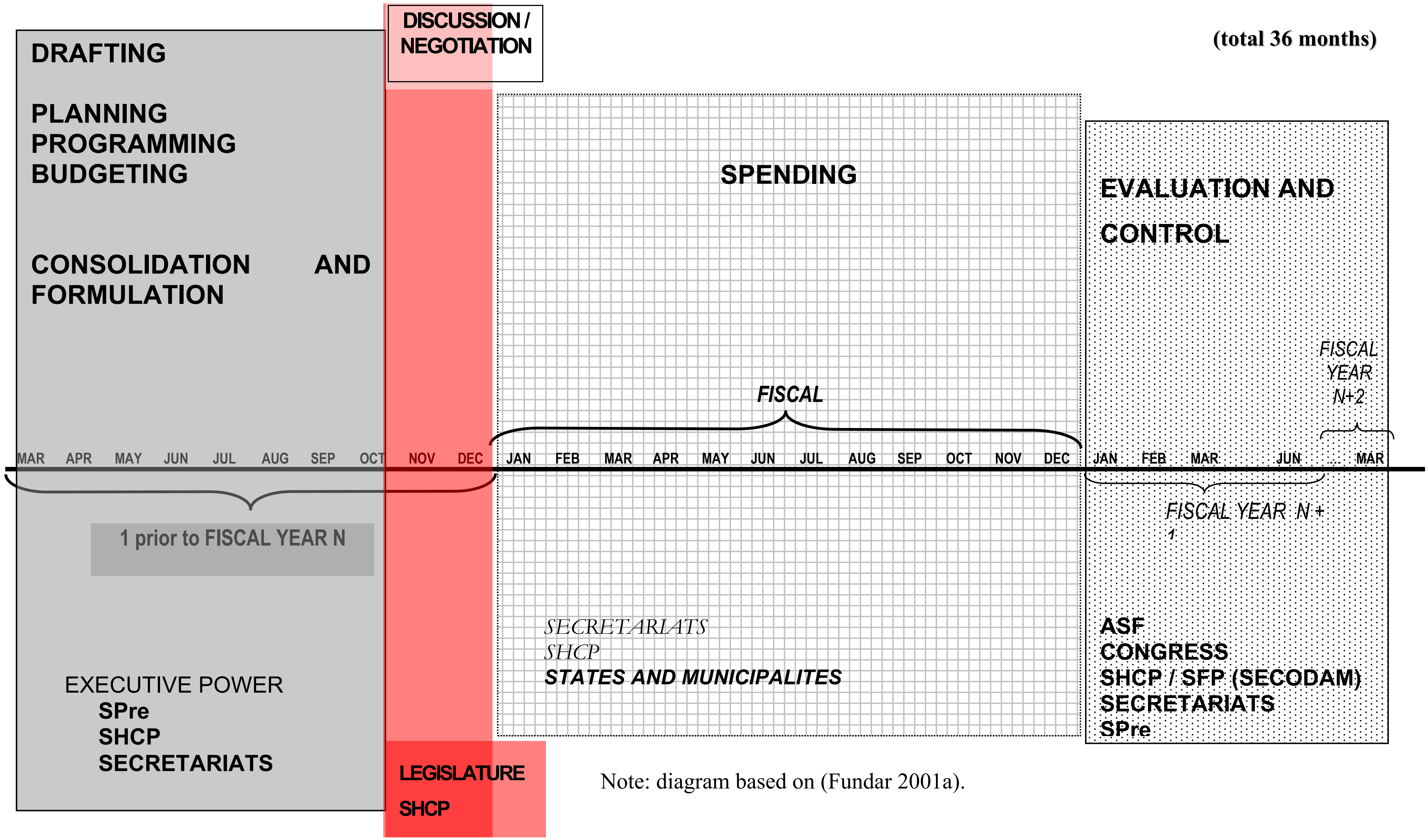
The Executive might also modify specific cash flows (*partidas*) or institutional activities (*actividades institucionales*) which are the smallest aggregation of the administrative budget. Both measures and the concepts can be hidden or exhibited, depending on which incentive is behind a particular issue of interest. Budget guidelines for designing and integrating the budget are centrally controlled and they are sent to all the administrative units at all levels of the bureaucracy to allocate budgetary funds each year.[123]

Each fiscal year, between March and July, all the administrative units begin negotiations with the Ministry of Finance. This is an exercise of calculating revenue, expenditure, and debt for the internal authorities to build the indicators that the administrative units use to build their budgets. The most important indicator that is negotiated between August and September are the expenditure ceilings (*techos de gasto*), which are also communicated by the central budget bureau to all the administrative units. This information is the foremost indicator for the administrative units to start crafting their budgets. From September to November spending ceilings are used to determine how the budget will be allocated.

---

[123] In all, it does not matter much how many aggregation levels the budget has since the SSE and all the budget bureaus along federal and subnational governmental administration have the power to change, without having to inform any other actor within or outside the Executive, which changes and the reasons behind those changes, in fact govern the budget.

Diagram 5.5.1 Executive Budget Calendar



Note: diagram based on (Fundar 2001a).

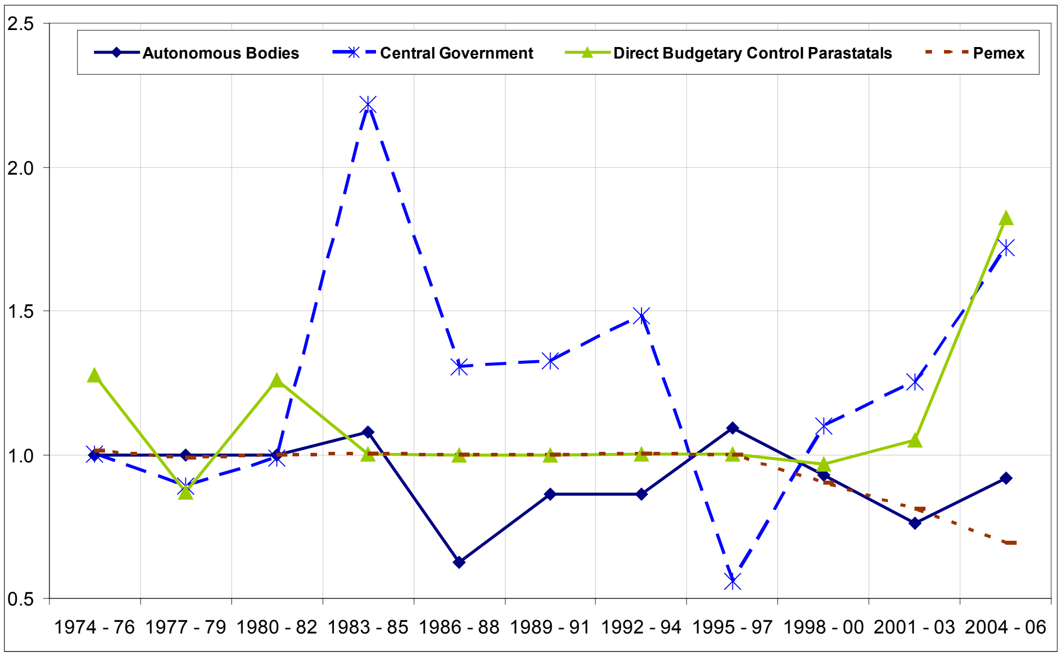
Finally, the Ministry of Finance integrates all the administrative units' budget proposals into a single document that is sent to the Chamber of Deputies. Nevertheless, the SSE, through the Ministry of Finance (MoF) can give Deputies several indicators that might importantly bias their discussion. For example, the MoF can underestimate the oil price first in order to assure balanced and more realistic budgets. Perhaps more importantly, the process allows the Chamber of Deputies to cheat since a lower and underestimated oil price provided by the SSE, during the following fiscal year allows the central budget a much larger degree of discretion. This issue is particularly important during oil booms since price volatility with an upward trend is common. Another way to assure an enhanced budgetary discretion is to underestimate economic growth, since this indicator directly affects taxation to the private sector.

In general, the President's broad strategy is to assure that Deputies proposed changes will be inconsequential or minimal. The President, through the office at SSE, might also send either a more aggregate or more disaggregated budget, depending on its intentions. These might want to deliver a large amount of highly disaggregated information in order to overshadow political representatives and make it highly difficult to build an alternative proposal. The SSE might send a highly aggregated information in order to hide sensitive information from Congress. Given the poor institutional capacities of the Chamber of Deputies, which will be addressed later in this chapter, these strategies are highly effective.

Table 5.5.2 reflects the proportion of budget deviates from original targets. Despite the fact that this represents a very aggregate level it is worth noting that representatives tend to modify the Executive's budget proposal either in authoritarian times. This is when the President had a full control of the budget. Yet, since 1997, when the PRI lost the majority in the Chamber of Deputies, the budget retained its primary structure as proposed by the President.

The following Table addresses the preference deviations of each Legislature (each 3 years).

Table 5.5.2 Difference Between Executive's Proposal and the Legislature Budget Decree (Standard Deviation)



Source: own elaboration (Standard deviation = r^2) with data from Executive's (Ministry of Finance) budget proposal and data collected from the Chamber of Deputies Budget Decree (Diario Oficial de la Federación, Presidencia de la República)

The purpose of including Table 5.5.2 is to underscore the importance of identifying and measuring the benefit from a discretional budget. As it can be observed, the central government, parastatals and public enterprises have seen important changes at their budgets during the fiscal year' expenditure exercise. These changes or deviations include only the period between the President's budget is submitted to the Chamber of Deputies and is printed by the corresponding Decree. This table *only* depicts the degree of influence of the varied actors during the budget discussion.

5.6 Legislature Budget Discussion and Approval

The Mexican Legislature has many features that greatly reduce its effective power over the Executive. Regarding a particularly technical issue such as the budget, but also the existence of the no-reelection rule, and an extremely generous electoral system (proportional representation exists in both Chambers), there are also low retention of employees between both the Executive and the Legislature. Furthermore, there is an absence or substantial weakness of a budgetary Legislature body, the strong presence of the Budget Committee within the Chamber, and the high discipline of representatives that come from political parties leadership. That also includes the party's fraction leader (*líder de la fracción partidista*). Finally the presence of interest –rentier- groups among governors and local authorities all are great obstacles for the Legislature to build an effective and consistent power vis-à-vis the Executive.

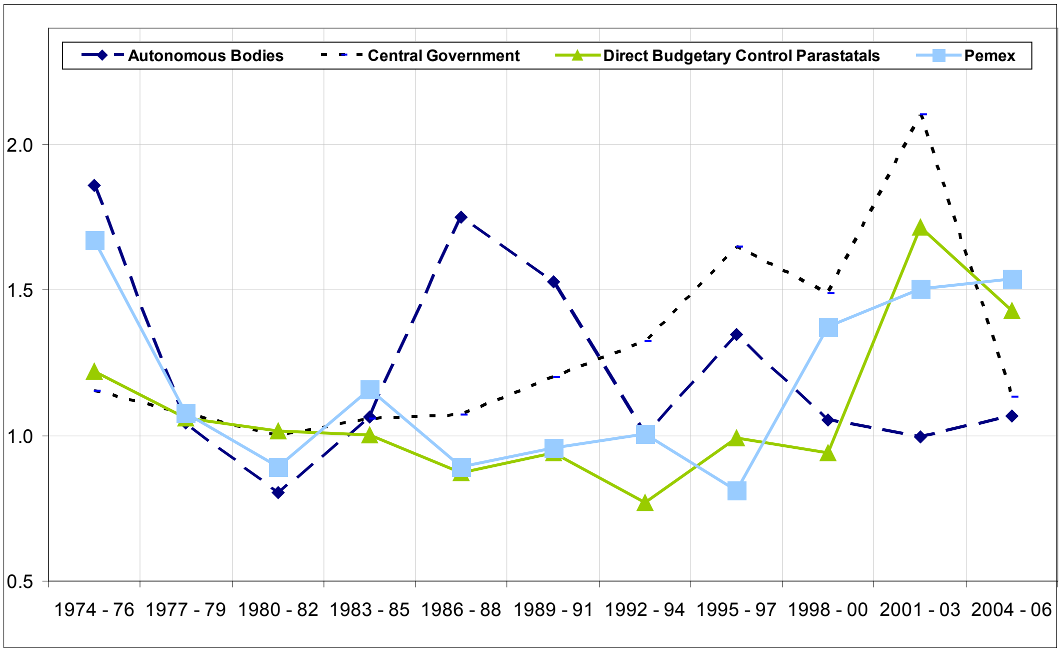
Although these elements have specific effects over Legislature's capacity over budget policy, in general, they also create an institutional context which is not conducive for a parliamentary career. Most representatives begin learning how the budget works from scratch. When they are able to practice an effective and productive role, Legislators begin to move to their next political appointment. Therefore, the Legislature has unfriendly structural conditions to constitute an effective check and balance over the President's budget. In addition, the legal framework that governs the budget makes Deputies policy incidence very difficult. Compared to 11 months that the President has, Deputies only have a month to analyze, discuss, and propose changes. Also the information asymmetry between these powers is extensive. The President is the only one that produces and integrates budgetary information. No other entity produces such information, not even the national statistics office (INEGI) or the central bank (Banxico).

These institutional features cannot be directly attributed to the presence of oil rents but the historical Executive's predominance over the budget, which can be attributed to oil's centralization effect. The presence of a strong, centralized, and discretional budget make Deputies inconsequential for budgetary management since they focus more on very aggregate information. For example, the total amount of expenditures rather than specific and detailed budgetary items.

Compared with the difference between the President's proposal and the Legislature's decree, is much more accentuated than what is actually spent. The most interesting thing of these differences is that the Executive tends to modify the benefits and leaves autonomous bodies and parastatals without any real gain.

Table 5.6.1 denotes the Executive's greater control over discretionary spending compared to the Legislature. Independently from oil bonanzas, the executive power has managed to exert more budgetary *effective* discretion over the budget. The word *effective* is used since the following Table presents the standard deviations between the Decree and what was the effectively spent, or reported budget. Clearly, effective budgetary discretion benefits the central government almost as a rule, at the expense of autonomous bodies which includes the Legislature.

Table 5.6.1 Difference Between the Legislature Budget Decree and the Executive's Effectively Spent (reported) Budget



Source: own elaboration (Standard deviation = r^2) with data from Executive's (Ministry of Finance) budget proposal and data reported from Public Accounts by the Executive (Cuenta Pública de la Hacienda Federal, SHCP)

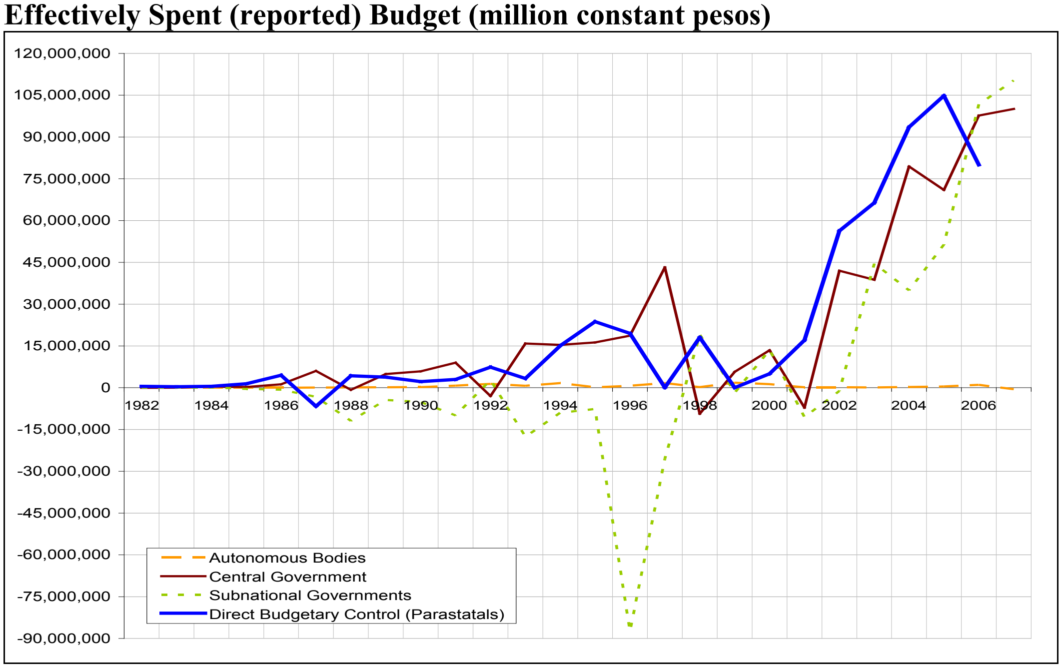
5.7 Executive Budget Management

Each year the Executive's proposal and the discussion and Decree obtained from the Chamber of Deputies are published on January 1st. This Decree contains very aggregate information that provides the Executive with a highly flexible budget. For example, instead of tying public money to a specific item or economic classification, the Decree establishes a specific amount of resources allocated to a program or major project. This is an aggregate budgetary item that can be greatly changed during budget execution.

The legal mandate that obliges the Executive has almost no consequences. Specially since, in addition to what has been described above, the SSE has the power to increase, decrease, or exchange the existing budgetary items, no matter what the original aggregation was allegedly defended as balanced budgets. The SSE can take away budgetary resources already allocated. It does so in order to avoid the possibility that administrative units do not use the allocated resources.

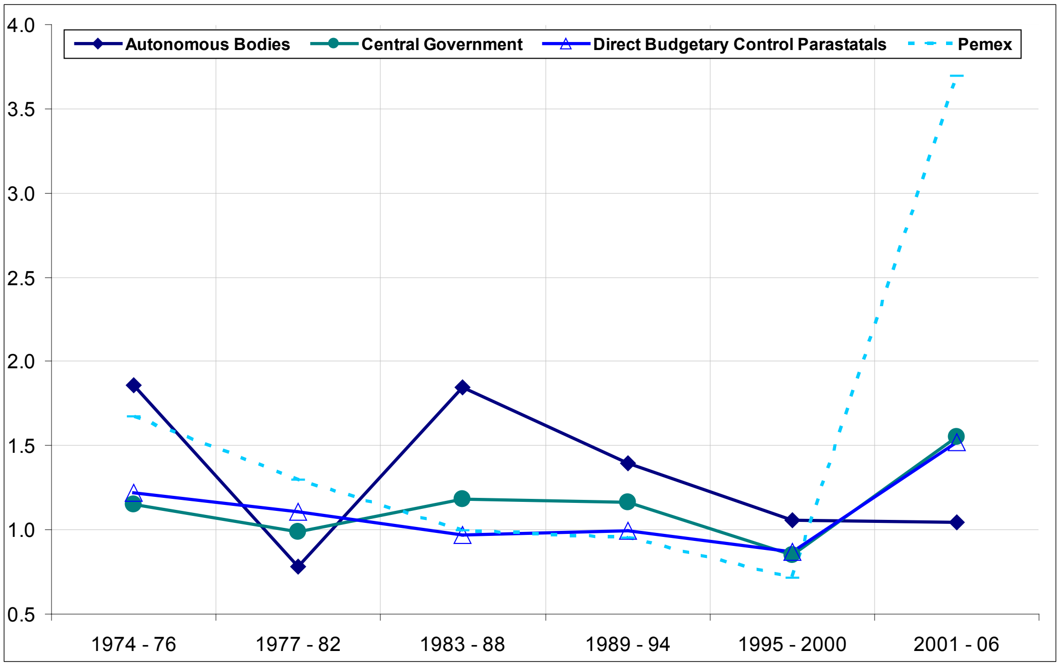
The fact *that Executives greatly change not only the composition but the size of the budgets, greatly deviates from its original and proposed trajectory. This is most notable particularly during oil booms*. This is evident when reviewing the trajectory of the budget items allocated to autonomous bodies, which are virtually not changed from the original ceiling. The central government's budget, (which was greatly increased during the recent oil boom as were the subnational governments, and finally, the direct budgetary control parastatals. This trend is evidently linked to oil rent abundance. Table 5.7.1 calculates the simple arithmetic operations as a percentage of real change of the government's total expenditures during recent years. The higher oil prices and higher degrees of politico-electoral competitiveness coincide with the greater degrees of budgetary discretion.

Table 5.7.1 Difference Between Legislature Budget Decree and Executive Effectively Spent (reported) Budget (million constant pesos)



Source: own elaboration (percent of change) with data collected from the Chamber of Deputies Budget Decree and data reported from Public Accounts by the Executive (CPHF-SHCP).

Table 5.7.2 Executive's Effectively Spent (reported) Budget per Presidential Term



Source: own elaboration (Standard deviation = r^2) with data from Executive's (Ministry of Finance) budget proposal and data reported from Public Accounts by the Executive (Cuenta Pública de la Hacienda Federal, SHCP)

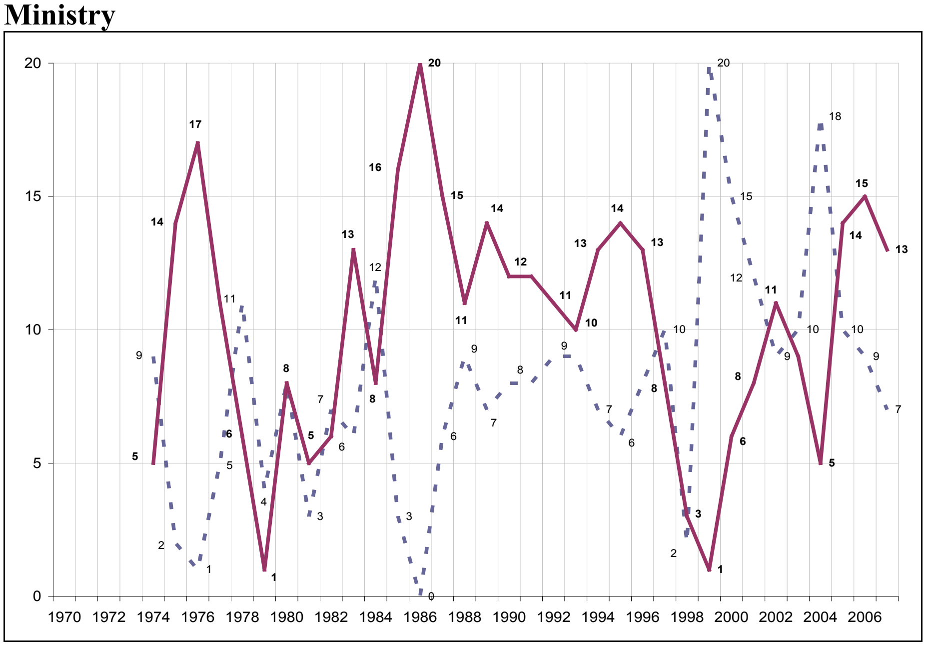
As the above Table depicts, the availability of rents and an increasing challenging political atmosphere translates into a substantial increase in budget change. It can be argued that an increase at federal political competition, for example when the PRI losses the majority in the House in 1997 and the Presidency in 2000 and when subnational opposition parties hold the federal government, there is the most powerful drive behind the budget change. But the availability of oil rents as well as the standard institutional power of rentier-based budgetary institutions also play a role.

This brings us to the final variable to describe and analyze: The Executive and Legislature performance under authoritarianism vs. a democracy. Traditionally, conventional wisdom and some researchers argue that when there is a unified government there is more consensus to define budgetary allocation (Poterba, 1994) as it was the case for the PRI during its authoritarian rule for more than 70 years. This controls the destinies of governors and mayors at state and local level. In principle, there was no incentive to expect a change the Legislature discussion and analysis of the President's proposal, *Proyecto de Presupuesto de Egresos de la Federación* (or PPEF) (Casar 2001; Casar 2002; Weldon 1997; Weldon 2002).

Nevertheless, qualitative and quantitative analysis of Deputies behaviour and Decree's changes with respect to the PPEF tells a different story. Not only did Deputies changed the budget during the PRI authoritarian rule (1970-1997), but Deputies behaviour maintained the same practice, despite the country's political changes.

For example, taking into consideration the change of administrative unit or central government bureaus (*Ramos*), Deputies behaviour did not change radically. Moreover during authoritarian times, Deputies tended to increase the President's proposal. The divided governments tended to "punish" back more and reduce the central government's appropriations.

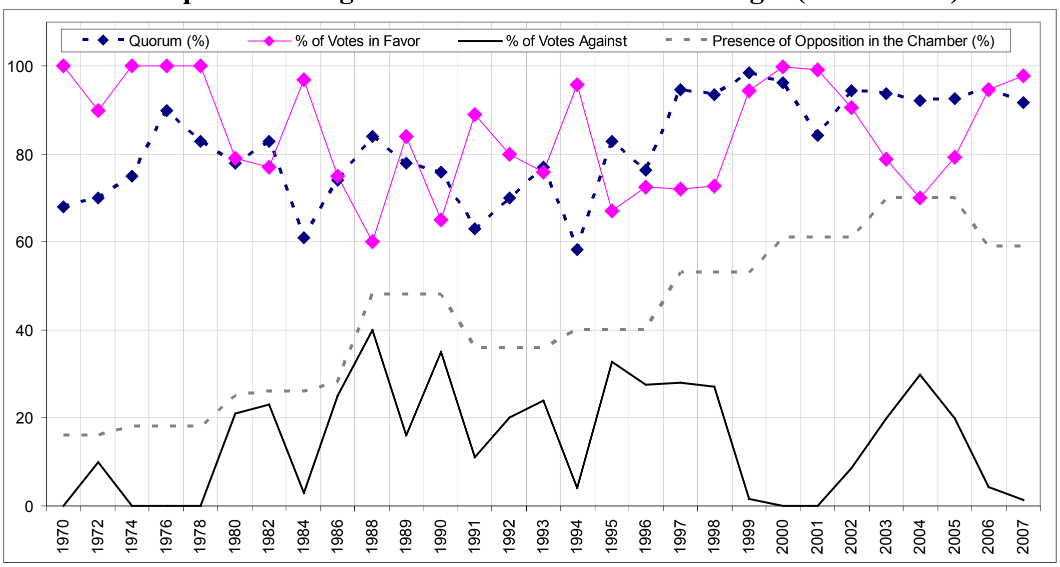
Table 5.7.3 Budgetary Increases (continuous line) and Decreases (dotted line) per Ministry



Source: own elaboration and calculation (real increase in central government's cabinet expenditure) with data from Public Accounts by the Executive (Cuenta Pública de la Hacienda Federal, SHCP). Ramos, Executive Proposal vs Legislature Decree, information not available from 1970 until 1973.

A second method to measure Deputies' behaviour on the floor is to see its voting pattern for 1970-2008. While there is a tendency to participate more when quorum observes a growing trend, votes were the same under unified or divided governments. This is despite the fact that the presence of opposition in the Chamber is clearly bigger.

Table 5.7.4 Deputies Voting Behaviour on the Federal Budget (1970 - 2008)



Notes: Year – Reflects the year when the previous discussion to the Fiscal Year took place. Quorum – 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. % of Votes – Percentage with respect to the quorum at the time of the vote. * *Source:* (Slomianski Marcovich 1998: 7)

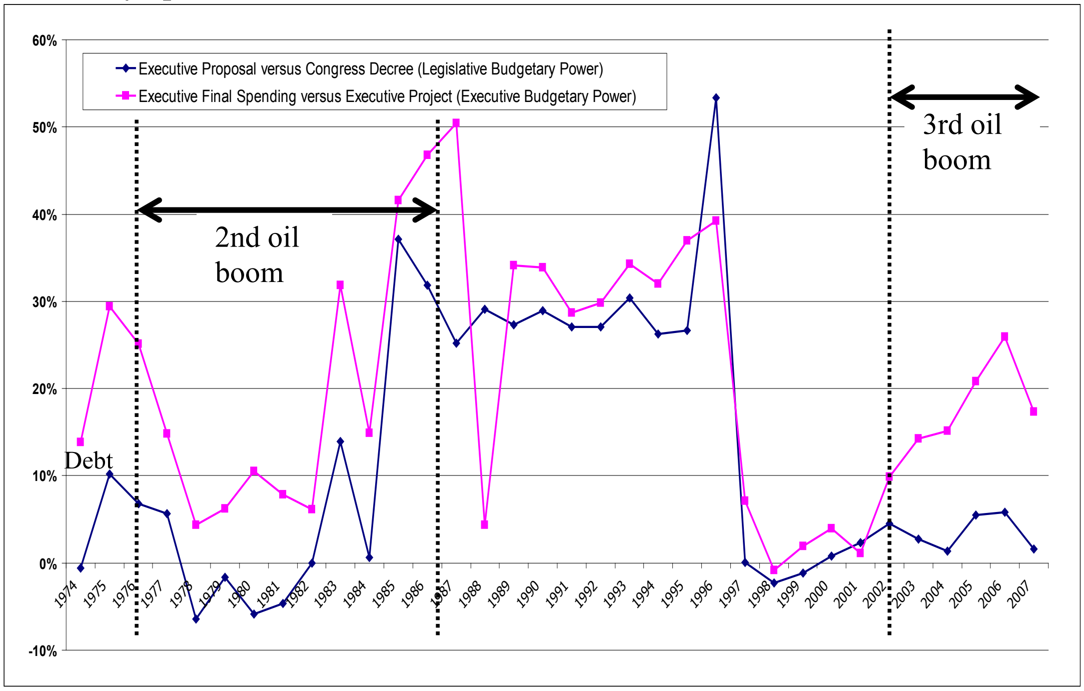
Table 5.7.4 recovers the politico-electoral variable vis-à-vis the budget process. Quorum votes in favour and votes against a policy do not respond to oil bonanzas. Legislature behaviour can be explained more as the PRI began to lose its power. Yet, with presence of opposition in the Chamber votes indicates a greater participation. The opposition in the Chamber of Deputies has nothing to do with its voting behaviour on budget. Democratization has not changed in the way the Chamber of Deputies addresses the federal budget.

A key indicator on how the Executive and the Legislature modify the budget is the percentage of total expenditures. Both the proposal and Decree change between what the Executive sends and the Legislature approves and what is effectively spent. As the following Table indicates, the proportion of changes, according to the total amount of expenditures (programmable or discretionary) it also denotes a high correlation between the two comparisons. This mean that expenditures follow the original trend proposed by the Executive. Yet during oil booms the Executive has more wider budgetary discretion to freely allocate resources.

When analyzing the following Table it is clear that the two oil booms have a direct effect on the Executive's capacity to change the trajectory (upward) of the budget allocation process. Also while oil rents were not available and during unified governments, the Chamber was strong (1986-1997) and changes were made by Congress. There were few changes made by the Executive. What indeed reflects that a more contestatory Congress helps to build a realistic budget by forcing the Executive to abide to the Decree.

Finally, Table 5.7.5 groups the differences between the budget projections sent by the Executive to the Chamber of Deputies (denoted with a dark, blue line). The differences between the Legislature's Budget Decree and the budget reported by the Executive are effectively spent (denoted by a lighter colour, pink line). It is impressive to observe that oil bonanzas increase the distance between both lines, which means that as long as oil prices are low, budgetary changes during the fiscal year tend to be similar to the budget ceilings. Also the spending amounts are as they were originally planned. Low oil prices mean credible and more realistic budgets, high oil prices mean less credible and budgets open to the Executive's discretional allocation.

Table 5.7.5 Effective Changes over the Budget Proposal, the Decree, and Effectively Spent (1970 - 2008)[124]



Source: own elaboration and calculation (real increase in cabinet expenditure) with data from Executive's Budget Proposal, Chamber of Deputies Budget Decree, and Executive's effectively spent resources.

In addition, internal functioning of the Chamber greatly affects budgetary outcomes. Therefore, the institutional features such as the concentration of powers in the Budget Committee explain to a great extent the behaviour during 1974-2007. While the Deputies from political opposition almost did not exist from 1970 - 1977, the budget was not modified. But, as the 1977 electoral reform paved the way for an increased participation of the political opposition at the Chamber of Deputies, the budget was modified by both the Legislature and the Executive.

1997 begins the most paradoxical moment for both bureaucrats and legislators regarding budget behaviour. According to a series of interviews, that is when the

[124] There are two important methodological caveats. First, to calculate the changes for both the Executive and Legislature incidence it is taken the total of resources allocated to the budgetary administrative item (*Ramos*) and not exclusively the amount that has modified. Although this method greatly magnifies the change since it takes the whole amount of resources a *Ramo* has, the proportion is actually the same and this method is used for presentational purposes. Second, while there seems to be an exception on the relationship between oil rents abundance and the Executive's budgetary discretion during the mid 80s, this issue is explained by the fact that the Mexican government faced a huge burden from the debt service inherited by "populist" governments (1976-1982).

President's party lost the majority in the Chamber of Deputies the Budget Committee. The hegemonically controlled by the *priístas*, traded places with the opposition (Farfán-Mares 2002; Farfán-Mares 2003a; Farfán-Mares 2009e). Since it was the first time that the opposition directly participated and formed part of the Budget Committee, the budget's arrival to the floor and voting was much more unanimous. This is consistent with voting behaviour, where there were less votes against the budget proposal. The changes between 1985-1997 were driven precisely because *priístas* were left out the opposition from the Budget Committee. Therefore they produced a high voting against the new members of Congress thus resulting in voting turnout.

In conclusion, the presence of oil revenues –either normal or extraordinary- greatly increase within the Executive's budgetary powers vis-à-vis the Legislature. Where the central government benefits more than any other governmental body. Standard deviations (r^2), real variation (% of change of total spending), and even voting behaviour at the Chamber of Deputies (which denotes more contestation to the Executive's predominance regarding budgetary policy), all denote that the Executive managed to have the upperhand at the Legislative.

Chapter VI. State Growth and Public Employment

> "… evidence for active political control is so strong that controversy should now end over whether political control occurs. Future research should turn toward exploring the *determinants* of political control".[125]

> "Despite a severe economic crisis that reduced private sector employment, a sharp drop in tax revenues, and a central government committed to shrinking the state, the aggregate public employment level remained quite stable, and employment in public administration mushroomed.[126]

> "Weberianness should be included as a factor in general models of economic growth. They also suggest the need for more attention by policymakers to building better bureaucracies and more research by social scientists on variations in how state bureaucracies are organized".[127]

6.1 Introduction

The cost of the Mexican bureaucracy is impressive: it represents 80% of total public spending and ranks first among the 28 OECD members (all public posts including teachers, doctors, policemen, etc…). In addition, employment in general government as a percentage of the total labour force is bigger than in Germany, Austria, Slovak Republic, Turkey, Switzerland, Korea, and Japan (OECD 2009a: 63-67). While these indicators are only a small part of what this dissertation will comprehensively analyzes, the intent is to emphasize that the Mexican bureaucracy in general is big in numbers and costly, even compared to *developed industrial democracies,* which have on average, three to four times the proportion of taxation compared with Mexico, as percentage of GDP.

---

[125] Wood, Dan B and Richard W. Waterman. 1991. "The Dynamics of Political Control of the Bureaucracy." *The American Political Science Review* 85:801-828.

[126] Gimpleson, Vladimir and Daniel Treisman, *Fiscal Games and Public Employment*, World Politics 54 (January 2002:178).

[127] Evans, Peter B. and James E. Rauch. 1999. "Bureaucracy and Growth: A Cross-National Analysis of the Effects of "Weberian" State Structures on Economic Growth." *American Sociological Review* 64:748-765.

Mexico has very low levels of taxation yet it has a big and expensive bureaucracy which can only be financed through oil and the revenues generated by the public sector (products and services).[128]

Most Rentier States have large and expensive bureaucracies linked to a spending pattern where current expenditures, where these tend to be benefited by the expense of capital expenditures (i.e. gross fixed public investment).[129] Mexico is not an exception. Throughout the period 1982 – 2009 the Rentier State had in general kept public investment low or stagnant, while maintaining and deepening its incapacity to build developmental strategies with the private sector. Administrative posts at the federal, state, and local level mushroomed. This behaviour typically accompanied a strong presence of transfer and subsidies, often allocated on a political, rather than developmental or social criteria.

This chapter analyzes the trajectory of Mexico's central government public employment during the last four decades. It claims that without increasing taxes but rather issuing debt and oil revenues, the public sector increased in size specially the number of public employees. In addition, public employment's composition of permanent (unionized) and patronage (high-rank) appointments has guaranteed a centralized and discretional management of the bureaucracy. Furthermore human resource management has also hindered the emergence of a professional, merit-based employment system.

Mexico's overall public employment, aside from economic crises, downsizing measures, and administrative changes, represents comparatively a big proportion of total public expenditures. The cost of the government operation is high compared to OECD

[128] See Chapter IX for detailed data and analysis.

[129] Overall, rentier States have weak capacities to collect taxes, increase public expenditures for infrastructure, and maintain high level of subsidies and transfers (a generalized "welfarist", i.e. *asistencialista* policy instead of a truly welfare State or social rights approach)

countries (OECD 2009a). Specifically, patronage-based high-rank officials are the best paid in the world. During the last oil boom public employment at higher levels of bureaucracy has soared. In all, Mexico's public administration is a large public expensive. Primary data places the country as a strongly bureaucratized polity.

6.2 The Political Economy of Patronage

One might ask, which is the specific link between oil and employment? There are several indirect and direct effects of oil abundancy in public employment. During the second boom 1977-1986 the number of public employment, measured as the number of total employees registered at the Social Security Institute (ISSSTE) increased both in direct and indirect registered employees. During the third oil boom the total number of public employees registered at ISSSTE remained the same. The big difference lies in the cost of the higher bureaucracy. The third boom increased both the number and the cost of high rank public employment. The first bonanza did not increased the number but the cost of the new employees went up because they were hired to elite posts within the bureaucracy. Oil booms are directly and positively correlated with a substantial increase in patronage. This phenomenon helps to hinder any effort towards the professionalisation and the proper establishment of civil service. Broadly speaking, low rank bureaucrats greatly increase in number and high level bureaucrats greatly increase in cost and number. The first type of employees are often allocated to public services such as waste management, teachers, doctors, etc… and are already unionized and controlled by the government.

This chapter has three aims. First, it attempts to operationalize -using the behaviour of variation in public employees, the composition of public employment. This is done by identifying the financial cost of the political economy of patronage in Mexico from an institutional perspective. Second, it tries to demonstrate normatively, empirically, and statistically the institutional backdrop that governs the political and economic determinants of both government's payroll and the wage bill served, particularly within political, economic, but most of all, financial distress, as a presidential instrument to overcome them. Lastly, it tries to blend this analysis with the newly implemented "generalized" civil service career for Central Government in Mexico.[130]

The Mexican government –and particularly the President's– has enjoyed for almost eight decades of pork and patronage which served to simultaneously preserve political and economic stability. In short, the centralized, authoritarian, and hierarchical nature of presidential tools is key to understand the political support, stability, legitimacy, and economic development of Mexico.[131]

6.3 What drives public employment?

Gimpelson and Treisman (2002) recent study of Russia suggests that many causes might explain variation in public employment,

> "Wagner's Law –the argument that economic development creates demand for new types of government services- is a common starting point. Economic development clearly correlates cross-nationally with larger public sectors, measured in terms of either spending or work force. A second view casts public employment as a means by which

[130] The Law for the "*Servicio Profesional Civil de Carrera*" was enacted in November 2003 and the operational rules were published in the Official Gazette (*Diario Oficial de la Federación*, or D.O.F. the 1st of April 2004).

[131] Centralization does not necessarily imply an increase in patronage, measured as the amount of resources allocated to pay central government's wage bill. As Carlson and Payne and Schiavo-Campo et. al. demonstrate, centrally planned or politically centralized economies like former Eastern European countries or the former Soviet Union central government's represented only 3.7% of the GDP, compared with 4.5% for OECD countries. The only difference between economic systems was the proportion of rural workers against local and state employees Payne, Mark and Ingrid Carlson. 2002. "Cross-Country Comparisons of Public Employment and Pay of 26 Latin American and Caribbean Countries." Inter-American Development Bank, Washington, D.C, Schiavo-Campo, Salvatore, Giulio de Tommaso, and Amitabha Mukherjee. 1997a. "Government Employment and Pay in Global Perspective: A Selective Synthesis of International Facts, Policies and Experience." The World Bank / Public Sector Management and Information Technology Team, Washington, D.C, Schiavo-Campo, Salvatore, Giulio de Tommaso, and Amitabha Mukherjee. 1997b. "An International Statistical Survey of Government Employment and Wages." The World Bank / Public Sector Management and Information Technology Team, Washington, D.C.

> politicians conceal redistribution in favours of specific groups. For this reason, Alesina and colleagues, argue, public employment should be higher where income inequality or ethnic diversity is greater. According to a third view, government spending should be seen as a type of insurance against adverse economic conditions and public employment as one way to buffer the population against private sector unemployment. This argument was developed to explain an observed link between large public sectors and exposure to foreign trade, but its implications are more general" (Gimpelson & Treisman, 2002: 146).

It seems they are three courses of analyses which could explain the growth of public employment in Mexico. Most of these arguments are based on the economic prosperity of the country. They include the oil induced economy since the 70's, debt restructuring in the 80's and NAFTA, Mexico considerably increased the size of its economy, its GDP per capita, inequality, poverty, unemployment, and ethnic disputes. It has repeatedly experienced adverse economic conditions for which it has surpassed.[132]

In comparing both American cities with northern and southern parts of Italy, economists have shown the strong redistributive side of public employment policies (Alesina, Baqir, and Easterly, 1998). These authors find for the first case that employment is significantly higher in cities where income inequality and ethnic fragmentation are higher. In the second case, Alesina, Danninger, and Rostagno prove that the distribution of public jobs has been one of the main channels through which public resources have been directed from the richer North toward the less wealthy South of Italy (Alesina, Danninger, and Rostagno, 1999:3).

Considering the above, it would be "natural" for public employment in Mexico to grow by size and cost and present variations over time according to a number of economic, political, and even social reasons. All of such variables might be used to understand the amount –and the behaviour- of public employment and to a greater extent, the size of government. Nevertheless, Gimpelson and Treisman (1998) state that

[132] Ethnic conflicts had not reached national level and sustained threat to stability as in other Latin American countries, but the Zapatista Rebellion is clearly a landmark for the purpose of the analysis.

> "if the objective of public employment is to disguise flows of patronage, why such patronage should flows correlate with the degree of ethnic division or income inequality? Is patronage unique to ethnically or economically divided societies? If so, why would countries containing a larger number of ethnic groups have more patronage than those containing just two?" (Gimpelson and Treisman, 2002: 147).

For them, countries that have weak legal systems and partially decentralized political institutions have high public employment. This results from the fiscal interaction between central and subnational politicians, where the latter deliberately set their employment levels beyond their spending power and prompting the central government to deliver the resources. These would otherwise be exposed to mounting wage wars and public sector strikes (Gimpelson and Treisman, 2002: 178).[133] These authors also analyze Argentina and find similar results. While the public employment policy neoliberal approach was supposedly oriented to "shrink" the state, the number of employees actually increased and the provinces were successful in extracting resources from the federal government to finance their difficulties.[134]

However, despite the studies which signal the pervasive effect of the growth on the bureaucracy at the subnational level, some other earlier examples show that decentralization efforts and growth of state and municipal bureaucracy as a positive aspect for development. For example, Rauch, based a study of the early professionalization of U.S. bureaucracy finds,

[133] Strikingly, Gimpelson and Treisman conclude that "Russia's bloated, underpaid, and aggrieved public sector seems less the result of inertia from Soviet times or of central mismanagement than the dysfunctional outgrowth of a perverse fiscal interaction between vote-seeking politicians in Moscow and the regions@ (Gimpelson and Treisman, 2002: 178-179)

[134] Another pertinent comparison with Argentina, is the one that Teichman addresses: "Despite the formal concentration of power in the hands of the minister of economy and the use (and threatened use) of presidential decree power, Argentina's radical reformers never achieved the policy isolation and authoritarian decision making capacity obtained by Mexican technocrats during the Salinas years" (Teichman, 2004: 58). Moreover, "[World] bank officials suggested that there were important 'cultural' differences in the two countries that help account for the degree of penetration [of the bank] in the Argentine case as opposed to the more restricted access of the bank in Mexico: the Mexicans were viewed as being more predisposed to hierarchy". (Teichman, 2004: 68)

> "The institution of civil service in U.S. cities during the Progressive Era [first two decades of the 20th Century] was found to have a positive effect on the share of municipal expenditure allocated to investment in infrastructure … Professionalization of the State bureaucracy lengthens the period that public decision-makers are willing to wait to realize the benefits of expenditures, leading to allocation of a greater proportion of government resources to long-gestation-period projects such as infrastructure" (Rauch 1995a: 978)

A sophisticated review of the literature mentioned above, show a few causes of why and how public employment actually grows. Nevertheless, the Mexican case does not easily fit in those analyses. Since growth and cost of the central government's bureaucracy can not be explained from regional disparities, for example income inequalities, since it is directed only to higher and middle rank public servants central versus subnational governments. And most of all, such policy do not directly reduce but increases income inequality and social disparities, the logic behind these might not be easily explained from the literature which has focused on the topic.

The growth of the number and cost of the central (i.e. Federal) bureaucracy in Mexico increased despite all the reasons which are being put forward by the present discussion. It is worth asking why *only* the central bureaucracy experienced such significant change. This research claims that the drive behind the growth of bureaucracy is the budgetary architecture of the Mexican State as a result of oil.[135]

Another question is, why were only the high and middle rank officials ruled by the political economic dynamic of patronage? The institutional setting that governs public employment in Mexico has been altered substantially. In recent years, as this chapter analyzes, there had been considerable efforts to build a more politically neutral, insulated central government's bureaucracy. During the second half of President

[135] It could be argued that Mexico might fit well in the study of Gimpelson and Treisman which explain how the Provinces exerted pressure (turning the blame for the central government), and therefore obtained additional resources to finance their desires of patronage. In the case of Mexico, where an extreme centralization of the spending powers exist and political parties clearly behave as public goods, the blame goes to the party than the President, since many of the spending powers are decentralized.

Vicente Fox term there were substantial advancements but also important challenges and institutional obstacles.

The persistence of historical pacts with the authoritarian regime, such as the existence of a union monopoly over the bureaucracy has added strong rigidities and possibilities for expansion to the newly implemented professional career system (SPC). The Confederation of State Union Workers (FSTSE) is part of an institutional-legal arrangement and has constitutional legitimacy over Article 123, was unsuccessfully challenged until 2004.[136] The monopoly and rigidities of a system maintained and reinforced a sort of "caste" system within the central bureaucracy. This is also an important element which modified the internal dynamics of bureaus.

As the following Table indicates, from 1970 onwards the growth of Mexico's bureaucracy has been impressive. From 1970 to 1976 bureaucracy more than doubled (430,482 to 1,086,872 individuals). The bureaucracy increased by half million during the presidential periods of 1976-1982 and 1982-1988. But after, the number stabilizes until 2006.

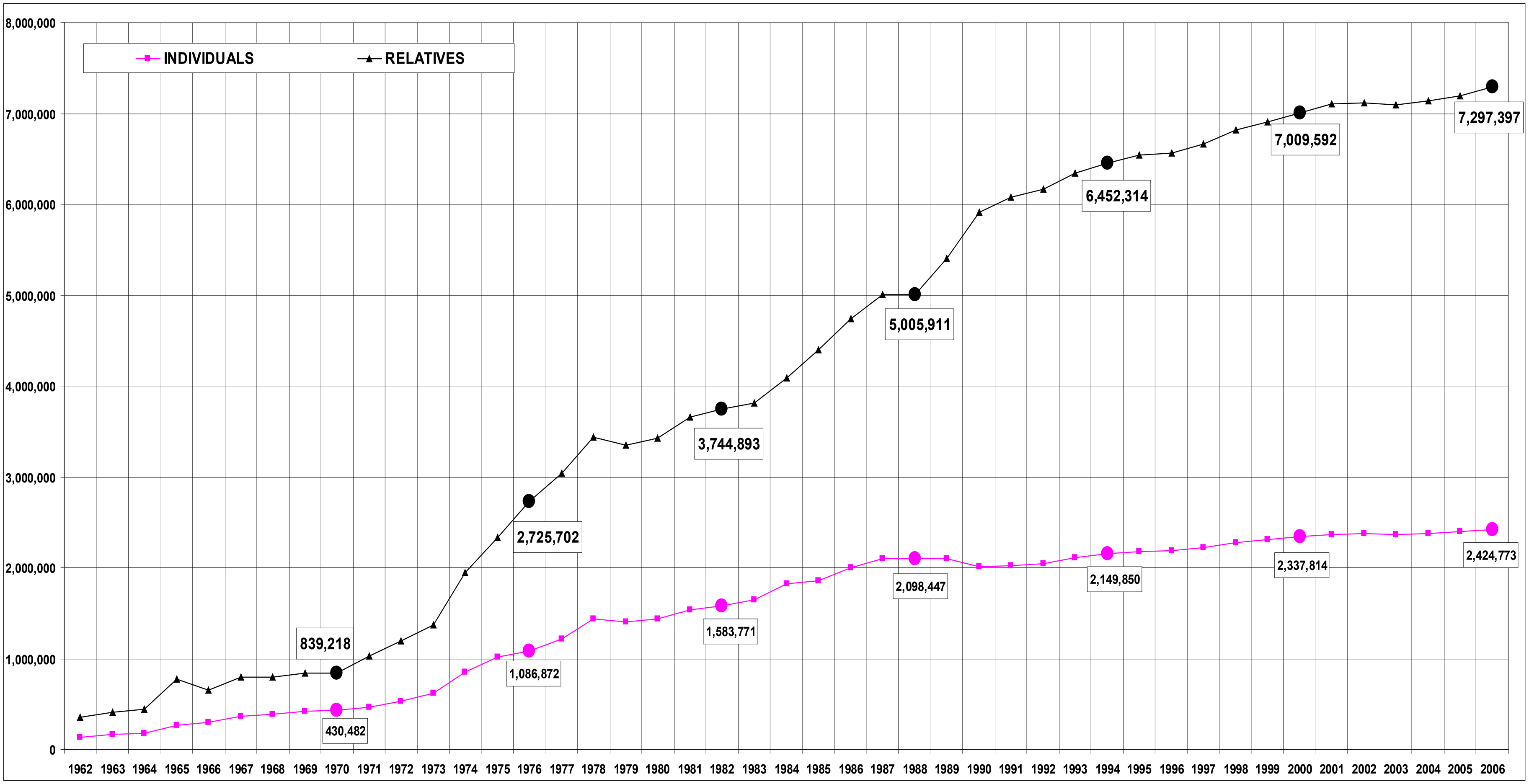
While public employment stabilizes after 1988, family members who are also insured or tied to those posts importantly grew which implies a heavy financial burden. Also, considering that these numbers come from the State's social security system for public employees, they provide an idea of the formal or legalized employees. Other employment schemes which are not protected by social security, such as people who is hired for three or six months are not included. Regularly, they have to renew their contract regularly. These employees are hired under schemes to avoid generating

[136] It is worth noting that last year a dissident section of the FSTSE and formed by various unions challenged its monopoly to represent base and unionized employees through a constitutional controversy to the Supreme Court. In the first days of March, 2005, the Supreme Court gave the approval to officially recognize the Democratic Federation of Public Servants Union (*Federación Democrática de Sindicatos de Servidores Públicos*, FEDESSP) opening the possibility to considerably alter the power of one of the sources of power of the authoritarian regime since 1938, when the FSTSE was founded.

spending commitments and hide the real costs of employment as current expenditures in administrative units budget. In addition, numbers from state and local governments have to be added, which can increase up to three million additional people, as an investigator from the Instituto Nacional de Administración Pública, (or INAP) has acknowledged (Reforma 2005a; Reforma 2005b).

Oil revenues have impacted the low and high rank public employment particularly during oil booms. The "first stage" of tax substitution with oil revenues feeds the type of public employment that is linked to the State's products and public services. The "second stage", which coincides with increased electoral opposition and therefore increases the risk of bureaucrats to be fired, causes the first to became formalized. This includes providing benefits often non-formal privileges to secure the job and increases posts at higher levels of responsibility and political, sensitive areas, given the greater electoral competitiveness and decentralization. The more electoral competition, the more the incumbent is pushed to use public administration to reward followers. As Ibarra del Cueto demonstrates, this can be clearly demonstrated at the local government level where political competition changes the composition of public spending towards current expenditures. Among these expenditures are devoted to hire more and better paid employees devoted to administrative duties (Ibarra del Cueto 2009).

Table 6.3.1 Central Bureaucracy Growth (1962 - 2008)



Source: own elaboration with data from (Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado 2007).

6.4 Trends in public employment

Many governmental projects, expressly designed to target social sectors are more demanding. This, coupled with the failure to deliver a tax reform in 1972,[137] pushed public expenditure into deficits (Elizondo 1994; Jiménez San Vicente 2002). The government's payroll and the wage bill were thereby affected as a result. Between 1970 and 1980, public sector employment increased on average, 7.9% each year, compared with population which grew at an average rate of 3.1% per year (Benton 2002). At the same time, according to the World Bank's 1988 World Development Report (Lindauer 1988), Mexico had the highest average annual growth rate in public employment in the world (13.1). Only Zaire had similar levels of growth, but the sample is considered for this country a short period, from 1976 to 1978.

Between 1970 and 1979, the number of public employees went from 431,000 to 925,000. Nevertheless, without including education and the health personnel expenditures, the wage bill contracted 1% of total public expenditures (from 3.70 to 2.70, and from .91 to 1.03% of GDP). The wage bill including education grew in the same period from 11.39 to 16.61% of GDP (Ugalde 1990). The number of public school teachers grew from 267,000 in 1970 to 630,000 in 1980 (BBVA 2003:13). This shows that the government was using public spending to increase the number of teachers and doctors, but downsized central (federal) government bureaucracy slightly.[138]

The latter numbers indicate that in general the public sector, and particularly employment, grew faster in the 1970's than at any other period. For example, while it took 30 years to double the number of public employees from 1940 to 1970, in only

[137] As it has been noted before in the present Thesis, instead of achieving a comprehensive tax reform in 1972, López Portillo (then Secretary of Finance), introduced slight changes in the tax structure which gave additional but insufficient funds to Echeverría's response to economic, social and political demands.
[138] It might be an apparent contradiction to put "central" as synonym of "federal". The Mexican government refers to "federal" government to the decentralized ministries, SOE and other bodies which enjoy of certain autonomy and "central" to the ministries which heads depend directly from the President. An appropriate and more exact way to refer to "Federal" government would be to consider them as the state and local –subnational- government as such.

eight years, for the public employment doubled (1970-1978). The most striking numbers of public employment in the same period are from the number of registered pensioned employees.[139] The pension system for federal government employees (ISSSTE), was established by the government in 1959. There were roughly half a million people employed by the government in 1970 and a million and a half in 1978 when another half million pensioners joined the system in 1978-1989 (BBVA 2003:11).[140] Overall starting in 1970's public employment –a way to measure the size of government- as well as the wage bill grew faster than in any other decade.[141]

Aside from the education and health sector, the expansion of the public sector during that decade included state owned enterprises (or SOE) (Ayala Espino 1988). During the 70's SOE share over the government's payroll increased significantly primarily due to the energy boom.[142] It was also as a result of a growing "overcrowding effect" vis-à-vis private sector's unwillingness to bid for the economy. Considered as a way to measure the government's weight in any domestic economy, the number of *paraestatales* went from 272 in 1970 to 504 in 1976 and reached 1,155 by 1982 (BBVA 2003).[143]

---

[139] This number refers only to the lower levels of –unionized- bureaucracy, those belonging to the Energy Sector (oil and electricity), to the national roads system, Social Security (*Instituto Mexicano del Seguro Social*, or IMSS), and military and navy personnel, are not included in these numbers. Those considered as medium or high level public servants did not had the right to be registered or pensioned. The Mexican Government constantly uses this method to calculate the level of private employment, where workers are registered by small, medium businesses and industries at IMSS (or, established in 1943).

[140] Despite the accuracy of considering ISSSTE pensioners it is important to note that in such scheme participate also employees from the other two branches –the Legislature and Judiciary, the Federal District, academic and cultural institutions, and also state and local government's employees Bonifacio, Jose Alberto and Graciela Falivene. 2002. "Análisis comparado de las relaciones laborales en la administración pública latinoamericana." Centro Latinoamericano de Administracion para el Desarrollo / Banco Interamericano de Desarrollo.

[141] We will use public employment to refer exclusively to all public employees including health and education and the wage bill as the outlays (i.e. the financial resources) devoted to pay those jobs.

[142] See Robinson, James A., Ragnar Torvik, and Thierry Verdier. 2003. "Political Foundations of the Resource Curse." Departement et Laboratoire D'Économie Théorique et Appliquée, Paris, France. for an econometric analysis of the impact of resource booms to politically motivated expansions of the public sector.

[143] Basáñez states that public enterprises went from 84 in 1970 to 845 Basáñez, Miguel. 1990. *La lucha por la hegemonía en México 1968-1990*. Mexito City: Siglo Veintiuno Editores.

By 1983, 20.3% of the country's working force was employed in the public sector (Benton 2002). The role of the State certainly was much more influential than the "stabilizer development" (Ortiz Mena, 1998). Nevertheless, successive key events such as the internationally driven economic slowdown, the explosion of the debt crisis, along with many other ideologically, politically, economically, and financially-driven processes triggered important changes in both developed and less-developed countries (Gilpin 2001).

As the progressed State apparatus' adjustment to the new conditions was mostly motivated by the general conception that the State had to be downsized and in some areas. But in doing so, the State would need to withdraw from historical commitments. For developing countries, downsizing was more of a reaction to financial stress rather than a planned, ideologically, or even politically driven policy prescription. For most countries in Latin America, the State's central role was ideologically and politically well grounded. Most governments justified shifts at the status quo by invoking the impact of major events coming from abroad. The model was simply not in accordance with the new international economic realities.

The differences among Latin American countries to adjust successfully to the new realities relied heavily on the institutional assets the nations leadership. Due primarily to the nature of the presidential system, the logic behind the *sexenio* curse and leadership replacement, Mexico began implementing changes before the end of each presidential term (Cosío Villegas 1975; Heath 1999).[144] The government's human resources were among the most important management tools used for damage control. In fact, the creation of the general bureau of the civil service in 1983 within SHCP *Dirección General de Servicio Civil* (or DGSC), was to propose policies for a more

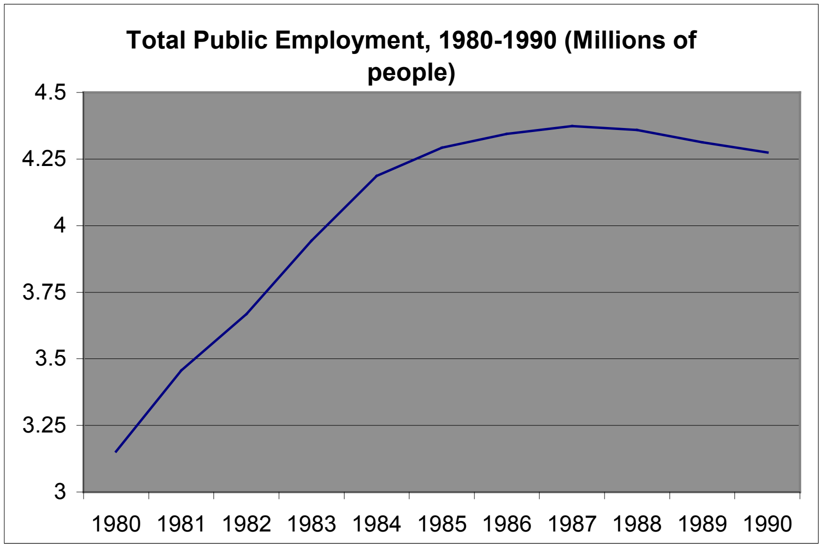
[144] As described in another parts of the present thesis, the Mexican government decided to implement a wide array of political, administrative, and financial policies which tried to avert the impact of a growing crisis in the first months of 1981.

efficient management of the public sector. This was the first attempt to establish a generalized civil service. In addition, it was a response to the need of reducing government expenditures on salaries (Benton 2002; Heredia and Ross Schneider 2003). The following discussion provides quantitative and qualitative elements of the analysis. Following, it would give a general overview of "the adjustment trend" in public employment that took place during the 1980's.

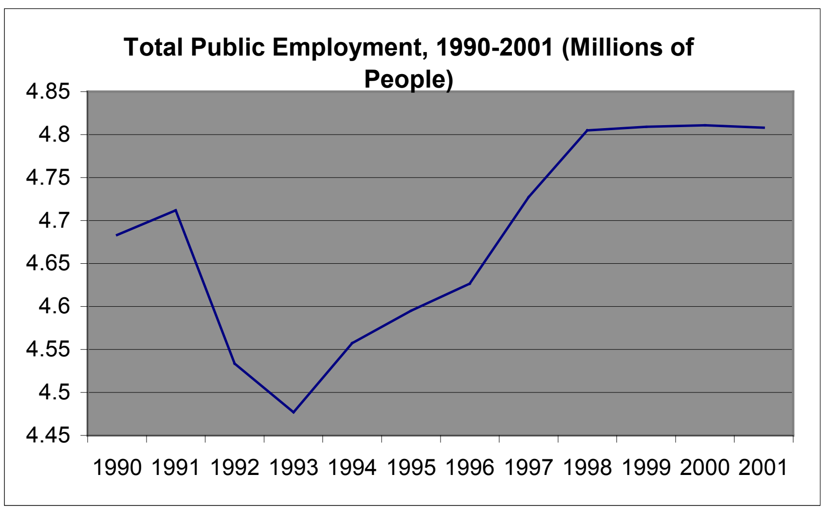
6.5 From State Construction to State Withdrawal

Compared with the "macroeconomic populism" era, public employees and pensioners during the adjustment period since 1982 showed just a slight increase in employees from roughly 1,700,000 in 1982 to 2,300,000 in 1989 (BBVA 2003:11). The total number of government' employees in 1990 increased from 4,683,100 to 4,814,100 in 2000. The number of public employees registered at ISSSTE, excluding pensioners, were few more than 2 million in 1990, and 2.4 million in 2002 (BBVA 2003). These numbers show that more than half of total public employment that belong to either a "special" social security status or simply they did not enjoy health benefits or insurance assistance. The composition of public employment will be analyzed later. As shown in Table 6.5.1, starting in 1980 public employment shows a clear downward spiral, particularly in the 90's in the aggregate.

Table 6.5.1 Public Employment Trends (1980 - 1990 / 1990 - 2001)



Source: own elaboration with data from INEGI. Sistema de Cuentas Nacionales de México. Banco de Información Económica, 2004.

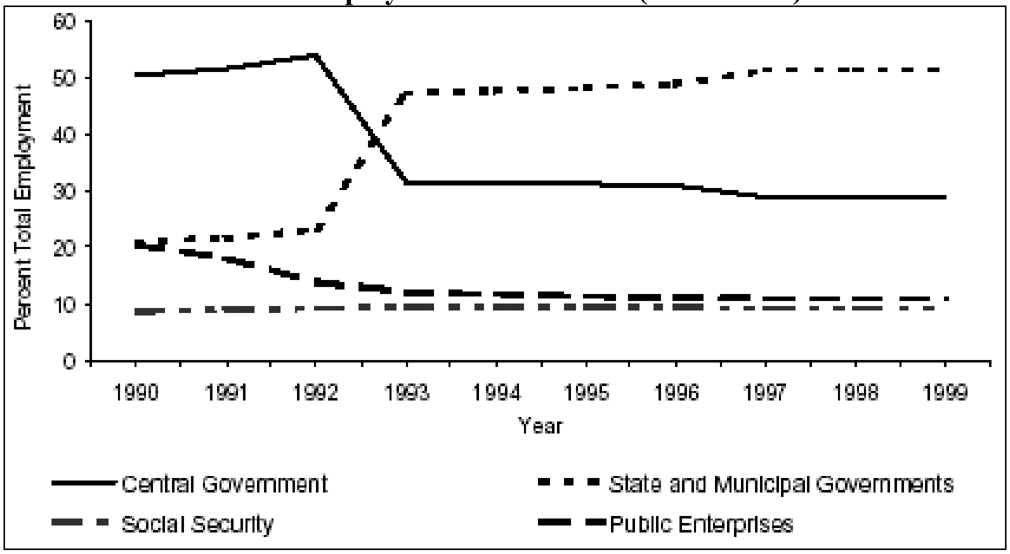


Source: own elaboration with data from INEGI. Sistema de Cuentas Nacionales de México. Banco de Información Económica, 2004.

One should take these numbers with caution. The national statistics agency, the *Instituto Nacional de Estadística y Geografía*, (or INEGI) methodology to collect data is precarious, at best (for the first period is base 1980, and the second is base 1993). The numbers prior to 1980 the first period are slightly less than the figures used to create the Table. The second Table, from 1990-2001 reflects more accurately the exact number of employees paid by public funds. INEGI decided to change the methodology because numerous, small public bodies were not being counted, thus resulting in not exact figures of public employment. Despite data at an aggregate level, Table 6.5.1 shows public employment growth in Mexico clearly slowed its pace starting in 1984 and ultimately began declining in 1988 despite the fact that it grew for the first years. For the next decade, the plummet in employment can be accurately explained. First, from 1991 to 1993 due to the aggressive privatization of public enterprises that took place in the period (Aspe Armella 1993). For 1993 onwards the decentralization effort in the education sector, which transferred responsibilities –and teachers- to each states' authorities. The stable trend in 1999 can be explained in part because of decentralization of the health sector, considering that the number of teachers is undeniably bigger than doctors.

It is important to note that, since the decentralized public education reforms in 1992, the central government considerably cut their payrolls. Yet, subnational governments employment increased by more than 100%. For example, while central government concentrated 53.7% of the total of public employment in 1992, in 1993 represented only 31.3. On the other side, state and municipal governments had a share of 23.2% of total public employment for 1992 and 47.1% in 1993. This meant that the relationship between central government's public employment vis-à-vis subnational public employment basically became inverted (Benton 2002).

Table 6.5.2 Public Sector Employment Distribution (1990 - 1999)



Source: (Benton 2002)

Looking at public employment trends from 1970 to the present, we can determine that different policies were implemented for several economic, political, ideological and certainly financial reasons. Nevertheless, due to the high level of aggregation, it is difficult to clearly identify which sector was the most affected by policy decisions. And furthermore its difficult to understand which one had more incidences as result of downsizing policies carried out in times of fiscal stress. Therefore, it is fundamental for analytical purposes to disaggregate the composition of public employment.

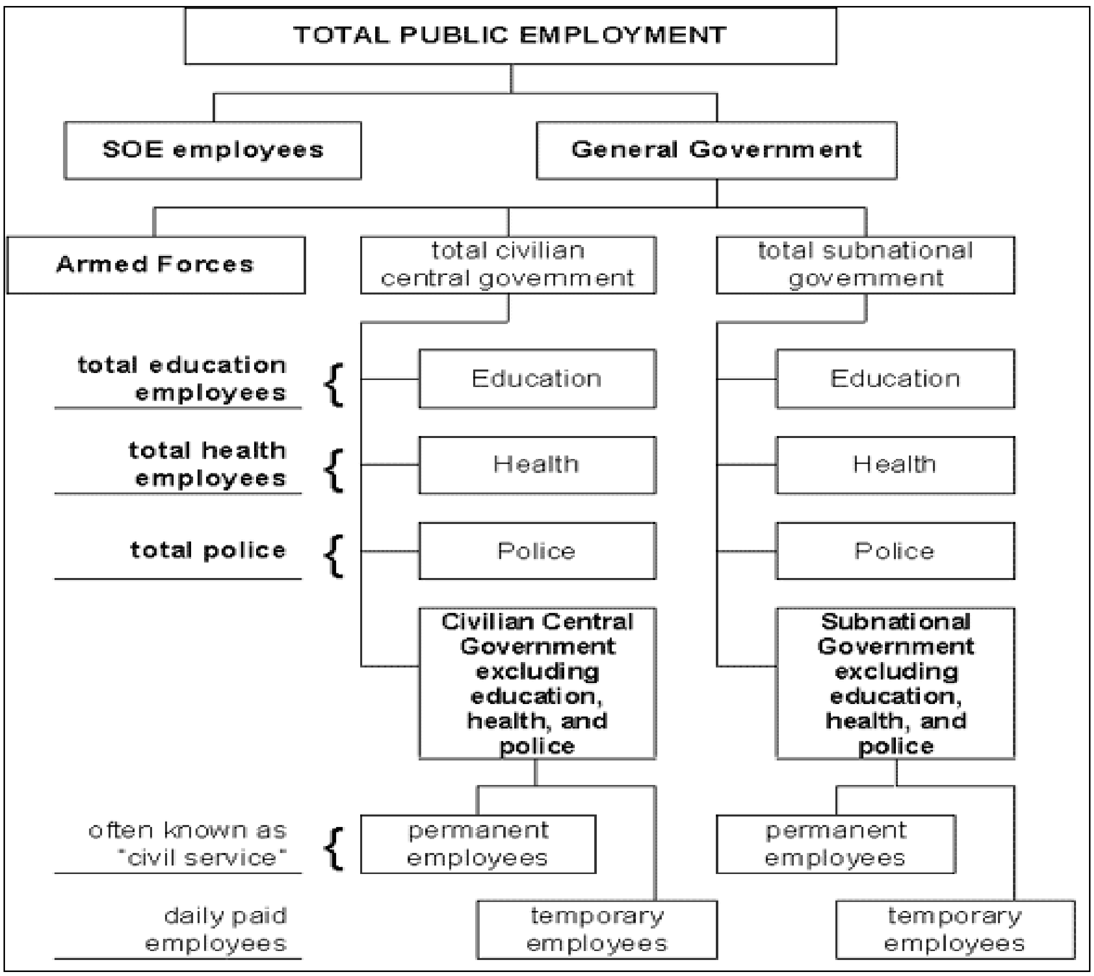
6.6 Composition of Public Employment

As Gordin (2001) claims, "Expenditure on personnel is an indicator that tells us little about political patronage, unless it is validated by qualitative evidence on recruitment and promotion procedures, ministerial reforms, and contextual macro-determinants such as socioeconomic crises".[145] Taken from the World Bank's Administrative and Civil

[145] Gordin, Jorge P. 2001. "The Political and Partisan Determinants of Patronage in Latin America 1960-1994: A Comparative Perspective." Pp. 37. Grenoble, France.

Service Reform Website,[146] the following image shows a rather schematic but standardized view of public employment's composition. We borrow this scheme to build a detailed analysis of the composition and distribution of public employment in Mexico. This includes employees for the three levels of government -central, state, and local, and other numerically important positions, such as teachers, doctors, and soldiers.

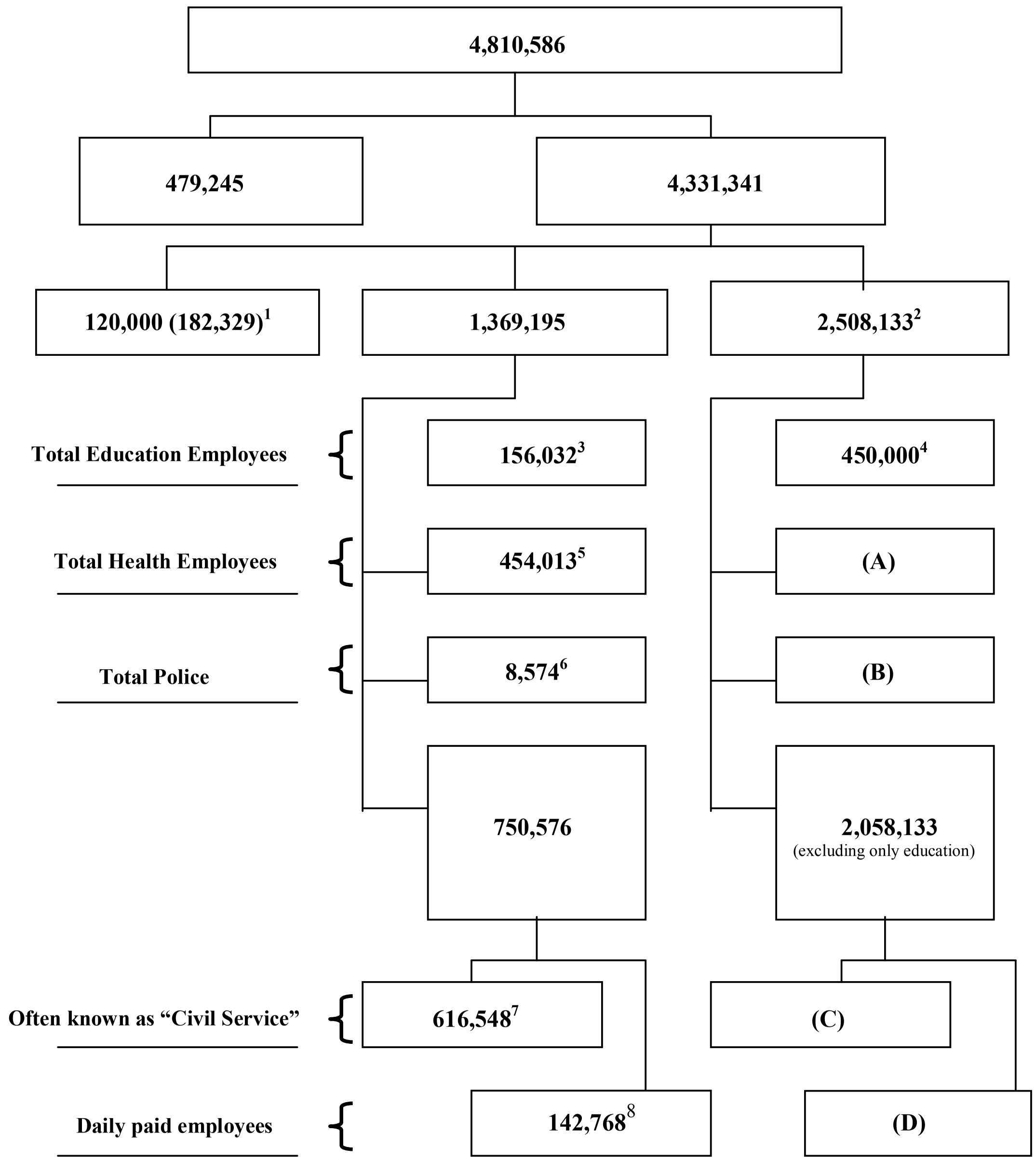
Diagram 6.6.1 The Main Components of Government Employment



Source: Diagram taken from Public Sector Governance, Cross-National Data on Government Employment & Wages, The World Bank Group, http://www1.worldbank.org/publicsector/civilservice/crosschart.gif (last accessed 28 October 2009)

146 http://www1.worldbank.org/publicsector/civilservice/crosschart.gif

Table 6.6.2 Numeric Composition of Government Employees (circa 1999)



(A) Some States have Social Security Institutes.
(B) There are no available figures for state and municipal police.
(C) Not available.
(D) Not available.

[1] The number reflects what Benton (Benton 2002) calculates to be the number of "public employees", or members of the Armed Forces who enjoy some sort of "Civil Service" status, but a more accurate number for calculating the total number of posts under the Secretariat of Defence is 182,329 for the year 2000 (SHCP 2004).

[2] Includes 267,261 Municipal Government's employees (Benton 2002).

[3] Corresponds to number of permanent employees for the Secretariat of Education (*Secretaría de Educación Pública*, or SEP) (Benton 2002).

[4] SEP reports 580,908 positions affected by teachers' civil service career. Since them can hold more than one position, this number does not coincide with the one of people working as teachers covered by the career, which accounts for roughly 450,000 (Benton 2002; Valdez Mejía 2001).

[5] This number come from the 1999's number of employees under the Social Security system (Benton 2002).

[6] Data comes from a standard mean from year 2001 to 2004 variation in personnel (high, middle, low level, liaisons, and operative posts for 2003) at the Secretariat of Public Security (*Secretaría de Seguridad Pública*, or SSP), launched in 2000 which took off Secretariat of the Interior' (*Secretaría de Gobernación*, or SG) personnel for that purpose (SHCP 2004).

[7] Excluding the Armed Forces and Teachers the total is 46,548 (Heredia accounts for 1997, 40,870), for public employees which work status is similar to a "sort of type" of civil service (Benton 2002). Both Teachers and Doctors have job stability (1993 and 1999, respectively) through a career system. If we take in consideration what Heredia calculates for 1997, we might even add to the total number of "Permanent" employees other 217,769 (Base or low-level posts) which give a total of 834,317 (Heredia 2002).

[8] The number reflects the standard mean for three categories from 1999 to 2004: superior, medium, and "homologados"; liaisons; and operative (which do not enjoy a "civil service-like" status and does not enjoy any type of "unionized" privilege) (SHCP 2004). If we use Heredia's source to calculate the latter, the number would climb to 371,498 for 1997 (Heredia 2002).

Table 6.6.3 Ministerial Employment in Mexico (Last Year Available, 2000)

Name of Ministry	Number of Employees / Headcount
Education	266,335
Defence	183,297
Health	66,417
Finance	54,668
Navy	53,729
Communications and Transport	39,963
Ecology and Natural Resources	37,387
Agriculture	32,073
Interior	31,901
Attorney General of the Republic	18,605
Social Development	10,549
Commerce (Economy)	8,822
Agrarian Reform	8,552
Labour	6,975
Foreign Affairs	4,023
Controller-General	2,709
President's Office	2,504
Tourism	2,272
Agrarian Court	1,588
Fiscal Court	1,443
Energy	1,195
Total	835,007

Source: OECD Public Management Service, 2001.

The size of the public sector relative to total employment and population has declined from 18 to 15.3% and from 5.6 to 4.9% respectively (Benton 2002). The above Tables lends for our analysis a fairly accurate overview of public employment's composition in Mexico. Although numbers might vary to some extent and one should consider that few major human resource management reforms were implemented during Vicente Fox's presidential period (2000-2006), numbers and percentages hold even today. Otherwise, analyzed later in this chapter, are the budgetary arrangements surrounding the payroll and the financial impact of the wage bill.[147]

Numerically, SOE's absorb nearly half million people (10% of the total number of government employees); the Armed Forces, using various methods, account for almost .03%; and the Central government represents 28%; almost half of the civilian

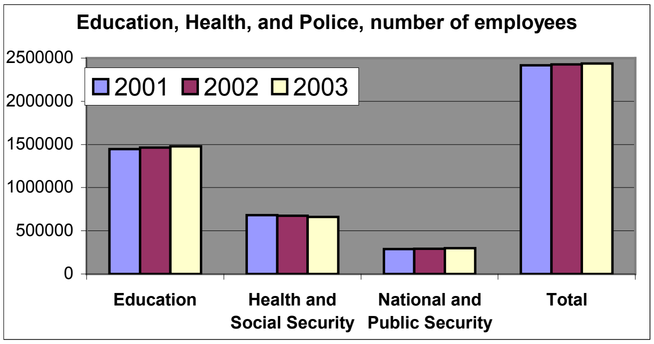
[147] Later in this chapter would be analyzed in detail major events that surrounded the accounting, administrative, and financial management of the payroll and the wage bill. It is important to notice though, that since the beginning of the Fox administration, the Civil Service Unit (*Unidad de Servicio Civil*, or USC) that existed within the SHCP disappeared as such and most of its personnel went to the Secretariat of Public Service (*Secretaría de la Función Pública*, or SFP).

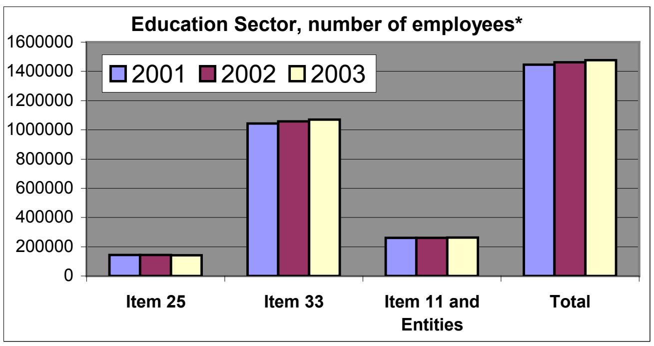
government is absorbed by Sub national government's, which roundly represents 52%; teachers and doctors are each near half million people and represent approximately 10.5% each of the total civilian government; Police forces, an issue that acquired an extreme attention since last years of President Ernesto Zedillo administration (1994-2000).

Particularly in 1998 when the Federal Preventive Police, *Policía Federal Preventiva* (or PFP) was created and experienced a significant increase. Reorganisation and new hiring strategies will make the numbers increase the Table presents a stable .002% of all the civilian government without considering local (municipal) and state police officers. Finally, the numbers turn fuzzy when trying first to make a clear-cut distinction between "permanent" and "temporary" employees. More recent data, released according to President's Fox administration newly developed information transparency policies,[148] divides personnel distribution in three main categories: education, health, and public security.

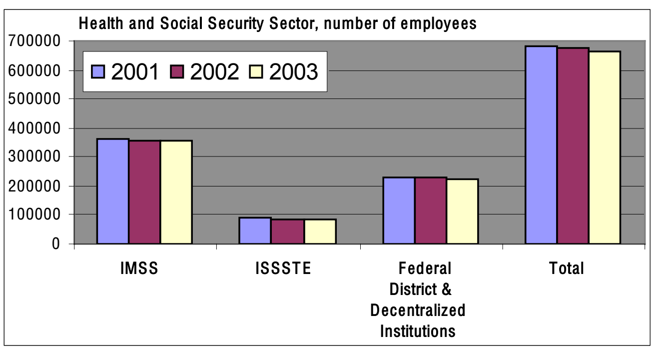
[148] It is important to mention that the Federal Transparency and Information Access Law (*Ley Federal de Transparencia y Acceso a la Información Pública*) and its governing institution, the Federal Institute for Access to Public Information (*Instituto Federal de Acceso a la Información*, or IFAI) were both introduced in 2002 doing mandatory the release of information to citizens.

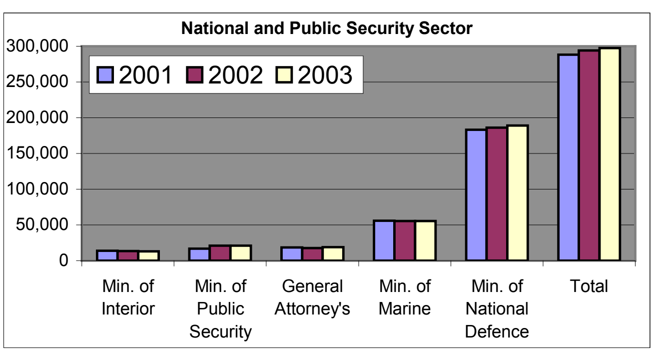
Table 6.6.4 Employment in Education, Health, and Public & National Security





*** Item 25 refers to outlays for "basic" or Primary education, item 33 to outlays for subnational governments, and Item 11 and Entities which refer to higher-level education institutions.**





Source: (SHCP 2004)

6.7 Composition and distribution of “permanent” and “temporary” employees

The quotation marks used for the present stage of analysis would surprise any specialist in human resource management, especially from the organisation we are borrowing the current analytic framework, such as the World Bank. In Mexico, there is a clear-cut distinction between permanent and temporary employment.

Traditionally assuming that the first is “governed” by some kind of “civil service” type of status, and the second respond to hiring for a specific purpose or fixed time.[149] Before getting into the differences of such both conditions, it has to be noted that, in Mexican terms, “permanent employees” is better translated as unionized (base) clerks or scattered members of rational-legal bureaucracy, that is the so-called weberian “islands”.[150] The second category, “temporary employees”, are politically or inductively appointed (patronage) employees.[151]

Furthermore, various elements can be used to identify whether a civil service, or a career rules over the bureaucracy. That is which weberian “islands” do exist at the present Mexican public administration.

Bresser-Pereira (2001) invokes the work of Oszlak (2001) to establish the criteria for identifying if personnel selection and recruitment’ systems throughout Latin America are engaged in something like a civil service. Between the most important elements to build the framework of analysis proposed by Oszlak are generalized competition, the existence of an informal criterion for selection, and personal

[149] An analysis and characteristics of what is meant by civil service would be delivered later, but at this stage is specifically used as synonym of career system and job stability Bresser-Pereira, Luiz Carlos. 2001. "New Public Management Reform: Now in the Latin America Agenda, and Yet..." *Revista Internacional de Estudos Políticos / Programa de Estudos Políticos*:117-140.

[150] “Professionalization of the state bureaucracy is a necessary … condition for a state to be ‘developmental’. The key institutional characteristics of what he calls ‘Weberian’ bureaucracy include meritocratic recruitment through genuinely competitive examinations, Civil Service procedures for hiring and firing rather than political appointments and dismissals, and filling higher levels of the hierarchy through internal promotion” Rauch, James E. 1995b. "Choosing a Dictator: Bureaucracy and Welfare in Less Developed Polities." National Bureau of Economic Research, Cambridge, Massachusettts.

[151] These differences are of course, grounded on several historical and legal developments which explained such outcome.

confidence criterion as the dominant one. According to Diagram 6.6.2, where the numeric composition of government employment in Mexico is pictured for year 1999, the total number under the category of permanent employees (excluding the traditionally numerous teachers, doctors, and the police forces) whom are "governed" by the above mentioned "civil-service type" elements is 616,548, which represents around 81% of central civilian government. Temporary employees or patronage employees are roughly 142,768, 19% of total. This number coincides with the 130,000 numbers of employees supposedly affected by the SPC, according to a series of interviews done to several Mexican government high level officials who took place at the onset of the SPC launching in April 2004 (Economist 2002; Mesta Delgado 2003a).[152]

Despite the evidence, and the existence of an impressive match between several analyses and different sources, it is still difficult to have a clear-cut idea on which public servants are governed by some kind of civil-service type arrangement and which not. Taking off teachers and the armed forces those 616,548 employees turn into 58,680. Benton offers an approximate composition for those employees governed by civil service type arrangements (Benton 2002). Other source that coincides with these figures reveals that *confianza*, or "trust" patronage employees are 39,000 (Heredia 2002:7).

[152] Mario Focil, an experienced public official in human resources affairs, calculates that 30% of Central Government Employment would be affected by the Civil Service Fócil Ortega, Mario Alberto. 2003. "El servicio profesional de carrera en México: las implicaciones en la operación del nuevo modelo de la administración del personal público." Conferencia Latinoamericana de Administración para el Desarrollo, CLAD, Panamá.

Table 6.7.1 Personnel Affected by Civil Service (Merit-Based

Public Agency	Number of Employees
Ministry of Foreign Relations (SRE)	4,083 / 1,352
National Water Commission (CNA)	1,846 / 3,014
National Institute for Statistics, Geography, and Informatics (INEGI)	9,078 / 35,000
Federal Electoral Institute (IFE)	2,336
Tax Administration System (SAT)	34,657
Ministry for Social Development (SEDESOL)	376
General Attorney's Office (PGR)	n/a
Agrarian Law Enforcement Agency	2,904 / 1,446
Ministry of Interior (SG)	n/a
National Judicial Branch	3,400
TOTAL	*58,680* / 46,548

Source: Left numbers come from SHCP, *Información de las Plazas del Sector Público para Exposición de Motivos*, Proyecto PEF, SHCP, April 2004 (represents the average of years 1999 and 2000). Right numbers obtained from (Benton 2002). Where there is a single quantity, data comes exclusively from Benton.

Benton explains, although very broadly, why she includes the above good candidates to be considered as constrained by competition and neutral or formal practices when selecting personnel. Nevertheless, it is still difficult to define clearly which employees work under a civil service atmosphere and its exact number, as well as which ones are surviving to the political sway of the moment. Nobody but Philip, includes also the Central Bank personnel as one example of "quasi-weberian" islands (Philip 2003).

"Weberian islands" are rare and patchy, but base or unionized employees are not. It is important to remember that one might include under the "permanent employees" or the "Civilian Central Government" label the unions which form part of the powerful Federation of Union's Workers to the Service of the State (*Federación de Sindicatos de Trabajadores al Servicio del Estado*, or FSTSE), which groups unions from each of the Ministries or Secretariats and control "Base" employees (low-level positions and clerks). Base unionized employees, according to the latest research on the topic, account for roughly 450,000 without considering teachers and doctors (Heredia 2002).[153]

For analytical purposes, it is clear that the evolution of the political system along with reform of governmental human resources in the last decade is aligned with the world trend towards decentralization and professionalisation. An example of this path is exemplified by the decision of transferring education and health from federal to sub national control in the first case and to reform, taking the entrance as member of Mexico into the Organisation for Economic Co-operation and Development in 1993, as a pretext to implement changes in public employment management (Farfán-Mares 2002). Nevertheless, one has to acknowledge that global-driven reforms and neutrality might also cover well-grounded political commitments, downplaying the importance of subjacent, informal arrangements, which explain more accurately why reform took place.

The political impetus that shape the Mexican composition of public employment should consider seriously the situation of the economy, particularly the social pressures towards employment in situations of economic need; the political, historical pacts with the unions, particularly the ones linked to public action; and third, the need to control the national and sub national bureaucracies. Doubtless, the reform of public employment in Mexico has been shaped by the above underlying forces, which importantly determine any reform in the sector.

[153] Heredia acknowledges that FSTSE has 1.6 million registered or unionized workers. Benton for example, affirms that by 1990 the FSTSE consisted of 89 unions with a total membership of 1.8 million employees Benton, Allyson Lucinda. 2002. "Diagnóstico Institucional del Sistema de Servicio Civil en México." Banco Interamericano de Desarrollo, Diálogo Regional de Políticas / Centro de Investigación y Docencia Económicas, CIDE, Mexico City.

Chapter VII. Rents, Patronage, and Civil Service

7.1 Introduction

This chapter focuses on the financial costs of employment in the Mexican public sector. According to international comparisons, Mexico's public sector is similar in size to its Latin American peers and to those of other developing countries. However, Mexico differs greatly in wages paid to its public employees. Privatization, education, and health decentralization have decreased the number of public employees or at the least have kept their growth stable, yet costs have importantly increased, even compared with other countries or the domestic/international private sector salaries and benefits (Carrillo and Guerrero 2002).

The cost of Mexico's central bureaucracy is very high and the salaries of its highest-ranking officials are greater than both developed and less developed countries. Mexico is one of the few countries that offer better salaries in the public sector than in the private sector. The most important feature of Mexico's public employment management has been its degree of flexibility and discretion and lately its strong rigidity which has been an obstacle for building a professional, merit-based civil service system. As it has been demonstrated, only a small portion of the payments that public servants effectively receive are considered as formal or legal, allowing budget bureaus to cut expenses and adjust costs in the event that any crisis emerges. This flexibility has provided the budget with room for adjustment, yet it has also created a strong degree of job uncertainty that works against the formation of an effective and professional civil service.

As an expert consistently cited by human resource managers claims, "The first and foremost straightforward way to assess the extent of redundancies in a specific country is to compare the public sector share of its labour force to the corresponding shares in similar countries".[154] Among other determinants of the budgetary process, Mexico distinguishes itself from its Latin American peers and other countries with similar levels of development due to the financial burden that its wages represent for public finances. If the elevated cost of the bureaucracy alone were not enough to build a case study on Mexico, "Mexican exceptionality" is further reflected by a disorganized civil service whose professionalism is at best patchy.

It is not possible to effectively examine public employment in Mexico – both qualitatively and quantitatively – without looking at regional and world trends. Many international organisations have carried out regional, comparative, and case studies analyses on the size and burden of the public sector, but such studies have been affected by the lack of domestic, reliable, and standardized data. As Carlson and Payne state, "Twenty years ago, the paucity of data on public employment motivated a study by Peter Heller and Alan Tait (1983), which provided what at the time was the most comprehensive assembly of international statistics on public sector employment and wages. Though Heller and Tait urged governments and international agencies to invest in their capacities to compile statistical data on public employment and wages, the dearth of research and readily available information remains a key obstacle to sound analysis in this area" (Payne and Carlson 2002:1-2).

Along with the above difficulties and the lack of incentives for governments, problems arise on methodological grounds: data is simply not compiled because of employment and payroll management systems weaknesses', existing coordination problems across administrative units, strong variations in organisational and reporting structures, important differences in classifications of personnel, and finally, scarce data

[154] Rama, Martín. 1997. "Efficient Public Sector Downsizing." World Bank / Public Sector Management, Washington, D.C.

on wage and salaries' financial weight (from which average wage levels across countries are calculated).

Mexico might present serious problems in its human resource management and reporting, but other Latin American countries do as well. In a report released in 1988, Lindauer stated that "The actual forms of compensation, that is, the significance of basic wages versus special allowances or payment in kind, can generate additional inefficiencies. This appears to have reached extreme proportions in Perú, where basic wages are reported to account for only 35% of total remuneration for more senior positions".[155] Monthly or nominal salaries may simply not capture discretionary compensation -especially non-wage benefits- or payments to daily paid, even permanent workers (Payne and Carlson 2002:3-4).

Mexico experienced an unprecedented growth of public employment in the 70's before trying to tame public sector growth during the 80's and 90's. Subsequent waves of decentralization, privatization, and downsizing continued over the past three decades, diminishing role of the State as a jobs-provider. Despite sluggish GDP growth and a rapidly expanding population, this transition has considerably reduced the weight of public-sector employment over the economy, especially starting in 1994.

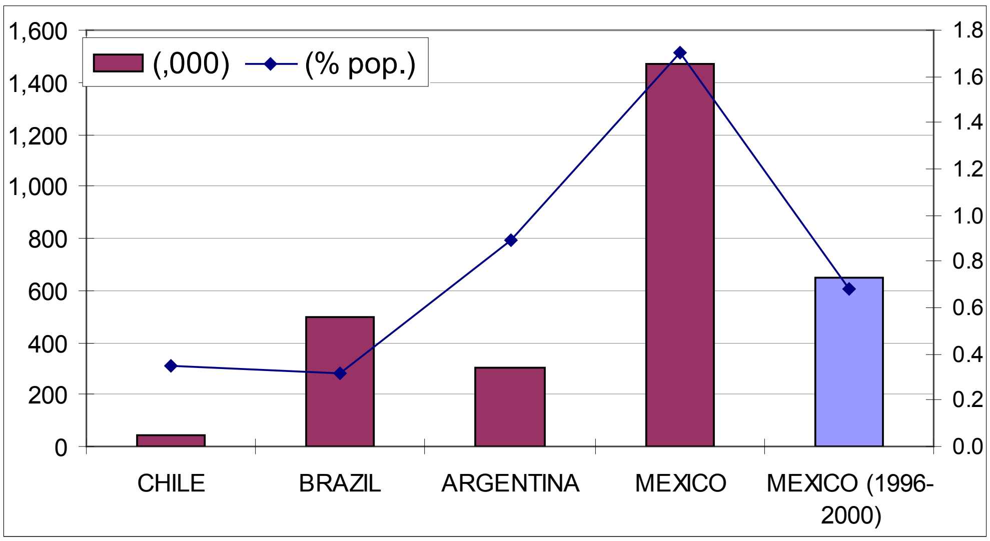
Two main factors influence the weight of public-sector employment over the economy and the population. For the period 1991-95, three major events affected the total number of public-sector employees: privatization of many SOE, education decentralization, and cuts in personnel due primarily to administrative reorganisation, and most importantly, the 1994 crisis.[156] During the second period (1996-2000), cuts in

[155] Lindauer, David L. 1988. "Government Pay and Employment Policies and Government Performance in Developing Countries." World Bank, Washington, D.C.

[156] It is important to notice that the reduction in Central Government's personnel represented a loss of 2,325 employees between 1994 - 1995, 11,855 in 1995-1996, and 62,434 in 1996-1997. Non-financial public enterprises cut 7,570 posts between 1994 and 1995.. Although it is impossible to know with precision what happened to those employees, most were offered incentives to retire through a voluntary

personnel spending continued and health decentralization continued this process. Here, comparison with other Latin American countries is useful: The Mexican government payroll's weight both in total number and percentage of population is much bigger than the other countries, even after the adjustment period.

Table 7.1.1 Civilian Central Government Employment, Excluding Education, Health and Police (1991 - 1995)



Source: The World Bank Group. World Development Indicators, 2001

Numbers and percentages change when looking at general government employment[157]. For Latin America, the population's share of general government employment is 3%. Countries which exceed this average – Uruguay, Trinidad and Tobago, Argentina, and Mexico – weigh in at 5.9, 5.4, 4.8, and 4.3 respectively. Mexico, for example, has a relatively small general government, but a bloated central government compared with other countries for the region, with employment in the central government's 18 cabinet-level agencies representing between 1.5 and 1.2

---

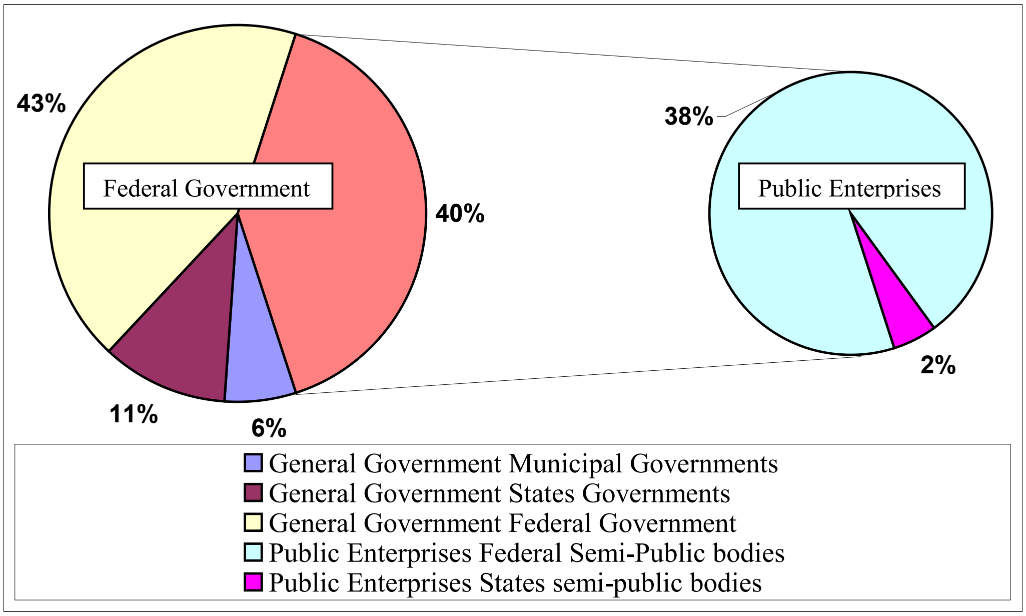
retirement program. Benton, Allyson Lucinda. 2002. "Diagnóstico Institucional del Sistema de Servicio Civil en México." Banco Interamericano de Desarrollo, Diálogo Regional de Políticas / Centro de Investigación y Docencia Económicas, CIDE, Mexico City.

[157] In Mexico, the term "general government" is commonly used to designate the federal, state, and municipal governments as a whole, in contrast to the "central government" – Mexico's 18 cabinet-level agencies under the administrative control of the president. For further clarification see …

percentage of the population. For the region, labour force (or Economic Active Population, *Población Económicamente Activa*, or PEA) average is around 10% and just Argentina and Mexico are above that number, with 11.4 and 10.7 respectively (year 1999) (Payne and Carlson 2002).

Numbers for Mexico confirm the importance of general and central government's public employment within the region, but compared with the OECD member countries' average (15.6) Mexican figures are low. General Public Employment compared with PEA in Scandinavian countries for example, presents levels between 20 and 30 percent. Nevertheless, another survey gives Mexico 15.9% for employment in the "limited" public sector as a percentage of total employment and 26.1 % in the "extended" public sector. "Limited" and "extended" public sector accounts for central and sub-national governments, and these plus public enterprises respectively. For the second category and between OECD member countries, Mexico is just below Denmark and Sweden, and almost in line with France and Finland (Lafranchi and Perrin 1997:11-12).

Table 7.1.2 Breakdown of Public Sector's Employment, circa 1993



Source: (Lafranchi and Perrin 1997: 40).

Lastly, other two important factors which importantly affect variation of public employees in Mexico are electoral cycles and economic crises which add additional rigidities to the system. Elections, on the one hand, cannot be delayed or cancelled, and economic crises reduce the degree of budgetary manoeuvre as a result of revenue loss. For example, during the 90's, midterm and general elections which took place in 1991, 1994, and 1997 show clear variations in low-level liaison personnel according to the item "Organisation of Electoral Processes" (1994=45,287, 1995=11,122 / 1997=31,644, 1998=16,902), and the 1994 crisis resulted in strong personnel reduction between December 1994 and mid 1996 (Benton 2002). As in the private sector, belonging to a union assures job stability despite these and other factors. Unionized workers do not show reductions, but slight growth on a year-to-year basis (Benton 2002: Table 5.1.4).

7.2 General and Central Government Wage Bill

Despite the nature of Mexico's on public-sector employment, Mexico presents numbers close to regional and world standards considering its level of economic development. In some areas Mexico even outpaces its peers. As Heredia notes, the size of public-sector employment in Mexico is close to that of Latin American countries but still inferior to the average of industrialized democracies. Where Mexico differs most from other industrialized and developing countries is not in the size of its bureaucracy, but rather in its cost (Heredia 2002: 2).

For approximately 20 Latin American countries where data is available, the average share of the central government's portion of the GDP is around 6.8%. According to the size of its economy, Mexico shares with Argentina, Brazil, Colombia, and Venezuela roughly a low 2.5% of the GDP. For OECD standards, Sweden reached in 1990 21% and most developed industrialized democracies had a share of slightly over 10% (BBVA 2003).

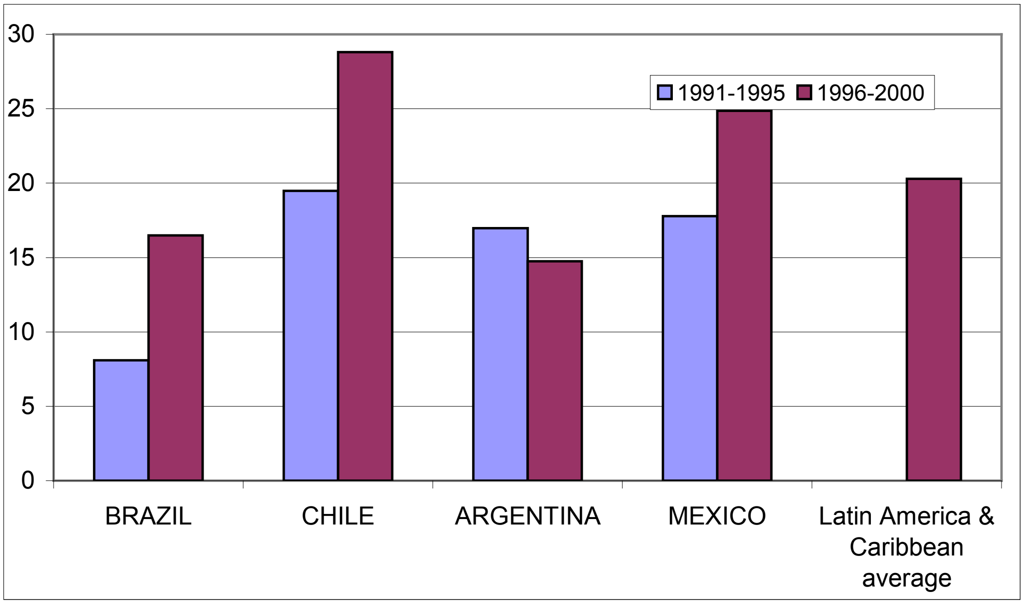
Mexico, on the other hand, stands out for its far higher percentage of wages as a share of total public expenditure: among Latin American countries, Mexico recorded the highest percentage of wage costs over public expenditure (45%) in comparison with other countries of similar size such as Argentina and Brazil (both with less than 40%), and frontrunners in administrative reform like Chile (roughly 20%) (Payne and Carlson 2002). Mexico's spending on wages for the public sector swallowed 29.3% of programmable or discretionary expenditure in 1990, reaching 35% in 1993, 47.5% in 1999, and 45.1% in 2002 (BBVA 2003:11).[158]

[158] In analyzing the public sector wage bill as % of total public sector expenditure, the Administrative and Civil Service Reform World Bank's site states that, "As a rule of thumb, when this ratio rises over 25%, governments risk reducing their effectiveness by squeezing non-wage expenditure such as goods and services, maintenance, and capital expenditure". See Aggregate Employment and Wage Bill Concerns, http://www1.worldbank.org/publicsector/civilservice/wageconcerns.htm, downloaded 19 September 2003.

Differences are even greater when looking at the total of central government wages as a percentage of total public expenditures. As the following Table summarizes, differences on the proportion of the public sector spending fluctuates for both periods, probably indicating the implementation of policy choices at different stages. Although Chile might appear to deliver a considerable proportion of its total public spending to pay central government employees, it is important to keep in mind that those institutional factors considerably alter the burden of any item over the budget. For example, numbers for Chile might appear to be very high, but a more in depth analysis would conclude that, taking in consideration that Chile is unitary and the other countries are federal republics, proportions between unitary and federal of central, federal, and state or local governments' employment are considerably altered by such institutional legal-political design. In the case of Mexico, despite the privatization and decentralization effort, as noticed by the decrease in the number of people employed by the central government, the financial cost in wages increased substantially. Mexico privatized and decentralized, but it also allocated more financial resources to its central government administration.[159]

[159] The inverse relationship between privatization and decentralization as strategies for public sector downsizing and central / federal government in other Latin American countries differs in Mexico. The "center and the regions" appear to show a "war of attrition game". While empowering subnational governments, retrenchment of the Executive and Federal Public Administration has been mirrored by the desire of the Presidency to gain political and administrative leverage.

Table 7.2.1 Central Government Wage Bill, Percentage of Total Government Expenditures



Source: The World Bank Group. World Development Indicators, 2001.

The institutional sources for policy outcomes and its comparative variations are easy to identify when there is a clear link between legal, formal, or institutional backgrounds and observable data. It is surprising that despite being a federal republic Mexico delivers almost ¼ of its total expenditure to pay the central government's public servants. This proportion proves that Mexico sacrifices a big portion of its financial resources that could have been spent on its general government: almost half of its total public expenditure (45%, circa 1999) is devoted to pay all public servants; government devotes slightly more than 25% (average 1996-2000) percent of total spending to pay its central government (using World Bank's guidelines) which indicate that, aside from proportions government is clearly centralized; and lastly, of that 25%, approximately ¼ or 6.25% represent the total cost of "daily paid" (semi-professionalized) and "temporary" (patronage) employees (proportion is taken based on 1994, or nearest year data available).

The more accurate and available data (1994) indicates that outlays of total public expenditure (328,190,500 current pesos) devoted for central government employees represented roughly 7.5%, but the percentage increases substantially when computing for discretionary or programmable expenditure (244,630,200) which represents 10%. Of these 10%, "temporary" or patronage employees share about a fifth of financial cost, or exactly 1.8% of total spending (24,614,000) and between 2.4 - 3.1% of discretionary spending (5,833,000).[160]

Yet a considerable bulk of financial resources, according to information provided by SHCP and former public servants related with the topic (Farfán-Mares 2004a; Farfán-Mares 2004c; Farfán-Mares 2004d) as well as SIARE's CLAD information goes to feed patronage appointments. The latter calculations actually represent roughly 20% or slightly more, according to different sources, of the total real income. Heredia in part substantiates the latter when summarizing the results of the diagnosis implemented in 1995 by SHCP's Civil Service Unit (*Unidad de Servicio Civil*, or USC). Between the most telling results are the following: on average, only a third of the supposed monthly income corresponded to the reported and the other two thirds accounted for bonus and stimulus approved by the superior on a very discretionary basis; the salary did not reflected the hierarchical level and duties; and, finally and most important, in many administrative units significant proportions of financial outlays which composed expenditures on employees came from budgetary items, cash flows or different *partidas,* rather than those included in the formal programmatic structure, such as Chapter's 1000 Personal Services (See Appendix 1 for a detailed description) (Heredia 2002:20).

[160] Data for 1994 comes from INEGI (Total public spending, non-programmable, and programmable) and from CPHF 1994 (*Remuneraciones*, or outlays for unionized and trust employees (*base, confianza y eventuales*).

For example, an analysis provided by one of the Mexican major commercial banks calculates that the monthly income – the base salary or *sueldo base* in OECD standards – represents 90% of the total emoluments: in Mexico, according to the study base salary only makes up 15% of gross emoluments. The other 85% corresponds to the item "Guaranteed Compensation" or *Compensación Garantizada* (*partida* 1509), a cash flow that does not appear to have an assigned resource according to the Public Accounts from 1970 up to 2004 (BBVA 2003). Taken the latter consideration, percentages for patronage employees could climb up to 10% of total and 14% of discretionary – programmable – expenditure correspondingly, which reinforces the idea that the financial burden of patronage employees wage costs vis-à-vis total public expenditure and discretionary expenditure is huge. Finally, putting aside the information given by several acting and former SHCP officials and the studies mentioned above, with regard to the proportion that the nominal or reported monthly perception an individual's share represents between 20 and 30% of the total real perception. Two sources calculate the cost of "high level" patronage as 3.5-3.7% of total wage costs (BBVA 2003; Carrillo and Guerrero 2002). Carrillo and Guerrero define "high level" bureaucrats as Secretaries, Undersecretaries, *Oficiales Mayores*, *Jefes de Unidad*, General Coordinators, and General Directorates (Director General).

According to recent research on salaries of medium and high level bureaucrats in varied countries (for Mexican purposes, patronage or "political" employment), Mexico has one of the highest, if not the highest salaries in the world for its public servants (Carrillo and Guerrero 2002). Using a variety of international comparisons (real annual salaries in dollars, compared with cost of life of main cities, power purchasing parity, pensions for three, four, six, and nine years of service, year to year variations in salaries, comparison with private sector standards, and so on), Mexico "enjoys" only compared with the US and the United Kingdom in some respects, the first place of countries with the highest salaries of high level officials in the world (for the purposes of this chapter considered “political” or patronage employees).

Up to this point, we know that numerically (the previous Chapter) and financially (this Chapter), non-patronage and particularly patronage employees represented a significant –numerical and financial- burden for the Mexican State. The issue turns dramatic considering Mexico’s level of revenue, which measured as percentage of its GDP is one of the lowest of its region and certainly the lowest of its peers. Which was exactly the relationship between State’s apparatus economic, political and administrative performance? A key element is to know which were the causes –and results- of altering the number of employees and shifting the cost of the wages paid.

7.3 Determinants, Effects, and Results of Wage Variation

To face the 1982 economic crisis, the Mexican government took important policy decisions regarding public enterprises, decentralization, control of bureaucracy, public expenditure, and many other aspects. In preparing both the budget and government’s human resources for next year, and foreseeing the urgent need to reduce the burden of a bloated bureaucracy, the government decided to introduce substantial administrative, budgetary, and accounting changes (Farfán-Mares 2004a; Farfán-Mares 2004c).

The elements that determined both the level of employment and the financial resources -the cash flows or *partidas*- are the only method to have a precise idea on how the Chapter 1000 ("Servicios Personales") or Personnel Services, i.e. the amount of expenditure appropriated for wages, worked (see Appendix I). The first problem is that, on the academic side, nobody has published a book, report, or even a working paper on the topic for any year or period. Therefore, there is no way we can use external information or "non-official" research to put it against governmental data. Given the political and very sensitive nature of the Mexican government's payroll, the issue was kept out of public notice for many years, even inside the bureaucracy. Only a reduced number of people at SHCP's *Unidad de Control y Política Presupuestal,* or UPCP (3 people at the most) were the ones who knew which *partidas* (prior to 1994 alphanumeric, then only numeric) were used to pay bureaucrats, particularly their extra earnings. Traditionally, and historically, the way several researchers gauged the financial cost of public employment was taking National Institute for Statistics, Geography, and Informatics, (the *Instituto Nacional de Geografía, Estadística e Informática*, or INEGI) and other sources, the available reports on the Chapter 1000 either by number of employees or outlays. Nevertheless, Chapter 1000 is composed of hundreds of *partidas*, some of them which are simply impossible to detect or identify, due to the fact that criteria changed on a yearly basis and only the centralized budgetary system had the control of them, deciding discretionally where to get the money from to pay bureaucrats.

Methodological problems arise when looking at the available and public figures for Chapter 1000 since it presents a very aggregate level. Only public servants directly involved either with the changing process of payroll rules or as product of seniority (Farfán-Mares 2004a; Farfán-Mares 2004c; Farfán-Mares 2004d) could bring some light to such difficulty. A single *partida* inside the chapter 1000 was used to pay the regular, nominal (*sueldo tabular* or base salary), but not the real salary, which, defined as the total amount of money that in real terms a bureaucrat received in a year, was composed of several *partidas*. Since 1981, the Mexican government decided to first, use a *partida* inside Chapter 1000 to pay on a monthly basis, but this resource represented only a bit of what they received in the end. Extra payments or bonus (*bonos*) a bureaucrat received indeed came from other *partidas* and only one *partida* was used to pay the nominal, the stable income a bureaucrat had (1206, 1224). This scheme ended in 1994-1995 where all the payments that integrated the real and last sum of money a person received were defined within a single and more transparent method (cash flow 1509, or *compensación garantizada* scheme).

So, the monthly payment that the bureaucrat received was only a bit of what he really earned and the extra part was approximately 90% of his total income. This extra 90% came from different *partidas* between 1981 and 1995 so the government could cut this 90% according to a political or economic need – given the circumstances – without "hurting" the monthly payment. Finally, it is important to take into account that the monthly payment (which represented roughly 10% of the total real income) was the amount taken in consideration to pay the retirement and the pension, so there were no incentives for a bureaucrat to retire because the pension was calculated according to the monthly payment and not the discretional -and secretly apportioned- bonus.

Changes either to calculate, allocate and send the resources to each of the Units in Charge (*Unidades Responsables*, or UR's),[161] had dramatically change over time. It might be easy to see those as mere results of the personal or institutional needs for patronage but they normally responded to pressures from the political arena, public opinion, and in most of the cases, loss in revenues. We show in the following Table, the evolution of the mechanisms through which the Executive (i.e. the Ministry of Finance and the President), channeled resources to build political support within the higher echelons of central bureaucracy.

[161] To have a broad analysis and discussion of these and other administrative units in the budget process, see the part of the present research on the Political Economy of the Budget Process. It is important to notice that there are approximately 899 UR's in the Mexican Public Administration.

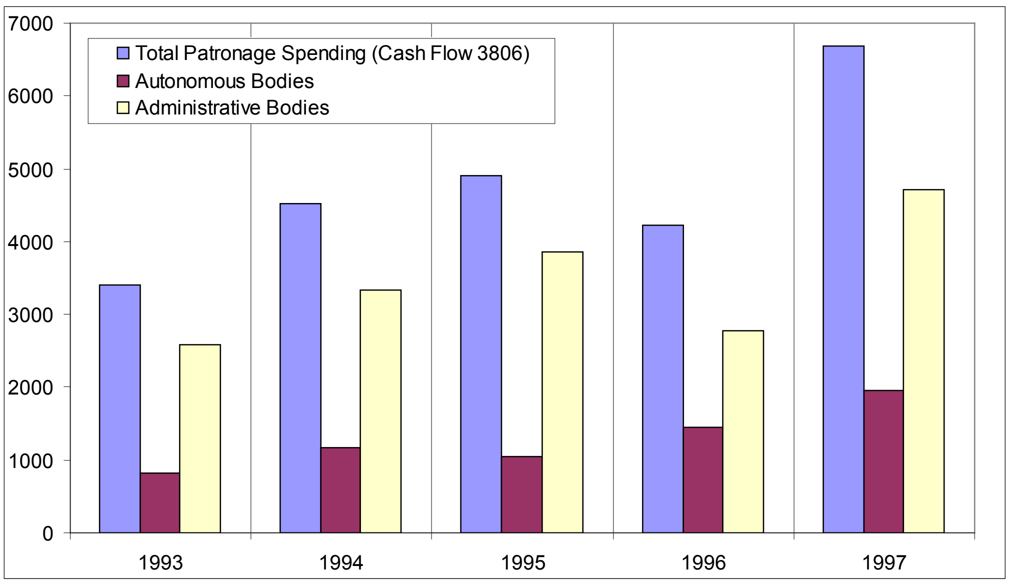
Table 7.3.1 Evolution of Discretional Payments to Patronage Employees

Year	Cash Flow (*Partida*)	Specificity
"Until 1983"	Not defined	Upper and middle level public servants received annually a special compensation, delivered on a discretional basis.
"Until 31 December 1984"	Several	Total payment of public servants was composed by three concepts: salary (basic monthly retribution according to the Catalogue), over-salary (Additional amount of money which varied according to the cost of life across the country's economic regions), and additional compensations (additional amount of money calculated according to the level of responsibility which was delivered on a discretional basis in quantity and time).
Starting 1984	1506 ("Personnel Stimulus")	An "Acting Yearly Bonus" was established, equal to three times the monthly income and paid in two exhibitions: June and December. Thought initially as a way to enhance efficiency and productivity, no mechanisms for evaluation were implemented and therefore it was considered only as a complement.
From the 1st of January 1985 onwards	1104 ("Compacted Salaries")	Economic Zones were reduced to three and from July 1985 the "Acting Bonus" is divided on a monthly basis. A yearly stimulus is established again and each administrative unit decides over its amount.
1986 and 1987	Not defined	Annual incentive is divided on a three month basis and starting 1987 is delivered on a monthly basis. There are no evaluations or any sort of mechanism to regulate such incentive.
1989	1104 ("Sueldo Tabular") 3806 (Additional quantity and monthly recognition: "Asignaciones para requerimientos de cargo de servidores públicos superiores y de mandos medios")	Only the 1104 was included in the Budget Decree (*Presupuesto de Egresos de la Federación*, or PEF).
January 1998	3806 is integrated under a single *Partida*: 1509 ("Compensación Garantizada"); The 1104 ("Sueldo Tabular") is comprised under the code 1103 with the same name.	PEF 1998 establishes for the first time the possibility of delivering productivity, efficiency, and quality stimulus for the upper and middle ranks.
1999	Not defined	35% of 3806 is included in PEF
2000	Not defined	80% of 3806 is included in PEF
2002	Not defined	100% of 3806 is included in PEF

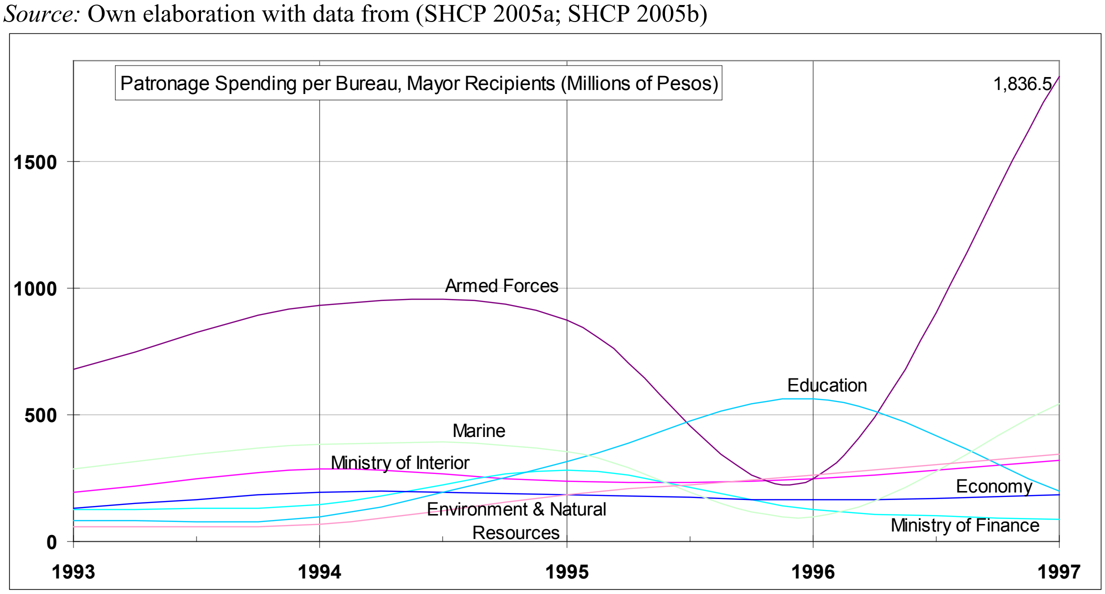
Source: {SHCP, 2005 #614}

Nevertheless, while they were supposedly economic and financial reasons to introduce changes in the composition of Chapter 1000, "Personal Services", the administrative and the political incentives as well as the results of these are difficult to identify accurately. According to a pure empirical analysis and using a very aggregate level, Chapter 1000 started to reduce its financial burden over the whole of programmable (i.e. discretionary) expenditure later than the economic or financial accounting changes supposedly introduced for that purpose. From 216,585 in 1980, 310,900 in 1981, and 316,864 in 1982, personal services reduced to 234,266 in 1983, all in millions of 2002 pesos (Cámara 2003: 180-181). The trend for personal services outlays registers only two important cuts, in 1983 and 1986 (Cámara 2003: 182-183).

Table 7.3.2 Discretionary Expenditures (Bonus for high rank public officials, or confianza)



Source: Own elaboration with data from (SHCP 2005a; SHCP 2005b)



Source: Own elaboration with data from (SHCP 2005a; SHCP 2005b)

Which reason was behind the Mexican government's decision to alter key aspects which ruled both the payroll and wage bill? The incoming President De la Madrid was committed to restructuring public administration according to his campaign commitments. Due to widespread belief in society that corruption, embezzlement, misappropriation of public funds, poor planning, cronyism, and former President López Portillo's public support towards nepotism were a common practice in government, there was a strong general public pressure for the President to include in the agenda some policy measures in order to recover people's credibility in public institutions. Despite the rhetoric about anti-corruption schemes, political will against the embezzlement of public money, and an effort at more efficient public management, the most powerful incentive for De la Madrid's government was "the need to reduce government expenditures on salaries".[162]

Many measures and reforms such as the creation of the USC within SHCP to set up a generalized civil service, administrative simplification, and a new legal framework to punish public servant misconducts. At the same time, many other informal measures were implemented to combat the public's bad government's image. Nevertheless, while public concerns played an important part, the internal dynamics of bureaucratic politicking were difficult to observe directly. It was clear that in 1982 the Mexican government had to use its capacities at its full to face an economic crisis that was quickly eroding the internal and external position of the government. Since the most urgent need was of economic origin and PRI's political machinery was apparently strong to compensate society demand of an explanation, the government decided to first increase control over an oil-induced bloated bureaucracy establishing an internal comptrollership, SECOGEF.

[162] Benton, Allyson Lucinda. 2002. "Diagnóstico Institucional del Sistema de Servicio Civil en México." Banco Interamericano de Desarrollo, Diálogo Regional de Políticas / Centro de Investigación y Docencia Económicas, CIDE, Mexico City.

But as many had analyzed, technocratic solving means putting the market first rather than the State (Centeno 1994). The political authoritarianism and the absence of checks and balances during the 70's led to bad economic planning, resulting in a bloated and inefficient bureaucracy who pushed the government to respond with budgetary-type measures.

The Mexican Executive's strong budgetary powers as developed up to 1982 were used to reorganize and carry out most of the downsizing policies that international organisations such as the World Bank and the IMF were recommending at the aftermath of the debt crisis in the 80's: "Growing concern at the World Bank over the relationship between government pay and employment policy and government performance [explains why] prior to 1981 lending for government pay and employment reforms was rare, but between 1981 and 1986 forty-four loans in twenty-three countries have been proposed, and a sizeable number approved. These loans reflect a common view that existing government pay and employment policies are not making the best use of scarce public resources".[163]

The success in applying those measures rested mainly upon two assets: strong and effective budgetary and financial management tools, which were clearly developed during the last presidential administration; along with the political muscle of an authoritarian, disciplined, hierarchical, and vertical nature of public administration.

7.4 The Political Economy of Downsizing

Budget balancing has preceded deficit avoidance before the beginning of the international economic crisis in the 70's (Gilpin 2001; Rubin 1993) and the so-called structural Reforms inspired the Washington Consensus (Williamson 1990), but

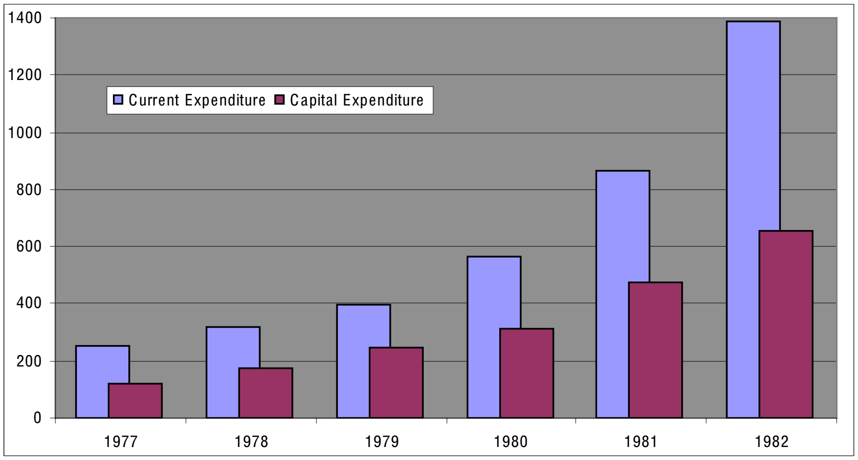
[163] Lindauer, David L. 1988. "Government Pay and Employment Policies and Government Performance in Developing Countries." World Bank, Washington, D.C.

downsizing policies took important support from multilateral agencies in the 90's (Rama 1997). Alesina and Perotti, using a sample and econometric analysis for OECD countries between 1965 and 1995 claim that "Successful adjustments … rely mostly on cuts in transfer programs and in government wages and employment … [and] unsuccessful adjustments rely primarily on increase in taxes, leaving transfer programs and government wages and employment untouched, or even increased … any serious fiscal adjustment hoping to be successful, cannot avoid dealing with cuts in the welfare state and in government wages and employment … limited expenditure cuts that occur during unsuccessful adjustments come mainly from government investment"(Alesina and Perotti 1995:18). In 1982, the Mexican government decided to use the payroll and wages to operate the necessary adjustments to balance the budget and, according to the existing view at the time, to let the State to withdraw from the economy. It was certainly a difficult task, and deficits did not begin to dwindle until the late 80's, when President Salinas negotiated a debt restructuring, using swaps and the Brady proposal in 1989.[164]

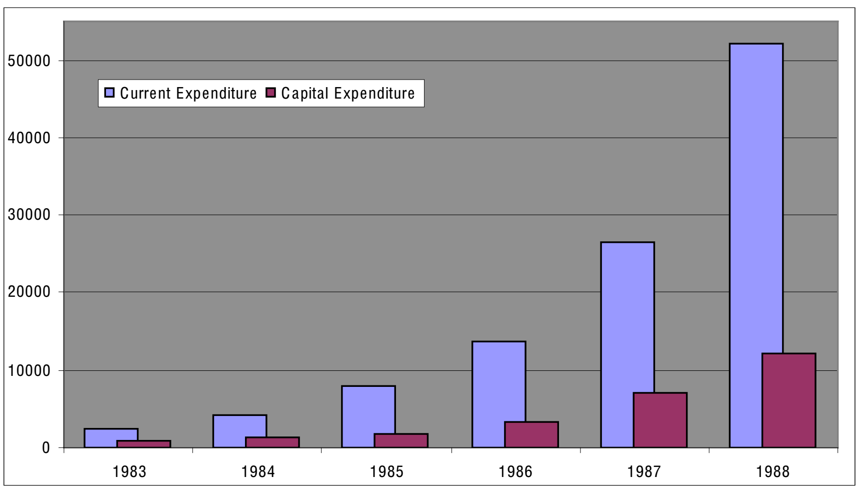
As the following Tables indicate (debt, GDP performance, oil, and current and capital expenditures) Mexico's economic situation during the 80's was complicated and only began to improve with the arrival of Carlos Salinas to the Presidency in late 1988. Nevertheless, the relationship between capital and current expenditure – a strong indicator on both the level of employment and the cost of the wage bill vis-à-vis capital expenditure – deteriorated and never recovered from pre-1982 levels.

[164] Alesina and Perotti also stress the importance of the type of political backdrop for adjustment policies: "Coalition governments do try to be fiscally responsive but they are unable to implement the types of policies needed to make the adjustment last" Alesina, Alberto and Roberto Perotti. 1995. "Fiscal Expansions and Fiscal Adjustments in OECD Countries." National Bureau of Economic Research, Cambridge, Massachusetts.

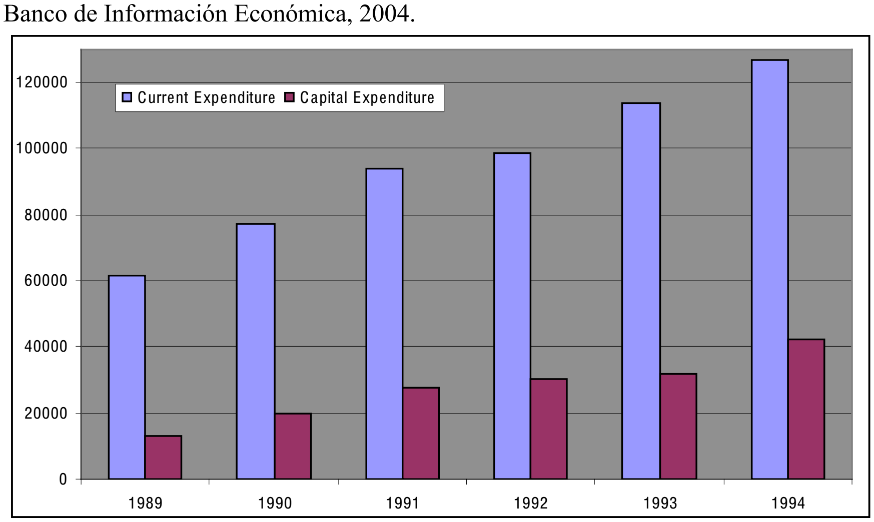
Table 7.4.1 Current vis-à-vis Capital Expenditure per Presidential Term



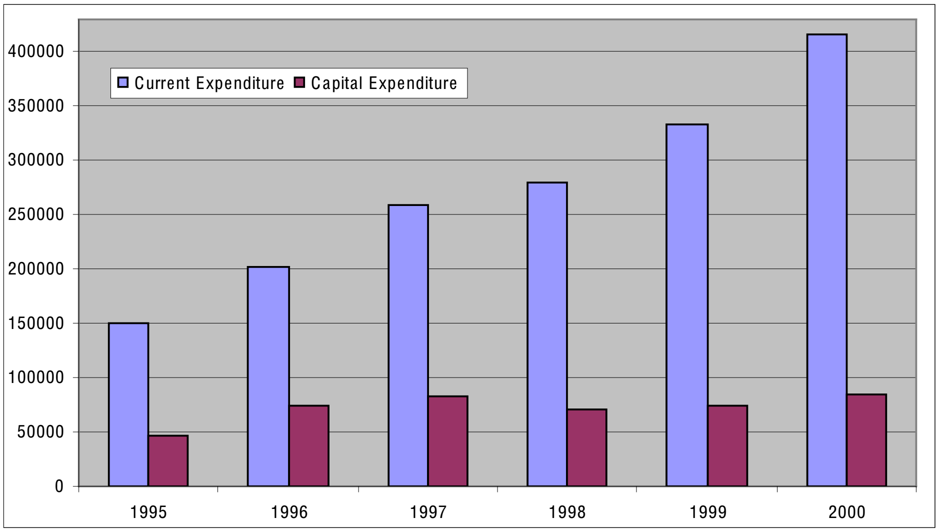
Source: own elaboration with data obtained from INEGI. Sistema de Cuentas Nacionales de México. Banco de Información Económica, 2004.



Source: own elaboration with data obtained from INEGI. Sistema de Cuentas Nacionales de México. Banco de Información Económica, 2004.

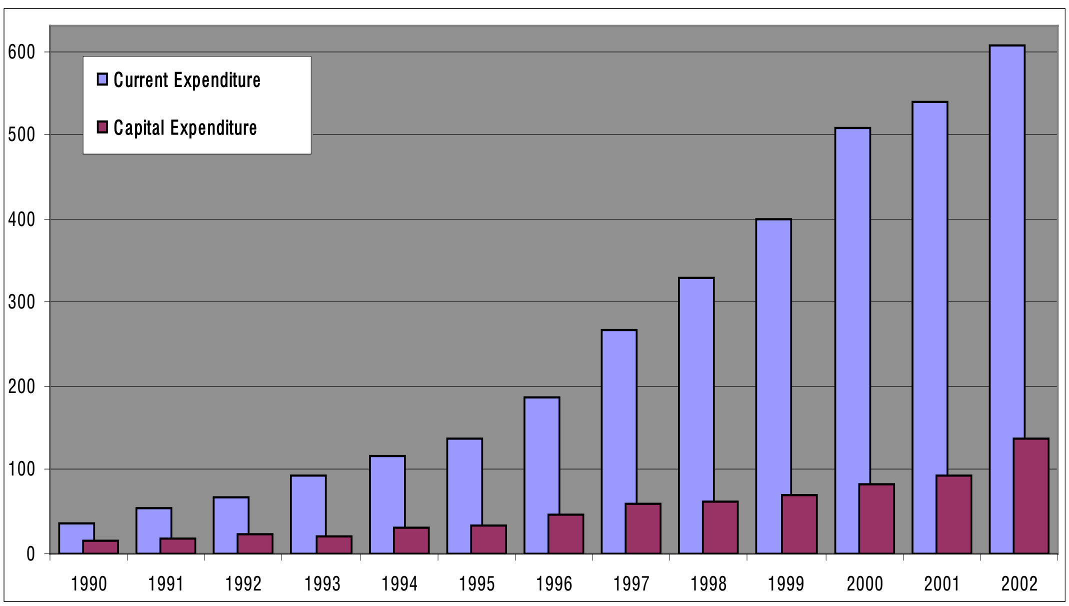


Source: own elaboration with data obtained from INEGI. Sistema de Cuentas Nacionales de México. Banco de Información Económica, 2004.



Source: own elaboration with data obtained from INEGI. Sistema de Cuentas Nacionales de México. Banco de Información Económica, 2004.

Table 7.4.2 Capital vs. Current Expenditure Trajectory (Billions of Pesos).[165]



Source: own elaboration with data obtained from INEGI. Sistema de Cuentas Nacionales de México. Banco de Información Económica, 2004.

As we see in the above Tables, deficits run out of control until the late 80's, and to no surprise, many programs did indeed served as safety nets given the severe deterioration of Mexico's economic situation. As Rodrik states, country size is a

[165] It is important to acknowledge that the cost of employment represents 57%, measured as a proportion of current expenditure Sarabia, Ernesto. 2004a. "Llega al maximo el gasto corriente." Pp. 1 in *Reforma*. Mexico City.

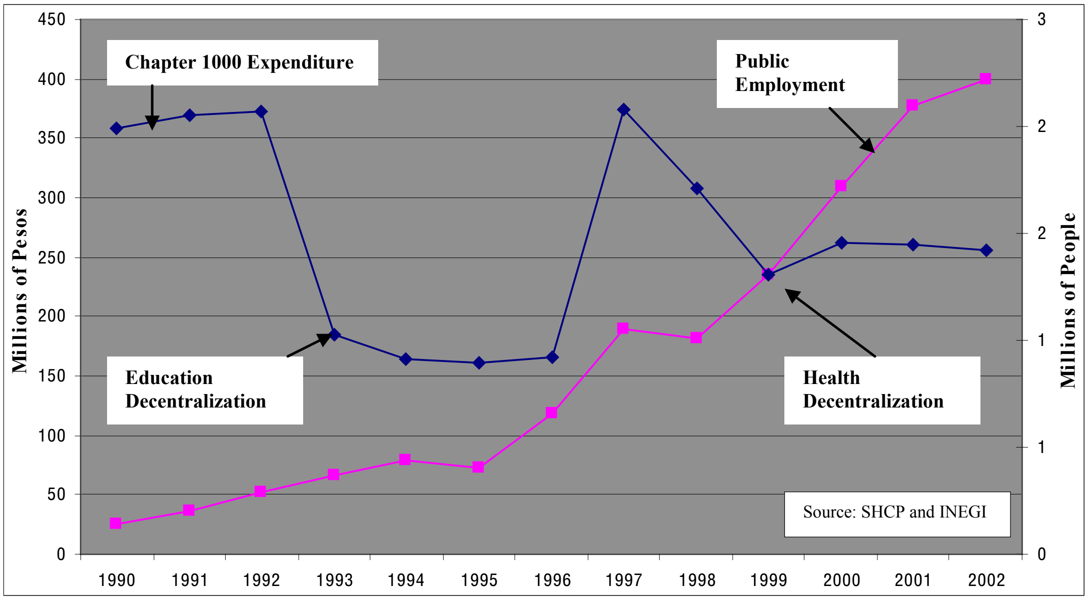
determinant of the size of the public sector but “what seems to matter is exposure to risk rather than country size”(Rodrik 1997:14). The case made for this insight goes as follows: “If more open countries are more vulnerable to exogenous shocks such as shifts in their terms of trade with world markets and if government spending is capable of stabilizing income and consumption, then more open countries will need a larger government to play a stabilizing role”.[166] Mexico did begun adjusting and downsizing, but varied circumstances made the task more difficult.

Something puzzling arises when looking at variations in salaries and the financial burden of the wages over total public spending vis-à-vis private employment, prices and salaries (market adjustment): they both match and behave cyclically. For example, the percentage of both public and private employees compensation variation from 1994 to 2000 show a puzzling trend: they behave about the same, with the difference that public sector perceptions “recover” from an economic downward spiral more aggressively than the private (BBVA 2003). Private and public sector salaries showed a similar trend during the 90’s, which means that they both adjusted to the overall economic conditions.

Astonishingly, financial behaviour presents considerable shifts in years of financial and economic stress for both the public and private sectors in Mexico. For example, real Annual Changes in Compensation Costs by Level of Government, according to an OECD research, shows that variation matches economic crisis and important revenue losses for Federal and State Governments (OECD 2001).

[166] Tavits, Margit. 2004. "The Size of Government in Majoritarian and Consensus Democracies." *Comparative Political Studies* 37:340 - 359.

Table 7.4.3 Evolution of Personal Services (Chapter 1000)



Source: own elaboration with data obtained from INEGI. Sistema de Cuentas Nacionales de México. Banco de Información Económica, 2004.

The above Table shows two important "non-economic" reductions, education and health personnel decentralization. The link between decentralization and lower wages in the Central Government is clear, but employment trends are not responsive to decentralization efforts: they are responsive to the conditions of public finances. Despite the very aggregate level that is shown on the Table, it is clear that reduction of financial cost and personnel between the year 1994 and 1995 both present a similar behaviour. Between 1997 and 1998, and given the loss of oil revenue due to a much lower price per barrel (see Table above "Oil, exports and GDP share, price per barrel"), it seems that Central Government public employment is very responsive to oil prices per barrel.

7.5 Response to the 1994 crisis

In December 1994, the Mexican government faced what has been considered one of the most severe economic crises (see Table above, GDP Performance, % change) in its history. In 1995, SHCP released a document entitled "Structural Measures for

Expenditure Reduction on Personal Services" (*Medidas Estructurales para la Reducción del Gasto en Servicios Personales*) which established a mandatory 30% reduction on the wage bill for each Secretariat (Ministry) directed to pay patronage (confianza) employees excluding education, health, and the armed forces (Bonifacio and Falivene 2002).

At the document Directions for Federal Public Administration' Entities Resizing (*Normas para Redimensionamiento de las Dependencias de las Entidades de la Administración Pública Federal*), of 1996, which follow the same guidelines as the one published in 1995, SHCP informs that the result of both measures included in both documents is the cancellation of 5,500 patronage employees or Central Government posts. In 1996 it is announced the suppression of 4 ministries (Agrarian Reform, Tourism, Energy, and General Comptrollership) whose duties and responsibilities were moved to other bodies of lower hierarchic nature. For this last measure, it was calculated that 20,000 people lost their jobs (Bonifacio and Falivene 2002).

Under which conditions did SHCP (i.e. the Executive) have the capacity to implement these important cuts in personnel expenditure? Two main directly related elements acted as important instruments of both patronage employment and its cost reduction: nominal versus real month salary and severance schemes. Since the monthly payment represented only a small proportion of real income, SHCP attempted not to fire, but rather to significantly reduce the extra bonus, compensation, and performance stimulus. This strategy was not an easy task, since it implied negotiation on a personal basis (Farfán-Mares 2004a; Farfán-Mares 2004c; Farfán-Mares 2004d; Farfán-Mares 2005).

When traditional incentives did not work out, financial incentives were put into practice. Since in the past "everybody had to leave" when an upper level boss fell in disgrace due to various reasons, patronage employees accepted the appointment with this in mind and acquiesced when times of removal arrived (Guerrero Amparán 2000a:16). Benton gives a clear description of the logic behind patronage employees, "these … hold their jobs as long as their patron is on staff. At the very least, they are replaced every six years, with the end of presidential terms. At the most, they become unemployed as internal party dynamics demands a redistribution of jobs within the public sector. If a minister, secretary, or department chief leaves office for political or personal reasons, all patronage appointments attached to him must leave as well".[167] This might explain pre-crisis bureaucratic behaviour, but clearly was not the case in 1995 and other cuts implemented in 1998. Since President Zedillo's term personnel turnover reduced significantly compared with its predecessors, Zedillo's personnel adjustment was more a response to economic stress rather than political turbulence.

For example, as Heredia notes citing a reliable source on public employment turnover, "Different studies indicate that average job stability of higher level post in Mexico has been considerable … research on presidential cabinets between 1946 and 1988 indicate that the average number of years a public servant must accumulate until he reaches a ministry level are 17.4 of continuous activity in government … other more recent and complete research on the topic indicates that the average duration in government duties –though with different level of responsibilities and posts of public patronage officials is 25 years".[168]

Therefore, while there was a *political* structural dynamic behind personnel turnover during the decades that the PRI had the presidency, in times of economic stress

---

[167] Benton, Allyson Lucinda. 2002. "Diagnóstico Institucional del Sistema de Servicio Civil en México." Banco Interamericano de Desarrollo, Diálogo Regional de Políticas / Centro de Investigación y Docencia Económicas, CIDE, Mexico City.
[168] Heredia, Blanca. 2002. "La economía política de la creación de servicios civiles de carrera: La experiencia de México en los años 90." Pp. 43 in *Red de Gestión y Transparencia del Diálogo Regional de Política*. México, D.F. Own translation.

bureaucratic verticality worked as an asset to implement efficient and expedite personnel reduction, as well as to propose and enforce severance measures.

7.6 Institutional Choice at the Public Sector: the President's view

The link between patronage's historical institutional dynamics and employment downsizing policies can be explained with an anecdote provided by the actors involved with the Mexican government's intent to implement again a generalized career civil service after the 1994 crisis. As Heredia stresses, according to one of the most directly involved public officials in the process "President Zedillo alleged that he simply did not see the reason why it was convenient to replace the best of systems with the worst'. Apparently, the 'best' system for the President was the one which provided him with enough flexibility to remove public officials –frequently politically influential – opposed to its policy' orientation. The 'worst' was the one which, through mechanisms such as employment guaranteed stability, limited the degree of manoeuvre to govern and turned bureaucracy into a closed dominion for politicians' traditional clientele and its allies: the interest-concentrated groups".[169]

Doubtless, President Zedillo's views about administrative downsizing and reform represent the clearest example of why the implementation of temporary policy measures for crisis management might operate in parallel or even reinforce structural or institutional and political dynamics, and certainly not always pro-reform. Given the economic situation that President Zedillo faced, it is more than understandable that public finances were the most important drive behind reduction in personnel, but policy choices always mirrored transaction as well as opportunity costs. Economic-type solving measures (downsizing) along with a political, structural "pre-weberian"

[169] Ibid. Own translation. [Alesina and Perotti]: "… any serious fiscal adjustment hoping to be successful, cannot avoid dealing with cuts in the welfare state and in government wages and employment" (Alesina and Perotti 1995: 18).

bureaucratic framework, accentuated an already institutionalized and perverse spoil system.[170]

Political and economic determinants did not distribute costs evenly. Institutionally, they might ignite a recurrent dilemma between assuring public finances' soundness or bureaucratic political control (Geddes 1994). In the case of Mexico, given the structural weakness of the State's revenue raising capacity, along with the depth of recurrent economic crises and public finances' key role in building political support for the regime, public finances were by far the most pressing issue for any President.

The political economic determinants of the budget process, particularly referred to public employment, were lost as soon the "Shared Development" started to be implemented. The explosion of social and political demands challenged the model, and the delicate balance between political and financial management of the system changed dramatically. Up to 1970, bureaucratic growth –numerically and financially- responded mostly to the economic and social demands of the "Mexican Miracle" of price stability and high rates of growth, but also to the basic condition of population growth. Schiavo-Campo stresses this point when invoking Adolf Wagner's law: high income elasticity of welfare services' demand and regulation of an increasingly complex economy explains the stable relationship between the size of the public sector and economic development (Rama 1997:5). Schiavo-Campo takes further Wagner's Law claiming that while "earlier studies gave some support to [his] proposition [bringing] out the positive association of government employment with education levels, availability of financing, and of course, population … this study … confirms that population is by far the largest

[170] "In the United States, the capacity to contract in expertise provided flexibility in personnel policies but is considered by many to have had the perverse effect of running down the overall human capital of the federal public service" Matheson, Alex. 2003. "A New Agenda for Public Sector Modernisation in OECD Countries: Has 30 Years of Reform Led to Better Government?" Pp. 15 in *A Generation of Reforms in Public Management: What now?*, edited by P. e. M. Public. Strasbourg, Ecole National D'Administration.

single influence on government employment levels, swamping the influence of any other variable".[171]

Strong growth in number of public employees and their financial weight over the budget during the 70's and the transition to the 80's pushed the economic model to a dead end. The political and administrative institutional backdrop of the regime was the most important asset for damage control of both the 1976 and 1982 crises. Starting in 1970, public employment – understood as the size of the government – was considerably altered and after 1982 it was simply impossible to bring it back to 1970's levels. From 1982 onwards, the government implemented institutional, administrative, and financial measures to stop public sector growth, and in part – as we can observe at the analysis offered in the first part of the present chapter – it succeeded.

After 1982, financial control of bureaucracy became the most important policy tool for public sector downsizing, and deficit reduction. Despite the presidential effort to reform public administration, only slight administrative changes were introduced (Cejudo 2002), being far outpaced by budgetary and financial aspects. We already analyzed the numeric and financial weight of both the government's payroll and wages. While they both reflect a quantitative reality, they also echo power relations i.e. formal and informal institutional political arrangements.

7.7 Oil Rents, Job Uncertainty, and a Politicized Bureaucracy

The absence of institutionally formalized patterns for succession through a professional, merit-based bureaucracy, broadly known as a civil service, renders bureaucrats with a

[171] Schiavo-Campo, Salvatore, Giulio de Tommaso, and Amitabha Mukherjee. 1997b. "An International Statistical Survey of Government Employment and Wages." The World Bank / Public Sector Management and Information Technology Team, Washington, D.C.

high sense of professional – and again, political – uncertainty.[172] This uncertainty and the risks associated with the position, both produce a strong politicization and a highly competitive environment, throwing individuals into an spree of prestige, power, and authority maximization pursuit which blends with the respective "uses and customs" of the prevailing authoritarian political culture (Blais and Dion 1991; Findlay and Wilson 1987; Krueger 1974; Mueller 1979; Niskanen 1971; Romer and Rosenthal 1978; Tullock 1990).

Given the assumption stated above, bureaucrats tend to: a) seize their position (encroachment); b) increase their status quo by acquiring more responsibilities which ultimately need more personnel and resources (increase current spending); c) promote themselves building policy networks within and outside the government, as an strategy of risk diversification; and, d) promote themselves politically within and outside (electorally) the government. These strategies vary depending on the characteristics of the departure point and are the basis for a rational behaviour of a bureaucrat. All are comprised, for analytical purposes, into a "budget maximization discretion" function.

This function might apply to any position along the line ministries that form the central bureaucracy and to bureaucrats directly involved in shaping expenditure policies, but an important caveat applies: while tax policy is typically centralized under the aegis of the MoF, expenditure policy is clearly decentralized, or more precisely, atomized.[173] Expenditure policy might be tightly controlled through secondary legislation, but norms and procedures are in fact on a daily basis negotiated with the

[172] It is worth noting that one of the strongest official claims for increasing high-ranking government officials' salaries, particularly from the second half of former President Zedillo's administration (1997-2000) is precisely "the uncertainties that come with the post". High salaries prevailed during Fox administration (2000-2006) up to date, notwithstanding the fact that a civil service law was enacted in 2004.

[173] Each line ministry has an "expenditure unit" (*Oficialía Mayor*) which enjoys a strong budgetary autonomy vis-à-vis the MoF expenditure bureaucratic branch (*Subsecretaría de Egresos*).

MoF.[174] Line ministries bureaucrats work similarly as Parliamentary systems, in the way ministries interact with their sector's organized interests (education, health, transport, public security), but without Legislature accountability and to some extent, political party interference.[175]

The existence of rents affect revenues and expenditures as well but veto players are minimal for the first and numerous at the second. This means that rents from revenue are enclosed by the private sector's organized interests (business associations) while expenditures induce rents according to permanent or seasonal vested interests within the political system.

The characterization of Mexico's public administration as an inherently political body is closely linked with the absence of the rule of law, distinctively informality. To use Schick's argument against New Zealand-type "state of the art" public administration reforms: "Where informality flourishes [civil servants] are hired because they know the right person or have contributed to some organisation or cause. Because official pay levels are low, they may be assigned to one position but be paid for another. Many may be ghost workers who appear on the payroll but not at work; some may hold two or more positions, and those who show up on the job may but in less than a day's work because the official salary scale is a lot less than a day's reasonable pay" (Schick 1998: 128). Informality is not working against a system, but in fact shapes the system, contributing to public order.

Mexican Public administration is informal and political in the way that there is no civil service and non-consecutive reelection for any elected post. This fact gives the president *de facto* powers to appoint and dismiss any individual located at the higher levels of bureaucracy, putting his allies and acquaintances in key posts by considering

[174] Politically "hot" and non-programmed expenditures (supplementary expenditures) are typically treated on a case basis.
[175] Political parties become more important to maximizing bureaucrats as far as elections approach.

loyalty a key requirement.[176] To some extent, the President has in principle the power to reinvent according to his needs the public administration during each term.

From a comparative perspective, the presidential system offers the president more power and virtually no institutional or legal barrier to override any administrative arrangement, as it happens to be the case in others (parliamentary) [here some reference is needed]. Any depart from the status quo in a parliamentary system comes from an organized and strongly institutionalized civil service or the lobby of public servants with members of the Congress. The Mexican system, political, informal, and presidential, prevented this from happening. Therefore, opposition to any presidential desire is resolved under political (and to some extent technical) considerations. As Torres Espinosa clearly addressed (1999), the discrepancies between governmental agencies took place as a survival strategy rather than a medium or long term policy dispute, which reinforced the peculiar *camarilla* style to bridge common interests (Ai Camp 1999; Centeno 1994; Smith 1979; Torres Espinosa 1999).

Considering the absence of a civil service which could provide labour security to bureaucrats, they were drawn by the institutional circumstances into a very insecure position. As a result, the President actually could sack a Secretary – and with him all of his subordinates – in any cabinet-level policy dispute, having the power to remove anyone who could jeopardize policy coherence and cabinet unity. Also, which is a very important point that Guerrero Amparán stresses, the President had – aside from political reasons – economic reasons to downsize bureaucracy: when President Miguel de la Madrid faced one of the most deep economic crisis Mexico had suffered he was able

[176] According to Mexico's Constitution (Third Title, Third Chapter "On the Executive Power", Art. 89, Fraction II), the President has the faculty to appoint and remove from its post any Secretary, Diplomatic Agents, and SHCP's higher rank employees or any other employee from the Union whom has not been determined other way along the Constitution.

and had the institutional room of manoeuvre to reduce the payroll as much as he wanted, putting as a pretext economic difficulties.

The absence of a civil service provided a certain kind of market labour mobility, which other countries simply could not afford (Guerrero Amparán 1998: 43), but one should be cautious not to put one hat to all central governments' bureaucrats: it is just too easy to make easy generalizations about Mexican bureaucracy. It is very important to include in this chapter a detailed explanation on how actually public administrators operate, in order to distinguish from those who are directly affected by the presidential momentum and those who simply are in government to stay.[177]

Guerrero Amparán has depicted a politicized public administration in Mexico as the natural consequence of the legislature's absence to deal with social demands. The groups and citizens demands were channeled through bureaucratic echelons without using standard democratic ways for representation: "The public administration turned into the competition scenario for the presidential succession, the locus of corporative and clientele representation, the link between the political power and social sectors, and the mean to channel resources to potentially conflicting social sectors. The representation of sectors was not the Congress and negotiation did not occurred at the legislators offices" (Guerrero Amparán 1998:37).[178]

Aside from the incapacity of public officials to deliver professionalism, electoral rules – specifically the no reelection – altered in many ways the performance of public policies. Electoral dynamics accentuated if not created job insecurity and a highly political and centralized federal public administration, playing an important role in

[177] While there is little research on this topic, one has to note there are some important differences among those who belong to the higher and middle ranks of each secretariat, and those who belong to the lower levels of the federal public administration, which normally belong to the Servants and Workers Federation to the State's Service (*Federación de Servidores y Trabajadores al Servicio del Estado*, or FSTSE), and had been used politically to mobilize in support of the government, which, due to the hegemonic nature of the party, represented the same as party's ideological goals.
[178] Own translation.

shaping bureaucratic behaviour: the extreme turnaround that normally took place due to the change in presidential leadership meant that no one had their permanence in the job completely guaranteed. As far as the secretaries depended on presidential will, most of the middle and high-ranking officials relied partially on luck and partially on how useful their boss was for the President, forcing them to build a high profile in a very short amount of time. In short, administrative reforms that were vividly opposed and fashioned during a specific presidential term could be seriously challenged.

Nevertheless, the absence of civil service and a high turnover rate among public posts made possible this sort of incrementalist approach towards administrative reform. At least an initial step was taken when such reforms were formally enacted during one term, opening a space for the incoming President to effectively implement what the legal and formal rules actually said. The ones who resisted the changes in one term would not be at their posts anymore and therefore, the new leadership could have some room for manoeuvre. This feature again might be another paradox of the Mexican political system: extremely powerful in some respects, structurally weak in other areas. While the system lacked the possibility of forming professional public officials and therefore policy consistency and continuity, this informality acted as a precision tune technically and politically: the high rotation rates of public officials gave the president effectively a hand up over decisions which otherwise could not be expeditiously taken.

Personnel instability and a much-politicized bureaucracy in fact reinforced structural aspects of the Mexican public administration which were behind the reasons why it could not achieve policy continuity in the medium and long run. There was the legal and institutional mandate to move ahead regarding budget reform but the advocates or “policy entrepreneurs” rarely survived the position.[179]

7.8 The long road to Civil Service

Until 2004 Mexico was the Latin American country which had the biggest chunk of institutional and financial well-grounded patronage. Nevertheless, one can not ignore the long history of reform attempts to eradicate patrimonial practices from the Mexican public administration. Resistance to reform began with the first attempt to implement a civil service in 1922, when the federal government recognized for the first time the need for selecting personnel and administering bureaucratic careers within the Mexican Foreign Service. Immediately after this event, the state of San Luis Potosí created a civil service, but represented the first and last effort from any sub-national authority to professionalize its public servants (Benton 2002). The institutional settings with formal legal and informal political components were the main sources that reinforced perverse incentives towards the practice and consolidation of patronage.

The legal foundation for labour relations in Mexico is established on articles 89, 108 and 123.[180] Article 2 of the Federal Labour Law of 1931 paved the way for the establishment of a civil service when it included a provision to state that “Relations between the State and its servants would be ruled by the enacted civil service laws”, but as a result of the 1934 “Agreement on Civil Service Organisation”, the separation between private and public workers was not accepted. As a consequence, starting from 1935 health and central government umbrella organisations were created and a year after the National Federation of State Workers was formed (Bonifacio and Falivene

[179] This is probably true when one notes that one of the most important policy entrepreneurs of the budget reform, Jorge Chávez Presa, was appointed to a very different post only immediately after heading the reform effort.

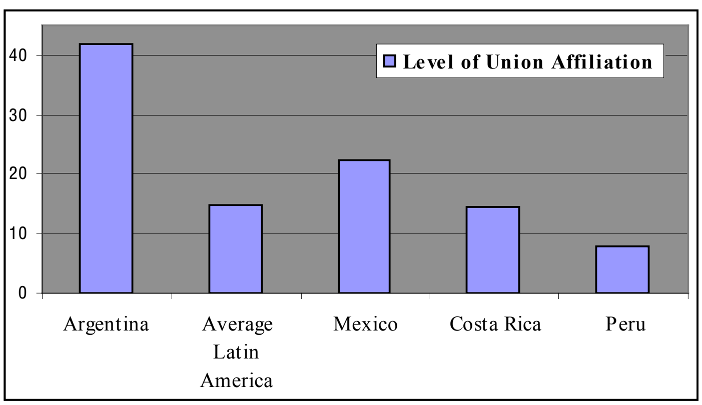
[180] As Benton notes, sometimes the Constitution calls public employees *functionaries* and others *state employees* as happens in articles 110 and 111 Benton, Allyson Lucinda. 2002. "Diagnóstico Institucional del Sistema de Servicio Civil en México." Banco Interamericano de Desarrollo, Diálogo Regional de Políticas / Centro de Investigación y Docencia Económicas, CIDE, Mexico City.

2002:17). Nevertheless, the most important movement towards the government's effort to "professionalize" bureaucrats occurred under Cárdenas *sexenio* in 1938 when public employees recovered part of the rights lost in 1931, such as being considered workers and not subjects of administrative relations (Bonifacio and Falivene 2002:17). Along with the *Estatuto Jurídico de los Trabajadores al Servicio de los Poderes de la Unión* (1938) and a reform that later introduced regulation for promotions (1941) it was not until 1960 that a reform added to Constitutional Article 123 Chapter "B", which referred to Union's and Federal District government workers. This formalized denial of *confianza* or patronage workers' rights for employment, giving the government freedom to fire workers with no severance pay. On the other side, base or permanent workers consolidated true collective rights (Bonifacio and Falivene 2002:17). Despite the fact that such legislation has experienced several changes up to date, a basic and crucial distinction between bureaucrats still remains: they are divided between *trabajadores y empleados permanentes o de base* (base) and *trabajadores y empleados de confianza* (patronage).

Before entering the ISI era, the Mexican government basically used the "payroll power" to gain the support of different social sectors. President Lázaro Cárdenas (1934-1940) was the first to support the idea of creating unions within the government (but as the corporatist model dictated divided by type of activity which meant, in public administration terms, divided by ministry). He even encouraged the formation of the general organisation of bureaucrats according to the ongoing corporativist or sectoral model at the time that shaped also the newly created *Partido de la Revolución Mexicana*, or PRM (1938). Cárdenas transferred his successful strategy of building and organizing political support for his government to bureaucrats, but refrained to give or approve the right of bureaucrats to strike. This right would be given later (1963) when the *Ley Federal de los Trabajadores al Servicio del Estado,* or LFSTE was enacted and reinforced the above mentioned guidelines but added SOE's or *paraestatales* and decentralized organisms (Benton 2002). Article 4th of the LFSTE establishes the division between base and patronage employees where they are both defined. As a member of the first category, it is impossible to be sacked or removed, and they have stability after 6 months they enter the job. For the second, a distinction is made: Patronage A (*Confianza* A) which have no stability and correspond to Article 5th of the law, and Patronage B (*Confianza* B) which are base workers who are promoted, and does not lose their post (Bonifacio and Falivene 2002:19).

A key institutional determinant regarding base employees are the legal features established by the LFSTE for syndicate rights. According to the law, the existence of more than one union per administrative unit or ministry is banned, membership is mandatory, and it is prohibited to refrain from union membership (Bonifacio and Falivene 2002:17).

Table 7.8.1 Level of Union Affiliation



Source: Own elaboration with data from (Bonifacio and Falivene 2002: 21)

Other important developments in the legislation in regard to internal oversight and control were the *Ley de Responsabilidades de los Funcionarios* (1940), the *Ley de Estímulos y Recompensas a los Funcionarios y Empleados de la Federación* (1957), the

Ley de Premios, Estímulos y Recompensas Civiles (1975) and other minor changes to the *Ley de Responsabilidades de los Funcionarios y Empleados de la Federación y del Distrito Federal*(Benton 2002). The last part of the legal framework which governs the relationship between bureaucrats and the Executive was the 1983 *Ley Federal de Responsabilidades de los Servidores Públicos* (this law protects unionized employees from being fired). A more recent legal development represents the enacting of the *Ley Federal de Responsabilidades Administrativas de los Servidores Públicos* (2002). Despite these changes, the basic division between base employees (*empleados de base*) and patronage appointees (*empleados de confianza*) endured.

As to other actors of the State-led economic development and in order to give appropriate "economic rights" to public employees, the government created the *Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, or ISSSTE, therefore providing social security benefits to them. The unionized sector of the Mexican public sector also facilitated PRI rule. Unions were affiliated with the PRI, enabling the party to manage union support. As long as union members, particularly unionized state employees, maintained their jobs and wages, so too did the PRI maintain political support. Since its creation in the 1930s, the FSTSE maintained its membership in the *Confederación de Trabajadores de México*, or CTM, which grouped together all unionized workers. As Guerrero Amparán and Arellano Gault clearly state, the Mexican bureaucracy and administrative process have been indistinguishable from Mexican politics and political processes, making a clear cut between a political career or an administrative one practically nonexistent (Arellano Gault, Ramirez Macias, and Gil Garcia 2001; Guerrero Amparán 2000a).

Starting in 1983, efforts and proposals towards the implementation of a career civil service were successfully and successively defeated. When SECOGEF mutated to

SECODAM ten years later, the USC which operated within Hacienda organisational structure failed again due to disagreements on the level of centralization of the public sector. It took almost 20 years for SHCP to begin an effort towards transparency (Benton 2002).

Beginning with President Zedillo's term and the inception of SECODAM, the *Programa para la Modernización de la Administración Pública* or PROMAP was implemented. This program aimed to transform the federal public administration into an efficient and effective, corruption-free workforce while developing a well-suited system for promotion and development of public servants´ capacities. The program also targeted citizen participation, administrative decentralization, evaluation, and finally, performance measures. As a final goal, PROMAP aimed to build the basis for the creation of a civil service for the entire central government. Despite this ambitious agenda, all of the components of the collection of measures which shaped PROMAP were left to the responsibility of each bureau so there were no formal mechanisms to enforce administrative reform. Although the main target of PROMAP were patronage employees, SHCP's predominant role did not hold it back from giving recommendations for unionized workers. Despite these efforts and the initial impetus towards reform from President Zedillo he "shared with SHCP the interest of reducing salary costs and the need for exercising a tighter centralized control over them. Nevertheless, he never supported assertively USC proposal of the convenience to establish a classic civil service career. In this respect, his main worry seems to have been the high cost of incorporating additional rigidities to a system that, in to his view, already had many".[181] Again, the president's worry for public finances over state efficacy translated into defeat for establishing a civil service.

Although there were several attempts to implement a civil service career in Mexico, the emergence of "weberian islands" started to mushroom within the Central Government from 1989 onwards, growing especially during President Zedillo's term. Aside from the old foreign service held by the *Secretaría de Relaciones Exteriores*, numerous attempts to professionalize, with different characteristics such as the *Comisión Nacional del Agua*, or CAN; the *Instituto Nacional de Estadística, Geografía e Informática*, or INEGI; the *Instituto Federal Electoral*, or IFE; the *Sistema de Administración Tributaria*, or SAT; the *Secretaría de Desarrollo Social*, or SEDESOL; the *Procuraduría General de la República*, or PGR; the *Procuraduría Agraria*, or PA; the police corps controlled by the *Secretaría de Gobernación*, or Segob; and finally, the *National Judicial Branch*, or NJB, represented real attempts to reform public administration.[182] Around 10 percent of total government employment (46,548 employees for 2001) in the central administration is covered by professionalisation or civil service measures, excluding teachers and armed forces personnel.

7.9 Institutional and Political Determinants of Public Employment: The SPC

Numerically and financially, the weight of Mexico's Central Government public employment vis-à-vis its public sector is much higher than in countries that belong to the same region and present a similar size. Mexico even presents a similar share with OECD countries in some respects, emphasizing the lack of correspondence with its

[181] Heredia, Blanca. 2002. "La economía política de la creación de servicios civiles de carrera: La experiencia de México en los años 90." Pp. 43 in *Red de Gestión y Transparencia del Diálogo Regional de Política*. México, D.F. Own translation.
[182] For a good survey of these civil service-type arrangements see Benton Benton, Allyson Lucinda. 2002. "Diagnóstico Institucional del Sistema de Servicio Civil en México." Banco Interamericano de Desarrollo, Diálogo Regional de Políticas / Centro de Investigación y Docencia Económicas, CIDE, Mexico City.

level of economic development.

Despite the above arguments, and given the high level of aggregation of most of the analysis delivered on the matter from multilateral agencies, one has to look for more stylized cuts to gauge numerically and financially, but most of all, administratively, the importance of such arrangements. Given the Mexican oddity of the lack of a civil service still in the XXI century,[183] the importance of the institutional determinants on choices at public employment is crucial.

Base employment is thus the largest sector of the Mexican public administration, with patronage and civil service employment in second and third place (Benton 2002). At a glance, the nature and composition of the Mexican bureaucracy is striking. Countries of similar size and level of economic development such as Argentina, Brazil, and Chile had established and consolidated to a great extent, particularly in the last case, not only weberian, rational-legal professional bureaucracies. Chile even introduced under the Presidencies of Eduardo Frei and Ricardo Lagos some managerial components particularly linked to budgetary administration (Bresser-Pereira 2001).

Another important legal and institutional example of Mexico's exceptionality relates to international labour law. The International Labour Organisation (ILO), is compromised of 4 main international agreements or covenants on union's freedom of association which had all been ratified by most of Latin American countries (Bonifacio and Falivene 2002:6-7). Out of four agreements, Mexico had only signed the one numbered 87 (signed in 1948), and has not ratified the other three (98/1949; 151/1978, which refers particularly to public administration; and its 154 and 159 recommendations) (Bonifacio and Falivene 2002:6). Therefore, it is surprising that considering the size and level of Mexico's economic development, it did not developed

[183] The United Kingdom launched its Civil Service in 1854, the United States in 1864, and France in 1941.

the foundations for a professional bureaucracy and yet still has been able to maintain disciplined public servants.

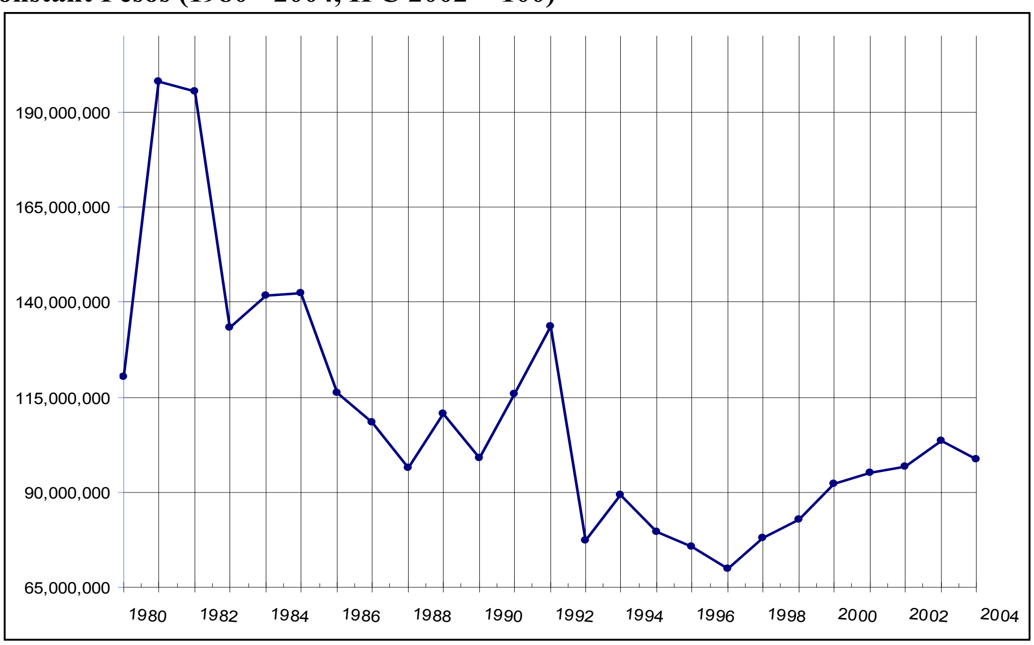
After 1982, administrative changes were implemented to give the government an internal control of the bureaucracy, as the creation of SECOGEF signals, but the implementation of a generalized career civil service was successively defeated until 2003, when the Fox administration gave approval to a law initiative that was proposed by a PRI and a PAN Senator, without any important obstacle for its discussion and enacting (Farfán-Mares 2004b).

Between November 2002 and April 2004, one of the most dramatic and important institutional changes related to administrative reform, and particularly the governance of public service took effect. A professional career service or SPC was finally backed by federal law and detailed legal framework and procedure, under the responsibility of SECODAM's bureaucratic successor, the Secretariat of Public Function (*Secretaría de la Función Pública*, or SFP). As Philip claims, it is worth asking why the implementation of civil service in Mexico finally succeeded during the first non-*priísta* administration of contemporary Mexico (Philip 2003).

Three variables played an important and effective role at the successive failures of substantial proposals to change the Mexican bureaucracy: political, institutional / administrative, and financial.

Political incentives importantly disappeared as soon as the political class understood that the way to get access to public posts was now a by-product of electoral outcomes. Acting and former bureaucrats understood that they needed more than just personal connections to hold onto a position of power, but also that belonging or being near to the coalition of interests around the party in office was still crucial. In the blink of an eye, bureaucratic dynamics were deeply transformed, confirming what Geddes' laid out as her main hypothesis in one of her most influential academic contributions: "when clientelist resources are pivotal in electoral politics, politicians will not approve civil service reforms, except under conditions when such reforms hurt patronage-dependent parties equally. This condition occurs when two major parties have about equal power and hence equal access to patronage. Majority parties like the PRI have few incentives to give away one of their greatest advantages in electoral competition".[184] An additional factor – as well as Vicente Fox psychological profile – might additionally have induced the impressive Mexican reform: contradicting the conventional wisdom "personalist" politics downplays patronage potential while pro-party or party centered political processes substantially increases it (Gordin 2001).

Table 7.9.1 Electoral Cycles and Cost of Central Bureaucracy, Thousands of Constant Pesos (1980 - 2004, IPC 2002 = 100)



Source: Own elaboration with data from INEGI, Banco de Información Económica (Finanzas públicas e indicadores monetarios y bursátiles/Finanzas públicas/Gastos presupuestales del gobierno federal)

Once the authoritarian political process was deeply transformed, the

[184] Heredia, Blanca and Ben Ross Schneider. 2003. *Reinventing Leviathan: The Political Economy of Administrative Reform in Developing Countries*. Coral Gables, Florida: North-South Center Press.

administrative domain was freed from pro-patronage political incentives. This explains why the initiative, discussion, negotiation, approval, and implementation of the civil service career generalized system for former "patronage" employees did not experience major obstacles. At a latter stage of the process, the most important challenge for the reform gained momentum within bureaucratic networks. SHCP's historically founded' budgetary powers clashed with other initiatives and proposals coming from the Office of the President, influential researchers and experts at Academia, and particularly former SECODAM officials clustered at the SPC.

Since the very first moment, SHCP's powerful *Subsecretaría de Egresos,* or SSE asked for them to set aside the budgetary and financial dimension of the new law. This was just the consequence of prior negotiation when Senators César Jáuregui from the PAN and Carlos Rojas from the PRI,[185] accepted the inclusion in the text of the law a provision which strait-jacked any administrative process with a public finance repercussion, and subjected it to SHCP's conditionality. Many of the actors which participated throughout the process of the career civil service system implementation were particularly clear-minded when describing the exclusively administrative dimension of the system, and the full SHCP SSE control of any financial provision either to hire (salaries) or fire (pensions) was not only included in the text of the law, but considered at several stages for implementation that took place, particularly the crafting process of the regulatory framework (*Reglamento*), published 5 April 2004 (Farfán-Mares 2004b; Farfán-Mares 2004e). To figure out to what extent high level *panista* officials conducting the reform are aware of the financial and budgetary consequences of its implementation, it is worth noting that Undersecretary Jesús Mesta

[185] Philip claims that "there was a double incentive for the PRI to support the idea of a professional civil service. It would protect the party from the use of patronage of power by a president from an opposition party, and it would reduce the leverage of any future PRI president over the party itself" Philip, George. 2003. "The Politics of Civil Service Reform in Mexico." Pp. 12. London, United Kingdom.

Delgado, the highest level official involved at the creation of SPC, declared on the Service that it is "a very good investment … I calculate putting this together with 10 or 15 million pesos at the most" (between 1 and 1.5 million dollars).[186]

What to expect from a strong and centralized recruitment system for a "pre-weberian" bureaucracy? An expert on human resource management cautions that the fact that budgetary, wage, and hiring is kept under control by SHCP could potentially turn into an authentic bottleneck for ministries and that Mexico runs the risk – with this legal lacunae – of experiencing continuous clash between SFP and SHCP's public expenditure reduction, voluntary severance and public servants' salary restrictions considered under the new law (Fócil Ortega 2003:6-9).

It is also publicly recognized that the newly implemented SPC is on line with institutional legacies when public officials, legislators, and official documents portray the system as clearly centralized (Farfán-Mares 2004b; Farfán-Mares 2004e; Guerrero Amparán 2000a; Mesta Delgado 2003a; Mesta Delgado 2003b). Two key additional actors for the SPC implementation process had already expressed its disappointment towards the law. For example, Senator Rojas declared at the midst of releasing the rules for SPC governance, that "in essence, a high level official could decide on a people's hiring, what does not eliminates patronage and cronyism and therefore there is no armour for this" (Salazar 2004). During an interview with the Senator on SPC's implementation he also declared that SFP (*Secretaría de la Función Pública*) denoted a classic principal-agent problem, being both the same with regard to entry, certification processes, and evaluation (Salazar and Lizarraga 2004). The National Institute of Public Administration (*Instituto Nacional de Administración Pública*, or INAP) even went further, assuring that both articles 74 of the Law and 33 of the Procedures

[186] Lizarraga, Daniel. 2004. "Entrevista: Impulsan candados contra improvisados." Pp. 5 in *Reforma*. Mexico City.

(*Reglamento*) gives the right to any superior in hierarchy, to veto any Selection Committee resolution, a element that clearly violates both recruiting and selection processes, lending discretionality and annulling the general purpose of the law (Salazar and Lizarraga 2004).

The political, administrative, and economic consequences of the new *Ley Profesional del Servicio Civil de Carrera para la Administración Pública Federal,* introduced by Senators Carlos Rojas (PRI) and Cesar Jáuregui (PAN) in November 2002, and to be fully implemented in October 2005, are difficult to calculate with precision due to the absence of a serious and developed management of the Mexican government's human resources. In principle, SPC considers from the bottom up the following posts to be affected by the SPC: Liaisons, Chief of Department, Area Under director, Area Director, General and Adjunct Director; Chief's of Unit; Only *Oficiales Mayores*, Undersecretaries and Secretaries would be political appointed or "freely appointed" posts.

Given the tight structural budgetary situation of Mexican public finances, the financial control of the SPC in hands of SSE, the centralization in decision-making,[187] and most of all, the room for discretionary hiring and firing, SPC might reinforce some features of the spoil system that existed throughout the hegemonic party era, or in the best of cases, build over the state apparatus a virtual evaluation system with no strong mechanisms to reward or punish.

[187] Centralization might signal the desire to control politically. As Wood and Waterman claim, "The greater the centralization of agency decision-making processes, the greater the executive control over bureaucratic outputs" Wood, Dan B and Richard W. Waterman. 1991. "The Dynamics of Political Control of the Bureaucracy." *The American Political Science Review* 85:801-828.

Chapter VIII. Short-term vs Long-term View: the Perils of Policy Dispute

8.1 Introduction

The presence of oil rents importantly affect the public administration's long-term perspective in the way that it represents a constant obstacle for State planning. In addition to the projection of policy goals beyond one fiscal year, oil rents volatility make highly dangerous for budgetary authorities to commit for specific amount of expenditures since it is highly probable that these will importantly vary during the year.

During the last century, Mexico's public administration has been characterized by a policy pendulum represented by a trial-error behaviour in reforming the State administrative architecture. This explains to a great extent how the oil bonanza was managed before and after 1982. Before the comprehensive reforms that took place in 1976, the Mexican public administration tried several formulas to give coherence to its budget and public investment policies. After 1975 the State entered into a deep fiscal crisis and the country suffered from a resource shock (oil bonanza) a few years later.

The Mexican central bureaucracy finds hard, if not impossible, to appropriately and productively manage its availability of resources. Short-term and long-term macro policy dimensions that coexisted in equilibrium prior to the bonanza were severely affected by abundant oil revenues. They importantly affected macroeconomic soundness generating the 1982 crisis and damaged the short-term and financial branch of the central bureaucracy. This provoked SPP and SHCP "full appropriation" of the energy industry making them *direct budgetary control entities*.

As a result the planning of the long-term functions are gradually dismantled, resulting into stagnant public investment and, particularly in the energy sector, a strong reliance on imports to cover the domestic demand on petrochemicals. Much more important is the fact that underinvestment in the sector is causing the loss of reserves, estimating its depletion by the year 2013 (International Monetary Fund, 2009).

Weak planning capacities can be demonstrated by the extreme erratic behaviour of sectoral policies spending patterns and high correlation between oil revenues and *Clasificador por Objeto del Gasto* (or COG) budgetary items. Indeed, the State lacks strategic budgetary allocation and financing of policies is highly volatile.

8.2 Long-term vs Short-term considerations: the Perils of Policy Dispute

Since its inception the Mexican State was unable to change the institutions which predisposed the country to depend on oil revenues. It enters into a full rentier activity during the second oil boom (1977-1985) and as its structural constraints persisted, it rentier profile deepened. As an example, in 2009 oil revenues contributed to almost 42% of total spending, placing the country close to Venezuela another older oil Rentier State which public budget strongly depends on oil. In the end, as the NAFTA-neoliberal model failed, Mexico was again petrolized and “venezuelizado”.[188]

Mexico’s structural features such as poverty, inequality and economic informality, and the presence of a strong and globalized capitalism produce a financially weak State. These promotes a type of socio-political embeddedness and economic detachment. Despite this, the State managed to build a government which has been able to deliver products and services to the population, several of which have not financed by regular taxation but are often subsidized by hydrocarbons. At the same time, the State has also invested in public infrastructure and, indirectly through price control and

[188] Personal projection based on SHCP reports, “Informes Sobre la Situación Económica, las Finanzas Públicas y la Deuda Pública”, downloaded 10 November 2009. The term comes from Andrés Lajous, former Pemex Director Farfán-Mares, Gabriel. 2009a. "Interview with Adrián Lajous Vargas." Mexico. (http://www.shcp.gob.mx/FINANZASPUBLICAS/ITSSEFPDP/2009/Tercer%20trimestre%20de%202009/Informe%20Trimestral%203%2009.pdf)

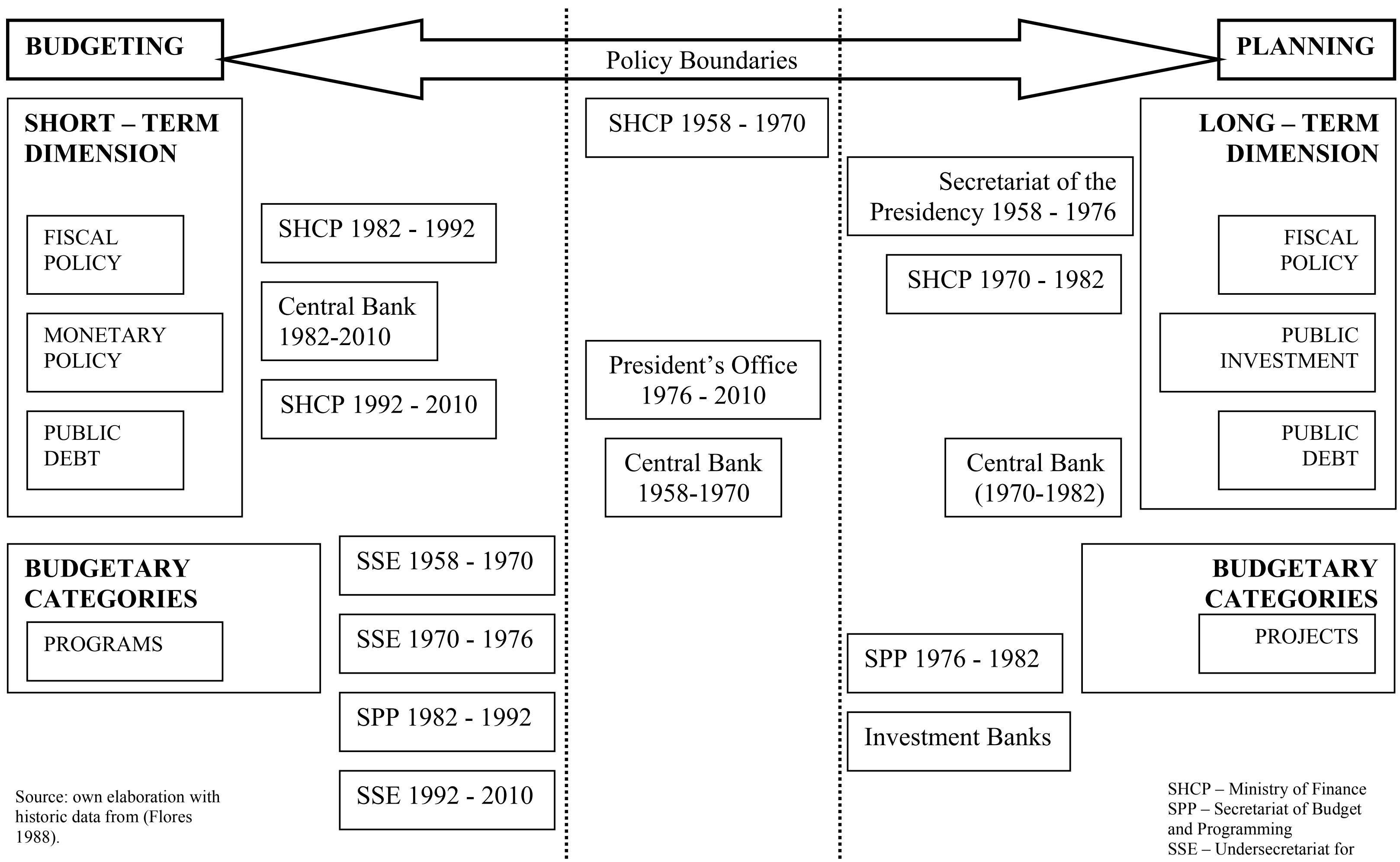
subsidies it has financed various types of economic activity. For the most part, these actions took place during the years 1934 – 1970. In particular, it symbolized the policy known as the SDM (Stabilizing Development Model) from 1958 to 1970.

Before 1970, Mexico managed to finance the government's operation, welfare spending, and public investments through low debt and inflation control. The State granted tax preferences and subsidies to the population and the private sector, assuming that these would be productive in the long run to sustain an exporting capacity. As it has been acknowledged by many, the ISI-SDM failed to deliver the production of highly-intensive and capital goods. Labour and capital productivity were insufficient to become the prime engine of economic growth (Moreno-Brid, 2009; Randall, 1997).

The change of the international economic environment in the first years of the 1970s obliged the government to search for alternative ways of financing. The State's Revenue loss was substituted with debt, oil, and privatization which, in the end, all were unsustainable and became to be mere palliatives. Price controls and subsidies policy proved to be unsustainable and, along with the 1972 fiscal reform failure, the derioration of the government-private sector relation, the Mexican government tried to build a more effective public sector (Farfán-Mares 2006a; Farfán-Mares 2009c).

There are three crucial moments that explain the reform of the Mexican State apparatus. The first started with the Cárdenas (1934-1940) and Alemán governments (1946-1952), the second with Ruiz Cortines (1952-1958) and López Mateos (1958-1964) and finally, and by far the most comprehensive took place with López Portillo (1976-1982). All reforms had pendular movements between two trajectories: the short term, operative dimension and the long-run, planning dimension. These trajectories are outlined in the following Figure and will be described later.

Figure 8.2.1 The Institutional Logic of Short-term and Long-term Decision Making



Source: own elaboration with historic data from (Flores 1988).

SHCP – Ministry of Finance
SPP – Secretariat of Budget and Programming
SSE – Undersecretariat for Expenditures (within SHCP)

Figure 8.2.1 tries to depict the short and long-term logic of the Mexican public administration for about half a century. The first is represented by the budgeting function and the second by the planning function. As it can be observed, the attempts to bring an institutional solution is represented by the President's trial error attempts to control the budget and public investments. For such purpose, the President's Office was created in 1958 originally named the Secretariat for Planning and Budgeting, the antecessor of the Secretariat of Programming and Budgeting (SPP), created in 1976 and disbanded in 1992.

At the beginning of 1970 the Executive saw its budgetary discretion greatly diminished. This resulted into a major shift in economic policy and a general emphasis on the need to greatly increase the size of the public sector. In particular, this was the case of public employment which importantly increased welfare policies such as education, health, and social development. All of which were grouped into programs and public investment, which was often allocated to public infrastructure projects.[189]

The presence of debt and oil fractures the institutional equilibrium also characterized the 1958-1970 period. They both greatly benefited from the long-term, developmental, and "statist" tradition of Mexico's public administration. The team which was clustered around the short-term, monetary and financial bureau and institutional trajectory of the Mexican State was displaced from the centre of the State's policy making decision process. It was not until 1982, when De la Madrid was chosen as the presidential candidate that the pendulum again favoured the financial cluster.

Yet, the institutional equilibrium was not restored and the institution that was initially envisioned as a point for equilibrium and policy consensus (the SPP). Yet this gradually dismantled all long-term aspects of the State's broad institutional architecture.

[189] I owe this categorization of the budget structure and the State's functional roles to Alejandro González Martínez —. 2009b. "Interview with Alejandro González Martínez." Mexico City.

Although the recovery of economic fundamentals, the control of inflation, and the reduction of debt and deficits offered real benefits later, the loss of the long-term perspective had grave results, not only for the country, but for the Rentier State to maintain its status.

The goal of the present chapter is to describe the causes and effects, through a detailed revision and analysis of Mexico's public administration trajectory, of the dismantling process of the Mexican State. Specifically it focuses on planning, long-term function with a special attention to Pemex, as the source of rents. In addition, the present chapter will try to measure the direct effects of these policy disputes on the State's general investment's in sectoral policies.

8.3 Policy Sequencing and the Planning / Budgeting Cluster

The Mexican public administration presents two internal patterns of bureaucratic competition. The first took place within the Planning/Budgeting Cluster from 1958 until 1982. The second took place more intensively from 1976 to the present. There was an interim played by SPP which lasts from 1976 until 1992. The cluster represents an analytic category to assess the behaviour between two types of Agents, similar to Principal-Agent theory (Leruth, 2006). The first agent is the bureaucratic elite that belongs to the long-term planning and the second the short-term financial planning. The Principal is the President, the cabinet, and the extended political system. The competition among bureaus takes part, particularly from 1976 onwards vis-à-vis the emergence of Pemex as the main source of oil revenues.

The formation of the Planning/Budgeting Cluster and its demise is represented by the construction and gradual dismantling of the State's long-term institutional dimension. This also explains, to a great extent, Mexico's poor infrastructure quality and low investment rates which are the result of oil bonanza.[190] The Planning / Budgeting cluster of the Mexican administration is at the core of the evolution of Mexico's central bureaucracy. From a macro policy perspective, both dimensions represent the ways in which the public administration actually incorporated qualitative and quantitative, short, medium, and long -term analysis into its public policies.

The Mexican State apparatus does not work as a unified actor. The analysis of public policies tends to underestimate the importance of the State's institutional policy dispersion, intra-cabinet competition, and cabinet politicization. The idea of the current analysis is to demonstrate that structural tensions which were to some extent inhibited throughout the SDM explain the performance of Mexico's central administration during oil bonanza. Following this rationale, this behaviour explains to a great extent why the availability of additional resources such as oil was so disrupting and eventually resulted into a severe and permanent damage of the planning, long-term, institutional and qualitative capacities of the State to deliver public policies which were superior in quality.

The Planning / Budgeting cluster of the Mexican State is formed by all the bureaus created to control public investment projects from a qualitative and quantitative perspective and the administrative units or bureaus which control the budget from a financial, particularly an accounting or macroeconomic angle. Both seek to enjoy a degree of discretion, typically centralizing decision making and report directly. Across the bureaucracy the process was not always coordinated and cooperatively to the President.[191]

---

[190] A process which additionally provokes the misconception of taking budget programming as an equivalent of State planning, an important distinction that even experts simply overlooked.

[191] The analysis of public investment projects are of specialized nature and include several and highly technical considerations of the impacts and benefits of a project, being cost analysis the most difficult task.

The bureaus in charge of the planning function is evolved –and never matured, due to multiple factors- from many organisational experiments.[192] Bureaucratic solutions ranging from special units, committees, commissions, under-commissions, bureaus, Secretariats, etc… either centralized or non-centralized, were all intended to be responsible for offering a reliable planning function for the Mexican State. Perhaps the only body that works on a more regular and professional manner is the Comisión de Gasto-Financiamiento (CGF). It is the only structure, as an intra cabinet mechanism to make decisions on financing and public investments that has survived (Farfán-Mares 2008d; Farfán-Mares 2009a; Farfán-Mares 2009f).

The budget/finance bureaus are by far more stable than the planning side of the equation. Their aim is to integrate revenue and expenditure SHCP or simply the expenditure such as SPP.[193] The policy dilemma described above, translated into almost half a century of trying to bring centralized solutions to decentralized problems. This was one of the main drives behind López Portillo intent for delegating all planning, programming, budgeting, and evaluating powers to one single ministry: the SPP.

It can be claimed that the planning-related ministries such as the Secretariat for National Assets and Administrative Inspection (*Secretaría de Bienes Nacionales e Inspección Administrativa*, SEBINIA created 1946), the Investment Commission (*Comisión de Inversiones*, COMI created in 1954), the Secretariat of National Patrimony (*Secretaría de Patrimonio Nacional*, SEPANAL created 1958), the Secretariat of the Presidency (*Secretaría de la Presidencia*, SP created in 1958), the Secretariat of Patrimony and Industrial Promotion (Secretaría de Patrimonio y Fomento

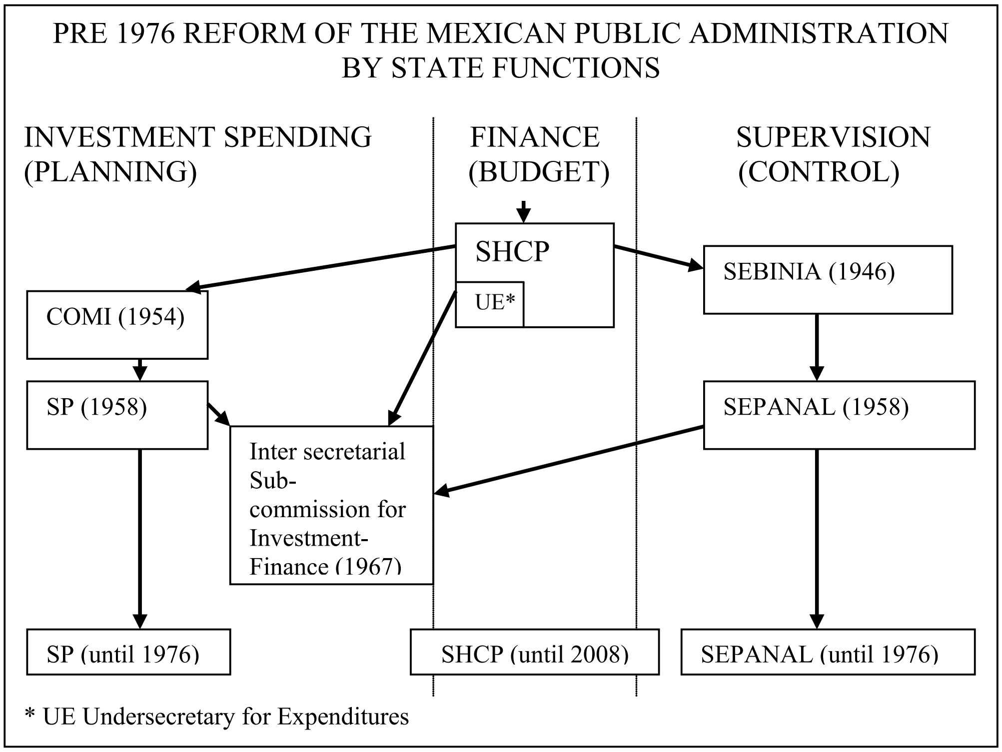
[192] It is interesting that while public investment and public sector planning tried many administrative arrangements, the economic or public finance arrangements showed a high degree of stability and consistency.
[193] It would me worth explaining why SPP never developed a planning policy framework.

Industrial, SEPAFIN created 1976), have all the common denominator of being created to act as centrepieces of the overall state-led development strategy.

Diagram 8.3.1 can give a more precise idea on how the Mexican State managed the policy challenge of acting within a bigger and more complex economy. The financial policy was made by SHCP until 1954. Thereafter the State created two bodies directly involved in making investment decisions COMI and then SP. Yet the control function of administration went to other ministry SEPANAL (Bailey 1980). In 1960, other bureaus were created within SP they incluye the *Dirección de Vigilancia de la Inversión Pública y de los Subsidios Federales* and the *Oficina del Plan General del Gasto Público* (Flores 1988).

The administrative reforms made from 1954 to 1967 were an attempt to make the State more efficient in the economy. This occurred particularly as the State consolidated itself into the ISI model. This was the first response of the policy dilemma of State's intervention in the economy. The second part of the dilemma has to do with the direct effect of the State over the economy through the budget. As the so-called "Mexican miracle" or SDM was based on the equilibrium between prices and salaries. Revenue come from enterprises and individuals which served the government to operate with sound finances. There was no need to create new bureaus or administrative innovations for managing public expenditures. This could be adjusted by SHCP upon the manipulation of macro variables (Koehler 1968).

Diagram 8.3.1 The Pre-1976 Planning / Budgeting Cluster



Source: own elaboration based on (Carrillo Castro 2005)

During the last half of the past century, particularly within the period known as the SDM, Mexico's Executive power enjoyed having full control of the budgetary process. This include the lower levels of bureaucracy (were budgeting process begins) to the higher levels of ministries. Created in 1958, the main presidential instrument was the Secretariat of the Presidency (*Secretaría de la Presidencia,* or SPre).

The year 1958 represents the landmark of the presidential desires to concentrate budgeting and planning capacities in a sole governmental agency. The administrative reform conceived during the term of the austere top-bureaucrat, Ruiz Cortines (1952-1958) had to wait to be implemented by its successor López Mateos (1958-1964). Additional overseeing powers were granted to the Secretariat of National Patrimony (*Secretaría de Patrimonio Nacional, or* SEPANAL) regarding public enterprises, and SPre was created to be in charge of national planning and decide the amount of public investments. In many respects, SPre could be considered the immediate and natural precedent of 1976's SPP (Bailey 1980: 36).[194]

The result of administrative reorganisation, where both the central bureaucracy and the private sector opposed to SPre, resulted in to the establishment of the under-commission for Investment-Finance in 1967 (*Subcomisión de Inversiones y Financiamiento*, SIF). The office comprised bureaucratic units from SPre, SHCP and SEPANAL, which worked relatively well until 1976. In addition to this public investment unit, the expenditure side was fully controlled by the powerful SSE. In Bailey's words, SSE had at the time and probably up to this day, a "complete mastery of the budget arts … with information unavailable to outsiders" (Bailey 1980: 38).

Nevertheless, the institutional features that were devised at the SDM period were not entirely mature since they were constantly exposed to consecutive resource shocks that provided an extraordinary, but volatile financial abundance. The Planning function of any State not only needed stable leader but a basis of reliable financial tax base. The poverty of state planning was also undermined by low rates of standard taxation, which eventually served to jeopardize all efforts to finance long-term, significant pro-growth infrastructure projects.

During the most part of the SDM, public investment projects had a clear political and electoral component, but were financially small and low in impact.[195] Taking in consideration the existence of this institutional backdrop it is then no surprising that oil abundance distorted the precarious and politicized state planning capacities. This eventually resulted in inefficient resource allocation if not outright misappropriation.

---

[194] According to Torres Espinosa, the real intention of the 1958 reforms were to create a Secretariat for Planning and Budget, but then changed its name to Secretariat of the Presidency (*Secretaría de la Presidencia*, or Spre) and after the pressure of SHCP, the budgetary powers of the new entity were rolled back Torres Espinosa, Eduardo. 1999. *Bureaucracy and politics in Mexico: the case of the Secretariat of Programming and Budget*. Aldershot: Ashgate.

[195] Current President Calderón is trying to address this issue by a recent constitutional reform which obliges bureaus to integrate multiyear investment projects.

The economic and political rationale for state planning institutions severely diminished after 1982. The dispute between both policy perspectives (long and medium-term vis-à-vis short term) was finally "solved" as SPP won control of both the public investment projects and current (operation) expenditures for the government. By concentrating both policies on a single Secretariat, a financial, as well as political end – once a cluster, coexisted under the same roof.[196]

8.4 The End of Oil Bonanza and Economic Opening

After 1982, the long-term planning of the Mexican State went into disarray. The excesses and consequences of the oil-based government's largesse and spending waste in a variety of projects, and the suspicion of high corruption at the public sector, all played an important role in discrediting the economic role of the government (Farfán-Mares 2008b; Farfán-Mares 2009a; Farfán-Mares 2009c).

As a result, public enterprises and investments never recovered its momentum. As has been demonstrated, it was immediately after 1982 and 1986 that the government discouraged public investment and used public expenditures to give the private sector a tax break, deepening the State's socio-political embeddedness. In the long run, this took place at the expense of the nation's patrimony and the need for public investment in strategic sectors of the economy, such as electricity, hydrocarbons, roads and communications.

For example, as a former Pemex Director stressed, the Presidents thought that "nothing happened" if the government did not allocated any resources for public investment in the energy sector (Farfán-Mares 2009a). The important decreases in

[196] It is important to note that from its inception SPP had an institutional leverage over the energy sector, particularly Pemex but it was, prior to 1982, balanced by the presence of the planning-oriented institutions (Presidency and Planning Ministries under several labels), as well as the audit and control bureaus.

investment did not hurt oil production because the investment in the sector during the oil boom and production capacity were huge. Therefore, the sector did not need to increase the level of investment in order to give financial returns. At the same time it provide for the domestic energy demand and maintain as an important supply source of hydrocarbons. From 1982, most of public spending allocated for Pemex had as purpose maintenance at best when did not substantially increase the crude production, nor refinement of petrochemicals.

In general, public investment in energy and public sector in general remained stagnant. The policy shift came as oil revenues again importantly decreased with its corresponding external shock to the balance of payments. Therefore, it was not until 1986, when the government suffered a substantial revenue loss, due to the end of the oil bonanza, that the Mexican government was obliged to radically alter economic policy.

The GATT negotiations to include Mexico's represented the departure point of a new economic model. The opening of the economy slightly increased the tax capacity of the State. A certain degree of cooperation between the private and public sectors did took place. Nevertheless, this cooperation was substantially different from other countries that were successful at managing their developmental strategies better.

For example, the economic opening totally disregarded the domestic market and backward and forward linkages in the productive sector. It focused on the sectors or group of firms, which were already aligned with the U.S. economy or were able to export. Finally, industrial policy was another casualty of the new economic model. It only helped detach the public sector even more from the economic cycle.

As a result of the above, the long-term and planning function of the Mexican State, which is often associated with large investment projects, was consistently weakened. This was because of the presence of low investment from the public or private sectors. Mexico's neoliberal model bet that private investment could replace the absence of public investments, a premise that eventually proved to be false.

Particularly after the fall of the Berlin Wall and the end of the Cold War, then-President Salinas feared that investments would go to Eastern Europe rather than Latin America or Mexico. Therefore, his strategy was to propose a free trade agreement with the U.S., assessing that for the capital markets and investment circles was a clear sign of hope. López Portillo's bank nationalization was still in recent memory of many Mexicans, therefore Salinas took a different path towards a market based economy.

Salinas was able to deliver higher than the past but moderate rates of growth and investment. Yet, as the 1994 crisis showed, the model resulted into a balance of payments severe crisis, demonstrating that the model was unsustainable (Garcia 1997). His immediate successor, Zedillo (1994-2000) faced one of the most important crises in the country's history. Mexico faced low oil prices, meagre economic growth and the explosion of public debt. This was because at the time the Mexican government issued bonds in Mexican pesos and promised to pay in dollars. Zedillo had no option but open the system to genuine political competition. This was achieved through a socio-political detachment of the President from its party and politics in general, which also greatly reduced the Executive's budgetary discretion.[197]

Public investment and capital scarcity has been a trend in Latin America for decades. The region has been unable to attract and keep capital flows within its boundaries. As pertinent comparisons of investment rates in the region demonstrate, Mexico's public and private investment have actually been below the region's average.

[197] One of the most important budgetary reforms which was aimed to reduce the level of discretion and obtain results from a public policy standpoint originated in 1997, precisely when the PRI lost the majority in the Chamber of Deputies for the first time in history Chávez Presa, Jorge A. 2000. *Para recobrar la confianza en el gobierno. Hacia la transparencia y mejores resultados con el presupuesto público*. México, D.F.: Fondo de Cultura Económica.
.

The most striking feature of Mexico's public investment is that *even within periods of huge resources entering into the country, such as high oil prices (migrant's transferences or tourism), the country did not importantly increase its investment.*

The general trend of public investment rates during oil booms describe how the bureaucracy was established. Before 1982, the State greatly extended its bureaucratic network to manage the State's increasing economic intervention. After this year, it basically concentrated its efforts in either ignoring or dismantling the State's investment institutional capacities. The transition from an oil rich country (prior to 1977) to a full Rentier State (1977-1982), greatly transformed the State apparatus.

Whatsmore, this transition reflects a long term trend of the Mexican public administration. Prior to the second oil bonanza, there was an "institutional equilibrium" that the oil boom importantly undermined. This equilibrium was characterized by the coexistence of a set (cluster) of institutions devoted to plan and project upon a long-term perspective. The availability of huge amounts of capital during the boom benefited the long-term perspective, at a deep cost for the short-term decision making. During López Portillo's term central public administration decisions provoked a strong and negative reaction, once the problems associated with the oil boom were evident.

The institutional response to the excesses of the oil bonanza resulted in the dismantlement of practically all management features devoted to making long-term plans in public investment. After nearly three decades, the results are evident: low quality of public investment and sectoral spending (analyzed later in this Chapter) and the Mexican State lacks capacity to plan as oil reserves are depleting.

8.5 State Spending and Investment Functions: The Appropriation of Pemex[198]

The State's control of the "Budgetary Public Sector" is depicted by Diagram 5.5.1. Public entities of "direct control", such as the core of the energy sector (oil, electricity, and roads) were under SPP budgetary control. This damaged the long or medium-term planning and downgraded investment decisions with politically charged, risk averted, and anti-deficit decision making.[199] The "Budgetary Public Sector" "belonged" from 1976 to 1992 to SPP and now is under the umbrella of SSE, located within SHCP.[200] Prior to this year, some parts of what is considered today the "Budgetary Public Sector" were not included, as was the case of Pemex.

As noted before, a key distinction among the Mexican SOE's legal status is whether they were Direct or Indirect Budgetary Control, i.e. Decentralized Public Organisms (*Organismos Públicos Descentralizados*, or OPD) or Enterprises of Majoritarian State Participation (*Empresas de Participación Estatal Mayoritaria*, or EPEM). Pemex is not a EPEM but an OPD of "direct budgetary control" meaning that it can not go bankrupt and does not matter if its assets are negative. Therefore Pemex has been indebted to the level of compromising its patrimony and financial status.[201]

---

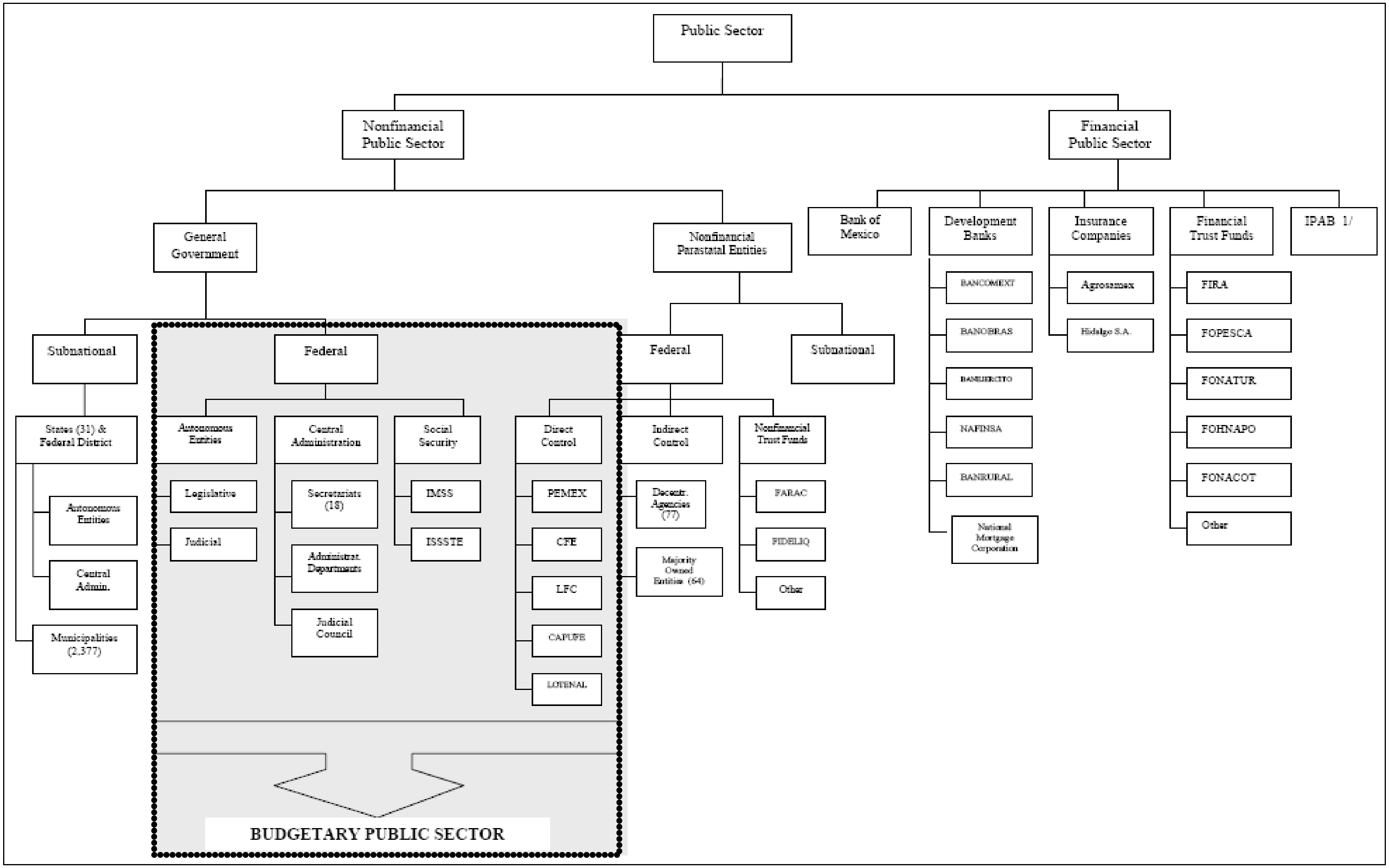
198 This section heavily draws from Carrillo Castro, Alejandro. 2005. "Génesis y evolución de la administración pública centralizada." Pp. Diagram of the Mexican centralized public administration historical evolution (1821-2005). Mexico: nstituto Nacional de Administración Pública, Flores, Romeo. 1988. *Administración y Política en la Historia de México*. México D.F.: Fondo de Cultura Económica - Instituto Nacional de Administración Pública.

199 It is no surprise that budgetary institutions, as other chapter of the present thesis will demonstrate, are considered by many "strong", meaning strong as centralized, hierarchical, vertical and capable or controlling and balancing expeditiously public finances. This is a clear example of how strong institutions can actually have unintended consequences at other components of the institutional framework.

200 As stated by the *Ley de Presupuesto Contabilidad y Gasto Público Federal* and the *Ley General de Deuda Pública* which were enacted December 1976.

201 According to many, Pemex is technically broken since the value of its current level of indebtedness exceeds its total assets Gasca Neri, Rogelio. 2007. "Régimen Fiscal y Requerimientos Financieros de PEMEX." Mexico City: Cáéíóúñmara de Senadores, Marcos, Ernesto. 2007. "Régimen Fiscal y Requerimientos Financieros de PEMEX." Pp. 22 in *Comisión de Energía*, *Cámara de Senadores*. Mexico City: Congreso de la Unión.

Diagram 8.5.1 Structure of the Public Sector



Source: Diagram taken from (IMF 2002)

Since Pemex is considered part of the central government, bailout applies and all the moral hazard issues that normally occur with this kind of arrangements.[202]Since 1976, Pemex is subject to direct budgetary control and therefore its expenditures and debt decisions are part of the annual budget sent to Congress. Its programmable (discretionary) and non-programmable (non-discretionary) expenditure are both parts of PEF. On a yearly basis by Congress approves the PEF as a response of the proposal by the Executive (Guerrero Amparán 2002). "Direct budgetary control" of the central budget bureau (SSE) authorize spending demands from the parastatal which may delay spending requests from Pemex. This is clearly a very different status, compared for example with Venezuela's PDVSA (Moreno 2004).

Pemex revenues are considered as part of the central government income. Its expenditures are regulated by rules and regulations published by the former SPP, SSE. This Undersecretariat controls all expenditures by its classification code (*Clasificador por Objeto del Gasto, COG*), such as public works, acquisitions and its supervisory, monitoring, and evaluation mechanisms.[203]

The rationale for this extreme financial control and administrative centralization is that "strategic" SOE's, are key to the macroeconomic control of public finances. For example, the Mexican Social Security Institute (*Instituto Mexicano del Seguro Social*, or IMSS) has a payroll of 350,000 people, 12.5 million of insured persons, and 50 million of right holders (Gómez Gordillo 2005). Gómez Gordillo, a former Fiscal Attorney General and Undersecretary for revenues (*Subsecretario de Ingresos*, or SI), states that "under the described principle,

[202] Former President Zedillo sent to the Mexican Congress a No Bailout Law for subnational governments, a Law eventually approved which importantly reduced the risk of financial bailout for States and Municipalities by the Federal (Central) government.
[203] The legal changes that apply regarding the last energy reform (October 2008) are not considered here since, taking in consideration its recent introduction, their effects need some maturing.

theoretically quantifiable and measurable goals and objectives are defined. Each must comply with public organizations. This issue turned, under the political and administrative interpretation of the Federal Executive in an instrument of stalwart control which subordinates the technical actuation of such organisations, obviously including public enterprises, to the unilateral will of the President of the Republic and its Secretaries, chiefly the ones in charge of the financial control and program planning" (Gómez Gordillo 2005: 15-16).[204]

In 1986, President De la Madrid published a Federal Law of Parastatal Entities (*Ley Federal de las Entidades Paraestatales*, or LFEP). The Law reinforced the Parastatal's status, particularly in its internal decision making. The Law created the concept of "Management Autonomy" which referred to the internal administration –a Government Body- integrated from 5 to 15 members and its correspondent substitutes. For example, the Undersecretary for Expenditures, SSE's Head has a seat and can vote in Pemex's governing body. Additionally, the Law made more explicit that the principle of "budgetary control" introducing two new concepts: "Sectorization" and "Globalization"(Gómez Gordillo 2005).

One of López Portillo administrative reform was the introduction of Sector Heads, or "Sectorization". This meant that Secretaries (or line ministries) would coordinate all public bodies according to the legal attributes of the function they performed. For example, as the analysis of the Planning / Budgeting Cluster will identify later at this chapter, De la Madrid created the Secretariat for Energy, Mines, and Parastatal Industry (*Secretaría de Energía, Minas e Industria Paraestatal*, or SEMIP) to head, coordinate, and preside the governing body of PEMEX.

[204] Author's translation.

The concept of "Globalization" within the Mexican public administration is important. The Sector Head (i.e. the Secretariat) coordinates the parastatals along its sector, at the same time a "global" entity is present. SHCP has the mandate to lead Pemex programming and budgeting administrative decisions, and also has a major role in authorizing and allocating its budget, approving its cash flows and indebtedness ceilings. SHCP is legally obliged to participate in all governmental bodies of public enterprises, or direct or indirect budgetary control.

The effort of the 1986 Law to provide "Management Autonomy" to public enterprises vanishes, as "Sectorization", "Globalization", and politically charged actors such as the Presidency or the Labour Union extraordinarily affect the real outcome of what supposedly has to provide the public enterprise. Finally, the presence of another "Globalization" entity, this time for ex-post evaluation and control such as the Secretariat for the Federation's General Comptroller (*Secretaría de la Contraloría General de la Federación*, or SECOGEF), created in 1982 but has changed several times, because it exerts considerable power over Pemex by its delegate (Internal Comptroller, or *Contralor Interno*). SECOGEF and its administrative successors had provided for another source of regulation which also affected Pemex performance.[205]

In conclusion, public enterprises, in particular OPD's, which are under direct budgetary control are, in legal terms, importantly subdued by a series of formal and informal institutional mechanisms. This clearly describes the institutional tools of budgetary and political control of Pemex.

[205] As part of the Executive Power and its Secretary being appointed by the President, the series of Secretariats that had played this role had been unable to correct organisational problems and, most important, to successfully eradicate embezzlement, misallocation, and corruption.

8.6 The Rise and Demise of Public Investment and Pemex under Neoliberal Era

The dispute over Pemex resources led the Planning –along with developmentalist and Cambridge-trained economists- side of the Cluster after 1982 to be downgraded. With it, the Secretariat for Patrimony disappeared.[206] Pemex management and political autonomy shrank, and SPP began to concentrate on both long and short-term expenditure policy. The 1982 demise of the Mexican State's planning function marked the beginning of a politically-induced budgetary decision-making, with a strong emphasis on budgetary incrementalism. A clear biases was developed towards current expenditures, an issue that is explained later. This pattern is even more clear when considering the two oil booms and the 1990 interim (1976-1985; 1990; and 2003-present) when the Mexican government increased current expenditures, leaving capital and infrastructure expenditures to its historical low levels.

Although the 1976 administrative reform changed the budget institutions and expenditure policy, SPP's disbandment in 1992 meant no substantial change in policy, but only "a division of tasks". SPP's faculties were hosted again by SHCP, which for the third time in history, re-united revenue and expenditure decisions (fiscal policy) under a single Ministry.[207] There was though, a policy innovation. The former SPP's Undersecretariat for Regional Development was transformed into a new Secretariat (Social Development).[208] This innovation create a special treatment of social

---

[206] A new Secretariat is created (*Secretaría de Patrimonio y Fomento Industrial*, SEPAFIN) but with a different mandate.

[207] The other experiment that split fiscal policy into two bureaus occurred from 1928 to 1932, although not to Cabinet level Carrillo Castro, Alejandro. 2005. "Génesis y evolución de la administración pública centralizada." Pp. Diagram of the Mexican centralized public administration historical evolution (1821-2005). Mexico: Instituto Nacional de Administración Pública.

[208] The creation of the new Ministry (Social Development) in 1992 is directly related with the presidential National Solidarity Program (*Solidaridad)*, which was the main base for President Salinas and the PRI to recover after 1988 elections.

expenditures, leaving all other types of expenditures to the Undersecretariat for Expenditures, under the aegis of SHCP.[209]

López Portillo's decision to increase the leverage of Pemex over the cabinet and the entire political system clashed directly with the "financial" bureaus, which were in charge of the State's public finances. It is important to remember that Pemex was one of the main sources of instability that ultimately led the monetary inflation and fiscal deficits during the 1980s. This represented an important managerial problem for both monetary and fiscal policies to operate effectively (Farfán-Mares 2008d).[210]

Pemex not only had the President himself as an ally but also other ministries oriented towards long term planning perspective.[211] Although, as a former high-level public servant pointed out, he was unable to control the parastatal from SEPANAL (Farfán-Mares 2009a). There were signs that Pemex was in fact acting very independently stance and taking advantage of its direct personal relationship with the President (Philip 1999).

The disproportionate political and institutional power of the bureaucratic alignment of the planning ministries, the President, and Pemex induce several grave technical mistakes. Examples of these include the excess of investment in many sectors and a flawed projection of oil prices, which provoked a major crisis in 1982.

---

[209] Despite this innovation Social Policy is strictly financially restricted, monitored, and shaped by SHCP's Undersecretariat for Expenditures (this situation prevails up to the year 2008).

[210] I thank Salvador Delgado for reminding me the importance of the Olivera–Tanzi effect for fiscal and budget management Farfán-Mares, Gabriel. 2008d. "Interview wtih Salvador Delgado Garza." Mexico City, Tanzi, Vito. 1969. *The individual income tax and economic growth: an international comparison: France, Germany, Italy, Japan, United Kingdom, United States*. Baltimore, Maryland: Johns Hopkins Press.

[211] Although anecdotes may not work as "proof" of this situation it is worth mentioning that Pemex Director and the President were close friends, an issue that eventually played an important role in the political, administrative, and financial role of Pemex and itself the main cause for Pemex director overshooting and in the end, its sacking.

This began the displacement of the Financial Cluster to regain control (Bailey 1980; Bailey 1984).

The Mexican case greatly contrasts with its rentier counterparts in Latin America. For example, although Venezuela's PDVSA was much more politically insulated, the oil company financial endowment was used by the central government to alleviate the effects of the explosion of the debt crisis in 1982. As Saulniers stresses: "By the end of 1982 President Luis Herrera Campíns dispossessed the company of its investment funds to rescue the government's ailing finances, cancelled investment projects, and earmarked $2 billion of company money to subsidize the bankrupt and corrupt labour-owned Banco de los Trabajadores" (Saulniers 2001).

In Mexico, the emergence of SHCP and SPP as a major player during the 1980s demonstrated a full engagement of budget maximization discretion. SHCP main incentive for budget maximization was to avoid incurring deficits, in order to control indebtedness. SPP work to construct different types of public policies with a clear social and political impact, helps to explain its extremely political role. In particular SPP played an important role in the public debate over expenditure decisions. In the end, the role of SHCP and SPP in downplaying Pemex and its investment decisions explain in part the low levels of public investment after 1982.

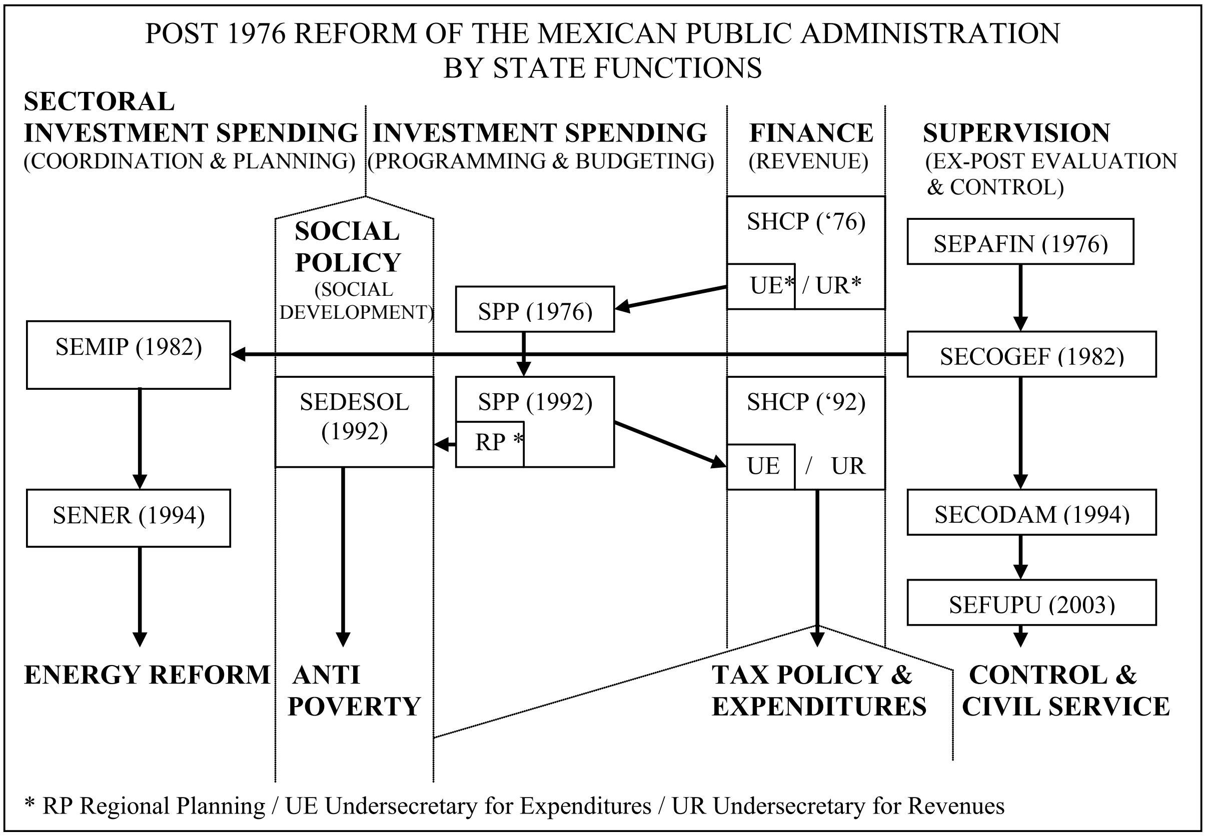
When SPP was dissolved in 1992, the President in transferred SPP's regional political muscle under the aegis of a new technically sophisticated and politically charged Secretariat for Social Development (*Secretaría de Desarrollo Social*, or SEDESOL), was designed to run anti-poverty programs (2010). This institutional arrangement played a fundamental role in strengthening barriers of entry for another political forces to the extent that it provided a key support for the President and the system. This was demonstrated during 1994 elections. As the role of social policy (i.e.

PRONASOL) gave momentum in 1988, when both had importantly lost credibility. Social policy reduced the threat of contestation by considerably increasing electoral support for the system at the 1991 midterm elections. It also considerably reduced the Left's role thereby reducing people's preference for it (Dresser 1991). In the end, the anti-poverty institutional arrangement played a major role for building a "safety net" against the effects of the 1994-95 financial crisis.[212] And it served a so-much needed social cushion for the conservative government of PAN's President Fox.[213]

The following Diagram outlines the major trends of Mexico's central public administration after 1976. Sectoral investment spending built an institutional basis for energy reform. The broad investment spending basically disappears, only as "social investments" increased. Finance basically stays the same increasing its leverage by controlling investment spending decisions. Finally supervision evolves into the institutional features that support public administration internal oversight and control and human resource professionalisation (i.e. civil service).

[212] In terms of policy evaluation, particularly in its appropriate use (politically neutral and technically efficient), it has been only the Social Development programs are the only part of expenditures which in fact is overseen by the Legislature and non-governmental bodies.
[213] At varied moments during the present presidential term (Calderón), the PRI has asked to disband SEDESOL.

Diagram 8.6.1 The Post-1976 Planning / Budgeting Cluster



Source: own elaboration based on (Carrillo Castro 2005)

Finally, Table 8.6.2 shows the trajectory of the financial importance of some ministries which comprised the Budget/Planning Cluster. Numbers for each ministry are deliberately left in current pesos since the idea is to see for 1976, 1980 and 1991 to what extent each item changed in the budget. Data indicates that the proportion of the Presidency's total expenditures (*Presidencia*), compared with SHCP numbers stayed about the same in the three years compared. The energy budget greatly increased in 1980 and SPP budget start to grow that same year. Social Development becomes a bigger proportion within the budget until 1991. The most impressive pattern is SPP stance in 1976 which is four times the Presidency expenditures, in 1980 it is less than .5 times Presidencia expenditures and in 1991 represents six times Presidencia expenditures. Energy will observe a different pattern as its numbers for

1980 doubled, then increased 16 times in 1980 but were similar to SPP budget in 1991. The trajectory of some of the bureaus associated with each side of the bureaucratic cluster reflects, in general, a pattern of decreased budgets for long-term perspectives and a substantial amount of resources allocated to short-term considerations.

Table 8.6.2 The Planning / Budgeting Cluster Budgetary Leverage (Current Million Pesos, Effectively Spent)

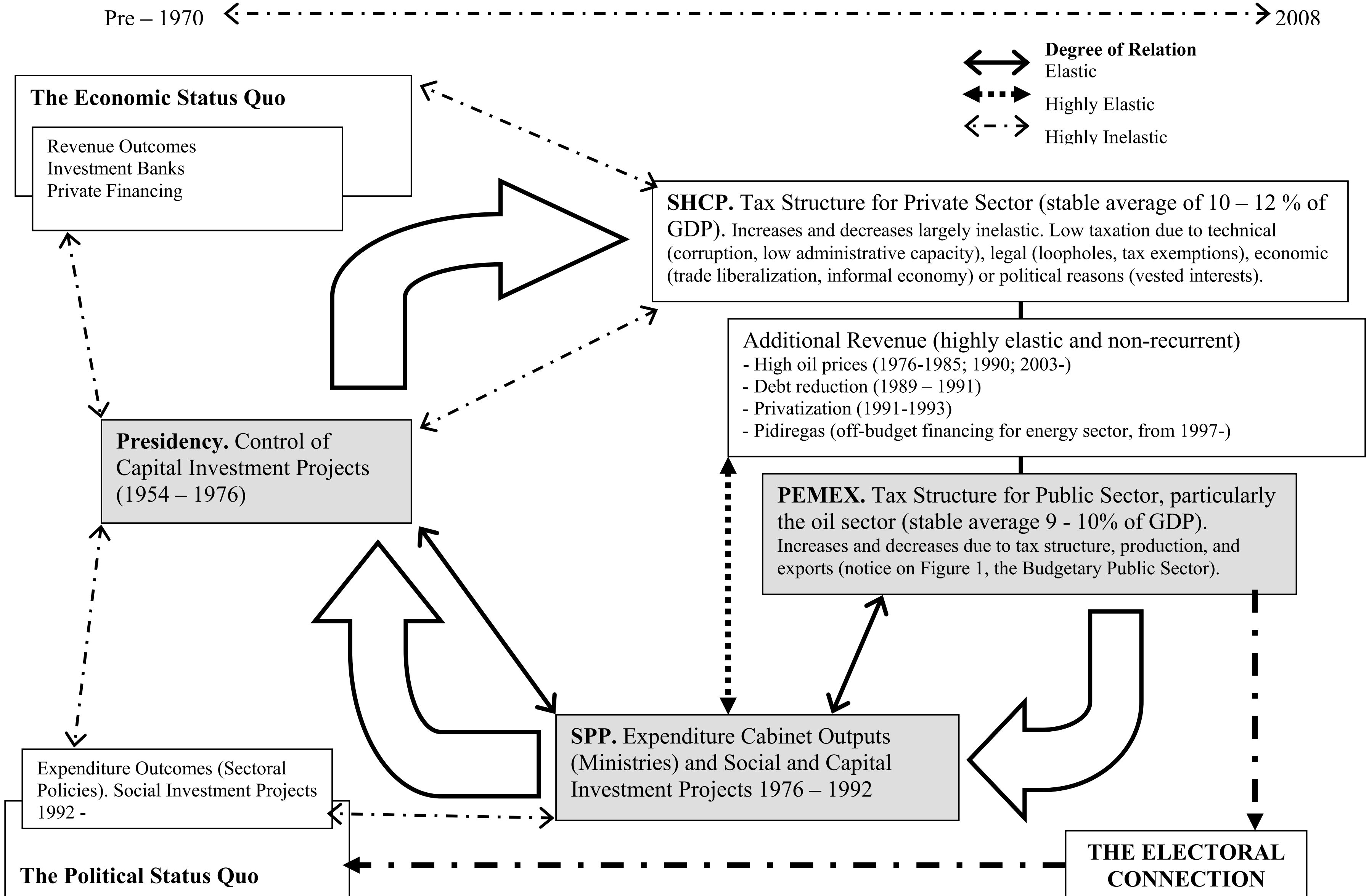
Base year	**1976**	**1980**	**1991**
Presidencia	**667**	**4,900**	**206,800**
Gobernación	1,151	5,000	806,700
Relaciones Exteriores	1,271	2,600	564,700
Hacienda y Crédito Público	**6,505**	**68,300**	**2,837,800**
Defensa Nacional	7,496	12,600	3,660,500
Comunicaciones y Transportes	8,353	40,000	5,192,100
Economía	824	41,200	5,009,600
Educación Pública	61,761	139,900	25,039,300
Salud	9,494	19,600	3,670,800
Trabajo y Previsión Social	658	2,600	291,400
Reforma Agraria	1,762	6,500	415,600
Procuraduría General de la República	474	1,200	590,300
Energía	**1,410**	**81,100**	**1,578,000**
Desarrollo Social	**687**	**4,500**	**307,000**
Programación y Presupuesto	**2,460**	**7,700**	**1,247,100**

Source: own selection data obtained from Public Accounts (Cuenta Pública de la Hacienda Federal, SHCP)

From a budgetary perspective, Table 8.6.2 tries to give three “snapshots” of how different ministries evolved during the years. Those ministries which names are in bold types represent the ones which experienced important increases. While the Office of the President (Presidencia) represented only a fourth of SPP in 1991 it represented more than six times. Presidencia, SHCP, Energy, Social Development, and SPP were among the main actors of the rentier policy, the ministries which caused the Mexican State apparatus to develop the policy curse.

Diagram 8.6.3 outlines how the perverse cycle of rentier policy curse works. The *presidentialist* system is a system in which the President is not only part of a political model but a key source of legitimacy for the entire political system. The incentives for the President to detach from discretion over anti-poverty programs and public works programs are very low. Presidents did not self-repressed from personally controlling social and capital investment but they even are strengthened by bulky budgets and innovative mechanisms. Salinas anti poverty program (National Solidarity Program, or *Programa Nacional de Solidaridad*, PRONASOL), is an example.

Diagram 8.6.3 Mexico's Policy Curse



Source: own elaboration.

8.7 The Demise of the Long-term Policy Dimension

Long-term planning institutional device straitjackets Mexico's budget bureaus. This is because they create by using techniques such as cost-benefit analysis, an investment portfolio and business models which can not rely on a single year budgetary programming. This technical issue means that all the institutional features, which build long-term, spending commitments are ruled out by budgetary bureaus. Specially since one of their main mandates is to keep discretion high in order to be able to adjust, once a fall in the expected (budgeted) and the amount of oil resources or extraordinary windfalls are in place.

Budgeteers and budget bureaus generally are institutionally close to the political leadership of a government or organisation since they are key and strategic tools for political credibility and legitimacy. Therefore, in order to respond to politically-induced and strategic spending requests, budget bureaus have to guarantee a certain degree of discretion. Especially to be able to respond to extraordinary, non-programmed, non-budgeted, or non-expected request of spending by the political leadership.

Politicians and budgeteers incentives operate against short, medium, and long-term commitments such as those that are based on a planning and developmental perspective. This means that from an operational viewpoint the planning side is weak and therefore it is unable to gain from the presence of oil revenues. This is particularly the case with extraordinary and unexpected oil windfalls.

The following Table displays a statistical exercise that correlates oil revenues with public spending by COG budget items. Current expenditures have a very high correlation to oil revenues since they are very similar to capital expenditures. Since all items present a strong statistical correlation, this means that there is no strategic policy for budget allocation, but a mere arithmetic distribution of these.

Table 8.7.1 Statistical Correlation Between Oil Revenues and Public Expenditures, (1980 - 2008)

Type of Expenditure	**Correlation**
Current expenditures	**0.855**
Personal Services (wages and salaries)	0.775
Government's Consumption	0.887
Services	0.820
Subsidies and Transfers	0.775
Non-programmable expenditures (non-discretionary)	0.896
Subnational Governments	0.881
Capital expenditures	**0.816**
Direct Investment	0.790

Source: own elaboration (excel) with data from (CEFP 2007a) and Ministry of Finance: Estadísticas Oportunas de Finanzas Públicas (Secretaría de Hacienda y Crédito Público, SHCP).

As Table 8.7.1 indicates that oil is used on a non-strategic manner and its revenues tend to benefit current expenditures. Higher statistical correlations, or coefficients closer to 1, indicate that these items are highly responsive to the size and behaviour of oil revenues. Current expenditures are slightly more responsive than capital expenditures to oil revenues. They are among the first to respond to government's consumption, debt, and subnational government's budget expenditures. Yet, rather than make a contrast between current and capital expenditures, the purpose of doing this statistical exercise is to demonstrate that rents are distributed evenly and almost by fixed percentages, rather than upon a strategic criteria. This exercise also confirms that oil revenues do not serve for long-term, developmental goals but rather they respond to attempts to balance the budget.

8.8 The Restoration of Bureaucratic Equilibrium and Policy Failure

The demise of state planning since 1982, and Pemex's political retreat, severely damaged the State's capacity to insulate public investment and capital expenditure policies from political considerations. Also to some extent, it also delayed necessary budget reform.[214] When using additional recurrent production and exports and non-recurrent oil revenues, the Mexican State entered into an unsustainable economic spree which postponed the need to alter the nature of the tax base. Since these resources were kept out not from other "potential political threats" such as governors, the Legislature, and most importantly, the line ministers, the management of such resources was highly discretional.

Since planning was severely diminished throughout the public sector, budgetary discretion pervaded throughout line ministries and particularly in the Expenditure Bureau within SHCP (present SSE, former SPP). Until the current government, sectoral expenditure policy, expressed through Sector Budgets (i.e. education, health) had been absent of macro policy, medium, and long-term spending strategic planning. Since expenditure policy has been implemented with an extremely nuanced deficit avoidance criteria, all other considerations such as the quality of public services were simply ruled out.[215]

---

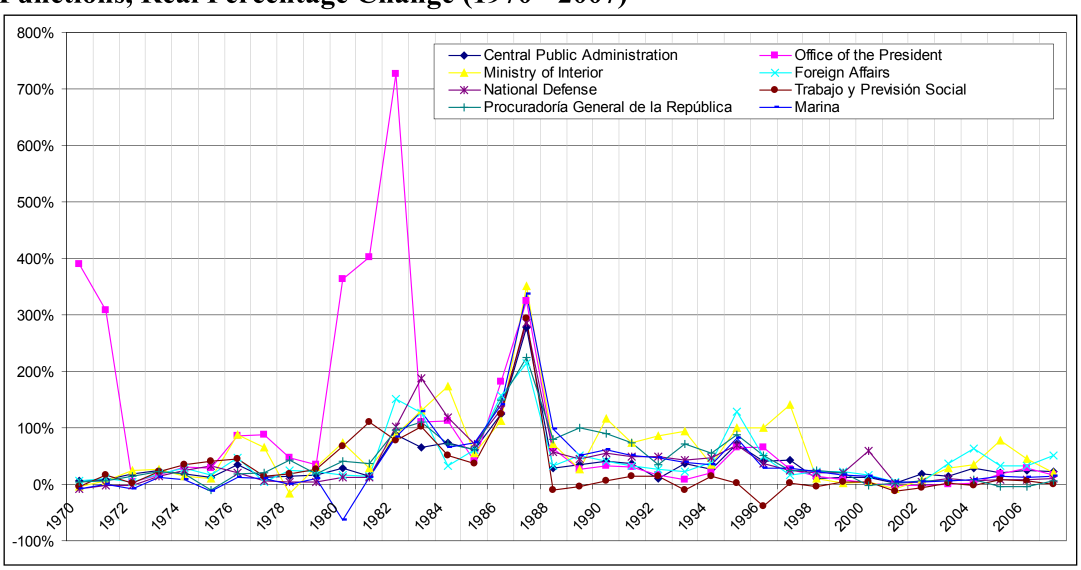
[214] The discussion on the analysis of current versus capital expenditure might entail technical key developments in terms of budgetary reform. Mexico's transition from cash flow accounting to accrual accounting is probably behind the problem. As the IMF notes, "At the macrofiscal level, the importance of accrual accounting for macroeconomic policy arises from the fact that it measures assets and liabilities that are relevant to the overall stance of fiscal policy and fiscal sustainability, but which are not measured by cash accounting. In particular, whereas cash accounting measures only conventional debt, accrual accounting measures other quasi-debt liabilities such as amounts payable for the receipt of goods and services, and employee liabilities" IMF. 2007. "Transition to Accrual Accounting - IMF Technical Guidance Note." Washington, D.C.: International Monetary Fund.

[215] In addition, it is not helpful that the current Planning Law (which was enacted in 1983), lacks secondary regulation so it is not applied.

The following Tables present the spending patterns since the second oil bonanza started (1976). As it is demonstrated the volatility of public finance in each of the three sectors analyzed (government, social development and services, and economic development) present different patterns of volatility. The first sector (*Government Functions*) is clearly the most stable. This is followed by the social development and services sector, which main goal is to face social, population growth and composition challenges. The most interesting trajectory, regarding the present Chapter's discussion the financing of "productive" functions and in general the State's economic attachment (Budget allocated to *Economic Development Functions*).

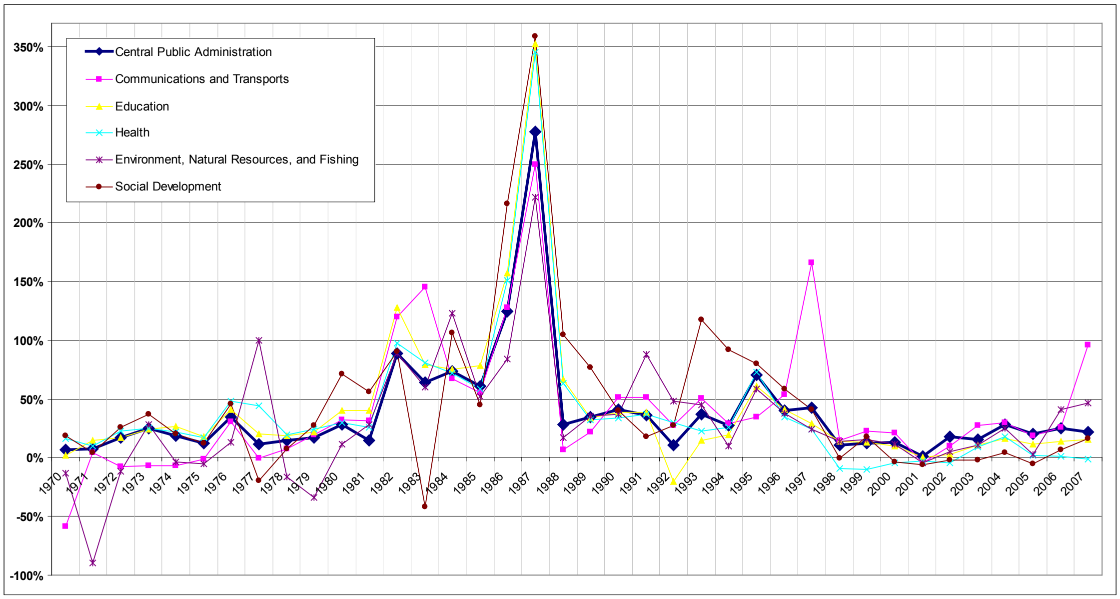
This trajectory is consistent with this dissertation's claim that oil tends to benefit the State's apparatus operation as well as the delivery of transfers and subsidies ("welfarism"), rather than allocating rents towards a developmental – economic embeddedness- purpose.

Table 8.8.1 Trajectory of Public Expenditures Allocated to Government Functions, Real Percentage Change (1970 - 2007)



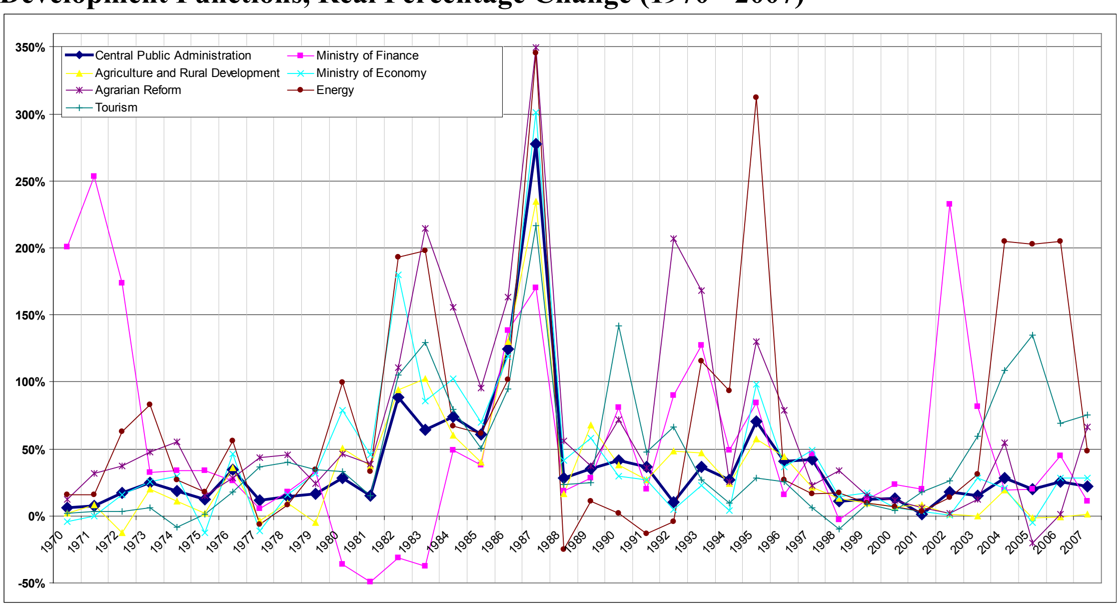
Source: own elaboration with data from the Executive's effectively spent budget reported at Public Accounts (CPHF) for years 1970 – 2008.

Table 8.8.2 Trajectory of Public Expenditures Allocated to Social Development and Services Functions, Real Percentage Change (1970 - 2007)



Source: own elaboration with data from the Executive's effectively spent budget reported at Public Accounts (CPHF) for years 1970 – 2008.

Table 8.8.3 Trajectory of Public Expenditures Allocated to Economic Development Functions, Real Percentage Change (1970 - 2007)



Source: own elaboration with data from the Executive's effectively spent budget reported at Public Accounts (CPHF) for years 1970 – 2008.

Overall, regime change and electoral competition, at the Federal Executive, Legislature, or even subnational level, have not altered the perverse cycle of politically induced anti-deficit policies. Under the PRI's authoritarian era and the current PAN conservative government, for SPP and the current SHCP's bureau for expenditures (SSE), the incentives to liberate Pemex and deliver stable and consistent patterns of public investment are clearly absent. Their power lie precisely at the enormous bulk of discretionary resources that public sector oil-related revenues provide. This again serving their financial and political role. In fact, both had played a major role in Pemex underinvestment, poor management, and other politically-induced symptoms. The expenditure bureau within SHCP, currently its administrative successor, is directly controlled by the President through highly politicized personnel.[216]

[216] The former Undersecretary for Expenditure is now Secretary of Social Development and the current one was formerly the President's Chief of Staff.

Chapter IX. Policy Curse and Reserve Depletion: a Public Finance Analysis

9.1 Introduction

Mexico's Rentier State originates from the nature of the tax structure or the weight of oil and non-oil revenues on the budget. As it has been emphasized, taxation has been historically low and inelastic with public sector revenues contaminated by oil's volatility, proving to be highly elastic.

This mixed nature of Mexico's public finances explains why the government, and specifically budgetary institutions, had placed so much attention in devising a collection of rules and regulations to guarantee a flexible control the discretion of its public expenditures. Mainly for macroeconomic purposes and discretion flexible control has served to maintain the support of the regime's governing coalition. These two features helped the State to overcome a variety of its challenges. Yet, it has also resulted to deepen its economic detachment by reducing public investment, delivering a volatile investment atmosphere at the State. This feature has eventually contributed to erode the potential for sectoral public policies such as education, transport, communications, etc… to be delivered.

How oil revenues managed by the central government and to what purpose are they used for? Usually, economic and political analysis tends to focus on presidential terms for different policy patterns. The process tracing of macro and micro financial decisions regarding Pemex and its oil revenues demonstrate that the Mexican government has had different policy priorities under three distinguishable periods from before 1976, between 1976 and 1982, and that point to the present.

This chapter focuses on the last period from 1982 onwards. This period represents the institutionalization of a truly Rentier State where Pemex and oil revenues are controlled by the central government to be used as a cushion for economic, fiscal, and monetary policies rather than macro, developmental policies. Mainly driven by its budgetary needs (i.e. domestic energy prices and subsidies), the government punishes sectoral investment and the extended public sector. This was done even increasing taxes in order to raise more oil revenues independently from the risk associated to production loss, fall in prices or reserve depletion (1986, 1998, 2004). Oil revenues are also correlated with the government's decrease in taxation and indebtedness. During the period (1982- present) the public sector's investment is severely constrained and remains stagnant. This results into an erratic, short-term, and non-strategic financing of other sectoral investments and public policies.

9.2 The Logic of the Policy Curse: a View from Budgetary Management

Given Mexico's government permanent policy of forecasting lower revenues than expected, a substantial reform of budgetary allocation policy has never occurred. This had created several problems which are deeply rooted on Mexico's rentier political economy.

Oil revenues enter the Treasury at a quicker speed than the budget exercise (as the Fiscal Year unfolds). Budget bureaus need to address the strong spending pressures. Higher and bigger-than-expected revenues are allocated with the tacit or explicit agreement of the organisation's top position. Depending from the nature of the institution, this can also be in agreement with the political leadership (i.e. the Minister or the President). In general, many decisions are delegated to the personnel working at budget bureaus (i.e. budgeteers). These bureaucrats have the discretion to impede or allocate resources to other sectoral bureaus because they are capable of importantly shaping public policy goal and objectives.[217]

The problem of underestimating revenues, can be managed into a relatively efficient fashion through a variety of micro-budgetary operations (i.e. budgetary legerdemain). Yet, when oil exports offer *excess or extraordinary* revenues, mainly because the oil price observes a hike, the logic of budget allocation is greatly affected. Both regular and extraordinary revenues create strong spending pressures which have to be contained by budget bureaus. This is because of the huge number of decisions that these bureaucrats canno solve and most be addressed by higher administrative offices or political officials.

For example, sectoral general directorates from Mexico City's budget bureau often emphasized the importance of giving some autonomy to administrative units. Specially for managing their internal budgetary changes which does not affected expenditure ceilings or the previously allocated total spending. Budget managers and officials at central budgetary offices often complain for the need of authorization. There are many administrative unit's internal decisions made by the central bureaus at the Finance Ministry (SSE) which also represent an important loads of work which negatively affected oversight and analysis capacities of the personnel (Farfán-Mares 2008d; Farfán-Mares 2009b; Farfán-Mares 2009d). These bureaucrats complaint that the central budget bureaus were not needed to control, monitor, register and authorize sectoral or ministerial units' spending decisions. As a result, the issue of micro-management is extreme.

[217] Often, officials which are in charge of an specific cluster of administrative units (for example, transport, health, education, etc…) do not constrain their decisions to budgetary or financial items but qualitative and operative issues which have the potential to substitute the tasks and the policies that are carried out by ministries or agencies.

Considering that Mexico's budgetary management emphasizes oversight and control over monitoring and evaluation (a system based in inputs rather than outcomes). The control function was additionally reinforced after Mexico began to produce higher amounts of oil and budgetary decisions are extremely biased towards micro-management. They rarely consider produce analysis or build policy strategies from a strategic perspective. This important issue has been addressed and analyzed from a comparative perspective (n=50) by Krause at the London School of Economics Government Department (Krause 2009).

Therefore, when the Treasury reports higher and extraordinary revenues (which not even the finance authority foresaw), the budget bureaus are incapable of allocating extra revenues using a strategic, long-term, and developmental criteria. As a result, they allocate (or authorize the inter-item exchange or extra funds when requested by administrative units) by applying simple, mostly arithmetic formulas. This arithmetic allocation works the same for increases or decreases, as the recent adjustment made by the Mexican government (August 2009) clearly demonstrates. The government does not have the instruments to decide where to cut or not spending, because it lacks strategic managerial tools.

Budget bureaus tend to evenly distribute these additional resources using itemized spending methods such as administrative (*ramos o unidades ejecutoras del gasto*) or input (*clasificador por objeto del gasto*) classifications. Often they use the "Program" or "Project" category (current / capital intensive expenditure items, respectively) to decide where to allocate the new available funds (Farfán-Mares

2003a; Farfán-Mares 2005; Farfán-Mares 2007; Farfán-Mares 2008d; Farfán-Mares 2009b; Farfán-Mares 2009d).[218]

Therefore, the Mexican budget bureaus are prepared to build the discretion that a rentier political economy needs, yet they are ill-trained to operate a qualitatively superior, *a credible* budget.[219] A good example of the current budgetary practices in Mexico can be addressed by analyzing the recent budget cut resulting from the 2009 economic crisis. In August 2009, SHCP gave the instructions to the central budget bureau SSE (at its operative branch, the UPCP) to reduce spending by different percentages (5, 10, 15% depending on the type of budget item). This was to avert a potential deficit since the economy was shrinking by -6.5% of GDP.

Due to Mexico's structural fiscal weakness and the State's functional detachment from economic cycle (precisely because its rentier nature), the financial and budgetary authorities are unable to deliver a countercyclical and productive fiscal policy. In addition, budget rigidity is high, where current expenditures consume three quarters of total spending, importantly decreasing policy manoeuvre (Echeverry, Bonilla, and Moya 2006).

Budgetary cuts often result in a non-strategic and arithmetic adjustment of the State's extended public policies. Therefore, the need for budgetary control and discretion systematically damages the capacity of the State to productively allocate public expenditures. In all, the State's budget institutions are managed by rents for political and financial consideration, and casually by specific public policies.

[218] These categories (programs or projects) are aligned with a directorate or bureaucratic structure and therefore reflect the activities or tasks that a bureau actually does. It is not outcome oriented but input oriented.

[219] The first part of Chapter IV analyzes budget bureaus' degree of centralization and the issue of personnel. It should be added the issue that budget bureaus are not headed not organisationally trained upon a merit-based, civil service, professional service. They have technical training, yet, they are appointed also with a clientelist and patrimonial criteria.

This chapter focuses on three main issues. The rents are used upon a distinctive institutional pattern after 1982 and directly affect the State's rates of investment. Particularly at the energy sector this has resulted into a depletion of reserves and the making of a fiscal and energy crises by the year 2012-13. Since this "strategy" is self-defeating and counterproductive in the long-run, it is considered a curse and since deprives Mexico's energy patrimony, it is regarded as a predatory policy.

9.3 Mexico's Fiscal Structural Crisis and Oil Rents: An Analysis

The revenues that Pemex provides to the central government are a strategic tool that has served Mexico to muddle through its structural fiscal crisis. It serves to tackle economic crises, external shocks, and revenue loss from private activities. Perhaps more important is the fact that oil revenues have helped to support the legitimacy of the regime's authoritarian features. Such holding back the transition towards a more competitive (and better regulated) economic and (liberal) political system. As this chapter demonstrates, budgetary discretion has ultimately generated a policy curse which produces Mexico's oil reserve depletion further and risk a deeper energy and fiscal crises in the future.

Fiscal crises had been defined by Gold (1995) as a "significant prospective imbalance between revenues and expenditures".[220] The concept of a short-term fiscal crisis applies when imbalances affect the current or next fiscal year. A long-term crisis occurs when a State observes a long-term structural deficit, i.e. when "the revenue produced by their current tax system is insufficient to allow them to maintain the existing level of services". Structural deficits depend on factors such as the nature

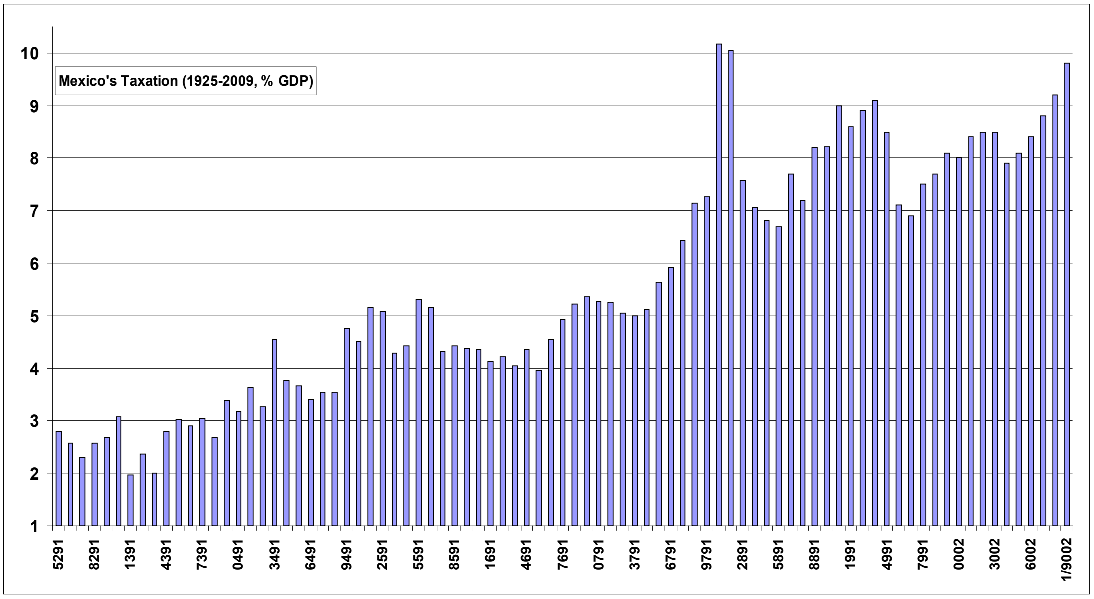
[220] Gold, Steven D. 1995. "A Framework for Viewing State Policies." Pp. 396 in *The fiscal crisis of the states: lessons for the future*, edited by S. D. Gold. Washington, D.C.: Georgetown University Press.

of the tax system, the rate of economic growth, demographic changes, and inflation (Gold 1995: 43).

Fiscal crises might be defined by time duration (how many fiscal years transcend) or its symptoms (i.e. significant revenue fluctuation caused by economic aggregates like growth, population, and inflation). As global economic history shows, it is common that a State may experience both a “short-term” (i.e. annual) or “long-term” (i.e. multiyear) fiscal crisis. Yet, they are always the result of a change in revenue or expenditures what causes an imbalance (or deficits), in the first place.

According to the above considerations, it is improper to place the Mexican public finance predicaments under the concept of standard fiscal crises. Mexico has tried to balance its budgets by modifying the nature of the tax system. The central government has controlled the revenues generated by the public sector. Furthermore it has avoided any substantial increase in taxes to the private sector (i.e. VAT and income) for almost a century. This fact places Mexico at a different status. Since its “fiscal crisis” lies almost exclusively on the level of taxation to private activities not the revenue/expenditure balancing.

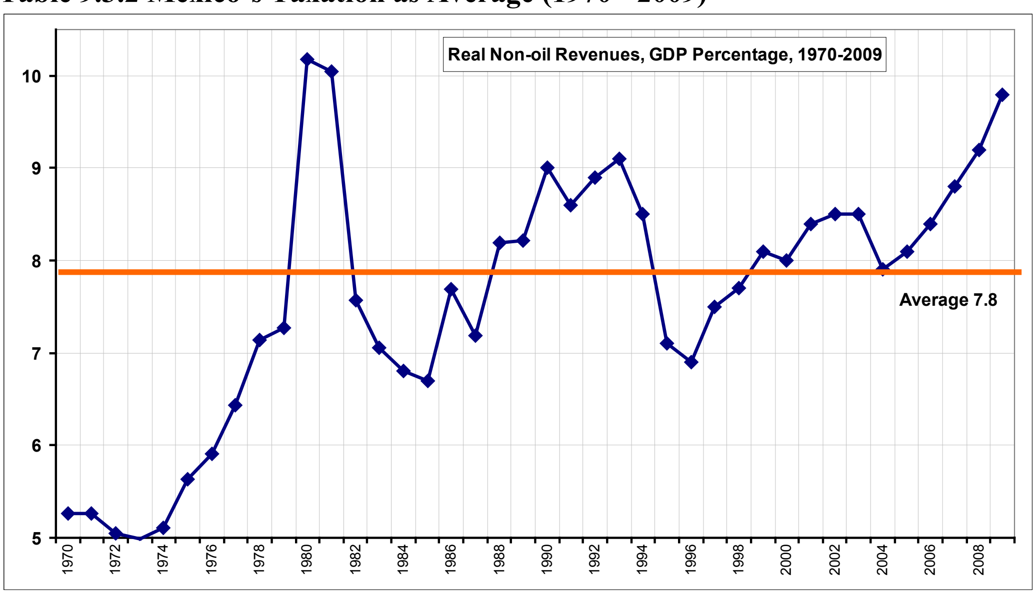
Table 9.3.1 Mexico's Taxation, Percentage of GDP (1925 - 2009)



Source: Own elaboration with data from Oxlad Statistical Series and SHCP (Informe de Gobierno). For the period 1980 - 1985 data was calculated using GDP base 1993=100 and the period 1990 - 2008 it was used GDP base 2003=100. 1/ Estimated revenue according to SHCP (General Macroeconomic Criteria).

As Tables 9.3.1 and 9.3.2 show this is a "structural" rigidity that goes beyond the annual or multiyear budget-balancing problems.

Table 9.3.2 Mexico's Taxation as Average (1970 - 2009)



Source: Own elaboration with data from SHCP (CPHF and Informe de Gobierno 2009).

In 1960, when visiting Mexico and being hired by the government, the renowned British economist Nicholas Kaldor delivered a report to SHCP Secretary, Antonio Ortíz Mena. Kaldor reported, among other issues, that "the exceptional favours that are conceded to different forms of income derived from property has no parallel in the legislation on income tax in other countries".[221] Kaldor, according to Jiménez San Vicente "found that Mexico's revenue from taxation, amounted to just 9% of GDP, one of the lowest in the world at the time. Four decades ago, Kaldor made the following remarks: "the public revenue of Mexico is too small not only absolutely, but relative to its stage of underdevelopment".[222]

The Mexican government sponsored the visit of Kaldor to introduce reforms for increasing taxation, but no such reforms occurred.[223] Kaldor's policy recommendations were made public in April 1964. It was just a matter of time for a "perfect storm", such as the one coming from the global economy in 1973, to worsen Mexico's fiscal fragility. During the 70s, the deliberate policy of rising oil production and exports greatly increased the level of available revenue. Yet, this deferred again from a genuine tax reform.

It is generally recognized that Mexico went bankrupt in 1982. But the country's entered into a severe crisis from 1986 to 1989 is usually overlooked by

---

[221] Elizondo, Carlos. 1994. "In Search of Revenue: Tax Reform in Mexico." *Journal of Latin American Studies* Vol. 26:159-190.

[222] Jiménez San Vicente, Armando. 2002. "The Political Economy of Tax Collection in Mexico: The Constraints on Reform, 1970 - 2000." Ph.D. Thesis, Department of Government, London School of Economics and Political Science, London, U.K. Carlos Elizondo claims that in 1960 total tax revenue accounted for just 6.31% of GDP Elizondo, Carlos. 1994. "In Search of Revenue: Tax Reform in Mexico." *Journal of Latin American Studies* Vol. 26:159-190. After the introduction of a reform in 1964, it increased to 6.92% in 1964, 7.13% in 1969, 8.15% in 1971, 9.78% in 1974, 11.25% in 1975, afterwards to begin declining Elizondo, Carlos. 1994. "In Search of Revenue: Tax Reform in Mexico." *Journal of Latin American Studies* Vol. 26:159-190.

[223] It is worth mentioning that the Mexican government actually tried to keep secret Kaldor's report, but later he released the report within the U.S. private sector, an event that then-Ministry of Finance Ortiz Mena overtly finds inconvenient Turrent Díaz, Eduardo. 2004. "Política tributaria: el arte de lo posible (entrevista con Antonio Ortíz Mena)." *Análisis Económico* XIX:185-196.

economists. This period is of utmost importance to explain the current status of Mexico's rentier State.

A detailed analysis of public finance figures offers some insights and trends of Mexico's financial and budgetary decision making. First, the non-programmable (non-discretionary) budget, which refers to the financial cost (i.e. amortization) of total public debt (internal and external) was from 1986 until 1988 higher in real terms compared to 1982. Second, from 1985 - 1986 the government lost $13,000 million U.S. dollars in oil revenue and taxes coming from Pemex, which it was only able to recover to pre-85 levels until 1989. Third, from 1985 - 1986 the debt service went from 469,571 to 637,837 (real pesos, base year 2002). This represented a shift from 11.72% to 16.53% of GDP (compared exclusively to 13.83% in 1982). Again, from 1986 - 1987, public debt increased to a level of 19.57% and in 1988 to 16.58%, decreasing to 12.10% in 1989 (merely as a direct effect of the Brady Plan).

After 1982 and 1986, oil revenues continued to increase, even at higher rates despite the fact that the real prices were falling. President De la Madrid not only continued to rely on oil but greatly increased its weight over the whole public budget. The following Table describes in detail how Pemex represented a strategic asset and became a function of fiscal policy rather than one of State's developmental policies.

Table 9.3.3 Mexico's Revenues and Expenditures (Real pesos, IPC 1993 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total Revenue	4,485.9	5,941.3	10,942.5	22,893.9	37,864.5	56,005.3	89,901.0	226,536.7	451,412.9	556,122.4	741,205.8
Total Oil Revenue	826.8	**976.3**	**3,068.9**	**9,966.2**	**16,934.5**	**23,345.7**	**31,488.6**	**84,202.0**	**141,961.0**	166,021.6	219,842.0
Pemex (without extraction)	736.2	834.9	2,478.1	4,988.4	8,587.9	10,037.1	**14,515.6**	**33,414.8**	**64,130.6**	**66,104.3**	98,495.6
Non-Oil Revenues	3,659.1	4,964.9	7,873.6	12,927.6	20,930.1	32,659.6	**58,412.4**	**142,334.6**	**309,452.0**	390,100.8	521,363.7
Total Revenue (Private Sector)	2,430.7	3,267.5	4,852.4	6,569.2	9,711.1	15,610.4	28,281.6	69,748.9	159,469.0	217,895.3	301,251.4
Personal Income (ISR)	950.5	1,281.5	1,791.6	2,764.8	4,544.7	7,336.3	12,916.2	30,102.4	77,648.1	105,387.8	139,063.7
Value Added Tax AT (IVA)	426.3	673.2	835.4	2,103.1	3,496.3	5,273.0	8,852.2	23,826.2	52,430.3	67,524.1	99,639.2
Production and Services (IEPS)	252.2	237.4	236.2	623.4	846.3	1,324.8	2,662.8	6,125.1	14,766.8	18,366.6	23,498.2
Imports	184.3	232.0	298.1	287.4	422.6	1,141.6	2,472.0	6,031.3	7,170.7	16,040.9	24,956.7
Current Expenditure (Govt operation)	2,535.6	**4,044.1**	**6,677.8**	**10,893.8**	**17,921.8**	**29,919.8**	**49,902.7**	**113,181.5**	**221,654.0**	269,109.5	344,868.2
Payroll	1,026.7	1,778.4	2,975.0	4,083.1	6,938.8	11,224.3	17,887.0	39,939.5	79,063.1	97,397.2	128,420.2
Capital Expenditure (Govt Investment)	1,942.1	2,917.1	3,529.1	5,255.0	8,406.4	10,902.3	17,155.4	38,262.2	64,925.6	71,724.2	107,354.7
Financial Cost (Govt debt service)	1,124.5	**2,074.4**	**6,771.3**	**12,417.6**	**17,643.2**	**29,109.7**	**62,933.2**	**176,663.8**	**316,970.1**	321,118.9	361,845.2

Source: (CEFP 2007a); Cuenta de la Hacienda Pública Federal 1981-2007 (SHCP).

An analysis of the 1980 – 1990 trend confirms that instead of abstaining from oil revenues the government actually increased its weight vis-à-vis the national economy. Right after 1982 the speed of extraction (particularly from 1986 onwards) almost tripled and the following year, again, almost doubled. Non-oil revenues (taxation in the private sector) had an impressive behaviour. It consecutively tripled from 1986 to 1988. Yet, these impressive figures for oil and non-oil revenues greatly contrast with expenditure composition. Current expenditures double each year from 1985 until 1988 and debt service doubled each year from 1985 until 1988 (between 1986 - 1987 tripled).

As it can be observed from Table 9.3.3 the State's reliance on oil intensity as a collateral for spending patterns, has a strong correlation with current expenditure and debt servicing spending patterns. Furthermore capital expenditures decreased, i.e. gross physical investment and current expenditures often increased prior to a mid or general elections as this dissertation highlighted in a previous chapter). After 1986, the level of taxation gradually recovers as Mexico began the manufacture-led economic development model.

Even after considering an in-depth analysis of public policy discussion and its dilemmas in 1982,[224] the decision of using oil exports to manage Mexico's structural fiscal crisis was consistent with the traditional and induced ambiguity of the government tax reform efforts. Yet the extreme reliance on oil revenues as one of the main pillars of economic policy and oil as deficit financing was entirely new. This signals, from a strictly public finance perspective, the founding layers of Mexico's Rentier State.

Macroeconomic stabilization, rather than any other pro-growth strategy, became central. The severe adjustment of public finances punished Pemex and all the extended government public investments. This resulted in a stabilization of oil production, the energy industry loss of competitiveness, and reserve depletion in the long run. By keeping production at the same levels, the Mexican government established a quota for oil exports and consequently for oil revenues. Oil revenues were used to stabilize public finances until 1986, when the fall of international oil prices obliged the government to engage into a policy shift. This is Mexico finally joined GATT.

[224] In 1982, the Mexican government had many tasks to solve and to the typical political problems inherited by its antecessor, President De la Madrid had also to cope with monetary policy problems such as capital flight, inflation, devaluation, etc… it also had to recover the government's relationship with the private sector since former President López Portillo had expropriated –nationalizing- banks.

Mexico began an export strategy through *maquilas*[225] or manufactures placed along the North border. Since oil prices were low the private sector used exports, debt renegotiation, and privatization to reduce fiscal imbalances inherited by the three previous administrations.[226] The policy decisions which followed the fiscal crisis during the first years of the 1970s and preceded the debt crisis in 1982 became the foundation for the public sector to become a fully rentier State. This policy curse is still present today.

9.4 Predatory Policy and Investment Substitution

An analysis of the outcomes of financial decision-making during the same period better shows how the Mexican government turned into a full Rentier State. To counter the effects of López Portillo's policies, De la Madrid three major policy decisions. The first, as a strategy to recover the private sector's investment levels, from 1982 to 1983. He decreases revenue to the private sector (enterprises and individuals) from 542,121 million pesos to 406,304 million pesos (in real pesos, base 2002), maintaining the policy until 1988. Second, he imposes new taxes on Pemex, or more precisely to oil production, which increases the government's income from 56,961 to 293,020 million pesos to decrease its effect of low price levels, as happened in 1986. Third, he "punishes" SOE's, severely decreasing its expenses on maintenance and investment.[227]

Philip (1999) describes this issue with more detail when he stresses the fact that,

> "Changes to the domestic pricing and taxation systems were more significant, however, and these turned Pemex into a major contributor to the Mexican budget … Tax increases bit so deeply into Pemex'

[225] The *Maquiladora* strategy actually provided for some "indirect" revenue, mainly helping the balance of payments.
[226] It is interesting that measures implemented in principle to cope with the structural fiscal crisis during this period (1986-1994), such as liberalization, debt reduction, and privatization all represented fresh resources with again delayed a real tax reform.
[227] The expenditure trends of current and capital expenditure from 1982 onwards clearly demonstrate this, as capital expenditure decreases consistently in real terms.

> income that in July 1989 the new Director-General of Pemex, Francisco Rojas, told a group of Mexican Deputies that the 1989 Pemex budget was, in real terms, below the level of 1973 although Pemex was producing around fifteen times more oil than in that year" (Philip 1999).

From 1986 to 2003, Pemex is systematically used to stabilize public finances and assure highly discretionary resources for its electoral purposes. This are quite different objectives from pre or post 70s initial strategy, and certainly, from the first half of the 80's strategy. From 1991 onwards, oil revenue consolidated as an asset of the whole political system. As the first non-PRI governor came to power, the beginning of another trend in oil politics which provided a more aggressive distribution of oil rent to subnational governments and political elites different from the PRI.[228]

The severe economic crisis that exploded during the first days of Zedillo's administration in December 1994 greatly constrained the policy context to obtain a tax reform and the increase in the State's taxation capacities. The seriousness of the crisis again made the increase in taxes not only politically dangerous, but a wrong decision from an economic standpoint. As happened during the 1982 debt and 1986 low oil price crises, Mexico's oil production was used as collateral for the international financial organisations and the U.S. Congress to support the Mexican government (Rubin 2003).

Oil prices had played a key role to rentier budgetary management. Since oil prices greatly decreased in 1986 and observed a short-lived hike in 1991, partly as a result of the Gulf War, how did SPP and its institutional successors SHCP, SEDESOL and the Presidency managed to keep financing discretionary expenditures? First, President Salinas (1988-1994) launched in December 1987 an economic pact (*Pacto de Solidaridad Económica*, PSE) which imposed several measures all aimed to control

[228] It is interesting that Pemex has had an important role as a key electoral asset for the government's either at non-competitive and competitive electoral moments and remains, up to date, as a publicly recognized base of support for the PRI.

budgetary pressures. Second, once in power, Salinas agreed with external creditors through a mechanism proposed by the U.S. Treasury Secretary Nicholas Brady to significantly reduce the debt burden over the Mexican State. This shifted, for budgetary purposes, non-programmable non-discretionary expenditure to programmable discretionary ones. Third, Salinas used politically a small oil windfall in late 1990 and first half of 1991 to bring back the electoral machinery of the PRI, increasing the percentage of votes to pre-crisis levels. Fourth, he began “de-incorporating” privatizing many public enterprises and other firms which either were created during López-Portillo’s state largesse or De la Madrid’s policy of private sector rescuing. Salinas privatized 1,155 public entities which represented fresh resources for both current expenditures and capital investment (Aspe Armella 1993). Finally, a fifth measure was that he aggressively used different monetary policy tools, such as inflation control, fixed and pegged exchange rate policies, and a substantial increase in private credit to induce an artificial economic boom (Edwards and Naím 1997; Farfán-Mares 2000a; Garcia 1997). All these measures were able to counter balance the loss in oil revenues due to the low international prices.

As the former policies that Salinas implemented to smooth the financial burden over public finances were taken, President Zedillo’s degree of budgetary discretion but was severely constrained. Since most of the policies implemented by its predecessor were now unavailable. Therefore he choose to go “by the book” and impose to Pemex once again the “1982 policy”.[229] He managed to extract the needed resources from Pemex through a variety of measures, such as increased production levels, taxes applied

[229] “The fall in oil prices that began in early 1997 would last until December 1998. Mexican authorities continued increasing the volume of oil exports and production, attempting to offset the decline in value of oil exports ”Everhart, Stephen and Robert Duval-Hernandez. 2001. "Management of Oil Windfalls in Mexico: Historical Experience and Policy Options for the Future." Pp. 32, *Policy Research Working Paper Series*, edited by E. Department: The World Bank / Mexico Country Management Unit and International Finance Corporation.

to different parts of oil production. Most importantly, since a reform in the energy sector was not politically viable, he created innovative mechanisms such as off budgetary or contingent liabilities to finance the sector (i.e. Pidiregas, explained below).

Overall, Zedillo's main policy innovation, from a rentier point of view, was to find a way to finance the energy sector without a tax reform and without refraining from eliminating the existing oil rentier policy. Zedillo no longer controlled the Chamber of Deputies and the nationalist sectors within the PRI opposed his policies. Perhaps more importantly, Zedillo managed to guarantee investment levels in the sector without endangering the country's domestic demand and without loosing policy flexibility because of less public expenditures were allocated to strategic sectors.

During 1996-97, just after Mexico announced that had fully repaid the U.S. loan to recover from the 1994 crisis, oil prices fell to historic levels in 1998. Since public investment levels were kept low either because a deliberate policy of disinvestment or lack of resources. President Zedillo tried to carry out an energy reform. Since the political left and the nationalist sectors of the PRI effectively opposed any reform in the Senate, President Zedillo chose to finance the energy sector (oil but also electricity) through a scheme known as Pidiregas.

Pidiregas, formerly called *Proyectos de Infraestructura Productiva con Impacto Diferido en el Registro del Gasto* and currently referred as *Proyectos de Infraestructura Productiva de Largo Plazo*, are the Mexican government's response –PRI "nationalist" hardliners successfully defeated the oil reform in 1997-98, to search for alternative ways to finance the energy sector. Specially as Table 9.4.1 shows the electricity sector weight much less than Pemex, but both are an important financial pressure for Mexico's public finances.

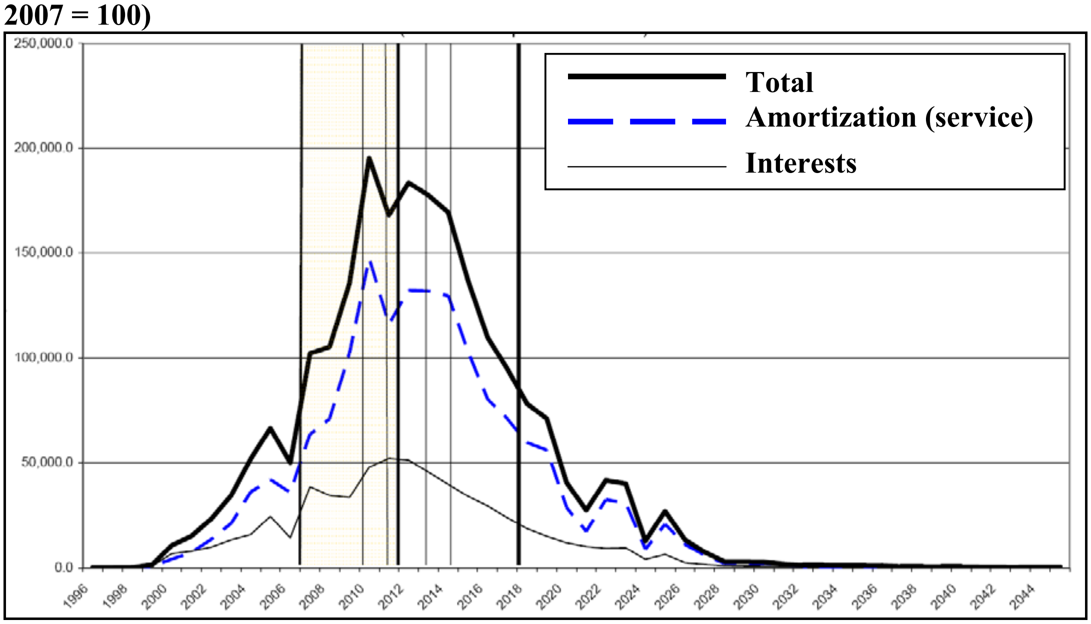
Pidiregas actually created another financial bubble which reinforced the perverse fiscal policy cycle and deepened the Mexican structural fiscal crisis. Until 2008, Pidiregas has financed investment mainly in hydrocarbons (Pemex) and electricity (*Comisión Federal de Electricidad*). For 2007, all Pidiregas account for roughly 8% of total public expenditure. Pidiregas are considered a financial cost for the Mexican State, and are itemized under the non-programmable spending (i.e. the financial cost of debt or "costo financiero o requerimientos financieros del Estado").

Table 9.4.1 Pidiregas Yearly Investment Flow (Million pesos, IPC 2007 = 100)

	CFE (Electricity)		**PEMEX (Hydrocarbons)**		**Sum**		**Total**
Year	Direct	Cond.	Direct	Cond.	Direct	Cond.	
1996	838.9	0	0	0	838	0	**838**
1997	5,055	2,088	6,777	0	11,832	2,088	**13,921**
1998	8,312	4,568	33,426	7,145	41,738	11,714	**53,453**
1999	10,03	4,595	39,785	2,520	49,819	7,115	**56,935**
2000	5,797	10,035	45,438	1,204	51,236	11,239	**62,476**
2001	4,953	14,567	54,323	0	59,277	14,567	**73,845**
2002	12,644	16,794	56,580	0	69,225	16,794	**86,020**
2003	12,071	6,495	84,372	0	96,444	6,495	**102,939**
2004	11,216	4,868	109,748	0	120,965	4,868	**125,833**
2005	16,117	10,730	108,678	0	124,795	10,730	**135,525**
2006	18,439	4,962	122,940	0	141,380	4,962	**146,342**
2007	25,132	2,260	154,870	0	180,003	2,260	**182,264**

Source: (CEFP 2007b)

Table 9.4.2 Pidiregas Interest and Amortization Estimates (Million pesos, IPC 2007 = 100)



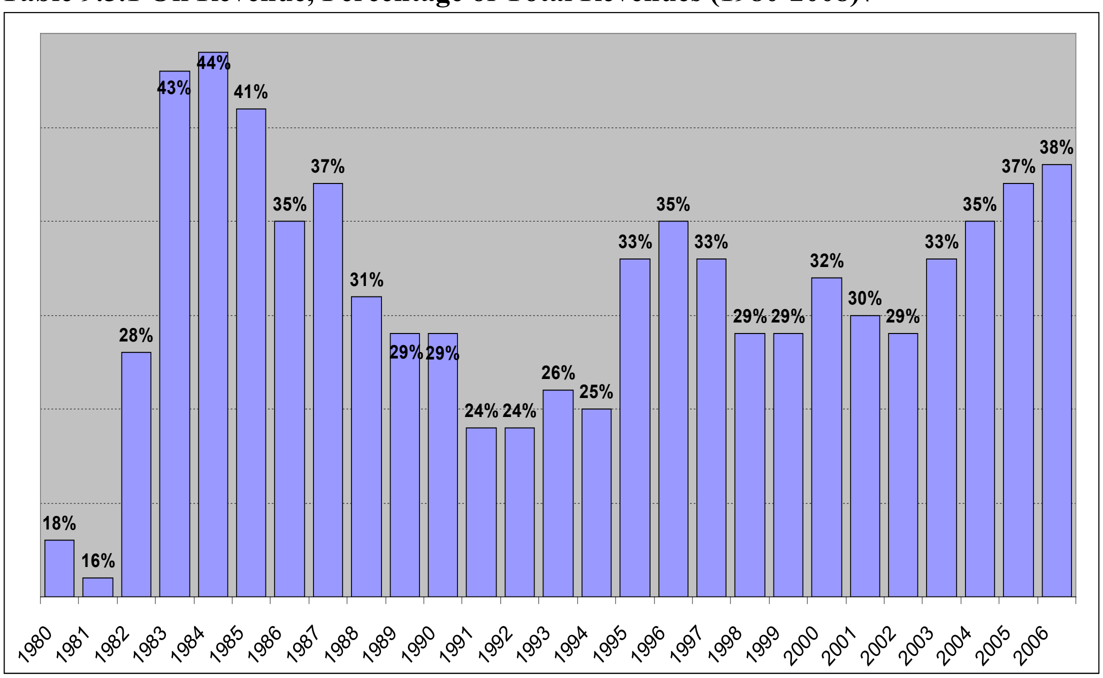
Source: (CEFP 2007b)

As it can be noted from the above Tables, Zedillo's investment policy only postponed the necessary policy responses to address the issue of the Rentier State financial viability. Impressively this policy resembles López Portillo's use of Pemex's oil reserves to increase and maintain output levels such as production and exportation.

9.5 Managing Oil Windfalls

After the 1982 crisis, indicators prove that reserves and production stabilize, prices go down (from a peak of 28.18 in 1980 to 12.38 in 1986). Exports actually increase, demonstrating that after the crisis a prime policy objective was to use oil as a reliable and stable source of revenue, this holds independent from any other changes, particularly in price. A significant price decline in 1986 signals the end of the oil windfall. Yet, Mexico's public finances kept depending from it, as Table 9.5.1 demonstrates.

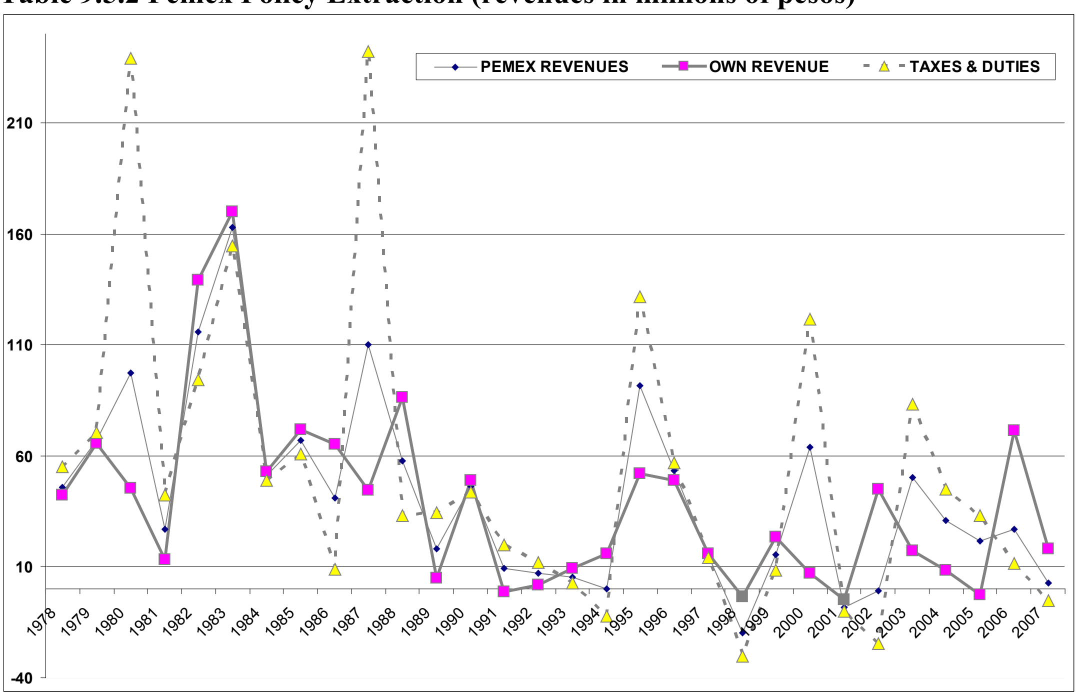
Table 9.5.1 Oil Revenue, Percentage of Total Revenues (1980-2008)



Source: own elaboration with data from (CEFP 2003) and Ministry of Finance: Estadísticas Oportunas de Finanzas Públicas (Secretaría de Hacienda y Crédito Público, SHCP).

The proportion of oil revenues from total public spending experiences a huge increase between 1982, the last year of López Portillo and 1983, the first year of De la Madrid, as Table 9.5.1 exemplifies. Afterwards, this policy is directly affected by a decrease in international oil prices, a trend that begins in 1986 and continues until 1994. Salinas de Gortari policy of tax structure risk-avoidance was accomplished by balancing low oil revenue (due to low barrel prices) with privatization and trade liberalization. Both of which are important but again, external revenue sources. Notoriously, the Rentier State extraction policy on Pemex takes place after 1982, when taxes and duties were highly correlated to Pemex revenues. A deliberate intent to maximize oil rents is particularly evident in the years 1982-83, 1990, 1995-96, 2000, and 2003. This confirms the hypothesis that Pemex has been systematically used for a variety of purposes and investments in the sector had often been non-priority.

Table 9.5.2 Pemex Policy Extraction (revenues in millions of pesos)



Source: own elaboration with data from Banxico (Estadísticas-Finanzas Públicas).

Pemex crude oil crude production between 1970 and 2005 went from almost half million bpd (429 thousand barrels per day) to three and a half million bpd (3.3 million barrels per day), or more than eight times (8.25%). Participation of oil exports and non-oil exports in GDP, between 1980 and 2006 represents another important trend. In 1980 oil exports represented two thirds of total exports, while in 1987 the exactly opposite occurred. Oil exports reduce its weight on the national economy significantly from 1988 to 1994, and following the economic crisis of late 1994 -particularly between 1995 and 1996- oil as well as non-oil exports doubles. It is not until 2004 (and again in 2004, 2005, and 2006) that exports represent a quarter of total exports. One shed to light many insights, but it is worth noting responsiveness between oil and non-oil exports. GDP, and particularly the external sector of the Mexican economy inverted the terms of trade with respect to oil, shifting its weight from two thirds in 1980 to one quarter in 2006.

The historical trend of oil revenue vis-à-vis non-oil revenue is quite a different story from the external (exports) sector. Prior to the 1982 crisis, oil represented approximately 2% of GDP, but between 1983 and 1987 it represented between 6 to 8% of GDP. From 1988 – 1994, again oil stabilizes around 4% to then begining an upward trend to average 5% in 1995 and in 1997. From 1998 - 2006, oil revenue increases from 2% to 7%. It is worth noting that 2006 was the second year in which government revenue relied on oil to finance for its activities. This is just next to 1983, where it represented 7.5% of total GDP, In 2008, oil almost reached 10% of GDP and during the first half of 2009 current expenditures were greater than regular taxation or *ingresos tributarios*.[230]

A better way to gauge Mexico's dependence of oil on its public finances is to measure governments' total revenue participation. In 1970 this number represented

[230] Rivero, Arturo and Laura Carrillo. 2000. "Rebasa el gasto a la recaudación." in *Reforma*. Mexico City.

2.5% of GDP and 3.5% of government's tax revenue (Everhart and Duval-Hernandez 2001). Prior to the end of José López Portillo's administration (1982), it was approximately 26% in mid 1981 to 45% in mid 1983, returning again, to a level of around 25% in mid 1994. At the peak of the crisis that followed, oil revenue accounted for 32.5% in mid 1996, to represent 40% of total public revenue by 2006 (Lajous 2007; Lajous 2009).

Comparison between oil revenue and price per barrel of Isthmus OPEC basket price (known in Mexico as "mezcla mexicana") is also an important measurement. Starting in 1981, it is clear that while the price stabilized or even went down, Mexican government reliance on oil to finance its activities increased. It is not until 1985, that both revenues and prices begin to correlate. It is important to notice that in 1989 while the price was going up, the government reduced its dependence on oil. Ten years later it only delayed its impact for a few months on government's coffers. Independently from this two exceptional years (1989 and 1999), correlation between public finance oil revenue dependence and price per barrel is positive, noting that economic crisis accelerates and deepens government's dependence on oil.

Zedillo again substantially increases oil revenue but, interestingly, within a season of low oil price levels (1998). Zedillo's fiscal strategy resembles De la Madrid's policy in the way that both use intensively oil revenue to cope with an economic crisis. This is since it was neither fashionable nor reasonable to increase taxes during an economic downturn. They also coincided with the fact that both Presidents faced oil revenue loss because they had a significant decrease in price (De la Madrid in 1986, Zedillo in 1998).

President's Fox policy presents by itself a paradox.[231] He did not face an economic crisis, as Zedillo's strategy of "economic armouring" prevented for the usual "end of sexenio crisis". But, governmental pampering to the private sector through not raising taxes, removing subsidizes, or decreasing fiscal special treatments, was absent since he enjoyed not only economic stability, but high levels of growth. Fox had the opportunity to try to alter the tax base but faced strong electoral opposition in the Legislature. Considering the complexities of altering the tax base Fox abandoned the idea. This is seen particularly after the 2003 midterm elections, when his party lost control over patronage and clientelist practices, coming from either federal or subnational levels. He was unable to modify the tax structure or put a strong deterrent over the political use of public expenditures.

Despite the fact that President Fox enjoyed economic stability during his *sexenio*,[232] and received more oil revenue than any other President, why did the Mexican government again misallocated, if not misused, this precious financial gains made during the oil windfall? The main response is that this happened because the Mexican public sector has not fully abandoned its policy of maintaining discretion and opacity in the budget process. The capacities that both serve the economic as well the political status quo such as clientelist, corporatist, patronage practices were not ruled out. Both had also prevailed overtime and provoked Mexico's structural State's institutional incapacity. In sum, State institutions were not ready to productively use oil revenues (i.e. save financial gains for further budget deficits).

In addition, key budgetary rules benefited from an increase in current expenditures which either provides for "unproductive" spending like increasing

[231] Of course, "Fox policy" is treated here as a mere reference tool since his control over public finances, compared with his predecessors, was loose if not absent.
[232] Of course, the 11 September 2001 United States crisis and a slight decrease in oil international prices played a role, but not to the levels experienced by Mexico in the past.

bureaucratic costs and social policy expenditures. This might denote another type of a policy curse on the current expenditure side. As Levy (2005) has demonstrated, social policy and particularly subsidies, transfers and poverty alleviation programs greatly helped to increase the informal sector which does not pay taxes and represents a productive input for economic growth. So, social policy which is mainly composed by current expenditures and which often has a welfarism (asistencialismo) bias. This has ultimately served to increase the informal sector of the economy and ultimately reduce the State's potential taxation capacities (Levy 2005).

Nevertheless, from a technical perspective, the budgetary rule that provided for an increase in current expenditures vis-à-vis capital ones is the authority of the Mexican central government's budget bureau. Paticularly it is they who give permission to all administrative units to transfer financial resources which were originally earmarked for capital to current expenditures (OECD 2007b). This rule technically mirrors the strong presence of a rentier groups which demands social spending, that is directly associated with a political culture as a way the government can build its legitimacy from the population.[233]

Finally, during Zedillo and Fox administrations, the Finance Ministry continued to reduce Mexico's indebtedness, but refrained to take a leading role in promoting pro-growth strategies, such as state planning. There were no institutions left to take advantage of Fox's window of opportunity. It nevertheless acquiesced, not without hesitating, transparency, accountability, and civil service agendas, the persistently incapable of increasing or improving investment expenditure (infrastructure), mainly as a product of its expenditure centralizing historical inertia. Aside from the absence of

[233] As the latest survey on budgetary practices carried out by the OECD, Mexico outstands internationally because of its budgetary rule that gives administrative bureaus the possibility of transferring funds from capital to current expenditures Organisation for Economic Co-operation and Development. 2008a. "International Budget Practices and Procedures Database." Directorate for Public Governance and Territorial Development.

medium and/or long-term planning and expenditure projects, the oil revenue enjoyed by Fox presidency was wasted on federal and subnational increases in salaries, transfers, subsidies, also known as patronage and clientelism.[234]

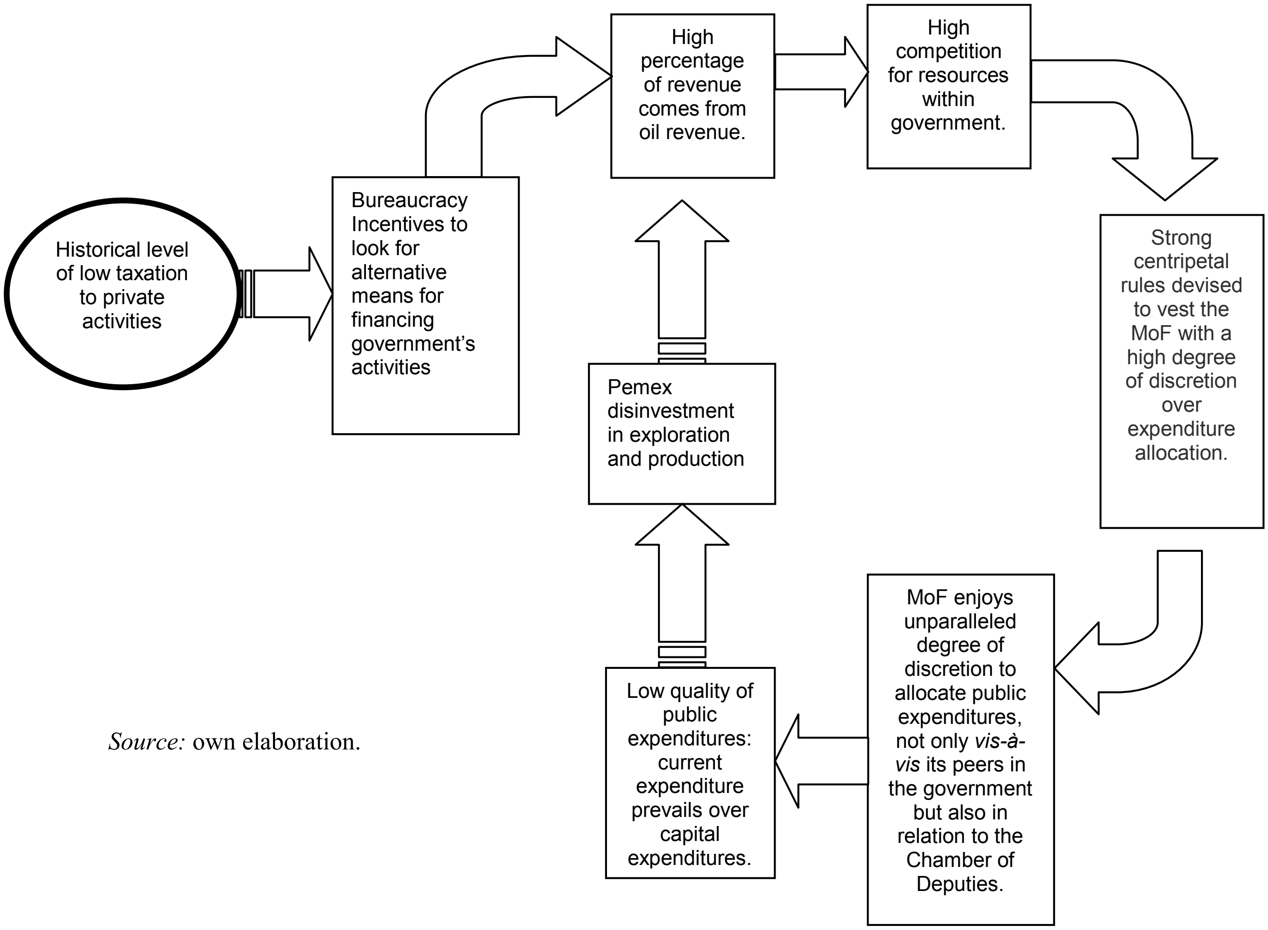
9.6 The Nature of the Policy Curse and Reserve Depletion

Those States which substituted its taxes to private activities with alternative sources of revenue merely from an extraction policy, that is, to become effectively "Rentier States". They tend to over-regulate *the expenditure side* of State's institutions and fiscal policy. This also has substantial effects over the developmental use of public funds and hinders a long-term perspective.[235]

This section claims that rentier States cause a policy curse which can be generalized to the public sector. A *perverse* policy cycle takes place because the initial objective of revenue maximization discretion, such as oil intensive extraction causes in the long-run the erosion of the oil source by diverting resources out from the NOC, this happens also with sectoral public policies. Long lasting budget maximization, which in fact is more of a predatory kind, results into a loss of oil as a reliable source of the country's energy demands and revenue (Levi 1988). The consequences of the second oil boom are still present as the institutional features, which were devised to produce a long-term perspective for the State spending policies. This is within the public sector as a whole and also the oil sector which had been effectively downsized and practically absent from policy decisions.

[234] Although patronage and clientelism are analyzed at other chapter, from a public finance perspective their substantiation comes from detailed current expenditure trends at electoral cycles.
[235] Extraction maximization, particularly when the winning coalition increases leads to rent depletion.

Diagram 9.6.1 The Policy Curse and the Pemex Case

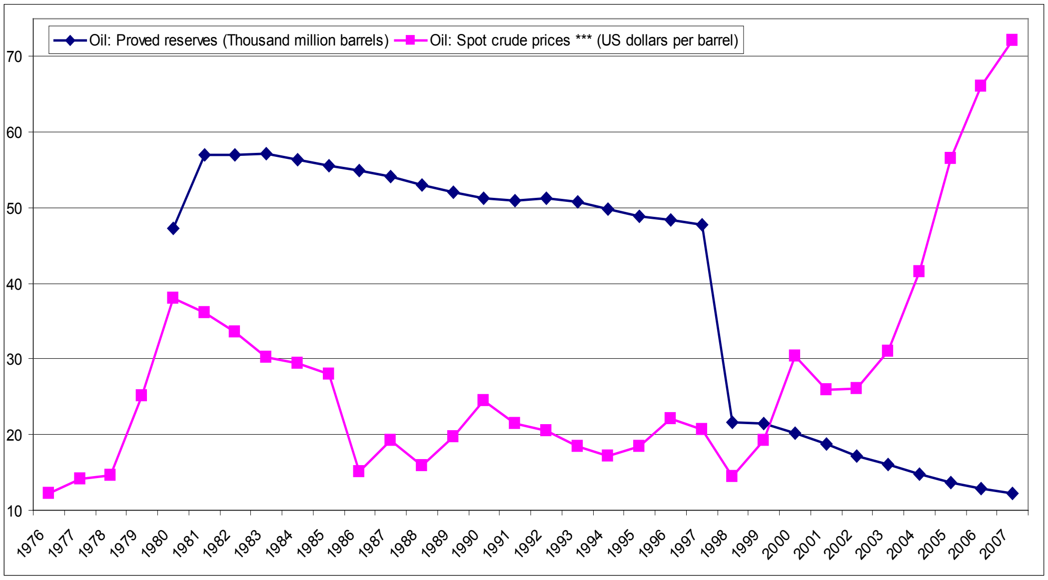


Source: own elaboration.

Diagram 9.6.1 depicts the cycle that takes place regarding investment into a strategic sector such as hydrocarbons. Yet this can be applied to other parastatals as well. Public policies in general change as public spending is often diverted towards current expenditures. The incentives behind such spending pattern are so strong that even in the case that there is a real threat for the energy sector to become unsustainable and being unable to meet the internal and external demands, investment policy has not varied its path since the last oil bonanza.

As Table 9.6.2 exemplifies, Mexico lost 60% of its reserves in 1998. Despite the fact that the price greatly increased since 2003, reserves and investment in the sector did not changed until late 2005, when a new fiscal regime for Pemex was promoted by Congress. Yet that proved to be insufficient and Congress again approved another, much more comprehensive reform for Pemex in October 2008. Most if these reforms components had not been implemented by the President (Garduño Morán 2009).

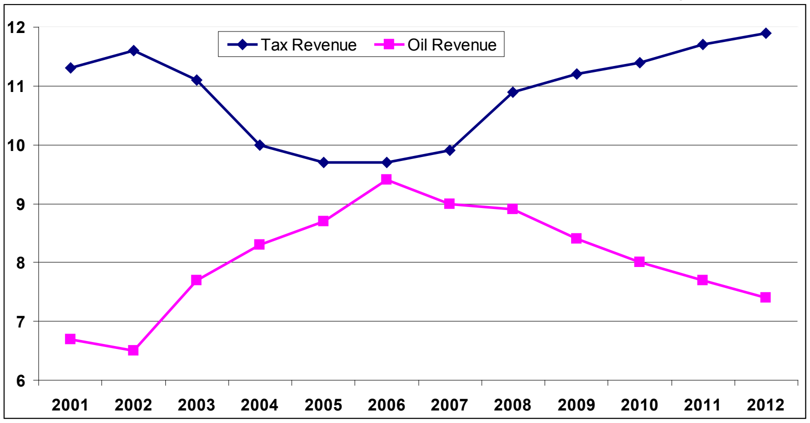
Table 9.6.2 The Logic of Policy Perversion: Reserve Depletion and Fiscal Crisis



Source: own elaboration with data from (British Petroleum 2008).

The International Monetary Fund, through its Article IV bilateral cooperation mechanisms, has recently released a report which uses SHCP's budget projections on the substitution between oil revenues and taxation. These targets were behind the last effort of the Mexican government to deliver an effective tax reform and increase taxation regardless of economic prospects. As Table 9.6.3 indicates, the Mexican government expects to substitute the fall in oil revenues due to a substantial loss in production with regular taxes, a symmetric trend that is displayed at the following Table.

Table 9.6.3 Tax and Oil Revenue 2000-2012 IMF Projections (% of GDP)



Source: copied from (International Monetary Fund 2007b; International Monetary Fund 2009a).

In conclusion, once the central government fully appropriates the source of rents (i.e. Pemex), and increasingly uses these for budget balancing and spending, rent maximization and the centralized/discretional budgetary management decreases investment in the sector. This takes place even if the country's energy sustainability is threatened and reserve depletion might cause a quasi fiscal crisis, given the dependence of the federal budget from oil rents. The oil policy curse and the result of under investment in all sectors have the potential to affect the country's macroeconomy.

Chapter X. Conclusions: The Institutional Outcomes of Mexico's Rentier State

10.1 Conclusions

This dissertation has focused on the political economy of Mexico's oil Rentier State. It has demonstrated how crude oil, as the main source of centralized, discretional, and unaccountable power, has served to enforce a type of autonomy over politics and economics for which do not respond to democratic control nor standard capitalist behaviour.

The State's oil-based autonomy requires that the government change its structure and operation to enforce a new relationship between politics and economics. This is essentially different from other non-commodity dependent countries. This relationship requires that the State engage politically, socially, and economically through the massive allocation of rents (directly or indirectly, through subsidies). And its inhibits the Legislature's oversight and control of the Executive and a productive sectors of the economy.

Oil's productive management can be properly assessed by analyzing countries which have successfully neutralized or escaped the curses associated with resource shocks such as Norway, Botswana and to some extent Indonesia. Comparative analyses demonstrated that in order to overcome the many challenges associated with commodities, countries have to build institutions that require a high degree of cooperation, collaboration, and coordination and –chiefly- responsible political leadership, a capable bureaucracy, and an engaged society.

Unfortunately, as this comparative analysis illustrated, countries' which rentier management of resource endowment often produce and enforce a short-sighted political leadership, an improvised and politically biased bureaucracy, and a dormant civil society. Despite the many factors involved, political leadership, ideology and State capacity, as the Indonesian example demonstrates, play a key role in neutralizing the negative effects associated with oil (Usui 1997).

This thesis underscores the importance that a country's institutional capacity determines to a great extent, the positive and enduring gains that oil can provide. For example, governments must be warned not to massively finance its public policies or developmental model with crude oil until a previous, a high quality, and widely public debate has taken place and a comprehensive institutional framework has been properly devised. Often, countries fail to do so.

In addition, even if a country complies with the standards mentioned above, a productive oil management implies the active participation of non-Executive actors (i.e. the Legislature or other checks and balances within the government), and a strong mobilization and participation of civil society. Both of which are *par excellence* non-technical features and are impossible to obtain from a top-bottom –national or internationally advocated- policy approach.

Clearly, Mexico like other countries which had experienced oil's negative effects, has failed to build an appropriate institutional framework to avoid oil's many curses during the last boom (2003-2010?). In fact, most oil richly-endowed countries actually present resilient authoritarian political cultures, where the role of oil in national development has never been addressed in a comprehensive manner. As comparative knowledge demonstrates, an open, transparent, inclusive, and deliberative policy context is central for good developmental policies to be produced. This research aims to provide elements that give policymakers and social entrepreneurs a useful analytic methodology and knowledge to contribute to a virtuous cycle of any commodity management.

Oil abundance is again available at a very particular moment for the Mexican State. Oil arrived to Mexico when it was less needed, or at least, when it needed a much more careful –and radically different from the past- handling. Oil arrived when the institutional setting was fragile and Mexicans, again, were unprepared to appropriately managed oil windfalls. Oil entered the national scene when the government was trying a tax reform and was debating strategies to grow faster. Many Mexicans were expecting to reduce authoritarian, patrimonial, corporatist, and clientelist long-standing *illiberal* political practices.

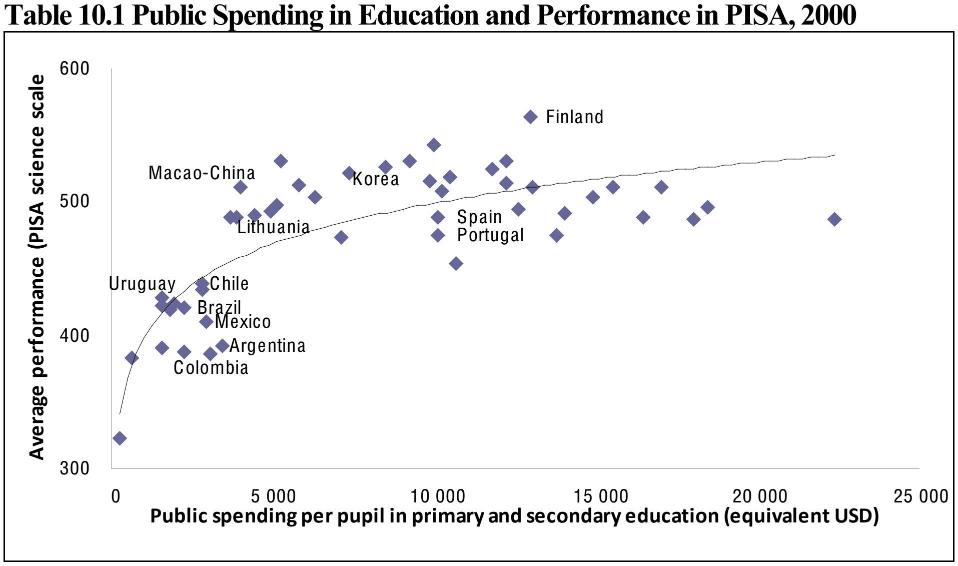
The commodity forcefully entered the national stage when citizens and civil society organisations were trying to open a space for a more transparent and a less corrupt environment. These are ways to build a genuine liberal and democratic society. Moreover, the State was taking steps towards the construction of a professional bureaucracy and a Professional Career Service (*Servicio Profesional de Carrera*, or SPC). The human resource reform was eventually downgraded due to a generalized policy of buying bureaucratic support through sizeable increases both in salaries, extra payments, and bonuses, which were available precisely because of oil's abundance.

Oil has neutralized the nascent efforts to develop an embedded State. The central effort of this research is to describe the perverse political economy that characterizes Mexico's financially weak, predatory, and Rentier State. The State persistently searches for alternative means of financing instead of taking the politically incorrect and economic risky decision of depending on a market based economy. This is done by extension from the use of taxes provided by citizens and the private sector. It is a State that finances a rigid expenditure pattern with a non-renewable and decreasing commodity.

While the need for the political use of public spending existed prior to oil bonanza it is important to underscore that it was not until 1982 that the Mexican government behaved as a full-Rentier State. Indeed, it is Salinas Presidency and not López Portillo who was the true creator of the Mexican Rentier State. This can be demonstrated by a deliberate decrease in public investment in Pemex with a clear political objective and the extended use of transfers, subsidies and current expenditures reflecting an increase in public sector's employment. In this respect, the composition of public spending and long-term trajectory of spending priorities are a clear indicator of the existing of a pure Rentier State which are economically detached, compared with a transition economy towards oil rentierism (López Portillo).

Oil rents have created policy paradoxes. For example, despite the fact that Mexico has a weak capacity to raise taxes from its population, it is capable to maintain a level of expenditures (as percent of GDP) similar to other countries and even spend similar amount of resources for sectoral policies such as education. Yet, it seems that the quality of spending is poor.

Table 10.1 Public Spending in Education and Performance in PISA, 2000



Notes:
a) Public spending is the average of available data since 2000.
b) Countries performance average on the PISA science scale.

Source: OECD Development Centre calculations based on the OECD (2007b) and OECD and UNESCO World Educational Indicators, UNESCO's Institute of Statistics database.
12 http://dx.doi.org/10.1787/450330876783

As seen in the Table above, Mexico is not alone in showing poor spending sectoral outcomes. Many others even rank lower in their educational performance with a similar level of spending per student, such as Argentina, Colombia or Brazil. Clearly, the absence of a State with the capacity to raise taxes and at the same time its capacity to substitute such income with oil revenue is not sufficient to deliver good results when it comes to spending wisely.

Despite the fact that Mexico had managed to substitute taxation with oil revenue for almost four decades, it has not used its natural resources wisely. Chile which economy and government finances depend on almost a third from copper, has a better performance in education than Mexico. In conclusion, the issue of the quality of spending as a dependent variable, which has many, difficult to identify and isolate the specific independent variables. Moreover, it might be even much more difficult to extend the identification of key independent variables on a comparative basis.

While the quality of public spending depends on many factors, for example budgetary institutions bear the responsibility of delivering the conditions of public spending to be productive, friendly to development, and provide the legal and technical foundations for building public value. It is evident that the quality of public spending depends not only on the kind of institutional context (technical, social, political, economic) but that the role of budgetary institutions is also, by itself, significant in altering budgetary outputs and outcomes. This is one of the foundational assumptions of the current dissertation.

The main assumption stresses that no matter what factors might shape public expenditure policy, budgetary formal and informal institutions have the power to significantly alter fiscal outcomes. Specially since they usually keep legal and technical attributes that greatly shape budget operative (outputs) and strategic (cost-benefit) outcomes. In short, those budgetary institutions might also generate the conditions, independently from the context or other influential variables to significantly alter public expenditure policy.

In fact, the available literature on the field recognizes that budgetary institutions have great importance in shaping public expenditure outputs and outcomes they are key for appraising State's capacity. Many had studied budgetary institutions from the first perspective (outputs) and had proved that many of its features, such as the legal or organisational framework, determine its performance (Alesina, Hausmann, Hommes, and Stein 1999; Alesina and National Bureau of Economic Research. 1996; Fukasaku and Hausmann 1998; Poterba 1994; Poterba and Hagen 1999; Roubini and Sachs 1988; Roubini and Sachs 1989; Shepsle and Weingast 1984; Tabellini and Alesina 1988).

Unfortunately, most studies are interested mainly on its macroeconomic outputs, rather than in its financial or microeconomic outcomes. This dissertation claims that budgetary institutions are important from an economic perspective, but also from an institutional, and whatsmore, a political perspective. It claims that they might not be analyzed from its economic and/or financial outputs, but also for its extended institutional effects for example to what extent they contribute to better sectoral policies? Do they help or obstruct the emergence and consolidation of checks and balances on the State's public policies? Do policy institutions are friendly to long-term, State's strategic planning?[236]

Therefore, when analyzing budgetary institutions, the available literature rarely addresses issues of public spending related with outcomes (such as quality of

[236] It is nevertheless paradoxical that Mexico's budgetary institutions main defenders of their "economic role" constantly try to influence and greatly shape qualitative and sectoral policies by demanding and controlling information from field experts and sectoral knowledge, trying to determine public policies outcomes. It is often a temptation for budgeteers to interfere with sectoral policies from a much more than budgetary/financial perspective.

expenditure) rather than mere financial or macroeconomic outputs (such as deficits). This is perhaps the result of considering budgetary institutions as a mainly legal or technical feature, which has specific, mostly economic effects, such as incurring in deficits or increasing the level of indebtedness.

The second objective seeks, generally speaking, to improve the quality of expenditures by strengthening fiscal institutions. "Quality" is a complex category since its degree depends on plenty of variables, such as institutional design and public financial management approaches.[237] Nevertheless, "quality" also means that fiscal institutions have both the capacities and the legal mandate to help the government to allocate efficiently and effectively. This can be done either translating a loss in revenue into optimal spending decisions or to present short and long-term answers to fiscal pressures (Ossowski, Villafuerte, Medas, and Thomas 2008).

In conclusion, despite the arrival of free trade, democracy, and the presence of one of the strongest private sectors in the region (CEPAL 2005) Mexico proved to be incapable of refraining from oil to finance the State's activities or instead using it productively, and leave behind the risk associated with it and increase the quality of its institutions.

[237] For example, institutional benchmarks to gauge fiscal institutions include having a Fiscal Responsibility Legislation (balancing and deficit management), Special Fiscal Institutions, Public Expenditure & Financial Management Systems, and Medium Term Expenditure Frameworks Ossowski, Rolando, Mauricio Villafuerte, Paolo A. Medas, and Theo Thomas. 2008. "Managing the Oil Revenue Boom: The Role of Fiscal Institutions." Pp. 35, *Occasional Paper*, edited by F. A. Department: International Monetary Fund.

APPENDIXES

APPENDIX I.

Methodological Strategies and Primary Sources

I. Electronic Databases

1.1 Data collection

Data was obtained either from electronic or printed sources. Commonly, electronic sources obtained through internet from foreign institutions provided aggregated and comparative (international) items on the three mentioned policies (fiscal, energy, and employment), while national electronic sources provided for more disaggregate but incomplete data, or data which comprised only a short period of time. Printed sources provided for more disaggregated information but took longer to be available since they had to be captured into the computer (this specific process took approximately three years). Printed documents, specially the older ones were also very difficult to obtain because these were often missing from the shelves or historical archives. For example, copies of the Executive's Budget Project which is sent to Congress or Public Accounts tended to lose interest in time. All documents, particularly in years previous to 1980 were highly difficult to obtain and in many cases they were incomplete (since the budget normally comprises several chapters/books).

The aforementioned problems required to search physically the documents in five Libraries and institutions: The National Archives (Archivo General de la Nación, or AGN), Centro de Documentación (Subsecretaría de Egresos, SSE-SHCP), Biblioteca Miguel Lerdo de Tejada (SHCP), Fondo Histórico de Hacienda Antonio Ortíz Mena (Palacio Nacional, SHCP), and the Centro de Documentación, Información y Análisis (CEDIA), this at the Chamber of Deputies (Palacio de San Lázaro).

1.2 Data validation:

The main challenge for this dissertation was to put together a reliable data set based on primary sources according to its research goals in three of the State's macropolicies: fiscal (revenues, expenditures, and debt), energy (investment, production, and exports), and the federal government's public employment (number, type, and cost). Since the current research bases its findings from the coverage of a long period of time (1970-2010), the challenge of collecting and integrating a reliable primary source material data set was substantial. Even in the case that national and international institutions had aggregated and/or disaggregated information on these three policies, the issues of continuity and of standard methodology were crucial.

Therefore, information gathering focused on comparing the periods of time, aggregation, and methodology in order to confirm or discard data reliability. There were many cases that apparently a set of national and international institutions had information for the same years and for the same items, but surprisingly the numbers varied a lot. These kind of issues required for additional attention and analysis in order to be used for research purposes. For example, it was particularly problematic when the sources provided highly aggregated items (total public spending, non hydrocarbon revenues, high-rank public servants) since often the methodology used was different. Also, particularly in printed documents from older periods, items and numbers changed a lot and the issues of editing and typing errors were also present.

In all cases, data validation went through three processes: revision of the methodology used to collect and integrate the data, simultaneous comparison of all available sources on the topic (to see if they "match"), and adjustments or calculations from all the sources (a way to control variation between them).[238]

An additional difficulty was missing information. In that case, the strategy was to revise all the specialized papers and reports published on the topic to see if other authors provided for the missing or additional information or any sort of analysis which could remedy the problem. In many cases, field experts provided with the missing data or analyses which solved the problem of missing information (this was the specifically the case of public employment). Where data was missing or inconsistent, alternative data bases were used as proxies to determine if these were reliable or not. For example, in the case of public employment, data on social security (number of insuranced public employees) was used as a way to validate or not what other official sources were reporting (for example Social Security Institutes or Union total members vis-à-vis Budgetary authorities).

1.3 Data Analysis and statistical sampling

Once the data was appropriately collected and validated, it was crossed with other data bases not strictly related with the State's policies mentioned above. For variation analysis the following variables were considered: population, general employment in the economy, salaries, energy production and prices, inflation, and exchange rates. This data was obtained from standard and reliable sources (CONAPO, INEGI, PEMEX, SE, Banxico) and the formulas and other statistical exercises (standard deviations and correlations) and the production of charts and figures were designed through using Microsoft Excel computer program.

[238] For example, the different items which comprised revenue and expenditure historical series from Latin American Economic History Database (Oxford University) were recalculated and merged into a single one using the data from the Mexican Ministry of Finance to update the other, since the Database ended in year 2000.

1.4 Data standardization

Once data bases were collected, validated, and analyzed, data bases presented issues of macro, mid, and micro level nature. Considering that they comprised a long period of time (40 years), they were directly affected on how public administration evolved.

- *Macro-level changes in time series.* Since the administrative classification refers to a specific amount of money allocated to a specific bureau, a problem emerged when new bureaus were created and older ones were disbanded. For example, the Programming and Budgeting Ministry (SPP) began working in 1976 and was almost fully integrated to the Ministry of Finance (SHCP) in 1992 and the older anti-poverty programs and expenditures were the budgetary foundation for the Ministry of Social Development (SEDESOL). These administrative changes greatly affected the time series and also constrained long time series analysis. Data sets and time series had to be aware of administrative reforms.

- *Mid-level changes in time series.* An additional problem was the issue of sectoral and ministerial budget bureaus. They acted as "representatives" of budgetary central (federal) authorities but also responded to the Minister's preferences. Some of the internal allocation regulations and decisions were not reported to central officers and gathering the information on a ministerial basis turned out to be an impossible task.

- *Micro-level changes in time series.* Unfortunately, there were a group of operative guidelines and regulations that changed on a yearly basis or over specific periods of time (i.e. each presidential term) which substantially affected the way budgets are managed and allocated. For example, a single *partida* (an outlay or the smallest disaggregation unit of budgets) changed in name and place or many other *partidas* were created for different purposes. This issue greatly affected the possibility of tracing back the variation in time of an specific item.

II. Printed sources

The primary source material that was thoroughly revised was the following:

2.1 Revenue Law (40 documents revised for the period 1970 - 2010). The detail of the data that each item contains is the following:

Hydrocarbon and Non-hydrocarbon Revenue (Budgetary Public Sector)
Ingresos Totales
Petroleros
Gobierno Federal
IEPS
Impuestos a los Rendimientos Petroleros
Derechos
Extracción
Extraordinario
Adicional
Derecho ordinario sobre hidrocarburos
Derecho sobre hidrocarburos para el fondo de estabilización
Derecho extraordinario sobre exportación de petróleo crudo
Derecho para el Fondo de investigación científica y tecnológica en materia de energía
Derecho para la fiscalización petrolera
Derecho adicional
Aprovechamientos s/ Rend. Excedentes
Otros no Comprendidos
Pemex
No Petroleros
Gobierno Federal
Tributarios
ISR
IETU
IVA
IEPS
Importaciones
Impuesto a los depósitos en efectivo
Otros
No Tributarios
Derechos
Productos
Aprovechamientos
Cont. de Mejoras
Organismos y Empresas
CFE
IMSS
ISSSTE
Otros

2.2 Executive's Budget Proposal (Project) sent to the Chamber of Deputies (40 items revised for the period 1970 - 2010) which included the administrative (bureaus and administrative units who are responsible for spending the budget) and economic classification (inputs used in operating the government and offering the government's services).

2.3 Chamber of Deputies Budget Decree (39 items revised for the period 1970 - 2010) with the administrative classification.

2.4 Executive's report (Public Accounts) for each year (38 revised for the period 1970 - 2010) with both administrative and economic classification.

The detail of the data that each item contains is the following:

Total Expenditure (Budgetary Administrative Classification)
Gasto Neto pagado
Gasto Programable Sector Público Presupuestario
GASTO PROGRAMABLE DEL GOBIERNO FEDERAL
Poderes y Organos Autónomos
Legislativo
Judicial
Instituto Federal Electoral
Comisión Nacional de los Derechos Humanos
Administración Central
Presidencia
Gobernación
Relaciones Exteriores
Hacienda y Crédito Público
Defensa Nacional
Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación
Comunicaciones y Transportes
Economía
Educación Pública
Salud
Marina
Trabajo y Previsión Social
Reforma Agraria
Medio Ambiente y Recursos Naturales
Procuraduría General de la República
Energía
Aportaciones a la Seguridad Social
Desarrollo Social
Programación y Presupuesto
Turismo

Provisiones Salariales y Económicas
Previsiones y Aportaciones para los Sistemas de Educación Básica, Normal Tecnológica y de Adultos
Superación de la Pobreza
Función Pública
Tribunales Agrarios
Tribunal Federal de Justicia Fiscal y Administrativa
Aportaciones Federales a Entidades Federativas y Municipios
Seguridad Pública
Reconstrucción
Consejeria Juridica del Ejecutivo Federal
Consejo Nacional de Ciencia y Tecnología
Programa de Apoyos para el Fortalecimiento de las Entidades Federativas
Gasto Programable de Organismos y Empresas de Control Presupuestario Directo
Gasto No programable
Participaciones a Entidades Federativas
Intereses y Comisiones
Saneamiento Financiero
Erogaciones para los programas de apoyo a ahorradores y deudores de la banca
Adefas
Estimulos y otros
Documentos en trámite

Total Expenditure (Budgetary Economic Classification)
Gasto Neto Pagado
Gasto Programable
Gasto Corriente
Servicios personales
Materiales y suministros
Servicios generales
Otros gastos corrientes
Ayudas, subsidios y transferencias
Aportaciones Federales y Gasto Reasignado
Gasto de Capital
Inversión física
Inversión financiera
Otros gastos de capital
Ayudas subsidios y transferencias de capital
Gasto no programable
Costo Financiero
Intereses, Comisiones y Gasto
Programas de Apoyo Financiero
Participaciones
Adefas
Estímulos y otros
Documentación en trámite

III. Comments on Primary Sources

3.1 Public Employment Policy

The data collection, validation, analysis and standardization focused on three areas: 1. The number of employees throughout the longest possible period of time and disaggregated by the type of employees (with an emphasis in international comparative data); 2. The cost of these; and 3. The type of institutional arrangements that governed both (managerial components and discretionary outlays).

The available information on public employment reflected more an administrative chaos and lack of managerial skills, rather than a deliberately opaque and politically controlled issue. As many public officials recognized, particularly during the many interviews that were conducted regarding the issue, public employment information was highly scattered, not to mention that in most cases, it was regarded as incomplete, outdated, and unreliable.

The task of integrating and merging different data bases and compiling numbers from different –all official- sources, was enormous. Not only was a problem to know how many public employees do in fact existed no matter its rank or legal/labour condition, but to know how much costed to the State. Finally, it was a problem to build an exact and reliable data set on these variables (number and cost) but also to build a historical series to determine how both variables changed throughout the years.

In addition, even if it was possible to compile all the required information (number, cost, and time), if one can assume that the Mexican State had a "public employment policy", this was represented by a collection of practices that were not standard and highly responsive to institutional (sectoral) or political features of the specific administrative unit or Ministry in play. Therefore the policies that governed the

Mexican public sector ranged from a full patronage system to an almost pure civil service or "weberian islands". Therefore, the human resource management and employment policies (entrance, maintenance, severance pay, to mention some issues) were not standard and therefore, the strongest mechanism of control by central authorities was of budgetary or financial nature.

As a result of the many interviews and data sets analyzed, the control of bureaucracy in Mexico was through budgetary tools rather through established public employment policies or human resource management standard approaches. The main source of public employment policy and control (and not surprisingly of information) was numeric and budgetary: how many by its salary. Therefore it was then necessary to obtain more information on how the budgetary management of the wage bill worked, within a daily basis operation and from a cash and outflow management. There were mainly three types of public employees: trust (mid and high level closest to the Minister), temporary (hired for a year or less), and unionized (members of a union). All of them enjoyed a base salary (legally binding) and an extra payment (non-legally binding), which comprised its total earnings.

In order to know exactly the degree of flexibility (i.e. discretionality) of the budget authority vis-à-vis the wage bill and after interviewing the corresponding public officials with such issues, it then became clear that the salaries (legally binding) were paid using a specific code and the extra payment (non legally binding) another one. It was then requested to the authorities to give the numbers for each concepts in order to calculate the real cost of public employment through time and then calculate its variability vis-à-vis oil revenues and booms.

After requesting information through non-official methods (personal requests based on contacts) from about a year (2003-04), I took the decision to request the data through official means. The authorities took almost four months to (partially) respond to the information requested through transparency law (requested 10 December 2004, delivered 31 March 2005). The central budgetary authorities of the highest rank (Chief of Staff of the *Subsecretario de Egresos*) responded through two archives which detailed the evolution of the budgetary coding from 1970 until 2004 of both the salaries and extra payments mentioned above. The Ministry of Finance, through the Transparency Law responded that they did not have the information (at least not in a data set) and that they had only for some years the information on the extra payments. It then became clear that the central budgetary authorities did not had the control of these extra payments in the way they were allocated and only had broad and aggregated information on the whole public administration (the amount of those resources were approximately 500 million dollars between 1993-1997). The non legally binding payments eventually were "legalized" and became part of the salary since some public officials used the courts to challenge the intent of some authorities to take off such privilege from his payment. Therefore, the rigidity of the wage bill became much more stronger, particularly during Fox and Calderón *sexenios*.

3.2 Interviews

Interviews were often useful for confirming or discarding existing information but they were rarely useful to obtain new directions for analysis or information. Most of the public servants requested not to be quoted or expressly asked to keep secret or out of public eye their comments. Overall, the context in which the interviews (43) were conducted was constrained by individuals.

3.3 Detail of Government's Wage Bill Items (*partidas*)

Composition of Chapter 1000 "Personal Services" (*Servicios Personales*, or SP).[239]
Personal Services correspond to Chapter 1000 of the Annual Budget and they consist in 8 concepts and 65 cash flows (*partidas*).

Concepts	**Cashflows *or Partidas***
1100 Remuneraciones al personal de carácter permanente	1101 Dietas 1102 Haberes 1103 Sueldos base 1104 Sueldos base al personal obrero 1105 Sobrehaberes 1106 Asignaciones por radicación en el extranjero 1107 Gastos contingentes para el personal radicado en el extranjero
1200 Remuneraciones al personal de carácter transitorio	1201 Honorarios 1202 Sueldos base al personal eventual 1203 Compensaciones por servicios de carácter social 1204 Retribuciones por servicios de carácter social 1205 Compensaciones a sustitutos de profesores
1300 Remuneraciones adicionales y especiales	1301 Prima quinquenal por años de servicios efectivos prestados 1302 Acreditación por años de servicio en la docencia y al personal administrativo de las instituciones de educación superior 1303 Acreditación por titulación en la docencia 1304 Acreditación al personal docente por años de estudio de licenciatura 1305 Primas de vacaciones y dominical 1306 Gratificación de fin de año 1307 Compensaciones por servicios especiales 1308 Compensaciones por servicios eventuales 1309 Asignaciones de técnico 1310 Asignaciones de mando 1311 Asignaciones por comisión 1312 Asignaciones de vuelo 1313 Asignaciones de técnico especial 1314 Honorarios especiales 1315 Participaciones por vigilancia en el cumplimiento de las leyes y custodia de valores 1316 Liquidaciones por indemnizaciones y por sueldos y salarios caídos 1317 Liquidaciones por haberes caídos 1318 Compensaciones de retiro 1319 Remuneraciones por horas extraordinarias 1320 Compensaciones de servicios 1321 Prima de perseverancia por años de servicio activo en el Ejército, Fuerza Aérea y Armada Mexicanos 1322 Compensaciones adicionales por servicios especiales 1323 Asignaciones docentes, pedagógicas genéricas y específicas

[239] Taken from Carrillo, Laura and Juan Pablo Guerrero. 2002. "Los salarios de los altos funcionarios en México desde una perspectiva comparativa." Centro de Investigación y Docencia Económicas, Mexico City.

	1324 Compensación por adquisición de material didáctico 1325 Compensación por actualización y formación académica 1326 Compensaciones a médicos residentes 1327 Antigüedad
1400 Erogaciones del gobierno federal por concepto de seguridad social y seguros	1401 Cuotas al ISSSTE 1402 Cuotas al ISSFAM 1403 Cuotas para la vivienda 1404 Cuotas para el seguro de vida del personal civil 1405 Cuotas para el seguro de vida del personal militar 1406 Cuotas para el seguro de gastos médicos del personal civil 1407 Cuotas para el seguro de separación individualizado 1408 Cuotas para el seguro colectivo de retiro Carrillo-Guerrero/ Los salarios de los altos funcionarios en México desde una perspectiva comparativa 1409 Otros seguros 1410 Cuotas al IMSS 1411 Cuotas al INFONAVIT 1412 Aportaciones de seguridad social contractuales
1500 Pagos por otras prestaciones sociales y económicas	1501 Cuotas para el fondo de ahorro del personal civil 1502 Cuotas para el fondo de ahorro de generales, almirantes, jefes y oficiales 1503 Cuotas para el fondo de trabajo del personal del Ejército, Fuerza Aérea y Armada Mexicanos 1504 Indemnizaciones por accidentes en el trabajo 1505 Prestaciones de retiro 1506 Estímulos al personal 1507 Otras prestaciones 1508 Aportaciones al Sistema de Ahorro para el Retiro 1509 Compensación garantizada 1510 Pagas de defunción 1511 Asignaciones adicionales al sueldo
1600 Impuesto sobre nóminas	1601 Impuesto sobre nóminas
1700 Pago de estímulos a servidores públicos de mando y enlace	1701 Estímulos por productividad y eficiencia
1800 Previsiones para servicios personales	1801 Incrementos a las percepciones 1802 Creación de plazas 1803 Otras medidas de carácter laboral y económicas

Primary and Secondary Sources

(Detail)

IV. Primary Sources (detail)

4.1 Electronic and Printed Data Bases

4.1.1 Fiscal Policy

A) Tax Policy and Revenues / Expenditure Policy and Budgets (National):

1. **National Institute for Statistics and Geography:** Sistema Nacional de Información Estadística y Geográfica, SNIEG, Sistema de Cuentas Nacionales de México, Ingresos y Gastos Presupuestales del Sector Público (Instituto Nacional de Estadística y Geografía, INEGI).

2. **Ministry of Finance:** Estadísticas Oportunas de Finanzas Públicas (Secretaría de Hacienda y Crédito Público, SHCP).

3. **Central Bank:** Estadísticas (Banco de México, Banxico).

4. **Chamber of Deputies Advisory Unit:** Banco de Información, Estadísticas Históricas, Estadísticas de Corto Plazo, Estadísticas Estatales, Estadísticas Internacionales (Centro de Estudios de Finanzas Públicas, CEFP).

5. **Academic:** Información Estadística y Sistema de Información Pública Presupuestaria de México, SIPP (Programa de Presupuesto y Gasto Público, Centro de Investigación y Docencia Económicas, CIDE).

6. **Transparency Law:** Unidad de Enlace de Transparencia de la Secretaría de Hacienda y Crédito Público, SHCP (Ley Federal de Transparencia y Acceso a la Información Pública Gubernamental).

7. **Chamber of Deputies:** Gaceta Parlamentaria, Votaciones de dictámenes, registradas en el sistema de votación electrónico (Cámara de Diputados).

8. **Office of the President**: Informes de Gobierno (Presidencia de la República).

B) Tax Policy and Revenues / Expenditure Policy and Budgets (International):

1. **OECD:**
   - Tax Database (Centre for Tax Policy and Administration, Organisation of Economic Co-operation and Development).
   - Latin American Economic Outlook 2008 and 2009, Development Centre.

2. **Oxford University:** Latin American Economic History Database, Finance OxLAD (Oxford University)

3. **International Monetary Fund**:
   - Government Finance Statistics, GFS.
   - World Economic Outlook Databases, WEO.
   - International Financial Statistics, IFS.

- Personal request to IMF Staff: Fabian Bornhorst and Sanjeev Gupta (Economists, Fiscal Affairs Department, International Monetary Fund) and John Thornton (Bangor Business School)

4. **The World Bank Group**: World Development Indicators, WDI.

5. **The Heritage Foundation**: Index of Economic Freedom.

6. **Comisión Económica para América Latina:** CEPAL STAT, Estadísticas de Finanzas Públicas.

7. **International Budget Partnership**: Open Budget Index / Open Budget Initiative 2008

4.1.2 Energy Policy

A) The Public Sector and Pemex / Hydrocarbons (National):

1. Estadísticas históricas del petróleo en México 1900-2008, Centro de Estudios Históricos, CEH (El Colegio de México) [electronic and on-line]
2. Petróleos Mexicanos. "Anuario Estadístico." edited by Instituto Mexicano del Petroleo, 154. Mexico City: Gerencia de Evaluacion e Informacion de la Subdireccion de Planeacion y Coordinacion, 1988.
3. ———. "Anuario Estadístico." In *Coordinacion y Estudios Tecnicos*, edited by Instituto Mexicano del Petroleo, 63. Mexico City: Petróleos Mexicanos, 1977.
4. ———. "Anuario Estadístico." In *Coordinacion y Estudios Tecnicos*, edited by Instituto Mexicano del Petroleo, 63. Mexico City: Petróleos Mexicanos, 1999.
5. ———. "Anuario Estadístico." edited by Instituto Mexicano del Petroleo, 76: Petróleos Mexicanos, 2008.

B) The Public Sector and Pemex / Hydrocarbons (International):

1. Energy Information Administration, EIA (Official Energy Statistics from the U.S. Government – "Other International –oil- Data")
2. World Oil Outlook (Organisation of the Petroleum Exporting Countries, OPEC)
3. Informe de Estadísticas Energéticas (Organización Latinoamericana de Energía, OLADE)
4. Key World Energy Statistics (International Energy Agency, IEA)
5. BP Statistical Review of World Energy 2008 (British Petroleum, BP)
6. Extractive Industries Initiative

4.1.3 Public Employment

A) Human Resource Management and Public Employment (National):

1. Unidad de Servicio Civil, USC (Secretaría de Hacienda y Crédito Público, SHCP)
2. Sistema Nacional de Información Estadística y Geográfica, SNIEG (Instituto Nacional de Estadística y Geografía, INEGI).

B) Human Resource Management and Public Employment (International):

1. Database of labour statistics, LABORSTA (International Labour Organisation, ILO).
2. Sistema Integrado y Analítico de Información sobre Reforma del Estado, Gestión y Políticas Públicas, SIARE (Centro Latinoamericano de Administración para el Desarrollo, CLAD).
3. Public Management Service (Organisation for Economic Co-operation and Development, OECD)

4.1.4 Surveys

1. Matrices de datos del Latinobarómetro, 1995-2005 (Latinobarómetro)
2. OECD Budget Practices and Procedures Survey, Public Governance and Territorial Development. Public Governance Committee (Organisation of Economic Co-operation and Development)

4.2 Printed Documents

4.2.1 Legislature Power

- Revenue Law: 1970-2010 (Ley de Ingresos de la Federación, LIF)

4.2.2 Congressional Staff Research

Centro de Estudios de Finanzas Públicas, CEFP (Special Reports and official documents containing financial data)

———. "El Ingreso Tributario En Mexico." 103: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2005.

———. "Encadenamiento De Series Historicas Del Producto Interno Bruto De Mexico, 1970-2001." 15: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2003.

———. "Estadisticas De Gasto Publico Internacional Y De America Latina Para Paises Seleccionados." 17: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2009.

———. "Estadisticas Historicas De La Deuda Publica En Mexico, 1980-2001." 88: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2002.

———. "Evolución Del Gasto Público Por Ramos 1980-2007." 184: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2007.

———. "Evolucion Y Estadisticas Del Gasto Publico Federal En Mexico, 1980-2002." 181: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2003.

———. "Indicadores Trimestrales De Las Finanzas Publicas De Mexico, 1980-2003." 84: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2003.

———. "Ingresos Petroleros 2001-2008 Y El Régimen Fiscal De Pemex." 31. Mexico City: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2007.

———. "Inversion Bruta Fija (Febrero 2009)." 2: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2009.

———. "Manual Del Presupuesto De Egresos De La Federacion." 37: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2007.
———. "Presupuesto De Egresos De La Federacion 1999. Comparativo Proyecto-Decreto." 1: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 1999.
———. "Presupuesto De Egresos De La Federacion 2000. Comparativo Proyecto-Decreto." 1: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2000.
———. "Presupuesto De Egresos De La Federacion 2001. Comparativo Proyecto-Decreto." 1: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2001.
———. "Presupuesto De Egresos De La Federacion 2002. Comparativo Proyecto-Decreto." 2: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2002.
———. "Presupuesto De Egresos De La Federacion 2003. Comparativo Proyecto-Decreto." 2: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2003.
———. "Presupuesto De Egresos De La Federacion 2004. Comparativo Proyecto-Decreto." 2: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2004.
———. "Presupuesto De Egresos De La Federacion 2005. Comparativo Proyecto-Decreto." 2: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2005.
———. "Presupuesto De Egresos De La Federacion 2006. Comparativo Proyecto-Decreto." 2: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2006.
———. "Presupuesto De Gastos Fiscales, 2002-2007." 51: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2007.
———. "Proyectos De Infraestructura Productiva De Largo Plazo (Pidiregas) 2006." 85: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2005.
———. "Proyectos De Infraestructura Productiva De Largo Plazo (Pidiregas) 2007." 101: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2007.
———. "Sostenibilidad De Las Finanzas Publicas En Mexico (1997-2007)." 22: Centro de Estudios de las Finanzas Públicas, Cámara de Diputados, H. Congreso de la Unión, 2007.

4.3 Laws and Bylaws (articles)

4.3.1 Revenues

- Ley del Servicio de Administración Tributaria.
- Ley del Impuesto Sobre la Renta and Reglamento.
- Ley del Impuesto al Valor Agregado and Reglamento ISE.
- Ley del Impuesto Especial Sobre Producción y Servicios y Reglamento.
- Ley de Inversión Extranjera y Reglamento.

4.3.2 Budget Formulation

− Constitución Política de los Estados Unidos Mexicanos (art. 74, fracción IV);
− Ley Orgánica de la Administración Pública Federal (art. 12);
− Ley de Planeación (arts. 7 y 27);
− Ley de Presupuesto, Contabilidad y Gasto Público Federal (arts. 17, 19, 20, 22 y 24) and
su reglamento (arts. 8 al 11, 18, 25 al 31); [changed name to Ley Federal de Presupuesto y Responsabilidad Hacendaria in 2006]
− Ley Federal de Entidades Paraestatales (arts. 47, 50 y 51), y su reglamento (art. 24);
− Ley General de Deuda Pública (arts. 9 al 16);
− Ley de Adquisiciones y Obras Públicas (arts. 7, 17 al 27).

4.3.3 Discussion and Approval

− Constitución Política de los Estados Unidos Mexicanos (art. 74, fracción IV)

4.3.4 Budget Execution

− Constitución Política de los Estados Unidos Mexicanos (arts. 126 y 134);
− Ley de Presupuesto, Contabilidad y Gasto Público Federal (arts. 25 al 38) y su reglamento (Capítulo I y II; arts. 32 al 80); [Ley Federal de Presupuesto y Responsabilidad Hacendaria (from 2006-)]
− Ley federal de Entidades Paraestatales (arts. 52 y 55) y su reglamento (art. 23)
− Ley General de Deuda Pública (art. 4, fracción V)
− Decreto Aprobatorio de Presupuesto de Egresos de la Federación
− Manual de Normas Presupuestarias para la Administración Pública Federal (issued on a yearly basis between 1970-2009)
− Manual de Programación y Presupuesto (issued on a yearly basis between 1970-2009)
− Clasificador por Objeto del Gasto (issued on a yearly basis between 1970-2009)

4.3.5 Comprollership (Audit, Control and Evaluation)

− Constitución Política de los Estados Unidos Mexicanos (arts. 73, fracción XXIV y 74, fracción IV)
− Ley Orgánica de la Administración Pública Federal (arts. 23, 31 y 37)
− Ley de Presupuesto Contabilidad y Gasto Público Federal (arts. 37, 39, 40 al 46) y su reglamento (Título V, arts. 130 al 186)
− Ley General de Contabilidad Gubernamental (approved 2008)
− Ley Federal de Entidades Paraestatales (arts. 59 al 65) y su reglamento (arts. 29 al 34)
− Ley General de Deuda Pública (arts. 23 al 26)
− Ley de Adquisiciones y Obras Públicas (arts. 84 y 85)
− Ley Federal de Responsabilidades de los Servidores Públicos (arts. 2, 3, 7 y 47)
− Ley de Fiscalización Superior de la Federación
− Ley de Contabilidad y Gasto Público Federal [changed name to Ley de Contabilidad Gubernamental in 2008]
− Ley de Coordinación Fiscal

4.4. Government Documents (Executive and Legislature Powers)

4.4.1 Ministry of Finance

- SHCP. "Comparativo De Plazas Por Niveles, Asignación Original Nivel Central." 6. Mexico City: Unidad de Política y Control Presupuestario / Dirección General Adjunta de Estrategia y Política Presupuestaria, Dirección de Presupuesto de Servicios Personales, 2004.

———. "El Presupuesto De Egresos De La Federación 1995 - 2000." 208. México, D.F.: Secretaría de Hacienda y Crédito Público, Subsecretaría de Egresos, 2000.

———. "Evolución De Los Rubros De Pago a Servidores Públicos." 2. Mexico City: Secretariat of Finance and Public Credit, 2005.

———. "Manual De Sueldos Y Prestaciones Para Los Servidores Públicos De Mando De La Administración Pública Federal." edited by Unidad de Servicio Civil, 629: Secretaría de Hacienda y Crédito Público, 2000.

———. "Palabras Del Secretario De Hacienda Y Credito Publico, Agustin Carstens, Durante La Firma Del Decreto Presidencial Que Promulga La Reforma Constitucional En Materia De Gasto Publico Y Fiscalizacion." 2: Secretaría de Hacienda y Credito Publico, 2008.

———. "Partidas De Gasto 3806 Asignaciones Para Requerimientos De Cargos." 1. Mexico City: Secretariat of Finance and Public Credit, SHCP, 2005.

———. "Presupuesto De Gastos Fiscales." edited by Subsecretaría de Hacienda y Crédito Público, 27: Secretaría de Hacienda y Crédito Público, 2007.

- Criterios Generales de Política Económica (varied years)

- Informes Mensuales, Bimestrales y Trimestrales de las Finanzas Públicas (varied years)

4.4.2 Presidencia de la República (Budget Decrees)

1970 - 2010. "Decreto de Presupuesto de Egresos de la Federación 1970." Diario Oficial de la Federación.

4.4.3 Secretaría de Hacienda y Crédito Público (Budget Executive's Proposal and ex-post Public Accounts)

1970 - 2010. "Proyecto Presupuesto de Egresos de la Federación." edited by Egresos: Diario de Debates, Cámara de Diputados del Congreso de la Unión.

1971 - 2008. "Cuenta Pública de la Hacienda Federal." Secretaría de Hacienda y Crédito Público - Egresos.

4.5 Press Articles

4.5.1 Daily El Universal

Alcántara, Liliana. "72% Del Gasto Social, Ineficaz." *El Universal*, 24 December 2007.

———. ""Reprueban" 85 Programas De Lucha Contra La Pobreza " *El Universal*, 24 December 2007.

Arteaga, Jose. "Estados Captan Sólo 0.29% Del Pib En Ingresos." *El Universal*, 19 August 2009, 2.

Arteaga, José Manuel. "Aumenta Polémica Para Evaluar Gasto." *El Universal*, 2 July 2007.
———. "Gasto Del Fisco, Igual a 6.5% Del Pib." *El Universal*, 2 July 2008.
———. "Ortíz Reprocha Mal Uso De Ingresos Petroleros." *El Universal*, 5 October 2005.
———. "Pemex Podría Prescindir De Shcp." *El Universal*, 27 May 2008.
Chávez Presa, Jorge. "Judicialización Del Presupuesto." *El Universal*, 16 December 2004.
———. "Réimen Fiscal Petrolero." *El Universal*, 11 August 2005.
Cruz Serrano, Noé. "Acelera Cantarell Su Declive." *El Universal*, 4 July 2008.
———. "Cantarell, En Estado De Emergencia." *El Universal*, 11 September 2009.
———. "Obligados a Importar Crudo." *El Universal*, 30 December 2008.
———. "Pemex Aporta Más a Hacienda." *El Universal*, 27 January 2009.
———. "Petróleo Para 6 Años." *El Universal*, 11 July 2008.
de la Cruz Gallegos , José Luis. "El Gasto De Gobierno En México." *El Universal*, 9 September 2009.
de Paz, Dalia. "Pago De Ejecutivos, Entre Los Mejores." *El Universal*, 6 February 2009.
Durán, Marco Antonio. "Aumenta La Dependencia Petrolera." *El Universal*, 25 November 2005.
El Universal. "El Tesoro Perdido." *El Universal*, 11 September 2009.
———. "Supera Petróleo 50 Dls." *El Universal*, 9 August 2005.
Gutiérrez Lara, Aníbal. "Déficit Y Presupuesto." *El Universal*, 9 September 2009.
Niño de Haro, Humberto. "Pretende Hacienda Mejorar Gasto Público." *El Universal*, 3 July 2007.
Olvera, Alberto J. "Retroceso En La Fiscalización Del Gobierno." *El Universal*, 11 September 2009.
Ramírez de la O, Rogelio. "Nuevo Populismo." *El Universal*, 28 May 2008.
Ramos, Jorge. "Estancada, Profesionalización De La Burocracia." *El Universal*, 3 April 2007.
———. "Impugnan 35 Servicio Profesional De Carrera." *El Universal*, 3 September 2007.
Ramos, Jorge, and Ricardo Gómez. "Pri: Sueldos De Altos Mandos Dañan Erario " *El Universal*, 11 September 2009.
Rojas, Francisco. "Entrevista." *El Sol de México*, 19 March 2008, 4.
Sánchez, Julián. "Dan Registro a Burócratas." *El Universal*, 5 June 2005.
Saúl, Lilia, and José Manuel Arteaga. "Reprueba México En Transparencia Presupuestaria." *El Universal*, 10 November 2005.
Yutzil González, Ixel. "El Gasto Corriente, Útil Para Compensar Ingreso." *El Universal*, 19 August 2009.

4.5.2 Daily Excélsior

Mondragón, Verónica. "Bid Evidencia Exclusión De Ciudadanos Al Discutir Gasto." *Excelsior*, 20 September 2009.
Ramos, Jorge. "Despilfarró México 270 Mmdd De Renta Petrolera." *Excelsior*, 17 September 2009.
Robles, Leticia. "La Alta Burocracia Se Disparó De 6 Mil a 74 Mil 500 Plazas." *Excélsior*, 17 September 2009.

4.5.3 Daily Reforma

Almanza, Lucero. "Crece Padrón, No Los Ingresos." *Reforma*, 2 November 2006.
———. "Impacta Menos Nómina Pública." *Reforma*, 1 February 2007.
———. "Logra Gobierno Triplicar Ahorros En Sus Gastos." *Reforma*, 2 February 2007.
———. "Vive País Menos Crisis." *Reforma*, 22 January 2007.
Almanza, Lucero, and Alma Hernández "Soportan Finanzas Crudo a 38 Dólares." *Reforma*, 24 January 2007.
Arteaga, José Manuel. "Restringen Cabildeo Al Presupuesto." *Reforma*, 23 August 2005.
Arteaga, Jose Manuel, Jorge Herrera, and Jorge Octavio Ochoa. "Diputados Aprueban Nueva Ley De Presupuesto." *Reforma*, 14 December 2005.
Barajas, Abel. "Ve La Sfp Riesgoso Ajustar Servicio Civil." *Reforma*, 17 April 2004.
Barrientos, Alberto. "Logra México Superávit Con Eu." *Reforma*, 14 February 2007.
———. "Precio Del Petróleo: Beneficia a Finanzas Públicas." *Reforma*, 22 June 2005.
Barrientos, Alberto, and Adolfo Navarro. "Equivale Alza En Gasto a Dos Reformas Fiscales." *Reforma*, 11 May 2004.
Carrillo, Laura, and Arturo Rivero. "Ordeñan Sindicatos Al Erario." *Reforma*, 11 October 2005.
de la Torre, Hugo. "Recomienda Aspe a Gil Reducir Gasto Corriente." *Reforma*, 28 May 2004.
Del Valle, Sonia. "Ahoga Nómina a Educación." *Reforma*, 15 September 2004.
———. "Pacta Snte Prebendas Con La Sep." *Reforma*, 2 May 2005.
———. "Rechazan Que La Calidad Dependa De La Remuneración." *Reforma*, 7 June 2007.
del Valle, Sonia, and Claudia Guerrero. "Reina Opacidad En Fideicomisos." *Reforma*, 12 January 2009.
Díaz, Alicia. "Disparan Gasto Corriente." *Reforma*, 25 June 2004.
Díaz, Alicia, and Alberto Barrientos. "Tiran Auge Petrolero En Gasto Corriente." *Reforma*, 18 July 2006.
Elizondo, Carlos. ""La Mala Educación"." *Reforma*, 17 December 2004.
———. "Ni Pa' La Gasolina." *Reforma*, 30 May 2008.
Estrop, ArmandoGuerrero, Claudia. "Amordaza Shcp Al Gabinete Foxista." *Reforma*, 5 September 2005.
Fuentes, Victor. "Entran En Juego Los Precedentes." *Reforma*, 22 December 2004.
———. "Gana México a Eu, Pero En Burocracia." *Reforma*, 1 September 2005.
———. "Pega Austeridad a 17% De Mandos." *Reforma*, 30 January 2007.
———. "Pesan Mandos En Gasto Burocrático." *Reforma*, 2 September 2005.
———. "Privilegian a Zedillo En Seguro De Vida." *Reforma*, 18 June 2007.
Galán, Verónica. "Aumenta México "Petrodependencia"." *Reforma*, 18 March 2005.
———. "Gasta Mal Gobierno, Dice Ortiz." *Reforma*, 26 June 2004.
———. "Juzgan Insuficiente Recorte De Burócratas." *Reforma*, 2 March 2005.
———. "Lidera México Ranking Por Pérdidas Fiscales." *Reforma*, 19 July 2005.
———. "Pide Fmi a México La Despetrolización." *Reforma*, 10 February 2005.
———. "Pierde Gobierno $528 Mil Millones." *Reforma*, 30 June 2005.
———. "Prevén Retiro En 2005 De 12 Mil Burócratas." *Reforma*, 8 February 2005.
———. "Usa Gobierno Ahorros Para Pago De Salarios." *Reforma*, 7 June 2004.
García, Claudia. "Afilian a 60 Mil En Nl." *Reforma*, 7 June 2005.
———. "Critica Panista La "Mordaza" Contra Cabildeo." *Reforma*, 6 September 2005.
García, Imelda. "Pierde La Ctm 34% De Afiliados." *Reforma*, 1 May 2008.

González Arreola, Alejandro. "Claridad Y Evaluación Del Gasto." *Reforma*, 28 October 2007.
González, Mauricio. "Dos Caras." *Reforma*, 16 September 2009.
Granados Chapa, Miguel Angel. "Burocracia Dividida." *Reforma*, 7 June 2005.
Guerrero, Claudia. "Confronta a Diputados Prohibición De Cabildeo." *Reforma*, 5 September 2005.
———. "Piden Monumento a Carstens." *Reforma*, 9 December 2008.
———. "Quiere Pan Revovar a Pemex." *Reforma*, 27 March 2008.
———. "Refuerza Carstens Plan Petrolero." *Reforma*, 1 July 2008.
Guerrero, Claudia, and Bruno López. "Denuncian Despilfarro En El Gobierno Foxista." *Reforma*, 11 August 2004.
Guerrero, Claudia, and Andrea Merlos. "Plantea Ministro Revés a Diputados Por Gasto." *Reforma*, 26 April 2004.
Heath, Jonathan. "¿Desarrollo Estabilizador?" *Reforma*, 9 June 2005.
Hernández, Alma. "Abandona Pemex 16 Petroquímicas." *Reforma*, 13 June 2008.
———. "Ahogan Los Pidiregas a Pemex." *Reforma*, 20 June 2007.
———. "Baja El Nivel De Las Reservas Petroleras." *Reforma*, 18 June 2006.
———. "Descara Sener Pronto Beneficio." *Reforma*, 9 December 2008.
———. "Es Pemex El Cuarto Productor." *Reforma*, 12 January 2009.
———. "Paga Altos Impuestos Pemex." *Reforma*, 29 June 2008.
———. "Pegan Al Pib Precios Bajos Del Petróleo." *Reforma*, 10 December 2008.
———. "Sugieren Cambios Fiscales Para Pemex." *Reforma*, 20 June 2007.
———. "Disputan Burócratas Sindicatos." *Reforma*, 7 June 2005.
Hernández , Érika, and Claudia Guerrero. "Aprueba Senado Ley De Salarios Máximos." *Reforma*, 28 April 2009.
Herrera, Rolando. "Abundan Los Policías Y No Bajan Los Delitos." *Reforma*, 10 January 2005.
Irízar, Guadalupe. "Demanda Presidencia Enfriar Negociaciones." *Reforma*, 22 December 2004.
Jiménez, Benito. "Proyectan Más Gasto a Sedena." *Reforma*, 12 October 2007.
Lizarraga, Daniel. "Entrevista: Impulsan Candados Contra Improvisados." *Reforma* 2004, 5.
———. Daniel. "Entrevista Jesús Mesta. Impulsan Candados Contra Improvisados." *Reforma*, 4 April 2004.
Martínez, Claudia, and Gabriela Cabrera. "Carece De Funcionalidad Fondo Petrolero." *Reforma*, 6 December 2004.
———. "Prevalece La Confusión." *Reforma*, 6 December 2004.
Meré, Dayna. "Aconsejan Reenfocar Ingresos Petroleros." *Reforma*, 8 May 2007.
———. "Es México Último En Recaudación." *Reforma*, 3 March 2007.
———. "Establecen Programa Anual." *Reforma*, 8 June 2008.
———. "Ignoran Parámetro De Shcp." *Reforma*, 8 June 2007.
———. "Inquieta Petróleo a Fmi." *Reforma*, 14 December 2007.
———. "Pierde Gobierno 6% Del Pib." *Reforma*, 2 July 2007.
———. "Presume Sat Récord Por Ingresos." *Reforma*, 3 March 2007.
———. "Reprueba Imef Reforma Fiscal." *Reforma*, 12 October 2007.
Meré, Dayna "Niega Shcp Concentración." *Reforma*, 28 June 2007.
Núñez, Ernesto. "Rezagan En Gobierno Servicio Profesional." *Reforma*, 14 June 2007.
Ochoa Reza, Enrique. "La Herencia: Un Senado Limitado." *Reforma*, 4 February 2007, 3.

Quintana, Enrique. "El "Opio Petrolero" En El Sexenio De Fox." *Reforma*, 03 August 2006, 2.
———. "El Costo De Los Mitos." *Reforma*, 10 September 2009.
———. "A La Buena De Dios." *Reforma*, 21 September 2009.
———. "La Locura Petrolera Y Sus Efectos." *Reforma*, 9 November 2007.
———. "Las Iniciativas Fiscales Que "Olvidó" Hacienda." *Reforma*, 30 April 2008.
———. "Los Esquemas De Pago De Pemex a Contratistas." *Reforma*, 8 April 2008.
———. "Los Malos Subsidios Del Gobierno ¿Cómo Vería Usted Una Política Que Diera Como Subsidio Un Peso Para Los Pobres Por Cada Cinco a Los Ricos?" *Reforma*, 29 May 2008.
———. "Los Verdaderos Excedentes." *Reforma*, 7 November 2005.
———. "Los... (Tontos) Del Vecindario." *Reforma*, 8 June 2007.
———. "Se Multiplican Los Pobres." *Reforma*, 21 July 2009.
———. "Siete Reformas Fiscales." *Reforma*, 29 July 2009, 2.
———. "Sobran Burócratas En México." *Reforma*, 7 February 2006.
———. "Un Paquete Bien Vivo." *Reforma*, 16 September 2009.
Reforma. "Critican Gasto Corriente." *Reforma*, 12 mayo 2004.
———. "Detalla Hacienda El Gasto." *Reforma*, 12 May 2004.
———. "Los Otros Excedentes." *Reforma*, 11 March 2005.
———. "Prenden Las Alertas: Vive En La Pobreza La Mitad De Mexicanos." *Reforma*, 1 December 2005.
———. "Salvan Precios Crisis Petrolera." *Reforma*, 22 August 2007.
———. "Salvavidas Petroleo." *Reforma*, 1 November 2005.
Rivero, Arturo. "Contratación De Burocracia: Camina Lento." *Reforma*, 28 February 2005.
———. "Dan Pensiones De Lujo." *Reforma*, 17 Julio 2006.
———. "Incumple Objetivos El Servicio Profesional." *Reforma*, 8 January 2008.
———. "Prevalece "Compadrazgo" Al Contratar." *Reforma*, 9 January 2008.
Rodríguez, Karla. "Registra Pemex Ingresos Históricos." *Reforma*, 19 November 2004.
———. "Sube Cálculo De Los Ingresos Por Petróleo." *Reforma*, 17 August 2005.
Ruiz, Emiliano. "Buscan Orden Al Negociar Presupuesto." *Reforma*, 5 September 2005.
Salazar, Claudia. "Contrapunto: Dudan Haya Transparencia." *Reforma* 2004, 1.
———. "Contrapunto: Dudan Haya Transparencia." *Reforma*, 4 April 2004.
———. "Contrapunto: Ven Defectos En Reglamento." *Reforma*, 4 April 2004.
Salazar, Claudia, and Armando Estrop. "Avalan Cambios a La Ley De Obras." *Reforma*, 29 April 2009.
———. "Elevan Estimación En $137 Mil Millones." *Reforma*, 12 October 2007.
Salazar, Claudia, and Daniel Lizarraga. "Aplican Desde Hoy Examenes Y Filtros Para Los Aspirantes a Funcionarios Publicos." *Reforma* 2004, 2.
Salazar, Claudia, and Daniel lizárraga. "Evalúa El Gobierno a Nuevos Burócratas." *Reforma*, 4 April 2004.
Sarabia, Ernesto. "Adelgaza, Pero "Pesa"." *Reforma*, 12 August 2005.
———. "Alcanzan Superávit Finanzas Públicas." *Reforma*, 31 January 2007.
———. "Cae País En "Ranking" De Tasa De Crecimiento." *Reforma*, 29 October 2007.
———. "Eleva Fox Gasto En Nómina." *Reforma*, 24 November 2004.
———. "Llega Al Máximo El Gasto Corriente." *Reforma*, 6 May 2004.
———. "Representa Boquete Fiscal 10.5% Del Pib." *Reforma*, 30 March 2007.
———. "Suben 28% Los Excedentes." *Reforma*, 11 March 2005.
———. "Va a Los Estados 56% De La Nómina Del Gobierno." *Reforma*, 02 June 2004.

Sarabia, Ernesto, and Juan Carlos Orozco. "Crece Más Gasto Que Pib." *Reforma*, 21 September 2009.
Sarmiento, Sergio. "Populismo Puro." *Reforma*, 29 May 2008.
Silva-Herzog, Jesús. "La Catástrofe." *Reforma*, 13 December 2004.
Ugalde, Luis Carlos. "La Aprobación Del Presupuesto: "El Poder De La Bolsa" 1970-1997." *Reforma*, 31 Aug 1997.
Vela, José Ángel. "Crece Pemex... En Nómina." *Reforma*, 15 April 2006.
———. "Tiene Cantarell 6.8 Años De Vida." *Reforma*, 8 December 2008.
Vela, José Ángel, and Alberto Barrientos. "Ingresa Crudo Cifra Récord." *Reforma*, 23 January 2007.

4.6 Magazines (National and International)

Cossío Díaz, José Ramón, and Juan Carlos Roa Jacobo. "Amparos Y Política Fiscal." *Enfoque (Daily Reforma)*, 29 June 2008, 3.
Economist, The. "Yes, Ministro." *The Economist*, 14 November 2002.
Farfán-Mares, Gabriel. "El Populismo Mexicano Del Siglo Xxi." *Enfoque (Daily Reforma)*, 31 May 2009, 3.
———. "El Uso Político Del Presupuesto." *Enfoque (Daily Reforma)*, 21 December 2008, 3.
———. "Los Mandarines Mexicanos: Hay Botín Para Rato." *Enfoque (Daily Reforma)*, 29 July 2007, 3.
———. "¿Más Impuestos O Menores Gastos? La Farsa Del Presupuesto." *Enfoque (Daily Reforma)*, 1 November 2009, 3.
Lujambio, Alonso. "Cuatro Sobre El Veto." *Enfoque (Daily Reforma)*, 6 December 2004.
Reforma. "En La Dimensión Desconocida." *Enfoque (Daily Reforma)*, 1 May 2005, 3.
———. "Los Burócratas Del Cambio: Inflados, Orgullosos Y a Punto De Reventar." *Enfoque (Daily Reforma)*, 1 May 2005, 4.
Roldán Xopa, José. "La Sintaxis Del Veto." *Enfoque (Daily Reforma)*, 20 December 2004, 4.
The Economist. "Executive Pay." *The Economist*, 19 January 2006.
———. "The Latinobarometro Poll. A Warning for Reformers." *The Economist*, 15 November 2007, 3.
———. "No Trolley Needed." *The Economist*, 5 December 2002.

4.7 Working Papers (International Organisations)

4.7.1 International Monetary Fund

Ahmad, Ehtisham, and Eric Mottu. "Oil Revenue Assignments: Country Experiences and Issues." In *IMF Working Paper*, 26. Washington, D.C.: International Monetary Fund, 2002.
Calvo, Guillermo A., Leonardo Leiderman, Carmen M. Reinhart, and International Monetary Fund. Research Department. *Capital Inflows to Latin America: The 1970s and the 1990s*, *Imf Working Paper ; Wp/92/85*. [Washington, D.C.?]: International Monetary Fund, 1992.
IMF. "Mexico: Report on the Observance of Standards and Code-Fiscal Transparency Module." 1 - 32. Washington, D.C.: IMF - Fiscal Affairs Department, 2002.

———. *Transition to Accrual Accounting - Imf Technical Guidance Note* International Monetary Fund, 2007 [cited 26 June 2008. Available from http://blog-pfm.imf.org/pfmblog/2007/10/transition-to-a.html.

International monetary Fund. "Mexico: 2005 Article Iv Consultation-Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion." In *IMF Country Report*, 61. Washington, D.C.: International Monetary Fund, 2005.

International Monetary Fund. "Mexico: 2007 Article Iv Consultation-Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion." In *IMF Country Report*, 67. Washington, D.C.: International Monetary Fund, 2007.

———. "Mexico: 2008 Article Iv Consultation-Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion." In *IMF Country Report*, 62. Washington, D.C.: International Monetary Fund, 2009.

4.7.2 Organisation of Economic Co-operation and Development

OECD. "Highlights of Public Sector Pay and Employment Trends." Paper presented at the HRM Working Party Meeting, Paris, France, 25 - 26 June 2001 2001.

———. "Latin American Economic Outlook 2008." edited by Development Centre, 194: Organisation for Economic Co-operation and Development, 2007.

———. "Latin American Economic Outlook 2009." edited by Development Centre, 200: Organisation for Economic Co-operation and Development, 2008.

———. "México." In *Estudios Económicos de la OCDE*, 192. México, D.F.: Organización para la Cooperación y el Desarrollo Económicos, 2005.

———. "Models of Public Budgeting and Accounting Reform." Beijing, China 2002.

———. "A New Fiscal and Tax Policy for Mexico: A Policy Brief." Paper presented at the Foro Políticas Públicas para el Desarrollo de México, Mexico City, January 2007 2007.

———. "Oecd Budget Practices and Procedures Survey." edited by Public Governance and Territorial Development. Public Governance Committee, 40: Organisation of Economic Co-operation and Development, 2007.

———. "Reallocation: The Role of Budget Institutions." 146. Paris, France: Budgeting and Management Division of the Public Governance and Territorial Development Directorate, Secretary General of the Organisation for Economic Co-operation and Development, 2005.

———. "Revenue Statistics." edited by Committee on Fiscal Affairs - OECD Secretary General and Working Party on Tax Policy Analysis and Tax Statistics, 339: Organisatino for Economic Co-operation and Development, 2006.

———. "Tax Administration in Oecd and Selected Non-Oecd Countries: Comparative Information Series (2008)." edited by Centre for Tax Policy and Administration, 215: Organisation of Economic Co-operation and Development, 2009.

4.8 Interviews

1. 2001. "Interview with David Ibarra Muñoz." Mexico.

Description of the person interviewed: Minister of Finance (1977-1982), and now an academic and former public high-rank official associated with the political Left. BA

(UNAM) and PhD (Cambridge) in economics. Has published well known books on fiscal and economic development topics.

2. 2002a. "Interview wih Armando Jiménez San Vicente." Mexico.

Description of the person interviewed: Former General Director at the Ministry of Energy, LSE PhD graduate which dissertation focuses on taxation, now Secretary of Economic Development of the State of Aguascalientes. BA (Aguascalientes State University) and MA (Georgetown) in Law.

3. 2002b. "Interview with Alma Rosa Moreno." London, United Kingdom.

Description of the person interviewed: President of the Federal Revenue Service Administration (*Servicio de Administración Tributaria*, SAT-SHCP, 1999-2000) and Head of the Liaison Unit with Congress (Chamber of Deputies) of the Ministry of Finance (SHCP), from 1997-98, and Ambassador to the UK (2001-04). BA (ITAM) and MA (El Colegio de México) in economics and PhD Candidate (NYU) in economic development.

4. 2003a. "Interview with Juan Pablo Guerrero Amparán." México City.

Description of the person interviewed: First Director of the Budget and Public Spending Programme (*Programa de Presupuesto y Gasto Público, Centro de Investigación y Docencia Económicas*, CIDE). Professor at CIDE. BA in International Relations (UIA, Mexico City) and a PhD at Sorbonne (Paris) in political science. Counselor at the Federal Institute for Access to Public Information (IFAI, Transparency since 2002).

5. 2003b. "Interview with Jorge Chávez Presa." Mexico City.

Description of the person interviewed: Head of the Unit of Budgetary Policy and Control at the Ministry of Finance (*Unidad de Política y Control Presupuestal*, UPCP-SHCP, ca. 1997-98). Undersecretary of the Energy Ministry (1999-2000); Federal Deputy and President of the Treasury Congressional Commission and member of the Budget and Public Accounts Congressional Commission (*Comisión de Hacienda; Presupuesto y Cuenta Pública*, 2000-2003). Advisor to the PRI Presidential Candidate in 2006 and now a Consultant. BA (ITAM), MA and PhD (Ohio). Private consultant and current member of IPAB (Instituto para la Protección al Ahorro Bancario)

6. 2003b. "Interview with Laura Sour Vargas." Mexico.

Description of the person interviewed: Current Director of the Budget and Public Spending Programme (*Programa de Presupuesto y Gasto Público, Centro de Investigación y Docencia Económicas*, CIDE), expert on taxes. BA and MA (ITAM) in economics; MA and PhD (Irving B. Harris Graduate School of Public Policy) in Public Policy.

7. 2004a. "Interview with Ana Laura Martínez de Lara." Mexico City.

Description of the person interviewed: Advisor to the Undersecretary (Subsecretaría de Egresos, SHCP) and public official at the Civil Service Unit (former Unidad de Servicio

Civil at SHCP. Specialist on Human Resources at the *Secretaría de la Función Pública* and *Secretaría de Seguridad Pública*).

8. 2004b. "Interview with César Jáuregui Robles." Mexico City.

Description of the person interviewed: PAN Senator (PAN member since 1981) and one of the promoters of the Civil Service Lay in late 2003. BA in Law (ITESM) and MA in Corporate Law (ITESM). Federal Deputy (PR, 1991-1994; 1997-2000). Current Member of the *Consejo de la Judicatura*.

9. 2004c. "Interview with Cuitláhuac Estrello." Mexico City.

Description of the person interviewed: Senior and now retired Public Servant (Subsecretaría de Egresos, UPCP-SHCP), one of the public officials with longer trajectory at the Ministry and in charge of the federal wage bill.

10. 2004d. "Interview with Jacqueline Arteaga." Mexico City.

Description of the person interviewed: Public Servant at Subsecretaría de Egresos of the Ministry of Finance (UPCP-SHCP), Chief of Staff of the Undersecretary. Currently General Director for Control and Evaluation of the Professional Career Service (*Servicio Profesional de Carrera*, Civil Service) at the *Secretaría de la Función Pública*.

11. 2004e. "Interview with José Luis Méndez Martínez." Mexico City.

Description of the person interviewed: Professor of Public Administration at El Colegio de México, main responsible of implementing the Professional Career Service (Civil Service), both at the Office of the President (Fox) and at the *Secretaría de la Función Pública*. BA in International Relations (El Colegio de México), MA and PhD in political science (Pittsburgh). Author of varied books and articles on the Civil Service and the Mexican Public Administration. Currently Professor at El Colegio de México (Center for International Studies).

12. 2005a. "Interview with Carlos Hurtado López." Mexico.

Description of the person interviewed: Former advisor to the President (Zedillo) on economic affairs, *Subsecretario de Egresos* (SHCP). Economics Professor (ITAM). BA (ITAM), MA and PhD (Chicago) in economics. Currently high-rank official IADB (Washington, D.C.)

13. 2005b. "Interview with Humberto Guzmán Vázquez." Mexico City.

Description of the person interviewed: Special Advisor, Chief of Staff, *Subsecretaría de Egresos* (*Director General Adjunto de Técnica de Presupuesto en la Subsecretaría de Egresos*, SHCP). Current Director General for Human Resources (Ministry of Federal Public Security). BA in economics (UNAM)

14. 2006a. "Interview with Enrique Hidalgo Noriega." Mexico.

Description of the person interviewed: Former Head of the Office for Latin America (Exxon Mobil), currently based in Houston, Texas. BA (UIA Mexico), MA and PhD in International Relations (Tufts University). Former Vicepresident of Corporate Affairs (Exxon Mobil Ventures) and current Advisor to the President of Exxon Mobil to Asia-Pacific and the Americas.

15. 2006b. "Interview with Javier González Gómez." Mexico.

Description of the person interviewed: General Director for Adminstrative Efficiency and Good Governance (*Secretaría de la Función Pública*). BA (El Colegio de México) in Public Administration, MSc (LSE) in Government.

16. 2006c. "Interview with Rogelio Ramírez de la O." Mexico.

Description of the person interviewed: General Director of the Consultancy Firm Ecanal (Economic Analysis). Top Economic Advisor to the Left's presidential candidate (federal elections 2006). BA (UNAM) PhD (Cambridge University) in economics. Author of El Universal Daily (Mexico City) and of many articles on Mexico's domestic and international economic affairs.

17. 2006d. "Invertiew with José Mejía Lira." Mexico.

Description of the person interviewed: General Director for Human Resources at the Ministry for Communications and Transport and the Office of the President (Secretaría de Comunicaciones y Transportes, SCT); BA (UASLP) in Accounting, MA (CIDE) in Public Administration, and a PhD (Paris IX, Dauphine) in Organisation's Sociology and a PhD (CESA - École des hautes études) in Administration. Professor of varied Mexican public and private universities (BA) in public administration (local, state, and federal level). Currently treasurer of the Municipality of San Luis Potosí.

18. 2006e. "Interview with Alejandro Carrillo Castro." Mexico.

Description of the person interviewed: General Director of ISSSTE (1982-1988). At the Office of the President (*Presidencia*), he served as legal assistant to the General Directorate of Legal Affairs, Oficial Mayor (top administration official), Technical Secretary of the Public Administration Comission, and General Director of Administrative Studies. General Secretary of Conacyt (Consejo Nacional de Ciencia y Tecnología), permanent representative to the OAS (Organisation of American States), and President of the Nacional Institute of Public Administration (Instituto Nacional de Administración Pública, INAP). He has a BA (Law) and a PhD (Public Administration) at the National Autonomous University of Mexico (UNAM).

19. 2007a. "Interview with Javier Bonilla." Mexico.

Description of the person interviewed: Former advisor to the Minister of Finance (SHCP), General Director for International Affairs (Secretaría de Agricultura), Undersecretary (Secretaría de Salud). Heads a consultancy firm in Mexico City that

works with the government on Planning, Programming, Budgeting for Results, and Evaluation affairs. BA (ITAM) in Economics and MBA (UCLA). Professor at ITAM.

20. 2007b. "Interview with Luis Carlos Ugalde Ramírez." Mexico.

Description of the person interviewed: former President of the Federal Electoral Institute, former Chief of Staff of the Energy Minister and the Mexican Ambassador to the U.S., expert on the Mexican Congress accountability affairs, Professor of CIDE and ITAM. BA in Economics and MA and PhD in Political Science from Columbia University. Author of books and articles on transparency and accountability issues between the Executive and the Legislature in Mexico.

21. 2007c. "Interview wtih José Antonio Suárez Barriga." Mexico.

Description of the person interviewed: Former Director General for Human Resources and current Director General for Accounting and Public Accounts (Ministry of Finance and General Comptrollership, both at Mexico City's government). Degree in Administration and Accounting.

22. 2008b. "Interview with Aldo Flores Quiroga." Mexico.

Description of the person interviewed: Professor at CIDE, ITAM, UANL, ITESM, former General Director for Bilateral Economic Affairs (Ministry of Foreign Affairs), current General Director for International Affairs at the Ministry of Energy (Mexico). BA in economics (UANL, Monterrey), and PhD (UCLA) in political science and international relations. Author of books and articles in economic affairs (international economy, free trade and investment).

23. 2008c. "Interview with Carlos Elizondo Mayer-Sierra." Mexico.

Description of the person interviewed: Former General Director of CIDE in Mexico City, former Mexican Ambassador to the OECD (Paris), Academic and expert on Taxes and Fiscal Affairs. BA (Colegio de México) in International Relations, PhD in political science from Oxford (Nuffield). Currently Professor and Researcher at CIDE. Editorialist and author of books and articles in national and international journals on economic issues and fiscal affairs.

24. 2008d. "Interview wtih Salvador Delgado Garza." Mexico City.

Description of the person interviewed: Senior public official (Public Spending, SHCP), General Director for Control and Budgetary Policy at the Secretariat for Programming and Budgeting (SPP), Senior Official at Fiscal Affairs Department (IMF, Washington, D.C.), and international consultant (World Bank, IADB). Currently CEO of a consultancy firm (Integrated Development Service). BA and MA in economics (UNAM, and American University).

25. 2009b. "Interview with Adrián Lajous Vargas." Mexico.

Description of the person interviewed: He has served in varied roles at Pemex (Executive Coordinator for International trade, Corporate Director of Planning, Corporate Director of Operations and Director of Refining and Marketing, Special Advisor to the President, Chief Executive Officer of Pemex). He is President for Oxford Institute of Energy Studies, Oxford, U.K. and Senior Energy Advisor of Morgan Stanley, London and current CEO at Petrométrica (since 2001). Has a BA and MA degree from UNAM and Cambridge in economics. Professor at El Colegio de México and Senior Fellow at the Kennedy School of Government, Harvard University from 2003 to 2004.

26. 2009c. "Interview with Alejandro González Martínez." Mexico City.

Description of the person interviewed: Director General of Budgetary Policy (Ministry of Finance, Government of Mexico City) and at SHCP. BA and MA in economics (UAM).

27. 2009d. "Interview with Jorge Tamayo." Mexico.

Description of the person interviewed:

28. 2009e. "Interview with Marco Antonio Alvarado Sánchez." Mexico City.

Description of the person interviewed: Senior Public Official, Director General of Sectoral Cabinet (Ministry of Finance, Government of Mexico City), General Director for Administration (Ministry of Tourism, Government of Mexico City).

29. 2009f. "Interview with Pablo Trejo Pérez." Mexico City.

Description of the person interviewed: Federal Deputy member of the PRD, Secretary of the Congressional Commission on Budget and Public Accounts (Comisión de Presupuesto y Cuenta Pública). BA, PhD in Administration, UNAM.

30. 2009g. "Interview with Ricardo García Sáinz." Mexico.

Description of the person interviewed: first Secretary of Programming and Budgeting (SPP, 1976-1979), currently Secretary of General Comptrollership (Government of Mexico City), former General Director of the Instituto Mexicano del Seguro Social (IMSS) Federal Deputy and former (PRI) and current (PRD) party member.

31. 2009h. "Interview with Rubén Aguirre Pangburn." Mexico City.

Description of the person interviewed: Senior Official (currently retired) Revenue Undersecretary (SHCP), President of the Federal Revenue Service Administration (Servicio de Administración Tributaria (SHCP-SAT). BA Law. Currently President of the Mexican Academy of Fiscal Law.

4.9 Other (13) Interviews Energy Reform (2008)[240] --

Senators:

1. Juan Bueno Torio (PAN)
2. Francisco Labastida Ochoa (PRI)
3. Graco Ramírez Garrido (PRD)
4. Pablo Gómez Álvarez (PRD)

Deputies:

1. Ramón Félix Pacheco Llanes (PRD)
2. Cuauhtémoc Velasco Olivo (Convergencia)

Federal Government Officials:

1. Jordy Herrera Flores, Subsecretario de Planeación Energética y Desarrollo tecnológico (SENER)

Congressional Advisors (Energy Commision):

1. Fluvio Ruíz Alarcón
2. Fernando Romero García
3. Mariana de Alva Cal y Mayor
4. Miguel Pérez Cruz

Energy Commission Secretary:

1. Víctor Rodríguez Padilla

Private Sector Representatives:

1. Luis Miguel Pando Leyva, Director General del Consejo Coordinador Empresarial

5 Public and Academic Presentations --

2009

- Key note Speaker, "El papel del petróleo y las instituciones presupuestarias en la

[240] All these are part of a coauthored Chapter on Pemex Reform in 2008 Farfán-Mares, Gabriel, Ana Lucía García Briones, and Mara Hernández Estrada. 2009. "La Reforma de Petróleos Mexicanos." Pp. 313 in *Un Congreso sin Mayorías:Mejores Prácticas en Negociación y Construcción de Acuerdos*, edited by M. Hernández Estrada, J. Del Tronco, and G. Sánchez Gutiérrez. Mexico: Centro de Colaboración Cívica, A.C.; Facultad Latinoamericana de Ciencias Sociales (México); Intituto Mora; Fundación Este País. Interviews took place at different moments between November 2008 and August 2009 but they were not directly made by the author. They are included here since they provided with many details far beyond the scope of the reform (i.e. the central government control of Pemex, Pemex management and union, its technical and financial status, etc…).

calidad del gobierno en México", Club de periodistas, México, D.F.

- Paper Presentation, "El petróleo en México: ¿Instrumento para el desarrollo o maldición nacional? una visión desde el sector público y la economía política internacional (1970-2010), El Colegio de Veracruz, Xalapa, México.

- Key note Speaker, "La economía política de los impuestos en México", Instituto Internacional para la Cultura Democrática, A.C., Acapulco, Guerrero, México.

- Brown Bag Lecture, "Non-embedded Autonomy: Mexico's Oil Rentier Budget Discretion 1970-2009", Centro de Investigación para el Desarrollo, México, D.F.

- Presentation, "Non-embedded Autonomy: Mexico's Oil Rentier Budget Discretion 1970-2009", Tesorería del Gobierno del Distrito Federal, México, D.F.

- Brown Bag Lecture, "Governing Mexico's Budget: The Role of Congress", Instituto Tecnológico Autónomo de México, México, D.F.

- Key note Speaker, "Gestión Pública por Resultados en la Ciudad de México", Programa de Naciones Unidas para el Desarrollo, México, D.F.

- Presentation, "La reforma necesaria del Sector Público de México en el contexto de la crisis económica global", Grupo XXI / Club de Industriales, México, D.F.

- Seminar presentation, "Governing Mexico's Budget: The Political Economy of a Rentier State", Institute for Development Studies / Essex University, Brighton, United Kingdom.

- Key note Speaker, "La economía política del Estado rentista en México", Instituto Internacional para la Cultura Democrática, A.C., Monterrey, Nuevo León, México.

2008

- Key note Speaker, "Instituciones fiscales para la calidad del gasto en México", Universidad Veracruzana, Veracruz, México.

- Key note Speaker, “Governing the Mexican budget: The institutional foundations of discretion”, Centro de Investigación para el Desarrollo, México, D.F.

- Key note Speaker, “Instituciones Fiscales para la Rendición de Cuentas”, Escuela Nacional de Trabajo Social, Universidad Nacional Autónoma de México, Ciudad de México.

- Discussant, “La política presupuestaria transversal y el presupuesto por resultados en el contexto del Programa de Derechos Humanos del Distrito Federal”, Comisión de Derechos Humanos del Distrito Federal, Ciudad de México.

2007

- Key note Speaker, “Panorama de las Finanzas Públicas”, Secretaría de Desarrollo Económico, Gobierno del Distrito Federal, Ciudad de México.

- Open T.V. - “Empleo público y servicio civil en México”, Programa Espiral, Canal 11.

2006

- Key note Speaker, “El control formal de la gestión pública en México: análisis crítico”, Centro de Investigaciones y Estudios Superiores en Antropología Social, Ciudad de México.

- Brown Bag Lecture, “The Political Economy of Bureaucracy in Mexico”, Brown Bag Lecture, Harvard University / John F. Kennedy School of Government, Cambridge, Massachussetts, USA.

- Brown Bag Lecture, “Mexican Mandarins”, Brown Bag Lecture, Center for Latin American Studies, The Mexico Project, and the Mexican Student Association at Georgetown University, Washington, D.C., USA.

2004

“Building a Public Service for Development in Mexico”, The Washington Center for Scholars, Washington, D.C., Research Paper.

2003

- Paper presentation, “Governing the Budget in Mexico: 30 years of Administrative Reforms in a Centralized Polity”, Ecole National d’Administration, 13th International Colloquium of “Public Policies and Management” Review, Strasbourg, France.

2002

- Paper presentation, “Budget Approval and the Congress under Divided Governments: the Case of Mexico”, The Political Economy of the Budget Process in Mexico”, London School of Economics and Political Science, Latin American Research Seminar, London, United Kingdom.

- Paper presentation, “The Political Economy of the Budget Process in Mexico”, London School of Economics and Political Science, Seminar on Mexican Politics, London, United Kingdom.

V. Secondary Sources (Books and documents cited)

Ahmad, Ehtisham and Eric Mottu. 2002. "Oil Revenue Assignments: Country Experiences and Issues." International Monetary Fund, Washington, D.C.

Ai Camp, Roderic. 1999. *Politics in Mexico: The Decline of Authoritarianism*. New York: Oxford University Press.

—. 2002. *Mexico's mandarins: crafting a power elite for the twenty-first century*. Berkeley: University of California Press.

Aizenman, Joshua and Brian Pinto. 2005. *Managing Economic Volatility and Crises: A Practitioner's Guide*. New York, NY: Cambridge University Press.

Alesina, Alberto, Reza Baqir, and William Easterly. 1998. "Redistributive Public Employment." Pp. 19 in *National Bureau of Economic Research*: National Bureau for Economic Research.

Alesina, Alberto, Stephan Danninger, and Massimo Rostagno. 1999. "Redistribution through Public Employment: The Case of Italy." in *National Bureau of Economic Research*: National Bureau for Economic Research.

Alesina, Alberto, Ricardo Hausmann, Rudolf Hommes, and Ernesto Stein. 1999. "Budget Institutions and Fiscal Performance in Latin America." Inter-American Development Bank, Washington, D.C.

Alesina, Alberto and National Bureau of Economic Research. 1996. "Budget institutions and Fiscal Performance in Latin America." Pp. 24 [i.e. 32], [15] in *NBER working paper series ; working paper 5586*, edited by R. National Bureau of Economic. Cambridge, Mass.: National Bureau of Economic Research.

Alesina, Alberto and Roberto Perotti. 1995. "Fiscal Expansions and Fiscal Adjustments in OECD Countries." National Bureau of Economic Research, Cambridge, Massachusetts.

—. 1996. "Fiscal Discipline and the Budget Process." *The American Economic Review* 86:401 - 407.

Alesina, Alberto, Guido Enrico Tabellini, and National Bureau of Economic Research. 1987. "A positive theory of fiscal deficits and government debt in a democracy." Pp. 38 p in *NBER working paper ; No.2308*. Cambridge (1050 Massachusetts Avenue, Cambridge, Mass. 02138): National Bureau for Economic Research.

Alvarado Ramírez, José Antonio. 2009. "Informe Final. Programa para la implantación de un Sistema de Presupuesto Basado en Resultados." Secretaría de Hacienda y Crédito Público, México.

Ames, Barry. 1987. *Political survival: Politicians and Public Policy in Latin America*. Berkeley: University of California Press.

Amezcua, Adriana and Juan Pardinas. 1997. *Todos los gobernadores del Presidente: cuando el dedo de uno aplasta el voto popular*. Mexico City: Grijalbo.

Arbetman, Marina and Kristin Johnson. 2007. "Relative Political Capacity: Empirical and Theoretical Underpinnings." in *Conference on Political Economy Indicators*. Claremont, California: The Claremont Political Economy Data Project.

Arbetman, Marina and Jacek Kugler. 1997. *Political capacity and economic behavior*. Boulder, Colo.: Westview Press.

Arriola Woog, Carlos. 1988. *Los empresarios y el Estado 1970-1982*. Mexico: UNAM, Coordinacion de Humanidades, Miguel Angel Porrua.

—. 1991. *Los empresarios y la modernización económica de México*. México: Miguel Angel Porrua / Secretaría de Comercio y Fomento Industrial.

Aspe Armella, Pedro. 1993. *El camino mexicano de la transformación económica*. Mexico City: Fondo de Cultura Económica.
Auditoría Superior de la Federación. 2008. "Áreas de Opacidad y Riesgo, Oportunidades de Mejora." Pp. 74: Auditoría Superior de la Federación.
Auty, Richard M. 1993. *Sustaining development in mineral economies: the resource curse*. London / New York: Routledge.
—. 2001. "Resource Abundance and Economic Development." Pp. 340. Oxford; New York: Oxford University Press.
Ayala Espino, José. 1988. *Estado y Desarrollo: La formación de la economía mixta mexicana*. México: Fondo de Cultura Económica.
—. 1996. *Mercado, elección pública e instituciones: una revisión de las teorías modernas del Estado*. Mexico City: Miguel Angel Porrua.
Babb, Sarah. 2001. *Managing Mexico: economists from nationalism to neoliberalism*. Princeton, New Jersey: Princeton University Press.
Baer, Werner. 1972. "Import Substitution and Industrialization in Latin America: Experiences and Interpretations." *Latin American Research Review* 7:95 - 122.
Baer, Werner and Kent Hargis. 1997. "Forms of External Capital and Economic Development in Latin America: 1820 - 1997." *World Development* 25:1805 - 1820.
Bailey, John J. 1980. "Presidency, Bureaucracy, and Administrative Reform in Mexico: The Secretariat of Programming and Budget." *Inter-American Economic Affairs* 34:27 - 59.
—. 1984. "Public Budgeting in Mexico, 1970 - 1982." *Public Budgeting & Finance* 4:76 - 90.
—. 1988. *Governing Mexico: The Statecraft of Crisis Management*. Washington, D.C.: Macmillan Press.
Bank, World. 2007. "Democratic Governance in Mexico: Beyond State Capture and Social Polarization." The World Bank Mexico, Mexico City.
Barzelay, Michael. 2001. *The new public management: improving research and policy dialogue*. Berkeley: University of California Press.
Basáñez, Miguel. 1990. *La lucha por la hegemonía en México 1968-1990*. Mexito City: Siglo Veintiuno Editores.
Bates, Robert. 1981. *Markets and states in tropical Africa: the political basis of agricultural policies*. Berkeley: University of California Press.
—. 1989a. *Beyond the miracle of the market: the political economy of agrarian development in Kenya*. Cambridge: Cambridge University Press.
—. 1998. "Introduction." Pp. 3 - 22 in *Analytic Narratives*, edited by R. Bates, A. Greif, M. Levi, J.-L. Rosenthal, and B. R. Weingast. Princeton, New Jersey: Princeton University Press.
Bates, Robert and Da-Hsiang Donald Lien. 1985. "A Note on Taxation, Development and Representative Government." California Institute of Technology, Pasadena, California.
Bates, Robert, Avner Greif, Margaret Levi, and Jean-Laurent Rosenthal. 1998. "Analytic Narratives." Pp. 249. Princeton, New Jersey: Princeton University Press.
Bates, Robert H. 1989b. "A Political Scientist Looks at Tax Reform." Pp. 473-491 in *Tax Reform in Developing Countries*, *Fiscal Reform in Developing World*, edited by M. Gillis. Durnham, North Carolina: Duke University Press.
Bazdresch, Carlos and Santiago Levy. 1991. "Populism and Economic Policy in Mexico, 1970-1982." in *The Macroeconomics of Populism in Latin America*,

edited by R. Dornbusch and S. Edwards. Chicago: The University of Chicago Press.
BBVA, Bancomer. 2003. "Racionalización del Gasto Público Laboral." BBVA Bancomer, Mexico City.
Beblawi, Hazem. 1987. "The Rentier State in the Arab World." Pp. 49-62 in *The Rentier State*, *Nation, State, and Integration in the Arab World*, edited by H. Beblawi and G. Luciani. London: Croom Helm.
Beblawi, Hazem and Giacomo Luciani. 1987a. "Introduction." Pp. 1-21 in *The Rentier State*, *Nation, State, and Integration in the Arab World*, edited by H. Beblawi and G. Luciani. London: Croom Helm.
—. 1987b. "The Rentier State." Pp. 240 in *Nation, State, and Integration in the Arab World*. London: Croom Helm.
Belli, Pedro. 1997. "The Comparative Advantage of Government." Pp. 22, *Policy Research Working Paper*: The World Bank.
Benton, Allyson Lucinda. 2002. "Diagnóstico Institucional del Sistema de Servicio Civil en México." Banco Interamericano de Desarrollo, Diálogo Regional de Políticas / Centro de Investigación y Docencia Económicas, CIDE, Mexico City.
Bergman, Marcelo. 2001. "La capacidad de recaudar impuestos del gobierno mexicano: ¿El tema previo a la reforma fiscal?" Programa de Presupuesto y Gasto Público-Centro de Investigación y Docencia Económicas, México, D.F.
Betancourt, Romulo. 1978. *Venezuela, oil, and politics*. Translated by E. Bauman. Boston: Houghton Mifflin.
Birdsall, Nancy and Arvind Subramanian. 2004. "Saving Iraq from its oil." *Foreign Affairs* 83:77-89.
Blais, Andre and Stéphanie Dion. 1991. *The budget-maximizing bureaucrat: appraisals and evidence*. Pittsburgh, Philadelphia: University of Pittsburgh Press.
Blöndal, Jón R. 2003. "Budget Reform in OECD Member Countries: Common Trends." *OECD Journal on Budgeting* 2:20.
Bonifacio, Jose Alberto and Graciela Falivene. 2002. "Análisis comparado de las relaciones laborales en la administración pública latinoamericana." Centro Latinoamericano de Administracion para el Desarrollo / Banco Interamericano de Desarrollo.
Bornhorst, Fabian, Sanjeev Gupta, and John Thornton. 2008. "Natural Resource Endowments, Governance, and the Domestic Revenue Effort: Evidence from a Panel of Countries." International Monetary Fund, Washington, D.C.
—. 2009. "Natural Resource Endowments and the Domestic Revenue Effort." *European Journal of Political Economy* doi:10.1016/j.ejpoleco.2009.01.003.
Bradford, Colin I. 1994. "Redefining the Role of the State: Political Processes, State Capacity and the New Agenda in Latin America." Pp. 17 - 30 in *Redefining the state in Latin Americ*, edited by C. I. Bradford. Paris: Organisation for Economic Co-operation and Development.
Bräutigam, Deborah A., Odd-Helge Fjeldstad, and Mick Moore. 2008. "Taxation and state-building in developing countries: capacity and consent." Pp. 294. Cambridge; New York: Cambridge University Press.
Bresser-Pereira, Luis Carlos. 2004. "La restricción económica y la democrática." Pp. 13 - 42 in *Política y Gestión Pública*, edited by L. C. Bresser-Pereira, N. Cunill Grau, L. Garnier, O. Oszlak, and A. Przeworski. Buenos Aires: Centro Latinoamericano de Administración para el Desarrollo - Fondo de Cultura Económica.

Bresser-Pereira, Luiz Carlos. 2001. "New Public Management Reform: Now in the Latin America Agenda, and Yet..." *Revista Internacional de Estudos Políticos / Programa de Estudos Políticos*:117-140.
British Petroleum. 2008. "BP Statistical Review of World Energy." British Petroleum, London, United Kingdom.
Buchanan, James M. 1977. *Democracy in Deficit: the Political Legacy of Lord Keynes*. New York: Academic Press.
Buchanan, James M. and Gordon Tullock. 1962. *The calculus of consent: logical foundations of constitutioned democracy*. Ann Arbor: University of Michigan Press.
Bueno de Mesquita, Bruce. 2000. *Political instability as a source of growth*. Stanford, CA: Hoover Institution on War Revolution and Peace Stanford University.
Bueno de Mesquita, Bruce, James D. Morrow, Randolph M. Siverson, and Alastair Smith. 2000. "Political Institutions, Political Survival, and Policy Success." Pp. 59 - 84 in *Governing for prosperity*, edited by B. Bueno de Mesquita and H. L. Root. New Haven, Conn.: Yale University Press.
Bueno de Mesquita, Bruce and Hilton L. Root. 2000a. *Governing for prosperity*. New Haven, Conn.: Yale University Press.
—. 2000b. "When Bad Economics is Good Politics." Pp. 1 - 18 in *Governing for prosperity*, edited by B. Bueno de Mesquita and H. L. Root. New Haven, Conn: Yale University Press.
Bulmer-Thomas, Victor. 2003. *The economic history of Latin America since Independence*. Cambridge: Cambridge University Press.
Cárdenas, Mauricio, Eduardo Lora, and Valerie Mercer-Blackman. 2005. "The Policy Making Process of Tax Reform in Latin America." Pp. 24 in *Workshop on State Reform, Public Policies and Policymaking Processes*. Washington, D.C.: IPES 2006 / The Inter-American Development Bank.
Cardoso, Eliana and Ann Helwege. 1992. "Import Substitution Industrialization." Pp. 84 - 103 in *Latin America's Economy: Diversity, Trends, and Conflicts*, edited by E. Cardoso and A. Helwege. Cambridge, Massachussetts: MIT Press.
Carpenter, Daniel P. 2001. *The forging of bureaucratic autonomy: reputations, networks, and policy innovation in executive agencies, 1862-1928*. Princeton, New Jersey: Princeton University Press.
Carpizo, Jorge. 1979. *El presidencialismo mexicano*. Mexico City: Siglo Veintiuno.
Carrillo Castro, Alejandro. 2005. "Génesis y evolución de la administración pública centralizada." Pp. Diagram of the Mexican centralized public administration historical evolution (1821-2005). Mexico: nstituto Nacional de Administración Pública.
Carrillo, Laura and Juan Pablo Guerrero. 2002. "Los salarios de los altos funcionarios en México desde una perspectiva comparativa." Centro de Investigación y Docencia Económicas, Mexico City.
Casar, Maria Amparo. 2001. "El proceso de negociación presupuestal en el primer gobierno sin mayoría; Un estudio del caso." Centro de Investigación y Docencia Económicas, Mexico, D.F,.
—. 2002. "Executive - Legislature Relations: The Case of Mexico (1946 - 1997)." Pp. 114 - 146 in *Legislature Politics in Latin America*, edited by S. Morgenstern and B. Nacif. Cambridge, United Kingdom: Cambridge University Press.
Caselli, Francesco. 2006. "Power Struggles and the Natural Resource Curse." Pp. 21. London, United Kindgom.

Castañeda, Jorge G. 1999. *La herencia: arqueología de la sucesión presidencial en México*. Mexico City: Alfaguara.
Castillo, Heberto. 1981. *Pemex si, Peusa no*. Mexico City: CISA, Revista Proceso.
Centeno, Miguel Angel. 1994. *Democracy Within Reason: Technocratic Revolution in Mexico*. University Park, Pennsylvania: Pennsylvania State University Press.
—. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: The Pennsylvania State University Press.
—. 2009. "The State in Latin America." Pp. 23. Princeton, New Jersey.
Chan, James L. 2002. "Introduction." Pp. 9 - 10 in *Models of Public Budgeting and Accounting Reform*, vol. Volume 2 Supplement 1, edited by J. L. Chan. Paris: Organisation for Economic Co-operation and Development.
Chaudhry, Kiren Aziz. 1989. "The Price of Wealth: Business and State in Labour Remittance and Oil Economies." *International Organization* 43:101-145.
—. 1994. "Economic Liberalization and the Lineages of the Rentier State." *Comparative Politics* 27:25.
—. 1997. *The price of wealth: economies and institutions in the Middle East*. Ithaca: Cornell University Press.
Chávez Presa, Jorge A. 2000. *Para recobrar la confianza en el gobierno. Hacia la transparencia y mejores resultados con el presupuesto público*. México, D.F.: Fondo de Cultura Económica.
Chávez Presa, Jorge and Mario Gabriel Budebo. 2000. "Logros y retos de las finanzas públicas en México." CEPAL - División de Desarrollo Económico, Santiago de Chile.
Cheibub, José Antonio. 1998. "Political Regimes and the Extractive Capacity of Governments: Taxation in Democracies and Dictatorships." *World Politics* 50.
CIDE / Comexi. 2006. "Mexico and the World 2006: Public Opinion and Foreign Policy in Mexico." Mexico City.
CLAD. 2004. "La remuneración de los altos cargos del sector público." Centro Latinoamericano de Administración para el Desarrollo, Caracas, Venezuela.
Clements, Benedict, Christopher Faircloth, and Marijn Verhoeven. 2007. "Public Expenditure in Latin America: Trends and Key Policy Issues." International Monetary Fund, Washington, D.C.
Collier, David. 1979. *The New Authoritarianism in Latin America*. Princeton, New Jersey: Princeton University Press.
Collier, Paul and Anke Hoeffler. 2005. "Democracy and Resource Rents." Economic & Social Research Council / Global Poverty Research Group, Oxford, United Kingdom.
Cook, M. A. 1970. "Studies in the economic history of the Middle East: from the rise of Islam to the present day." Pp. 526. London, New York: Oxford University Press.
Cook, Maria Lorena, Kevin J. Middlebrook, and Juan Molinar Horcasitas. 1994. *The politics of economic restructuring: state-society relations and regime change in Mexico*. San Diego: Center for U.S.-Mexican Studies University of California San Diego.
Coppedge, Michael. 2005. "Explaining Democratic Deterioration in Venezuela through Nested Inference." Pp. 289 - 316 in *The Third Wave of Democratization in Latin America: Advances and Setbacks*, edited by F. Hagopian and S. P. Mainwaring. New York: Cambridge University Press.
Cordera, Rolando. 2008. "El destino de la renta petrolera." Pp. 9 in *El destino de la renta petrolera y el desarrollo de México*. Mexican Senate: Mexican Senate.

Cordera, Rolando and Carlos Tello. 1981. *México, la disputa por la nación: perspectivas y opciones del desarrollo*. Mexico City: Siglo Veintiuno Editores.
Córdova, Arnaldo. 1973. *La ideología de la Revolución Mexicana: la formación del nuevo régimen*. México: Editorial Era.
—. 1974. *La política de masas del cardenismo*. Mexico: Ediciones Era.
Cosío Villegas, Daniel. 1975. *La sucesión presidencial*. México: [Editorial J. Mortiz].
Cothran, Dan A. 1986. "Budgetary Secrecy and Policy Strategy: Mexico under Cardenas." *Mexican Studies / Estudios Mexicanos* 2:35-58.
—. 1993. "Entrepeneurial Budgeting: An Emerging Reform?" *Public Administration Review* 53:445-454.
—. 1994a. "Mexican Economic and Fiscal Policies to Sustain Political Stability." *Public Budgeting & Finance* 14:98-119.
—. 1994b. *Political stability and democracy in Mexico: the "perfect dictatorship"?* Westport, Connecticut: Praeger.
Cox, Gary W. 1990. "Centripetal and Centrifugal Incentives in Electoral Systems." *American Journal of Political Science* 34:903 - 935.
—. 1997. *Making votes count: strategic coordination in the world's electoral systems*. Cambridge ; New York: Cambridge University Press.
Cox, Gary W. and Mathew D. McCubbins. 1993. *Legislature leviathan: party government in the House*. Berkeley: University of California Press.
—. 2001. "The Institutional Determinants of Economic Policy Outcomes." Pp. 21 - 63 in *Presidents, Parliaments, and Policy*, edited by S. Haggard and M. D. McCubbins. New York: Cambridge University Press.
Cox, Gary W. and Scott Morgenstern. 2002. "Epilogue: Latin America's Reactive Assemblies and Proactive Presidents." Pp. 446 - 468 in *Legislature Politics in Latin America*, edited by S. Morgenstern and B. Nacif. Cambridge, United Kingdom: Cambridge University Press.
Crousillat, Enrique and Juan Carlos Quiroz. 2007. "Oil and Gas Sector." Pp. 410 in *Mexico 2006-2012: Creating the Foundations for Equitable Growth*, *Policy Notes*, edited by T. W. Bank. Washington, D.C.: The World Bank.
Crozier, Michel. 1987. *E´tat modeste, e´tat moderne: strategie pour un autre changement*. Paris: Fayard.
Cuddington, John T., Rodney Ludema, and Shamila A. Jayasuriya. 2007. "Prebisch-Singer Redux." Pp. 103-140 in *Natural Resources: Neither Curse nor Destiny*, *Latin American Development Forum*, edited by D. Lederman and W. F. Maloney. Palo Alto, California; Washington, D.C.: Stanford University Press; The World Bank.
Cuevas Camarillo, Alfredo. 1987. "La Administración del gasto público en México." *Foro Internacional* 27:241-260.
Cukierman, Alex, Sebastian Edwards, Guido Enrico Tabellini, and Centre for Economic Policy Research. 1990. *Seigniorage and political instability*. London: Centre for Economic Policy Research.
Cunill Grau, Nuria. 2004. "La democratización de la administración pública. Los mitos a vencer." Pp. 43 - 90 in *Política y Gestión Pública*, edited by L. C. Bresser-Pereira, N. Cunill Grau, L. Garnier, O. Oszlak, and A. Przeworski. Buenos Aires: Centro Latinoamericano de Administración para el Desarrollo - Fondo de Cultura Económica.
Curd, Martin and J.A. Cover. 1998. "Philosophy of Science: The Central Issues." Pp. 1379. New York: W.W. Norton & Company.

Cypher, James M. 1990. *State and capital in Mexico: development policy since 1940*. Boulder: Westview Press.
Dahl, Robert A. 1971. *Polyarchy: participation and opposition*. New Haven: Yale University Press.
David, Paul A. 1985. "Clio and the Economics of QWERTY." *The American Economic Review* 75:332 - 337.
Davis, Jeffrey, Rolando Ossowski, and Annalisa Fedelino. 2003. *Fiscal policy formulation and implementation in oil-producing countries*. Washington, D.C.: International Monetary Fund.
Devlin, Julia and Michael Lewin. 2005. "Managing Oil Booms and Busts in Developing Countries." Pp. 186-213 in *Managing Economic Volatility and Crises*, edited by J. Aizenman and B. Pinto. New York, NY: Cambridge University Press.
Diaz-Cayeros, Alberto. 2006. *Federalism, Fiscal Authority, and Centralization in Latin America*. Cambridge, New York: Cambridge University Press.
Domínguez, Jorge I. 1997. *Technopols: freeing politics and markets in Latin America in the 1990s*. University Park, Pennsylvania: Pennsylvania State University Press.
Domínguez, Jorge I. and James A. McCann. 1996. *Democratizing Mexico. Public Opinion and Electoral Choices*. Baltimore: The Johns Hopkins University Press.
Dornbusch, Rudiger and Sebastian Edwards. 1991. *The Macroeconomics of populism in Latin America*. Chicago: University of Chicago Press.
Dresser, Denise. 1991. *Neopopulist Solutions to Neoliberal Problems: Mexico's National Solidarity Program*. La Jolla, San Diego: Center for U.S.-Mexican Studies, University of California.
Dryzek, John and Patrick Dunleavy. 2009. *Theories of the Democratic State*. Baskingstoke, New York: Palgrave Macmillan.
Duhem, Pierre. 1998. "Physical Theory and Experiment." Pp. 257 - 277 in *Philosophy of Science: The Central Issues*, edited by M. Curd and J. A. Cover. New York: W.W. Norton & Company.
Dunleavy, Patrick. 1991. *Democracy, bureaucracy, and public choice: economic explanations in political science*. London: Harvester.
Dunleavy, Patrick and Christopher Hood. 1993. *From old public administration to new public management*. London: Public Policy Group.
Dunning, Thad. 2008. *Crude Democracy: Natural Resource Wealth and Political Regimes*, Edited by M. Levi. New York: Cambridge University Press.
Durán, Esperanza. 2001. "Pemex: The Trajectory of a National Oil Policy." Pp. 145-188 in *The Oil Business in Latin America: The early years*, edited by J. D. Wirth. Washington, D.C.: Beard Books.
Dussel Peters, Enrique. 2000. *Polarizing Mexico: the impact of liberalization strategy*. Boulder, CO: L. Rienner Publishers.
Easterly, William and Sergio Rebelo. 1993. "Fiscal Policy and Economic Growth: An Empirical Investigation." National Bureau of Economic Research, Cambridge, Massachusetts.
Eaton, Kent H. 2002. "Fiscal Policy Making in the Argentine Legislature." Pp. 287-314 in *Legislature Politics in Latin America*, edited by S. Morgenstern and B. Nacif. United Kingdom: Cambridge University Press.
Echevarria Salvat, Oscar A. 2001. *Transformación: cinco países un enigma*. Caracas, Venezuela: Universidad Católica Andrés Bello.
Echeverry, Juan Carlos, Jorge Alexander Bonilla, and Andrés Moya. 2006. "Rigideces Institucionales y Flexibilidad Presupuestaria: Origen, Motivación y Efectos

Sobre el Presupuesto." Banco Interamericano de Desarrollo, Universidad de Los Andes, Facultad de Economía.
Edwards, Sebastian. 1995. "Public Sector Deficits and Macroeconomic Stability in Developing Economies." Pp. 66 in *Budget Deficits and Debt: Issues and Options*. Jackson Hole, Wyoming: Federal Reserve Bank of Kansas City.
Edwards, Sebastian and Moisés Naím. 1997. *Mexico 1994: anatomy of an emerging-market crash*. Washington, D.C.: Carnegie Endowment for International Peace.
Edwards, Sebastian and World Bank. 1995. *Crisis and reform in Latin America: from despair to hope*. New York, N.Y: Published for the World Bank [by] Oxford University Press.
Eisenstadt, S. N. 1973. *Traditional patrimonialism and modern neopatrimonialism*. Beverly Hills ; London: Sage Publications.
Eisenstadt, S. N. and René Lemarchand. 1981. *Political clientelism, patronage, and development*. Beverly Hills ; London: Sage.
Eisenstadt, Todd A. 2004. *Courting Democracy in Mexico: Party Strategies and Electoral Institutions*. New York: Cambridge University Press.
Elizondo, Carlos. 1994. "In Search of Revenue: Tax Reform in Mexico." *Journal of Latin American Studies* Vol. 26:159-190.
Erfani, Julie A. 1995. *The paradox of the Mexican state: rereading sovereignty from independence to NAFTA*. Boulder: L. Rienner Publishers.
Estévez, Federico, Beatriz Magaloni, and Alberto Diaz-Cayeros. 2002. "A Portfolio Diversification Model of Electoral Investment." Pp. 1 - 39.
Evans, Peter B. 1995. *Embedded autonomy: states and industrial transformation*. Princeton, N.J.: Princeton University Press.
Evans, Peter B. and James E. Rauch. 1999. "Bureaucracy and Growth: A Cross-National Analysis of the Effects of "Weberian" State Structures on Economic Growth." *American Sociological Review* 64:748-765.
Evans, Peter B., Dietrich Rueschmeyer, and Theda Skocpol. 1985. "Brinking the State Back In." Pp. 390. Cambridge: Cambridge University Press.
Everhart, Stephen and Robert Duval-Hernandez. 2001. "Management of Oil Windfalls in Mexico: Historical Experience and Policy Options for the Future." Pp. 32, *Policy Research Working Paper Series*, edited by E. Department: The World Bank / Mexico Country Management Unit and International Finance Corporation.
Farfán-Mares, Gabriel. 2000a. "Banking Crises and Electoral Cycles: Findings from the Mexican Case." Pp. 60 in *Georgetown University*.
—. 2000b. "The Economic Pact of the Mexican Stabilization Program and the Telephone Workers Union: Toward a Mexican Neocorporatism?" Pp. 41 in *CLAS - Georgetown University*. Washington, D.C.
— 2007d. "Los mandarines mexicanos: hay botín para rato." *Enfoque (Daily Reforma)*, 29 July 2007, pp. 3.
— 2008a. "El uso político del presupuesto." *Enfoque (Daily Reforma)*, 21 December 2008, pp. 3.
— 2009a. "El populismo mexicano del siglo XXI." *Enfoque (Daily Reforma)*, 31 May 2009, pp. 3.
— 2009i. "¿Más impuestos o menores gastos? La farsa del presupuesto." *Enfoque (Daily Reforma)*, 1 November 2009, pp. 3.
Farfán-Mares, Gabriel, Ana Lucía García Briones, and Mara Hernández Estrada. 2009. "La Reforma de Petróleos Mexicanos." Pp. 313 in *Un Congreso sin Mayorías:Mejores Prácticas en Negociación y Construcción de Acuerdos*,

edited by M. Hernández Estrada, J. Del Tronco, and G. Sánchez Gutiérrez. Mexico: Centro de Colaboración Cívica, A.C.; Facultad Latinoamericana de Ciencias Sociales (México); Intituto Mora; Fundación Este País.
Fatás, Antonio and Ilian Mihov. 2002. "The Case of Restricting Fiscal Policy Discretion." INSEAD & CEPR, London, United Kingdom.
Findlay, Ronald and John D. Wilson. 1987. "The Political Economy of Leviathan." Pp. 552 in *Economic Policy in Theory and Practice*, edited by A. Razin and E. Sadka. Basingstoke: Macmillan.
Flores, Romeo. 1988. *Administración y Política en la Historia de México*. México D.F.: Fondo de Cultura Económica - Instituto Nacional de Administración Pública.
Fócil Ortega, Mario Alberto. 2003. "El servicio profesional de carrera en México: las implicaciones en la operación del nuevo modelo de la administración del personal público." Conferencia Latinoamericana de Administración para el Desarrollo, CLAD, Panamá.
Foro Consultivo Científico y Tecnológico. 2004. "Análisis de las Finanzas Públicas en México." Centro de Investigación y Docencia Económicas, A. C. e Instituto Tecnológico Autónomo de México, Mexico City.
Frieden, Jeffry A. 1991. *Debt, development, and democracy: modern political economy and Latin America, 1965-1985*. Princeton, New Jersey: Princeton University Press.
Frieden, Jeffry A., Manuel Pastor, and Michael Tomz. 2000. *Modern political economy and Latin America: theory and policy*. Boulder, Colorado: Westview Press.
Friedman, Thomas. 2006. "The First Law of Petropolitics." *Foreign Policy* 154:28-39.
Fuentes-Berain, Rossana. 2008. *Petróleo en México: pozo de pasiones. El Debate sobre la Propuesta de Reforma Energética*. Washington, D.C.: Woodrow Wilson International Center for Scholars. Mexico Institute.
Fukasaku, Kiichiro and Luiz R. De Mello. 1998. "Fiscal Decentralisation and Macroeconomic Stability: The Experience of Large Developing and Transition Economies." Pp. 121 - 148 in *Democracy, decentralisation and deficits in Latin America*, edited by K. Fukasaku and R. Hausmann. Paris, France: Inter-American Development Bank/Development Centre of the Organisation for Economic Co-operation and Development.
Fukasaku, Kiichiro and Ricardo Hausmann. 1998. *Democracy, decentralisation and deficits in Latin America*. Paris, France: Inter-American Development Bank/Development Centre of the Organisation for Economic Co-operation and Development.
Fund, International Monetary. 2002. "Mexico: Report on the Observance of Standards and Code-Fiscal Transparency Module." IMF - Fiscal Affairs Department, Washington, D.C.
Fundar. 2001a. "Presupuesto Público. Aspectos Básicos del Presupuesto de Egresos de la Federación." Fundar, Centro de Analisis e Investigacion, A.C., Mexico.
—. 2001b. "Presupuesto Público. La discusión y aprobación del Presupuesto de Egresos de la Federación." Fundar, Centro de Analisis e Investigacion, A.C., Mexico.
—. 2005. "Partida secreta a la vista: amenazas para la transparencia y la rendición de cuentas." Fundar, Centro de Análisis e Investigación, A.C., Mexico.
Galbraith, John Kenneth. 1984. *The Anatomy of Power*, Edited by S. Lukes. London: Hamilton.
Garcia, Valeriano F. 1997. "Black December: banking instability, the Mexican crisis, and its effect on Argentina." World Bank, Washington, D.C.

Garrett, Geoffrey. 1996. "Capital Mobility, Trade, and the Domestic Politics of Economic Policy." Pp. 79 - 107 in *Internationalization and domestic politic*, edited by R. O. Keohane and H. V. Milner. Cambridge [England] ; New York, NY, USA: Cambridge University Press.
Garrett, Geoffrey and Peter Lange. 1996. "Internationalization, Institutions, and Political Change." Pp. 48 - 78 in *Internationalization and domestic politics*, edited by R. O. Keohane and H. V. Milner. Cambridge [England] ; New York, NY, USA: Cambridge University Press.
Garrido, Luis Javier. 1982. *El partido de la revolución institucionalizada: (medio siglo de poder político en México): la formación del nuevo estado (1928-1945)*. México: Siglo Veintiuno.
—. 1993. *La ruptura: la Corriente Democrática del PRI*. México, D.F.: Grijalbo.
Gasca Neri, Rogelio. 2007. "Régimen Fiscal y Requerimientos Financieros de PEMEX." Mexico City: Cáéíóúñmara de Senadores.
—. 2008. "Futuro de la Renta Petrolera de México." Pp. 8 in *Foros de Debate Sobre la Reforma Energética*. Mexican Senate: Comision de Energia del Senado de la Republica.
Gavin, Michael. 1996. "The Mexican Oil Boom: 1977-1985." Pp. 31, *Working Paper Series*, edited by O. o. t. C. Economist: Inter-American Development Bank.
Gavin, Michael and Ricardo Hausmann. 1998. "Fiscal Performance in Latin America: What Needs to be explained?" Pp. 33 - 64 in *Democracy, decentralisation and deficits in Latin America*, edited by K. Fukasaku and R. Hausmann. Paris, France: Inter-American Development Bank/Development Centre of the Organisation for Economic Co-operation and Development.
Gavin, Michael, Ricardo Hausmann, Roberto Perotti, and Ernesto Talvi. 1996. "Managing Fiscal Policy in Latin America and the Caribbean: Volatility, Procyclicality, and Limited Creditworthiness." Inter-American Development Bank, Office of the Chief Economist, Washington, D.C.
Geddes, Barbara. 1994. *Politician's dilemma: building state capacity in Latin America*. Berkeley: University of California Press.
—. 1995. "Uses and Limitations of Rational Choice." Pp. 81 - 108 in *Latin America in Comparative Perspective. New Approaches to Methods and Analysis*, edited by P. H. Smith. Boulder, Colorado: Westview Press.
George, Alexander L. and Andrew Bennett. 2005. *Case Studies and Theory Development in the Social Sciences*. Cambridge, Massachussetts: MIT Press.
Gerring, John. 2001. *Social Science Methodology: A Criterial Framework*. New York: Cambridge University Press.
—. 2007. *Case Study Research: Principles and Practices*. New York: Cambridge University Press.
—. 2008. "Case Selection for Case-study Analysis: Qualitative and Quantitative Techniques." Pp. 645-685 in *The Oxford Handbook of Political Methodology*, *Oxford Handbooks of Political Science*, edited by J. M. Box-Steffensmeier, H. E. Brady, and D. Collier. Oxford; New York: Oxford University Press.
Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective: A Book of Essays*. Cambridge, Massachussetts: Harvard University Press.
Giddens, Anthony. 1995. *A Contemporary Critique of Historical Materialism*. Basingstoke, London: Macmillan.
Gil-Diaz, Francisco and Wayne Thirsk. 1997. "Mexico's Protracted Tax Reform." Pp. 287-328 in *Tax Reform in Developing Countries*, *World Bank Regional and Sectoral Studies*, edited by W. Thirsk. Washington, D.C.: World Bank.

Gillies, Donald. 1998. "The Duhem Thesis and the Quine Thesis." Pp. 302 - 319 in *Philosophy of Science: The Central Issues*, edited by M. Curd and J. A. Cover. New York: W.W. Norton & Company.
Gillis, Malcolm. 1989. "Tax Reform in Developing Countries: Fiscal Reform in the Developing World." Pp. 545. Durham: Duke University Press.
Gilpin, Robert. 2001. *Global Political Economy: Understanding the International Economic Order*. Princeton, New Jersey: Princeton University Press.
Gimpelson, Vladimir and Daniel Treisman. 2002. "Fiscal Games and Public Employment: A Theory with Evidence from Russia." *World Politics*:145-83.
Giugale, Marcelo. 2003. "Accountability and the Demand for Quality Government." Pp. 133 - 141 in *Mexico: A Comprehensive Development Agenda for The New Era*, edited by T. W. Bank. Washington, D.C.
Global Witness. 2007. "Oil Revenue Transparency." Pp. 24: Global Witness.
Gold, Steven D. 1995. "A Framework for Viewing State Policies." Pp. 396 in *The fiscal crisis of the states: lessons for the future*, edited by S. D. Gold. Washington, D.C.: Georgetown University Press.
Gómez Gordillo, Ismael. 2005. "La experiencia mexicana." Pp. 59 in *Reunion del Grupo de Expertos sobre Empresas Publicas como un Socio para el Desarrollo*, edited by U. Nations. New York: Department of Social and Economic Affairs / Public Administration and Development Division.
González Casanova, Pablo. 1965. *La democracia en México*. México, D.F.: Fondo de Cultura Económica.
González, Guadalupe G. 1983. "Incertidumbres de una potencia media regional: las nuevas dimensiones de la política exterior mexicana." Pp. 303 in *La política exterior de México: desafíos en los ochenta*, *Ensayos. Colección estudios políticos 3*, edited by O. Pellicer. Mexico City: Centro de Investigación y Docencia Económicas.
Gordin, Jorge P. 2001. "The Political and Partisan Determinants of Patronage in Latin America 1960-1994: A Comparative Perspective." Pp. 37. Grenoble, France.
Greif, Avner. 1998. "Self-Enforcing Political Systems and Economic Growth: Late Medieval Genoa." Pp. 23 - 63 in *Analytic Narratives*, edited by R. Bates, A. Greif, M. Levi, J.-L. Rosenthal, and B. R. Weingast. Princeton, New Jersey: Princeton University Press.
Guerrero Amparán, Juan Pablo. 1998. "Un estudio de caso de la reforma administrativa en México: los dilemas de la instauración de un servicio civil al nivel federal." CIDE-División de Administración Pública, México, D.F.
—. 2000a. "Consideraciones sobre la instauración del servicio civil en México." Centro de Investigación y Docencia Económicas, Mexico City.
—. 2000b. "La reforma a la administración pública mexicana en el nuevo régimen político ¿Por dónde empezar? Ideas para la creación de un gobierno transparente, responsable y cercano a la ciudadanía." Centro de Investigación y Docencia Económicas, Mexico City.
Guerrero Amparán, Juan Pablo and Mariana López Ortega. 2000a. *La clasificación administrativa del gasto público*. México, D.F.: Centro de Investigación y Docencia Económicas.
—. 2000b. *La clasificación económica del gasto público*. México, D.F.: Centro de Investigación y Docencia Económicas.
—. 2000c. *La clasificación funcional del gasto público*. México, D.F.: Centro de Investigación y Docencia Económicas.

Haber, Stephen H. 2000. *Political institutions and economic growth in Latin America: essays in policy, history, and political economy*. Stanford, Calif.: Hoover Institution Press.
—. 2002. "Crony Capitalism and Economic Growth in Latin America: Theory and Evidence." Pp. 157 in *Hoover Institution on War, Revolution, and Peace*. Stanford, California: Hoover Institution Press.
Haber, Stephen H. and Victor Menaldo. 2009. "Do Natural Resources Fuel Authoritarianism?" Pp. 54. Stanford, California.
Habermas, Jürgen. 1976. *Legitimation Crisis*. London: Heinemann Educational.
Haggard, Stephan and Robert Kaufman. 1994. "Democratic Institutions, Economic Policy and Performance in Latin America." Pp. 69 - 90 in *Redefining the state in Latin America*, edited by C. I. Bradford. Paris: Organisation for Economic Co-operation and Development.
Haggard, Stephan and Mathew D. McCubbins. 2001a. "Introduction: Political Institutions and the Determinants of Public Policy." Pp. 1 - 20 in *Presidents, Parliaments, and Policy*, *Political Economy of Institutions and Decisions*, edited by S. Haggard and M. D. McCubbins. New York: Cambridge University Press.
—. 2001b. *Presidents, Parliaments, and Policy*. New York: Cambridge University Press.
Haggard, Stephan, Mathew D. McCubbins, and Mathew Shugart Soberg. 2001. "Conclusion: Policy Making in Presidential Systems." Pp. 319 - 324 in *Presidents, Parliaments, and Policy*, edited by S. Haggard and M. D. McCubbins. New York: Cambridge University Press.
Hall, Peter A. 1997. "The Role of Interests, Institutions, and Ideas in the Comparative Political Economy of the Industrialized Nations." Pp. 174 - 207 in *Comparative Politics. Rationality, Culture, and Structure*, edited by M. I. Lichbach and A. S. Zuckerman. New York: Cambridge University Press.
Hallenberg, Mark and Jürgen Von Hagen. 1998. "Electoral Institutions and the Budget Process." Pp. 65 - 94 in *Democracy, decentralisation and deficits in Latin America*, edited by K. Fukasaku and R. Hausmann. Paris, France: Inter-American Development Bank/Development Centre of the Organisation for Economic Co-operation and Development.
Hallerberg, Mark, Carlos Scartascini, and Ernesto Stein. 2009. "Who decides the Budget? A Political Economy Analysis of the Budget Process in Latin America." Pp. 320. Washington, D.C.: Inter-American Development Bank / David Rockefeller Center for Latin American Studies.
Hamilton, Nora. 1982. *The limits of State autonomy: post-revolutionary Mexico*. Princeton, New Jersey: Princeton University Press.
Hammouya, Messaoud. 1999. "Statistics on Public Sector Employment: Methodology, Structures and Trends." International Labour Organization, Geneva.
Hansen, Roger D. 1971. *The politics of Mexican development*. Baltimore: Johns Hopkins Press.
Hardin, Garrett. 1968. "The Tragedy of the Commons." *Science*:1243-1248.
Hausmann, Ricardo and Roberto Rigobon. 2002. "An Alternative Interpretation of the "Resource Curse": Theory and Policy Implications." *National Bureau of Economic Research*:59.
Haussman, Ricardo. 1998. "Fiscal Institutions for Decentralising Democracies: Which Way to Go?" Pp. 13 - 32 in *Democracy, decentralisation and deficits in Latin America*, edited by K. Fukasaku and R. Hausmann. Paris, France: Inter-

American Development Bank/Development Centre of the Organisation for Economic Co-operation and Development.
Heald, David. 1983. *Public expenditure: its Defence and Reform*. Oxford: Robertson.
Heath, Jonathan. 1999. *Mexico and the sexenio curse: presidential successions and economic crises in modern Mexico*. Washington, D.C.: CSIS Press.
Herb, Michael. 2002. "Does Rentierism Prevent Democracy?" Pp. 38 in *American Political Science Association*.
Heredia, Blanca. 2002. "La economía política de la creación de servicios civiles de carrera: La experiencia de México en los años 90." Pp. 43 in *Red de Gestión y Transparencia del Diálogo Regional de Política*. México, D.F.
Heredia, Blanca and Ben Ross Schneider. 2003. *Reinventing Leviathan: The Political Economy of Administrative Reform in Developing Countries*. Coral Gables, Florida: North-South Center Press.
Hernandez Chavez, Alicia. 1998. *La nueva relacion entre legislativo y ejecutivo. La politica economica 1982 - 1997*, Edited by S. d. O. d. E. Latinoamericana. Mexico, D.F.: Fondo de Cultura Economica.
Hill, Hal. 2000. *The Indonesian Economy*. New York: Cambridge University Press.
Hirschman, Albert O. 1968. "The Political Economy of Import-Substituting Industrialization in Latin America." *The Quarterly Journal of Economics* LXXXII:1 - 32.
—. 1970. *Exit, Voice, and Loyalty: responses to decline in firms, organizations, and States*. Cambridge, Massachussetts: Harvard University Press.
Hood, Christopher. 2008. "Performance Measurement: Indicating the way to better public services?" in *Mexico 2008 World Bank Conference on Performance Budgeting*. Mexico City: The World Bank Group.
Hopkin, Jonathan. 2006. "Conceptualizing Political Clientelism: Political Exchange and Democratic Theory." Pp. 19 in *American Political Science Association Annual Meeting*. Philadelphia.
Horn, Murray J. 1995. *The Political Economy of Public Administration: institutional Choice in the Public Sector*. Cambridge, UK: Cambridge University Press.
Huber, Evelyne. 1995. "Assessments of State Strength." Pp. 163-193 in *Latin America in Comparative Perspective: New Approaches to Methods and Analysis Latin America in Global Perspective*, edited by P. H. Smith. Boulder, Colorado: Westview Press.
Huber, John D. and Charles R. Shipan. 2002. *Deliberate Discretion? The Institutional Foundations of Bureaucratic Autonomy*, Edited by M. Levi. New York, NY: Cambridge University Press.
Humphreys, Macartan, Jeffrey D. Sachs, and Joseph E. Stiglitz. 2007a. "Escaping the Resource Curse." Pp. 408 in *Initiative for Policy Dialogue at Columbia*. New York: Columbia University Press.
—. 2007b. "Introduction: What is the Problem with Natural Resource Wealth?" Pp. 1-20 in *Escaping the Resource Curse*, *Initiative for Policy Dialogue at Columbia*, edited by M. Humphreys, J. D. Sachs, and J. E. Stiglitz. New York: Columbia University Press.
Huntington, Samuel P. 1968. *Political Order in Changing Societies*. New Haven, Connecticut: Yale University Press.
—. 1991. *The third wave: democratization in the late twentieth century*. Norman: University of Oklahoma Press.
Hurtado, Carlos. 2006. "Los primeros años de la membresía de México en la OCDE: 1994 - 1997." Pp. 278 in *Políticas Públicas para un Mejor Desempeño*

Económico. Experiencias del mundo para el desarrollo, México 10 años en la OCDE, edited by O. p. l. C. y. D. Económicos. México, D.F.: Secretaría de Relaciones Exteriores / Organización para la Cooperación y Desarrollo Económicos.
Ibarra del Cueto, Juan Fernando. 2009. "Competencia electoral, gasto público y provisión de servicios en municipios mexicanos." Pp. 629 in *Nuevas Tendencias en la Teoría y en la Práctica de la Administración y de las Políticas Públicas*, edited by M. d. C. Pardo. Mexico City: El Colegio de Mexico.
IMF. 2002. "Mexico: Report on the Observance of Standards and Code-Fiscal Transparency Module." IMF - Fiscal Affairs Department, Washington, D.C.
—. 2007. "Transition to Accrual Accounting - IMF Technical Guidance Note." Washington, D.C.: International Monetary Fund.
Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado. 2007. "Programa Institucional 2007-2012." Pp. 141, edited by H. J. Directiva: Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado.
Instituto Nacional de Desarrollo Social and Geografía e Informática Instituto Nacional de Estadística. 2001. "Encuesta sobre Desarrollo Municipal 2000 (Documento Metodológico)." Pp. 32: Secretaría de Gobernación (SEGOB), Centro Nacional de Desarrollo Municipal (CEDEMUN) e Instituto Nacional de Estadística, Geografía e Informática (INEGI).
International Budget Partnership. 2009. "The Open Budget Survey 2008." The Center on Budget and Policy Priorities, Washington, D.C.
International Foundation for Electoral Systems. 2009. "Aplicación de la Reforma Electoral de 2007/2008 en México desde una perspectiva internacional comparada." International Foundation for Electoral Systems, Mexico City.
International Monetary Fund. 2005a. "Guide on Resource Revenue Transparency." Pp. 77, edited by F. A. Department: International Monetary Fund.
International monetary Fund. 2005b. "Mexico: 2005 Article IV Consultation-Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion." International Monetary Fund, Washington, D.C.
International Monetary Fund. 2007a. "Guide on Resource Revenue Transparency." Pp. 66, edited by F. A. Department: International Monetary Fund.
—. 2007b. "Mexico: 2007 Article IV Consultation-Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion." International Monetary Fund, Washington, D.C.
—. 2009a. "Mexico: 2008 Article IV Consultation-Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion." International Monetary Fund, Washington, D.C.
—. 2009b. "World Economic Outlook: Crisis and Recovery." International Monetary Fund, Washington, D.C.
Jackman, Robert W. 1993. *Power without force: the political capacity of nation-states*. Ann Arbor: University of Michigan Press.
Jiménez San Vicente, Armando. 2002. "The Political Economy of Tax Collection in Mexico: The Constraints on Reform, 1970 - 2000." Ph.D. Thesis Thesis, Department of Government, London School of Economics and Political Science, London, U.K.
Joumard, Isabelle, Per Mathis Kongsrud, Young Sook Nam, and Robert Price. 2004. "Enhancing the Effectiveness of Public Spending: Experience in OECD Countries." Organisation for Economic Co-operation and Development, Paris, France.

Kaldor, Nicholas. 1980. *Reports on taxation*, Edited by N. Kaldor. London: Duckworth.
Kapstein, Ethan B. 1994. *Governing the global economy: international finance and the state*. Cambridge, Mass.: Harvard University Press.
Karl, Terry Lynn. 1997. *The paradox of plenty: oil booms and petro-states*. Berkeley, California: University of California Press.
—. 2007a. "Ensuring Fairness: The Case for a Transparent Fiscal Social Contract." Pp. 256-285 in *Escaping the Resource Curse*, *Initiative for Policy Dialogue at Columbia*, edited by M. Humphreys, J. Sachs, and J. E. Stiglitz. New York: Columbia University Press.
—. 2007b. "Oil-led Development: Social, Political, and Economic Consequences." Stanford University.
—. 2007c. "Oil & War." Pp. 21 in *Petroleum: Prospects and Politics*. University of Chicago.
Katz, Isaac. 1999. *La constitución y el desarrollo económico de México*. México, D.F.: Cal y Arena.
Katznelson, Ira. 1997. "Structure and Configuration in Comparative Politics." Pp. 81 - 112 in *Comparative Politics. Rationality, Culture, and Structure*, edited by M. I. Lichbach and A. S. Zuckerman. New York: Cambridge University Press.
Kindleberger, Charles P. 1996. *Centralization versus pluralism: a historical examination of political-economic struggles and swings within some leading nations*. Copenhagen: Copenhagen Business School Press.
King, Gary, Robert O. Keohane, and Sidney Verba. 1994. *Designing Social Inquiry*. Princeton, New Jersey: Princeton University Press.
Kingdon, John W. 1995. *Agendas, alternatives, and public policies*. New York: HarperCollins College Publishers.
Kliksberg, Bernardo. 2004. "Hacia un nuevo perfil del Estado y el servicio civil: los cambios en las percepciones y las demandas de los latinoamericanos." Pp. 20 in *IX Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administración Pública*. Madrid, Spain: Centro Latinoamericano de Administración para el Desarrollo.
Knight, Alan. 1998. "Populism and Neo-populism in Latin America, especially Mexico." *Journal of Latin American Studies* 30:223-248.
Koehler, John E. 1968. *Economic policy-making with limited information: the process of macro-control in Mexico*. Santa Monica, Calif.: Rand Corp.
Krause, Philipp. 2009. "Patterns of Executive Control over Public Spending." Pp. 25 in *Emerging Research in Political Economy and Public Policy*. London, United Kingdom: London School of Economics and Political Science.
Krauze, Enrique. 1997. *La Presidencia imperial:ascenso y caída del sistema político mexicano, 1940-1996*. Mexico City: Tusquets.
Krueger, Anne O. 1974. "The Political Economy of the Rent-Seeking Society." *The American Economic Review* 64:291-303.
Kuhn, Thomas S. 1998. "The Nature and Necessity of Scientific Revolutions." Pp. 86 - 101 in *Philosophy of Science: The Central Issues*, edited by M. Curd and J. A. Cover. New York: W.W. Norton & Company.
Labastida Ochoa, Francisco. 2006. "Petróleo." Pp. 20 in *Reunión de Senadores Electos del Partido Revolucionario Institucional*. Valle de Bravo, Estado de México.
Laclau, Ernesto. 1983. *Estado y política en América Latina*. México: Siglo XXI.
Lafranchi, Nicole and Hélène Perrin. 1997. "Measuring Public Employment in OECD Countries: Sources, Methods and Results." Organisation of Economic Co-operation and Development, Paris, France.

Lajous, Adrián. 2007a. "El Gobierno de la Industria Petrolera Mexicana." Salón Juan Sánchez Navarro del Club de Industriales: Asociación Mexicana para la Economía Energética.
—. 2007b. "El gobierno de la industria petrolera mexicana." Pp. 71. Mexico City.
—. 2009. "The Governance of Mexico's Oil Industry." Pp. 389 - 427 in *No growth without equity? Inequality, interests, and competition in Mexico*, *Equity and Development Series*, edited by S. Levy and M. Walton. Washington, D.C.: Palgrave Macmillan / The World Bank.
Lakatos, Imre. 1998. "Science and Pseudoscience." Pp. 20 - 26 in *The Philosophy of Science: The Central Questions*, edited by M. Curd and J. A. Cover. New York: W.W. Norton & Company.
Larre, Bénédicte and Marcos Bonturi. 2001. "Public Spending in Mexico: How to enhance its effectiveness." Organisation for Economic Co-operation and Development, Paris.
Lederman, Daniel and William F. Maloney. 2007. "Natural Resources: Neither Curse nor Destiny." Pp. 369 in *Latin American Development Forum*. Palo Alto, California; Washington, D.C.: Stanford University Press; The World Bank.
Lehoucq, Fabrice, Francisco Aparicio, Allyson Lucinda Benton, Benito Nacif, and Gabriel Negretto. 2005. "Political Institutions, Policymaking Processes, and Policy Outcomes in Mexico." Centro de Investigación y Docencia Económicas, CIDE, Mexico City.
Lenin, Vladimir Ilich Ulianov. 1949. *The State and the Revolution*. Moscow: Progress Publishers.
—. 1982. *Imperialism, the highest stage of capitalism: a popular outline*. New York: International Publishers.
Leruth, Luc and Elisabeth Paul. 2006. "A Principal-Agent Theory Approach to Public Expenditure Management Systems in Developing Countries." Pp. 45, edited by F. A. D. a. O. i. E. A. D. a. O. i. Europe: International Monetary Fund.
Levi, Margaret. 1988. *Of Rule and Revenue*. Berkeley: University of California Press.
—. 1997. "A Model, a Method, and a Map: Rational Choice in Comparative and Historical Analysis." Pp. 19 - 41 in *Comparative Politics. Rationality, Culture, and Structure*, edited by M. I. Lichbach and A. S. Zuckerman. New York: Cambridge University Press.
Levy, Santiago. 2008. *Good Intentions, Bad Outcomes: Social Policy, Informality, and Economic Growth in Mexico*. Washington, D.C.: Brookings Institution Press.
Levy, Santiago and Michael Walton. 2009. "No growth without equity? Inequality, Interests, and Competition in Mexico." Pp. 476 in *Equity and Development Series*. Washington, D.C.: Palgrave Macmillan / The International Bank for Reconstruction and Development - The World Bank.
Lichbach, Mark Irving and Alan S. Zuckerman. 1997a. "Comparative Politics. Rationality, Culture, and Structure." Pp. 321 in *Cambridge Studies in Comparative Politics*. New York: Cambridge University Press.
—. 1997b. "Research Traditions and Theory in Comparative Politics: An Introduction." Pp. 3 - 16. New York: Cambridge University Press.
Lieberman, Evan S. 2002. "Taxation Data as Indicators of State-Society Relations: Possibilities and Pitfalls in Cross-National Research." *Studies in Comparative International Development* 36:89-115.
Lindauer, David L. 1988. "Government Pay and Employment Policies and Government Performance in Developing Countries." World Bank, Washington, D.C.

Looney, Robert L. 1983a. "Mexican Economic Performance during the Echeverria Administration: Bad Luck or Poor Planning?" *Bulletin of Latin American Research* 2:11.
—. 1983b. "Mexican Policy Dilemmas during the De La Madrid Presidency." *Inter-American Economic Affairs* 37:22.
López Cámara, Francisco. 1971. *El desafío de la clase media*. Mexico City: Joaquín Mortiz.
López Portillo y Weber, José. 1975. *El petróleo de México: su importancia, sus problemas*. México: Fondo de Cultura Económica.
Luciani, Giacomo. 1987. "Allocation vs. Production States: A Theoretical Framework." Pp. 63-82 in *The Rentier State*, *Nation, State, and Integration in the Arab World*, edited by H. Beblawi and G. Luciani. London: Croom Helm.
Lukes, Steven. 1986. "Power." Pp. 283 in *Readings in social and political theory*. New York: New York University Press.
Luna, Matilde and Ricardo Pozas Horcasitas. 1992. *Relaciones corporativas en un período de transición*. Mexico: Instituto de Investigaciones Sociales, Universidad Nacional Autónoma de México.
Magaloni, Beatriz. 2006. *Voting for Autocracy: Hegemonic Party Survival and Its Demise in Mexico*. New York: Cambridge University Press.
Mahdavy, Hossein. 1970a. "Introductory Remarks." Pp. 526 in *Studies in the economic history of the Middle East: from the rise of Islam to the present day*, edited by M. A. Cook. London, New York: Oxford University Press.
—. 1970b. "The Patterns and Problems of Economic Development in Rentier States: the Case of Iran." Pp. 428-467 in *Studies in the economic history of the Middle East: from the rise of Islam to the present day*, edited by M. A. Cook. London, New York: Oxford University Press.
Mahon, James E. 1997. "Tax Reform and its Determinants in Latin America, 1977-94: Implications for Theories of State Development." Pp. 14 in *Latin American Studies Association*. Continental Plaza Hotel, Guadalajara, Mexico.
—. 2009. "Tax Reforms and Income Distribution in Latin America." Pp. 42 in *XXVIII Congress of the Latin American Studies Association*. Rio de Janeiro.
Mahoney, James. 2000. "Path Dependence in Historical Sociology." *Theory and Society* 29:507-548.
Mainwaring, Scott P. and Frances Hagopian. 2005. "The Third Wave of Democratization in Latin America: Introduction." Pp. 1 - 13 in *The Third Wave of Democratization in Latin America: Advances and Setbacks*, edited by F. Hagopian and S. P. Mainwaring. New York City: Cambridge University Press.
Mainwaring, Scott P. and Aníbal Pérez-Liñán. 2005. "Latin American Democratization since 1978: Democratic Transitions, Breakdowns, and Erosions." Pp. 14 - 59 in *The Third Wave of Democratization in Latin America: Advances and Setbacks*, edited by F. Hagopian and S. P. Mainwaring. New York: Cambridge University Press.
Malloy, James M. 1977. *Authoritarianism and corporatism in Latin America*. [Pittsburgh]: University of Pittsburgh Press.
Mann, Michael. 1984. "The Autonomous Power of the State: Its Origins, Mechanisms, and Results." *Archives europeennes de sociologie* 25:185-213.
Manzano, Osmel and Roberto Rigobon. 2001. "Resource Curse of Debt Overhang?" Pp. 37 in *National Bureau of Economic Research*: National Bureau for Economic Research.

Marcos, Ernesto. 2007. "Régimen Fiscal y Requerimientos Financieros de PEMEX." Pp. 22 in *Comisión de Energía*, *Cámara de Senadores*. Mexico City: Congreso de la Uníón.
Marichal, Carlos. 2007. *Bankruptcy of Empire*. New York: Cambridge University Press.
Martinez-Vazquez, Jorge. 2008. "Evaluating a Tax System: Mexico." Pp. 189-231 in *Public Finance for Poverty Reduction: Concepts and Case Studies from Africa and Latin America*, edited by B. Moreno-Dodson and Q. Wodon. Washington, D.C.: The World Bank.
Martner, Gonzalo. 1964. *El presupuesto por programas y actividades*, vol. No. 413. San José, Costa Rica: Departamento de Publicaciones de la Escuela Superior de Administración Pública América Central.
Martner, Ricardo. 1967. *Planificación y presupuesto por programas*. Mexico City: Siglo Veintiuno.
—. 2002. "Los efectos de la globalización Económica y Financiera sobre los Presupuestos Públicos en América Latina." Instituto Latinoamericano de Planificación Económica y Social / Comisión Económica para América Latina, Brasilia, Brasil.
Mascott Sánchez, María de los Ángeles. 2003. "Sistemas de servicio civil: una comparación internacional." Pp. 109, edited by C. d. E. C. d. E. S. y. d. O. Pública: Cámara de Diputados, H. Congreso de la Unión.
Matheson, Alex. 2002. "Better Public Sector Governance: the Rationale for Budgeting and Accounting Reform in Western Nations." Pp. 37 - 49 in *Models of Public Budgeting and Accounting Reform*, edited by J. L. Chan. Paris: OCDE.
—. 2003. "A New Agenda for Public Sector Modernisation in OECD Countries: Has 30 Years of Reform Led to Better Government?" Pp. 15 in *A Generation of Reforms in Public Management: What now?*, edited by P. e. M. Public. Strasbourg, Ecole National D'Administration.
Maxfield, Sylvia and Miguel Angel Centeno. 1992. "The Marriage of Finance and Order: Changes in the Mexican Political Elite." *Journal of Latin American Studies* 24:29.
McGee, Robert W. 2007. *Taxation and public finance in transition and developing economies*. New York: Springer.
Mehlum, Halvor, Karl Moene, and Ragnar Torvik. 2005. "Cursed by resources or institutions?" Pp. 25. Oslo, Norway: Department of Economics, University of Oslo.
Meltzer, Allan H. and Scott F. Richard. 1981. "A Rational Theory of the Size of Government." *The Journal of Political Economy* 89:914-127.
Mesta Delgado, Jesús. 2003b. "Ley del Servicio Profesional de Carrera en la Administración Pública Federal." Pp. 14 in *VIII Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administración Pública*. Panamá: Centro Latinoamericano de Administración para el Desarrollo.
Meyer, Lorenzo and Isidro Morales. 1990. *Petróleo y nación: la política petrolera en México (1900-1987)*. Mexico City: Fondo de Cultura Económica.
Migdal, Joel S. 1988. *Strong societies and weak states: state-society relations and state capabilities in the Third World*. Princeton, N.J.: Princeton University Press.
—. 1997. "Stydying the State." Pp. 208 - 235 in *Comparative Politics. Rationality, Culture, and Structure*, edited by M. I. Lichbach and A. S. Zuckerman. New York: Cambridge University Press.

Migdal, Joel S., Atul Kohli, and Vivienne Shue. 1994. *State power and social forces: domination and transformation in the Third World*. Cambridge [England] ; New York: Cambridge University Press.
Miliband, Ralph. 1969. *The State in Capitalist Society*. London: Weidenfield & Nicolson.
Milner, Helen V. 1997. *Interests, institutions, and information : domestic politics and international relations*. Princeton, N.J.: Princeton University Press.
Mills, Gregory B. and John Logan Palmer. 1984. *Federal budget policy in the 1980s*. Washington, D.C.: Urban Institute Press.
Mitchell, John V. 2002. "Renewing Energy Security." Pp. 25, edited by S. D. Programme: The Royal Institute of International Affairs.
Molinar Horcasitas, Juan. 1991. *El tiempo de la legitimidad*. Mexico City: Cal y Arena.
Montes-Negret, Fernando. 2003. "Fiscal Sustainability." Pp. 51 - 58 in *Mexico: A Comprehensive Development Agenda for The New Era*, edited by T. W. Bank. Washington, D.C.
Moore, Mick. 2004. "Revenues, State Formation, and the Quality of Governance in Developing Countries." *International Political Science Review* 25:22.
—. 2007a. "How Does Taxation Affect the Quality of Governance?" Institute of Development Studies, University of Sussex, Brighton, United Kingdom.
—. 2007b. "How does taxation affect the quality of governance?" Institute for Development Studies (Sussex University), Brighton, U.K.
Moreno-Brid, Juan Carlos. 2009. *Development and Growth in the Mexican Economy: An Historical Perspective*. Oxford, United Kingdom: Oxford University Press.
Moreno, Rocío. 2004. "La Importancia del Fondo de Estabilización de Ingresos Petroleros." Fundar, Centro de Análisis e Investigación, México, D.F.
Morgenstern, Scott and Benito Nacif. 2002. *Legislature Politics in Latin America*. Cambridge, United Kingdom: Cambridge University Press.
Morton, Rebecca B. 1999. *Methods and Models*. New York: Cambridge University Press.
Muñoz Gutiérrez, Ramón. 2004. "Experiencia mexicana en la construcción de un servicio profesional de carrera." Pp. 9 in *IX Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administración Pública*. Madrid, Spain: Centro Latinoamericano de Administración para el Desarrollo.
Nacif, Benito. 2002. "Understanding Party Discipline in the Mexican Chamber of Deputies: The Centralized Party Model." Pp. 254 - 286 in *Legislature Politics in Latin America*, edited by S. Morgenstern and B. Nacif. Cambridge, United Kingdom: Cambridge University Press.
Navarro-Aguilar, Guadalupe Itzel. 2004. "Análisis y Recomendaciones sobre el Marco Tributario de PEMEX." Law Department, Universidad de Las Américas, Puebla, Mexico.
Nazmi, Nader. 1996. *Economic Policy and Stabilization in Latin America*. Armonk, New York: M.E.Sharpe.
Niskanen, William A. 1971. *Bureaucracy and representative government*. Chicago: Aldine.
—. 1973. *Bureaucracy: servant or master? Lessons from America*. London: Institute of Economic Affairs.
—. 2004. *Autocratic, Democratic and Optimal Government: Fiscal Choices and Economic Outcomes*. Cheltenham: United Kingdom: Edward Elgar Publishing.
Nordhaus, William D. 1975. "The Political Business Cycle." *The Review of Economic Studies* 42:169-190.

Nordlinger, Eric A. 1981. *On the autonomy of the democratic state*. Cambridge, Mass. ; London: Harvard University Press.
North, Douglass C. 1990. *Institutions, Institutional Change, and Economic Performance*. New York: Cambridge University Press.
North, Douglass C., William Summerhill, and Barry R. Weingast. 2000. "Order, Disorder, and Economic Change: Latin America versus North America." Pp. 17 - 58 in *Governing for prosperity*, edited by B. Bueno de Mesquita and H. L. Root. New Haven, Conn.: Yale University Press.
O'Connor, James. 1973. *The fiscal crisis of the state*. New York: St. Martin's Press.
O'Donnell, Guillermo. 1975. "Acerca del Corporativismo y la cuestión del Estado." *CEDES - CLACSO*.
—. 1994. "Delegative Democracy." *Journal of Democracy*.
O'Dwyer, Conor. 2006. *Runaway state-building: patronage politics and democratic development*. Baltimore, Maryland: Johns Hopkins University Press.
OECD. 2001. "Highlights of Public Sector Pay and Employment Trends." Pp. 40 in *HRM Working Party Meeting*, edited by P. M. Service. Paris, France: Organisation of Economic Co-operation and Development.
—. 2002. "Models of Public Budgeting and Accounting Reform." Pp. 356, vol. Volume 2 Supplement 1, *OECD Journal on Budgeting*, edited by J. L. Chan. Beijing, China: Organisation for Economic Co-operation and Development.
—. 2005b. "Reallocation: The Role of Budget Institutions." Budgeting and Management Division of the Public Governance and Territorial Development Directorate, Secretary General of the Organisation for Economic Co-operation and Development, Paris, France.
—. 2006. "Revenue Statistics." Pp. 339, edited by C. o. F. A.-O. S. General and W. P. o. T. P. A. a. T. Statistics: Organisatino for Economic Co-operation and Development.
—. 2007a. "Latin American Economic Outlook 2008." Pp. 194, edited by D. Centre: Organisation for Economic Co-operation and Development.
—. 2007b. "A new fiscal and tax policy for Mexico: a policy brief." Pp. 15 in *Foro Políticas Públicas para el Desarrollo de México*, *OECD Economic Survey of Mexico, 2005*, edited by T. E. D. a. T. C. f. T. P. a. A.-. OECD. Mexico City: Organisation for Economic Co-operation and Development.
—. 2007c. "OECD Budget Practices and Procedures Survey." Pp. 40, edited by P. G. a. T. D. P. G. Committee: Organisation of Economic Co-operation and Development.
—. 2008. "Latin American Economic Outlook 2009." Pp. 200, edited by D. Centre: Organisation for Economic Co-operation and Development.
—. 2009a. "Government at a Glance 2009." Pp. 163, edited by S. General: Organisation for Economic Co-operation and Development.
—. 2009b. "OECD Review of Budgeting in Mexico." *OECD Journal on Budgeting* 2009:174.
—. 2009c. "Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2008)." Pp. 215, edited by C. f. T. P. a. Administration: Organisation of Economic Co-operation and Development.
Offe, Claus. 1984. *Contradictions of the welfare state*, Edited by J. Keane. London: Hutchinson.
Ojeda, Mario. 1986. *México: el surgimiento de una política exterior activa*. México, D.F.: Secretaría de Educación Pública.

Olson, Mancur. 1965. *The logic of collective action: public goods and the theory of groups*: Harvard U.P.; Oxford U.P.
—. 2000. *Power and prosperity: outgrowing communist and capitalist dictatorships*. New York: Basic Books.
Organisation for Economic Co-operation and Development. 2008a. "International Budget Practices and Procedures Database." Directorate for Public Governance and Territorial Development.
—. 2008b. "OECD International Database of Budget Practices and Procedures." Directorate for Public Governance and Territorial Development.
Ortiz Mena, Antonio. 1998. *El desarrollo estabilizador: reflexiones sobre una época*. México, D.F.: El Colegio de México Fondo de Cultura Económica.
Osborne, David and Ted Gaebler. 1993. *Reinventing government: how the entrepreneurial spirit is transforming the public sector*. New York, NY: Plume.
Ossowski, Rolando, Mauricio Villafuerte, Paolo A. Medas, and Theo Thomas. 2008. "Managing the Oil Revenue Boom: The Role of Fiscal Institutions." Pp. 35, *Occasional Paper*, edited by F. A. Department: International Monetary Fund.
Ostrom, Elinor. 1990. *Governing the commons: the evolution of institutions for collective action*. Cambridge: Cambridge University Press.
Oszlak, Oscar. 2001. "El Servicio Civil en América Latina y el Caribe: Situación y Retos Futuros." InterAmerican Development Bank, Washington, D.C.
—. 2004. "Privatización y capacidad de regulación estatal: una aproximación teórico - metodológica." Pp. 139 - 193 in *Política y Gestión Pública*, edited by L. C. Bresser-Pereira, N. Cunill Grau, L. Garnier, O. Oszlak, and A. Przeworski. Buenos Aires: Centro Latinoamericano de Administración para el Desarrollo - Fondo de Cultura Económica.
Pagaza Robles, Eduardo. 2008. *Límites del equilibrio fiscal*. Mexico City: Editorial Dríada.
Page, Edward C. 2003. "The Civil Servant as Legislator: Law Making in British Administration." *Public Administration* 81:651-679.
Palacios, Luisa. 2002. "The Petroleum Sector in Latin America: Reforming the Crown Jewels." Centre d'études et de recherches internationales - Sciences Po, Paris, France.
Pardinas, Juan. 2003. "Mexico: Democracy Without Accountability?" Pp. 7 in *LSE, Latin American Research Seminar*. London, United Kingdom.
Payne, Mark. 2005. "Characteristics of Presidencies and the PMP." Pp. 12 in *Workshop on State Reform, Public Policies and Policymaking Processes*. Washington, D.C.: IPES 2006 / The Inter-American Development Bank.
Payne, Mark and Ingrid Carlson. 2002. "Cross-Country Comparisons of Public Employment and Pay of 26 Latin American and Caribbean Countries." Inter-American Development Bank, Washington, D.C.
Paz, Octavio. 1973. *El ogro filantrópico*. Mexico City: Fondo de Cultura Económica.
Pazos, Luis. 1979. *Mitos y realidades del petróleo mexicano*. Mexico City: Editorial Diana.
Peacock, Alan and Alex Scott. 2000. "The curious attraction of Wagner's Law." *Public Choice*:1-17.
Persson, Torsten and Guido Enrico Tabellini. 1991. *Macroeconomic policy, credibility and politics*. Chur: Harwood Academic Publishers.
—. 2000. *Political economics: explaining economic policy*. Cambridge, Mass.: MIT Press.

Peters, B. Guy. 1998. *Comparative politics: theory and methods*. New York: New York University Press.
—. 2000. *The politics of bureaucracy*. London: Routledge.
Petrei, Humberto. 1998. *Budget and control: reforming the public sector in Latin America*. Washington, D.C.: Inter-American Development Bank.
Philip, George. 1979. *Oil and Politics in Ecuador, 1972-1976*. London, United Kingdom: University of London, Institute of Latin American Studies.
—. 1982. *Oil and Politics in Latin America: nationalist movements and state companies*. New York: Cambridge University Press.
—. 1988. *The Mexican Economy*. London, United Kingdom: Routledge.
—. 1991. *The Presidency in Mexican Politics*. London, United Kindgom: St Antony's / Macmillan series.
—. 1999. "The Political Constraints on Economic Policy in Post-1982 Mexico: The Case of Pemex." *Bulletin of Latin American Research* 18:35-50.
—. 2003a. *Democracy in Latin America*. Cambridge, United Kingdom: Polity Press.
—. 2003b. "The Politics of Civil Service Reform in Mexico." Pp. 12. London, United Kingdom.
Pierson, Paul. 2000. "Increasing Returns, Path Dependency, and the Study of Politics." *American Political Science Review* 94:251-67.
Pitkin, Hanna Fenichel. 1972. *The concept of representation*. Berkeley: London University of California Press.
Prest, Alan Richmond. 1978. "The Taxable Capacity of a Country." Pp. 13-32 in Taxation and Economic Development, edited by J. F. J. Toye. London: Frank Kass.
Poggi, Gianfranco. 1990. *The state: its nature, development and prospects*. Oxford: Polity.
Popper, Karl. 1957. *The Poverty of Historicism*. London: Routledge and Kegan Paul.
—. 1998a. "The Problem of Induction." Pp. 426 - 432 in *Philosophy of Science: The Central Issues*, edited by M. Curd and J. A. Cover. New York: W.W. Norton & Company.
—. 1998b. "Science: Conjectures and Refutations." Pp. 3 - 10 in *Philosophy of Science: The Central Issues*, edited by M. Curd and J. A. Cover. New York: W.W. Norton & Company.
Porter, Michael E. 1990. *The Competitive Advantage of Nations*. New York: The Free Press.
Poterba, James. 1994. "State Responses to Fiscal Crises: The Effects of Budgetary Institutions and Politics." *Journal of Political Economy* 102:799 - 821.
Poterba, James M. and Jürgen von Hagen. 1999. *Fiscal institutions and fiscal performance*. Chicago, Ill.: University of Chicago Press.
Poulantzas, Nicos. 1978. *Political Power and Social Classes*. London, United Kingdom: London Verso Editions.
Pritchett, Lant, Jon Isham, Michael Woolcock, and Gwen Busby. 2002. "The Varieties of Rentier Experience: How Natural Resource Endowments Affect the Political Economy of Resource Growth." Pp. 54, vol. 11.
Przeworski, Adam. 2000. *Democracy and development: political institutions and material well-being in the world, 1950-1990*. Cambridge: Cambridge University Press.
Purcell, Susan Kaufman. 1975. *The Mexican profit-sharing decision: politics in an authoritarian regime*. Berkeley: University of California Press.

Quine, W.W. 1998. "Two Dogmas of Empiricism." Pp. 280 - 301 in *Philosophy of Science: The Central Issues*, edited by M. Curd and J. A. Cover. New York: W.W. Norton & Company.
Rabasa Kovacs, Tania. 2009. "Estado y auges petroleros. El caso de México." Centro de Estudios Internacionales, El Colegio de Mexico, Mexico.
Ragin, Charles C. 1987. *The comparative method: moving beyond qualitative and quantitative strategies*. Berkeley: University of California Press.
—. 1991. *Issues and alternatives in comparative social research*. Leiden: Brill.
—. 1994. *Constructing social research: the unity and diversity of method*. Thousand Oaks [Calif.]: Pine Forge Press.
Rama, Martín. 1997. "Efficient Public Sector Downsizing." World Bank / Public Sector Management, Washington, D.C.
Ramírez Martínez, Sergio Antonio. *El régimen Fiscal de Petróleos Mexicanos ámbitos Federal y Local*. Mexico City: Instituto de Investigaciones Jurídicas - UNAM.
Ramírez, Miguel D. 1997. "México." Pp. 111-148 in *The Political Economy of Latin America in the Postwar Period*, edited by L. Randall. Austin, Texas: University of Texas Press, Austin.
Randall, Laura. 1997. "The Political Economy of Latin America in the Postwar Period." Pp. 319 in *ILAS Critical Reflections on Latin America Series*. Austin, Texas: University of Texas Press.
Raphael, Ricardo. 2007. *Los socios de Elba Esther*. Mexico City: Planeta.
Rauch, James E. 1995a. "Bureaucracy, Infraestructure, and Economic Growth: Evidence from U.S. Cities During the Progressive Era." *The American Economic Review* 85:968-979.
—. 1995b. "Choosing a Dictator: Bureaucracy and Welfare in Less Developed Polities." National Bureau of Economic Research, Cambridge, Massachusettts.
Rauch, James E. and Peter B. Evans. 1999. "Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries." University of California at San Diego - Department of Economics, San Diego, California.
Reyes-Heroles, Jesús. 2007. "Reunión de trabajo del Director General de Petróleos Mexicanos con la Comisión de Energía del Senado de la República." Mexico City: Petróleos Mexicanos.
Riding, Alan. 1985. *Distant neighbors: a portrait of the Mexicans*. New York: Knopf.
Robinson, James A., Ragnar Torvik, and Thierry Verdier. 2003. "Political Foundations of the Resource Curse." Departement et Laboratoire D'Économie Théorique et Appliquée, Paris, France.
Rodríguez-Padilla, Víctor. 2000. "The Mexican Energy Sector at the Crossroads." Institute of the Americas, La Jolla, California.
Rodriguez, Francisco and Jeffrey Sachs. 1999. "Why do resource-abudant economies grow more slowly?" *Journal of Economic Growth* 4:277-303.
Rodrik, Dani. 1997. "What Drives Public Employment?" National Bureau of Economic Research, Cambridge, Massachussetts.
—. 1998. "Why do more Open Economies Have Bigger Governments?" *Journal of Political Economy* 106:997-1032.
Roett, Riordan. 1998. *Mexico's private sector: recent history, future challenges*. Boulder: Lynne Rienner Publishers.
Romer, Thomas and Howard Rosenthal. 1978. "Political Resource Allocation, Controlled Agendas, and the Status Quo." *Public Choice* 33:27-43.
—. 1979. "Bureaucrats vs. Voters: On Political Economy of Resource Allocation by Direct Democracy." *Quarterly Journal of Economics* 93:563-587.

Romero, Jorge and Rocío Moreno. 2007. "Reforma del Régimen Fiscal de PEMEX: una opción viable." Fundar, Centro de Análisis e Investigación, Mexico City.
Root, Hilton L. and Hahalel Nellis. 2000. "The Compulsion of Patronage: Political Sources of Information Asymmetry and Risk in Developing Country Economies." Pp. 85 - 105 in *Governing for prosperity*, edited by B. Bueno de Mesquita and H. L. Root. New Haven, Conn: Yale University Press.
Ross, Michael L. 1999. "The Political Economy of the Resource Curse." *World Politics* 51:297-322.
—. 2001. "Does Oil Hinder Democracy?" *World Politics* 53:325-361.
—. 2004. "Does Taxation Lead to Representation?" *British Journal of Political Science* 34:229-249.
—. 2008. "Blood Barrels Why Oil Wealth Fuels Conflict." *Foreign Affairs*:7.
—. 2009. "Oil and Democracy Revisited." Pp. 50. Los Angeles, California: UCLA, Department of Political Science.
Rosser, Andrew. 2006. "The Political Economy of the Resource Curse: A Literature Survey." Institute of Development Studies, University of Sussex, Brighton.
Roubini, Nouriel and Jeffrey Sachs. 1988. "Political and Economic Determinants of Budget Deficits in the Industrial Democracies." National Bureau of Economic Research, Cambridge, Massachusetts.
—. 1989. "Government Spending and Budget Deficits in the Industrial Economies." National Bureau of Economic Research, Massachusetts, Cambridge.
Rubin, Irene. 1993. *The politics of public budgeting: getting and spending, borrowing and balancing*. Chatham, N.J: Chatham House.
Rueschmeyer, Dietrich and Peter B. Evans. 1985. "The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention." Pp. 44-77 in *Bringing the State Back In*, edited by P. B. Evans, D. Rueschmeyer, and T. Skocpol. Cambridge: Cambridge University Press.
Russell, Bertrand. 1938. *Power: A New Social Analysis*. London: Allen and Unwin.
Sachs, Jeffrey D. and Andrew M. Warner. 1995. "Natural Resource Abundance and Economic Growth." Pp. 47 in *National Bureau of Economic Research*: National Bureau for Economic Research.
Sanderson, Steven E. 1983. "Presidential Succession and Political Rationality in Mexico." *World Politics* 35:19.
Santiso, Carlos. 2005. "Budget Institutions and Fiscal Responsibility: Parliaments and the Political Economy of the Budgetary Process in Latin America." in *XVII Regional Seminar on Fiscal Policy*. Santiado de Chile, Chile: United Nations Economic Commission for Latin America and the Caribbean (ECLAC).
Santiso, Javier and Laurence Whitehead. 2006. "Ulysses, the Sirens, and the Art of Navigation: Political and Technical Rationality in Latin America." Pp. 77, *Working Paper Series*, edited by O. D. Centre: Organisation for Economic Cooperation and Development.
Saulniers, Alfred H. 2001. "The State Companies: A Public Policy Perspective." Pp. 226-261 in *The Oil Business in Latin America: The early years*, edited by J. D. Wirth. Washington, D.C.: Beard Books.
Schamis, Héctor E. 2006. "Populism, Socialism, and Democratic Institutions." *Journal of Democracy* 17:20 - 34.
Schedler, Andreas. 2004. "¿Qué es la rendición de cuentas?" Instituto Federal de Acceso a la Información Pública, Mexico City.

Schedler, Andreas, Larry Diamond, and Marc F. Plattner. 1999. "The self-restraining state: power and accountability in new democracies." Pp. 395. Boulder, Colorado: Lynne Rienner Publishers.
Schiavo-Campo, Salvatore, Giulio de Tommaso, and Amitabha Mukherjee. 1997a. "Government Employment and Pay in Global Perspective: A Selective Synthesis of International Facts, Policies and Experience." The World Bank / Public Sector Management and Information Technology Team, Washington, D.C.
—. 1997b. "An International Statistical Survey of Government Employment and Wages." The World Bank / Public Sector Management and Information Technology Team, Washington, D.C.
Schick, Allen. 1966. "The road to PPB: The stages of budget reform." *Public Administration Review* December:243 - 258.
— 1998. "Why Most Developing Countries Should Not Try New Zealand Reforms." *The World Bank Research Observer*, February 1998, pp. 123-131.
—. 2002. "¿La presupuestación tiene algún futuro?" Instituto Latinoamericano y del Caribe de Planificación Económica y Social (ILPES), Santiago de Chile.
Schuknecht, Ludger. 1998. "Fiscal Policy Cycles and Public Expenditure in Developing Countries." Pp. 20. Geneva, Switzerland.
Schumpeter, Joseph A. 1918. "The Crisis of the Tax State." Pp. 99-140 in *Joseph A. Schumpeter. The Economics and Sociology of Capitalism*, edited by R. Swedberg. Princeton, New Jersey: Princeton University Press.
—. 1948. "Wage and Tax Policy in Transitional States of Society." Pp. 429-437 in *Joseph A. Schumpeter. The Economics and Sociology of Capitalism*, edited by R. Swedberg. Princeton, New Jersey: Princeton University Press.
Secretaría de la Función Pública. 2006. "Servicio Profesional de Carrera." Secretaría de la Función Pública,, Mexico City.
Senado de la República. 2007. "Análisis sobre el Régimen Fiscal de PEMEX y sus requerimientos financieros." Pp. 72 in *Comisión de Energía*, *Cámara de Senadores*, edited by C. d. E. Senado de la República. Mexico City: Senado de la República.
Serrano, Monica. 1997. *Mexico: assessing neo-liberal reform*. London: University of London Institute of Latin American Studies.
Shambayati, Hootan. 1994. "The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran." *Comparative Politics* 26:307-331.
Shepsle, Kenneth A. and Mark S. Bonchek. 1997. *Analyzing Politics. Rationality, Behavior, and Institutions*. New York: W. W. Norton & Company, Inc.
Shepsle, Kenneth A. and Barry R. Weingast. 1984. "Legislature Politics and Budget Outcomes." Pp. 343 - 367 in *Federal Budget Policy in the 1980s*, edited by G. B. Mills and J. L. Palmer. Washington, D.C.: The Urban Institute Press.
Shields, David. 2005. *PEMEX: La reforma petrolera*. México, D.F.: Editorial Planeta.
Shugart, Mathew Soberg and Stephan Haggard. 2001. "Institutions and Public Policy in Presidential Systems." Pp. 64 - 104 in *Presidents, Parliaments, and Policy*, edited by S. Haggard and M. D. McCubbins. New York: Cambridge University Press.
Shugart, Matthew Soberg and John M. Carey. 1992. *Presidents and assemblies: constitutional design and electoral dynamics*. Cambridge [England] ; New York: Cambridge University Press.
Slomianski Marcovich, Paul. 1998. "The Budgeting Process in Mexico." Centro de Investigación y Docencia Económicas, Mexico City.

Smith, Benjamin. 2004. "Oil Wealth and Regime Survival in the Developing World, 1960-1999." *American Journal of Political Science* 48:232-246.
Smith, Peter H. 1979. *Labyrinths of Power: Political Recruitment in Twentieth-Century Mexico*. Princeton, New Jersey: Princeton University Press.
—. 1995a. "The Changing Agenda for Social Science." Pp. 1 - 29 in *Latin America in Comparative Perspective. New Approaches to Methods and Analysis*, edited by P. H. Smith. Boulder, Colorado: Westview Press.
—. 2005. *Democracy in Latin America*. New York: Oxford University Press.
Solís, Leopoldo. 1981. *La realidad económica mexicana: retrovisión y perspectivas*. México, D.F.: Siglo Veintiuno Editores.
Sour, Laura, Irma Ortega, and Sergio San Sebastián. 2003. "¿Quién tiene la última palabra sobre el gasto público en México?" Programa de Presupuesto y Gasto Público / Centro de Investigación y Docencia Económicas, CIDE, Mexico City.
Spatafora, Nikola and Andrew M. Warner. 1995. "Macroeconomic Effects of Terms-of-Trade Shocks." Pp. 42, *Policy Research Working Paper*, edited by I. E. D. International Economic Analysis and Prospects Division: The World Bank.
Stanford University. 2006. "National Oil Companies: Strategy, Performance, and Implications for Global Energy Markets." Freeman Spogli Institute for International Studies-Stanford University, Stanford, California.
Stein, Ernesto. 1998. "Fiscal Decentralisation and Government Size in Latin America." Pp. 95 - 119 in *Democracy, decentralisation and deficits in Latin America*, edited by K. Fukasaku and R. Hausmann. Paris, France: Inter-American Development Bank/Development Centre of the Organisation for Economic Co-operation and Development.
—. 1999a. "Fiscal Descentralization and Government Size in Latin America." *Journal of Applied Economics* II:357-391.
—. 1999b. "Reglas Macro - Fiscales e Instituciones Presupuestarias." vol. 2002: Centro de Capacitacion y Estudios, Ministerio de Economia - Argentina.
—. 2005. "State Reform, Public Policies, and the Policymaking Process." Pp. 15 in *Workshop on State Reform, Public Policies and Policymaking Processes*. Washington, D.C.: IPES 2006 / The Inter-American Development Bank.
Stein, Ernesto, Ernesto Talvi, and Alejandro Grisanti. 1998. "Institutional Arrangements and Fiscal Performance: The Latin American Experience." Pp. 52 in *National Bureau of Economic Research*, vol. Working Paper #6358: National Bureau for Economic Research.
Stein, Ernesto, Mariano Tommasi, Koldo Echebarria, Eduardo Lora, and Mark Payne. 2006. "The Politics of Policies: Economic and Social Progress in Latin America." Pp. 290. Washington, D.C.: Inter-American Development Bank - David Rockefeller Center for Latin American Studies, Harvard University.
Steinmo, Sven. 1989. "Political Institutions and Tax Policy in the United States, Sweden, and Britain." *World Politics* XLI:38.
Steinmo, Sven, Kathleen Thelen, and Frank Longstreth. 1992. "Structuring politics: historical institutionalism in comparative analysis." Pp. 257 in *Cambridge studies in comparative politics*. Cambridge: Cambridge University Press.
Stepan, Alfred C. 1988. *Rethinking Military Politics: Brazil and the Southern Cone*. Princeton, New Jersey: Princeton University Press.
Stevens, Mike. 2004. "Institutional and Incentives Issues in Public Financial Management Reform in Poor Countries." The World Bank - PEFA Program, Washington, D.C.
Stiglitz, Joseph E. 1988. *Economics of the public sector*. New York: Norton.

Stokes, Susan Carol. 2000. *Public Support for Market Reforms in New Democracies*. Cambridge, United Kingdom: Cambridge University Press.
Swank, Duane. 2002. *Global capital, political institutions, and policy change in developed welfare states*. Cambridge, New York.: Cambridge University Press.
Swedberg, Richard. 1990. "The economics and sociology of capitalism." Pp. 492. Princeton, New Jersey: Princeton University Press.
Székely, Gabriel. 1983. *La economía política del petróleo en México, 1976-1982*, Edited by C. d. E. Internacionales. Mexico City: El Colegio de México.
Tabellini, Guido Enrico and Alberto Alesina. 1988. "Voting for the Budget Deficit." National Bureau of Economic Research, Cambridge, Massachusetts.
Tanzi, Vito. 1969. *The individual income tax and economic growth: an international comparison: France, Germany, Italy, Japan, United Kingdom, United States*. Baltimore, Maryland: Johns Hopkins Press.
—. 1999. "Why Governance Matters in the Allocation and Management of Public Revenue and Expenditure." *Asian Revew of Public Administration* XI:13.
—. 2000. "Rationalizing the Government Budget: Or Why Fiscal Policy is so Difficult." Pp. 435-452 in *Economic Policy Reform: The Second Stage*, edited by A. O. Krueger. Chicago: University of Chicago Press.
Tanzi, Vito and Ludger Schuknecht. 2000. *Public Spending in the 20th Century: a Global Perspective*. Cambridge, United Kingdom: Cambridge University Press.
Tanzi, Vito, Howell H. Zee, and International Monetary Fund. 2001. *Tax policy for developing countries*, Edited by F. International Monetary. Washington, D.C.: International Monetary Fund.
Tavits, Margit. 2004. "The Size of Government in Majoritarian and Consensus Democracies." *Comparative Political Studies* 37:340 - 359.
Teichman, Judith A. 2004. "The World Bank and Policy Reform in Mexico and Argentina." *Latin American Politics & Society* 46:35.
The Economist 2002. "No trolley needed." *The Economist*, 5 December 2002.
— 2006. "Executive pay." *The Economist*, 19 January 2006.
Thirsk, Wayne. 1997. "Tax Reform in Developing Countries." Pp. 409 in *World Bank Regional and Sectoral Studies*. Washington, D.C.: World Bank.
Thorp, Rosemary. 1998. *Progress, poverty and exclusion: an economic history of Latin America in the 20th century*. Washington, D.C., Baltimore, MD: Inter-American Development Bank; Distributed by The Johns Hopkins University Press.
Tijerina-Guajardo, Jose A. and Jose A. Pagan. 2003. "Government Spending, Taxation, and Oil Revenues in Mexico." *Review of Development Economics* 7:152-164.
Tilly, Charles. 1975. *The Formation of national States in Western Europe*. Princeton, New Jersey: Princeton University Press.
Tornell, Aaron. 2000. "Privatizing the Privatized." Pp. 157-182 in *Economic policy reform: the second stage*, edited by A. O. Krueger. Chicago: University of Chicago Press.
Torres Espinosa, Eduardo. 1999. *Bureaucracy and politics in Mexico: the case of the Secretariat of Programming and Budget*. Aldershot: Ashgate.
Torres Flores, Ramón Carlos. 1999. "México: Impacto de las Reformas Estructurales en la Formación de Capital del Sector Petrolero." Comisión Económica para América Latina y el Caribe, Mexico City.
Touraine, Alain. 1994. "From the Mobilising State to Democratic Politics." Pp. 45 - 68 in *Redefining the state in Latin America*, edited by C. I. Bradford. Paris: Organisation for Economic Co-operation and Development.

Transparency International. 2008. "Promoting Revenue Transparency. 2008 Report on Revenue Transparency of Oil and Gas Companies." Pp. 82: Transparency International.
Tufte, Edward R. 1978. *Political control of the economy*. Princeton, N.J.: Princeton University Press.
Tullock, Gordon. 1990. "The costs of special privilege." Pp. 268 in *Perspectives on Positive Political Economy*, *Political economy of institutions and decisions*, edited by J. E. Alt and K. A. Shepsle. Cambridge: Cambridge University Press.
Turley, Gerald. 2006. *Transition, Taxation and the State*. Burlington, Vermont: Ashgate.
Turrent Díaz, Eduardo. 2004. "Política tributaria: el arte de lo posible (entrevista con Antonio Ortíz Mena)." *Análisis Económico* XIX:185-196.
Ugalde, Luis Carlos. 1990. "El crecimiento del gasto público en México: Una hipótesis alternativa." Bachelors Thesis, Departamento de Economía, Instituto Tecnológico Autónomo de México, Mexico City.
—. 1997. "La aprobación del presupuesto: "El poder de la Bolsa" 1970-1997." in *Reforma*. Mexico City.
—. 2000. *The Mexican congress: old player, new power*. Washington, D.C.: CSIS Press.
Usui, Norio. 1997. "Dutch disease and policy adjustments to the oil boom: a comparative study of Indonesia and Mexico." *Resources Policy* 23:151-162.
Valdez Mejía, Miguel Angel. 2001. "El Programa de Carrera Magisterial." in *Memoria del SeminarioServicio Público de Carrera en México: Experiencias y Perspectivas*, edited by I. N. d. A. Pública. Mexico City: Instituto Nacional de Administración Pública.
Van Rijckeghem, Caroline and Beatrice Weder. 1997. "Corruption and the Rate of Temptation: Do Low Wages in the Civil Service Cause Corruption?" International Monetary Fund, Washington, D.C.
Vaubel, Roland and Thomas D. Willett. 1991. "The Political Economy of International Organizations: A Public Choice Approach." Pp. 310 in *The Political Economy of Global Interdependence*, edited by T. D. Willett. Boulder, Colorado: Westview Press.
Vázquez Arroyo, Francisco. 1979. *Presupuestos por programas para el sector público de México*. Mexico City: Universidad Nacional Autónoma de México.
Véliz, Claudio. 1980. *The centralist tradition of Latin America*. Princeton, N.J: Princeton University Press.
Verba, Sidney. 1963. *The Civic Culture: Political Attitudes and Democracy in Five Nations*. Princeton, New Jersey: Princeton University Press.
Wagner, Richard E. 2007. *Fiscal sociology and the theory of public finance: an exploratory essay*. Cheltenham, United Kingdom: Edward Elgar.
Wallace, Roger W. 2007. "Oil as a Strategic Resource in Mexico?" Pp. 32 in *Energy in Mexico: Oil as a Comparative Advantage and a Strategic Resource?*, edited by W. W. I. C. f. S.-M. Institute. Washington, D.C.: Woodrow Wilson International Center for Scholars - Mexico Institute.
Warner, Andrew M. 1993. "Did the Debt Crisis or Declining Oil Prices Cause Mexico's Investment Collapse?" Pp. 37, edited by I. E. D. International Economic Analysis and Prospects Division: The World Bank.
Waterbury, John. 1993. *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey*. New York, USA: Cambridge University Press.

WDR. 1997. "The State in a Changing World." Pp. 292 in *World Development Report 1997*, edited by T. W. Bank. Washington, D.C.
—. 2001. "Political Institutions and Governance." Pp. 99 - 116 in *World Development Report 2002*, edited by T. W. Bank. Washington, D.C.
Wehner, Joachim. 2006. "Assessing the Power of the Purse: An Index of Legislature Budget Institutions." *Political Studies* 54:767-785.
—. 2007. "Budget Reform and Legislature Control in Sweden." *Journal of European Public Policy* 14:313-332.
Weldon, Jeffrey A. 1997. "The logic of *Presidencialismo* in Mexico." Pp. ix, 493 in *Presidentialism and democracy in Latin America*, edited by S. Mainwaring and M. S. Shugart. Cambridge ; New York: Cambridge University Press.
—. 2002. "The Legal and Partisan Framework of the Legislature Delegation of the Budget in Mexico." Pp. 377 - 412 in *Legislature Politics in Latin America*, edited by S. Morgenstern and B. Nacif. Cambridge, United Kingdom: Cambridge University Press.
Wiarda, Howard J. 1981. *Corporatism and national development in Latin America*. Boulder, Colorado: Westview Press.
Wildavsky, Aaron. 1978. "A budget for all seasons? Why the traditional budget lasts." *Public Administration Review*:501 - 509.
—. 1992. *The new politics of the budgetary process*. New York: Harper Collins Publishers Inc.
—. 2003. "Controlling Public Expenditure: The Theory of Expenditure Limitation." *OECD Journal on Budgeting* 2:22.
Wilkie, James Wallace. 1967. *The Mexican Revolution: Federal expenditure and social change since 1910*. Berkeley,: University of California Press.
Williamson, John. 1990. "What Washington Means by Policy Reform." in *Latin American Adjustment: How Much Has Happened?*, edited by J. Williamson. Washington, D.C.: Institute of International Economics.
Wirth, John D. 2001. "The Oil Business in Latin America: the Early Years."
Wise, Carol and Manuel Pastor. 1998. "Mexican-Style Neoliberalism: State Policy and Distributional Stress." Pp. 41-82 in *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere*, edited by C. Wise. Pennsylvania: The Pennsylvania State University Press.
Wise, Carol and Riordan Roett. 2000. *Exchange rate politics in Latin America*. Washington, D.C.: Brookings Institution Press.
Wiseman, Michael, R. A. Gordon, and James Tobin. 1976. "Public Employment as Fiscal Policy." *Brookings Papers on Economic Activity* 1976:67-114.
Wood, Dan B and Richard W. Waterman. 1991. "The Dynamics of Political Control of the Bureaucracy." *The American Political Science Review* 85:801-828.
Wood, Duncan. 2009. "Mexican Oil Production and Exports." Washington, D.C.: Woodrow Wilson International Center for Scholars. Canada, Mexico, and Brazil Institute.
WorldBank-DRCLAS. 2006. "International Conference: Equity and Competition for High Growth in Mexico." Pp. 57 in *International Conference: Equity and Competition for High Growth in Mexico*, edited by W. B. D. R. C. f. L. A. Studies. Mexico City: World Bank / David Rockefeller Center for Latin American Studies, Harvard University.
Yates, Douglas A. 1996. *The Rentier State in Africa: Oil Rent, Dependency, and Neocolonialism in the Republic of Gabon*. Trenton, New Jersey: Africa World Press.

Zaid, Gabriel. 1987. *La economía presidencial*. México, D.F.: Editorial Vuelta.
—. 1994a. *La economía presidencial*. México, D.F.: Grijalbo.
—. 1994b. *La nueva economía presidencial*. México, D.F.: Grijalbo.
Zakaria, Fareed. 1997. "The Rise of Illiberal Democracy." *Foreign Affairs* 76:22-43.
—. 2003. *The future of freedom: illiberal democracy at home and abroad*. New York: W.W. Norton & Co.
Zuckerman, Alan S. 1997. "Reformulating Explanatory Standards and Advancing Theory in Comparative Politics." Pp. 277 - 312 in *Comparative Politics. Rationality, Culture, and Structure*, edited by M. I. Lichbach and A. S. Zuckerman. New York: Cambridge University Press.

- 000 -