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## MEXICAN GOVERNMENT BUDGET FOR 1956

A Letter from James G. Maddox

Mexico, D.F.  
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The manner in which a government spends its funds and raises its revenue provides important clues to how well it serves its constituents.

On December 15, President Adolfo Ruiz Cortines, sent the largest budget in the history of Mexico to the Congress for its study and approval. Eight days later, the Chamber of Deputies passed this budget by an almost unanimous vote in the exact form in which it had been submitted by the President. The speed of this action is a gauge of the importance of the Executive in governing the country, and is likely to cause many North Americans to raise their eyebrows. The budget itself, however, is worthy of scrutiny.

Not only is it the largest budget in the history of the country, totaling 6,696,373,000 pesos (almost 536 million dollars) but also a large proportion of it is directed toward badly needed and thoroughly constructive activities. Moreover, it is a balanced budget. Funds for a proposed 18 per cent increase in expenditures over those budgeted for 1955 are to be raised through greater tax yields, made possible by a growing economy and more careful collection procedures, rather than by the imposition of higher taxes. The future course of events may not, of course, conform to present plans. However, income tax receipts for 1955 ran higher than was estimated in the budget of a year ago, with the likely result that the government lived within its revenues during the year that just ended. Official reports, which will be available several months hence, may or may not confirm this assumption. However, if there was a deficit in 1955 it was small, and the fact that the government has proposed a balanced budget for 1956 is looked upon with favor by all those interested in stabilizing the cost of living, which rose in the Mexico City area by about 15 per cent during the first eight months of 1955.

The largest single item on the expenditure side of the 1956 budget is an allotment of more than one billion pesos for

communications.\* This figure is a little over 16 per cent of the total (Table 1). Three-fourths of the proposed expenditures for communications will be used for extensions and improvements of roads and railways. Most of the remainder is for mail, telephone and telegraph services. The second largest expenditure item, representing 12 1/2 per cent of the total budget, is for education. Thus, railroads, highways and schools rank at the very top of the list of expenditures. The third largest item is for servicing and repaying the public debt, while that of next importance, and the item with the greatest increase over 1955, is for development of hydraulic resources--mainly irrigation and power projects. Then comes investments, a large part of which would be called "public works" in the United States. The sum of the five largest items of expenditure--communications, education, public debt, development of hydraulic resources and investments--accounts for two-thirds of the total budget (Table 1). These are certainly the types of expenditures that are needed in an underdeveloped, but rapidly developing, country. One cannot escape the conclusion that careful, sound thinking went into the preparation of this budget. It deserved more careful study by legislators and more public debate than it received.

In addition to the expenditure categories shown in Table 1, the following classification was presented to the Congress in the Presidential budget message as being a distribution of the expenditure items "from the point of view of functions."

		<u>Millions of pesos</u>	<u>Percent of total</u>
<u>Economic Development</u> -----		3,288	49.10
1. Communications and transportation ---	1,682		
2. Agriculture and forestry -----	1,081		
3. Industry and commerce -----	525		
<u>Social and Protective Services</u> -----		1,496	22.35
1. Educational and cultural -----	832		
2. Public health and hospitals -----	360		
3. Welfare and social security -----	304		
<u>Military Services</u> -----		632	9.44
<u>General Administration</u> -----		442	6.60
<u>Public Debt</u> -----		838	12.51
TOTAL -----		6,696	100.00

\*One peso is equal to approximately eight cents in United States money.

This classification shows the heavy emphasis which the government is giving to economic development.\* Indeed, when one looks at it in relation to the items in Table 1, it appears that there has been a tendency to put everything under the rubric "economic development." At the same time, one should not overlook the fact that this budget of the Federal government excludes the operations of several important autonomous agencies such as Nacional Financiera, a public agency which lends money and owns equities in a large number of business enterprises, and Petroleos Mexicanos (Pemex), the large and important government agency which operates the oil industry. Had these budgets been integrated with that of the Federal government, the proportion of the total that might properly have been included under "economic development" would probably have been still higher. One thing is certain; this government is dedicated to developing Mexico, and regardless of how one goes about measuring its activities he will inevitably conclude that heavy emphasis is being put on "economic development." That the development of human resources is not being overlooked, however, is indicated by the more than 22 per cent of the budget devoted to "social and protective services."

A glance at some of the detailed items that make up the major categories in the preceding classification is revealing. For instance, of the 1,682 million pesos budgeted for "communications and transportation" almost 674 million will be used for railway reconstruction and improvement; another 533 million will be used for roads and highways. The largest single item for "agriculture and forestry" is that of almost 776 million pesos--over 70 per cent of the total--for irrigation and flood control. Almost exactly one-half of the 525 million pesos for "industry and commerce" will be used by the Federal Electrical Commission for the construction of power plants and the extension of electric lines. In the allocation to "social and protective services," preschool and primary education accounts for 469 million pesos, or slightly more than half of the 832 million budgeted in the "educational and cultural" category. Secondary and vocational schools will receive only 53 million pesos, while universities, professional, technical and teacher-training schools and institutes will get 163 million, and almost 84 million are budgeted for the construction of new school buildings. In the category of "public health and hospitals," a small but interesting item is that of 30 million pesos to

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\*A classification of this kind obviously involves the exercise of judgment by the classifiers. There could easily be many differences of opinion with respect to the major categories under which any given expenditure item should be classified. This, however, is true of any classification scheme. Unfortunately there is no way, on the basis of materials available, to relate the classification in Table 1 to that by functions. Those doing careful research studies of Mexican budgeting procedures or of government fiscal policies will want to scrutinize the classification of expenditures.

combat malaria. The antimalaria campaign is planned to cost 250 million pesos over a four year period, including about 100 million to be supplied by United Nations agencies.

Although it would be possible to examine other details of the expenditure pattern, the foregoing is enough to indicate that the budget focuses attention on those crucial areas of society which must be strengthened and improved, if the economy is to continue to grow and turn out an increasing supply of goods and services for the rapidly expanding population. If the funds are used as they have been budgeted, they will bear out the President's statement to Congress when he said in his budget message: "In the investment of public funds, preference will be given to those services and works that contribute most rapidly to raising the productive capacity of the country and above all to improving the conditions of life of our people."

As contrasted with the expenditure pattern, the income side of the budget will provide few incentives to economic growth. Although the official estimates indicate that 25 per cent of the total revenue of 6,700,000,000 pesos will be raised by income taxes on individuals and corporations, most of the other important taxes are of an indirect and regressive nature (Table 2). In order to get some idea of the degree of regressiveness in the tax system, I have grouped the income categories listed in Table 2 into "direct" and "indirect" sources of revenue. The former are presumed to be those taxes and charges of various types which are paid by the people on whom they are levied. In other words, they are not readily shiftable. On the other hand, the "indirect" taxes are likely to be shifted in substantial part to the ultimate consumers of goods and services.

The degree to which various types of taxes are shifted is a question about which economists rarely agree even after long and careful study. Nevertheless, after reviewing the studies of the Combined Mexican Working Party, as published in The Economic Development of Mexico,\* and after consulting several Mexican economists, I venture the following classification of the "ordinary" revenue items listed in Table 2:

<u>Direct Taxes</u>	<u>Item number in Table 2</u>	<u>Estimated pesos of revenue in 1956</u> ( 000's omitted )
Income taxes	1	1,700,000
Taxes on lotteries, etc.	11	54,000
Immigration taxes	12	24,000
Taxes on capital	14	17,000
SUB-TOTAL -----		1,795,000

\*Published for the International Bank for Reconstruction and Development by the Johns Hopkins Press, Baltimore, 1953.

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<u>Direct Charges and Fees</u>	<u>Item number in Table 2</u>	<u>Estimated pesos of revenue in 1956 ( 000's omitted )</u>
Miscellaneous fees, etc.	6	425,000
Income from services	7	275,000
Income from nat'l property	9	170,000
SUB-TOTAL -----		870,000
TOTAL DIRECT INCOME -----		<u>2,665,000</u>

Indirect Taxes

Export duties	2	1,050,000
Taxes on production and commerce of industrial goods and services	3	835,000
Import duties	4	730,000
Turnover tax on mercantile income	5	525,000
Tax on exploitation of natural resources	8	170,000
Stamp taxes	10	65,000
Tax on premiums paid to insurance companies	13	20,000
TOTAL INDIRECT TAXES -----		3,395,000
GRAND TOTAL (ordinary revenue items) -----		6,060,000

This is a crude classification, but it is sufficiently accurate to indicate that a rather large proportion of the total revenue for 1956 will come from indirect taxes. Probably the item about which there can reasonably be the greatest question is that of export duties. This category covers a variety of levies on different types of products. The Combined Mexican Working Party, in its report, The Economic Development of Mexico, argued that export duties are in effect taxes on profits, and classified them as "direct taxes." If one accepts the classification which I have offered above, about 56 per cent of the revenue of the Federal government will come from indirect taxes in 1956. On the other hand, if export duties are placed in the category of "direct" taxes, and makes no other change in the above classification, only about 39 per cent of the revenue will come from indirect sources. The difference is significant, and yet either figure is high enough to suggest that many of the taxes will not in fact be paid by the people on whom they are levied, but will be shifted to someone else.

Moreover, the low-income and middle classes are likely to be hardest hit in relation to their ability to pay. This does not augur well for hopes of a rapidly expanding market for goods and services to undergird the growing industrialization that the government is striving to promote.

On the other hand, taxes are not really high in Mexico as compared with the United States or other well-developed countries. For instance, a professional man such as a lawyer, doctor or dentist, is allowed expenses appropriate to his profession and may have net earnings up to 84,000 pesos (about \$6,720) before he reaches the 10 per cent bracket in the graduated income tax. His net can go as high as 168,000 pesos (about \$13,440) before he hits the 20 per cent bracket, and even this rate will be applicable to only the last few thousand pesos of his taxable earnings. The income tax on corporations is graduated, but the maximum rate is 39 per cent, and there are many concessions of various kinds to encourage those industries which the government deems necessary for balanced economic growth. The income tax on wage and salaried employees ranges from 1 1/2 to 5 per cent of gross monthly earnings for those below 4,000 pesos per month (about \$320), who comprise the vast majority of the labor force. Of course, the indirect tax load is in addition to these income tax rates and as has been said, it probably bears quite heavily on the lower-income groups. However, the total tax collections of the federal government have been running in recent years to only 7 or 8 per cent of the gross national product of the economy. This is quite low. Moreover, the growing importance of the income tax as a source of revenue, plus the greater emphasis which the government proposes to give to the collection of inheritance and gift taxes, indicates that direct taxes will probably become a greater and greater proportion of the total in the years ahead.

*James L. Maddox*

TABLE 1

Budgeted expenditures of the Federal Government of Mexico for  
1955 and 1956

(Amounts in pesos -- one peso equals approximately 8 cents U. S.)

Items	1955		1956		
	Amount (000's omitted)	Per cent of total	Amount (000's omitted)	Per cent of total	Per cent change from 1955 Budget
1. Communications	948,553	16.70	1,079,795	16.12	13.84
2. Education	711,842	12.53	838,309	12.52	17.77
3. Public Debt	799,521	14.07	837,770	12.51	4.78
4. Hydraulic Resources	489,410	8.61	833,117	12.44	70.20
5. Investments	671,724	11.82	808,783	12.08	20.40
6. Defense	451,715	7.95	507,000	7.57	12.24
7. Health	232,050	4.08	283,500	4.23	22.17
8. Navy	226,244	3.98	272,255	4.07	20.34
9. Treasury	216,906	3.82	223,219	3.33	2.91
10. Agriculture	115,931	2.04	141,182	2.11	21.78
11. Foreign Relations	82,730	1.46	85,967	1.29	3.91
12. Economy	37,672	0.66	43,703	0.65	16.00
13. Military Industry	38,960	0.69	41,210	0.62	5.77
14. Interior	41,450	0.73	40,430	0.60	- 2.46
15. Legislative	30,500	0.54	31,973	0.48	4.83
16. Judicial	29,277	0.52	31,127	0.46	6.32
17. Agrarian Bureau	25,300	0.45	28,340	0.42	12.02
18. Labor	16,853	0.30	22,135	0.33	31.34
19. National Properties	9,800	0.17	10,394	0.16	6.06
20. Attorney General	8,616	0.15	10,315	0.15	19.72
21. Presidency	7,700	0.14	8,240	0.12	7.01
22. Additional Expenses	488,645	8.60	517,609	7.73	5.93
TOTAL	5,681,399	100.00	6,696,373	100.00	17.86

TABLE 2

**Estimated revenues of the Federal Government of Mexico by sources in  
1955 and 1956**

(Amounts in pesos -- one peso equals approximately 8 cents U. S.)

Source of Revenue	1955		1956		
	Amount (000's omitted)	Per cent of total	Amount (000's omitted)	Per cent of total	Per cent change from 1955 Budget
1. Income tax on individuals and corporations	1,300,000	22.89	1,700,000	25.37	30.77
2. Export duties	950,000	16.73	1,050,000	15.67	10.53
3. Taxes on production and commerce of industrial goods and services	640,300	11.29	835,000	12.45	30.41
4. Import duties	650,000	11.45	730,000	10.90	12.31
5. Turnover tax on mercantile income	500,000	8.82	525,000	7.84	5.0
6. Miscellaneous fees, fines and charges	325,000	5.73	425,000	6.34	30.77
7. Income from government services -- postoffice, telegrams, etc.	200,000	3.53	275,000	4.10	37.50
8. Tax on exploitation of natural resources	190,000	3.35	170,000	2.54	- 10.53
9. Income derived from national properties	129,000	2.28	170,000	2.54	31.78
10. Stamp taxes	65,000	1.15	65,000	0.97	0



TABLE 2

(continued)

Source of Revenue	1955		1956		
	Amount (000's omitted)	Per cent of total	Amount (000's omitted)	Per cent of total	Per cent change from 1955 Budget
11. Tax on lotteries, drawings and gam- bling permitted by law	46,000	0.82	54,000	0.81	17.39
12. Immigration taxes	19,000	0.34	24,000	0.36	26.32
13. Tax on premiums paid insurance companies	18,000	0.33	20,000	0.30	11.11
14. Taxes on Capital -- inheritances, gifts, etc.	1,200	0.03	17,000	0.25	1316.67
TOTAL ordinary revenue	5,045,000 *	88.74	6,060,000	90.44	20.12
Sales and recovery of capital	40,000	0.70	40,000	0.60	0
Loans	600,000	10.56	600,000	8.96	0
GRAND TOTAL	5,685,000	100.00	6,700,000	100.00	17.85

\*Includes 11,500,000 pesos for a special revenue item in 1955 that does not appear in the 1956 estimates.

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The UN grant for the first year (1954) was for only \$50,000, of which \$20,000 was to be used for the purchase of farm machinery. The Junta de Reconstruccion y Fomento Industrial del Cusco has made 500,000 soles, approximately \$25,000, available, and will probably put up an additional 250,000 soles within the next few months. The Agricultural Bank of Peru is contributing over 100,000 soles toward the salaries of technicians, and furnishing a line of credit in the form of loans to the small Indian farmers. At the present time, the staff of the project consists of a North American technician supplied by International Development Services, three agronomos, one sanitary engineer, and one woman social worker, who is trained as a nurse and home economist. All except the technician are Peruvians. There are also five non-professional people employed as stenographers, tractor drivers and workmen.

The fact that the program, which was started in January 1954, did not get under way until more than two years after it was recommended, and is operating on a very small scale, has not dampened the spirits of the local staff. They feel that the area presents some very difficult problems, but they are enthusiastic about an opportunity to solve them. The selection of the Chinchero district as the starting place for the program was made by a Costa Rican technician sent by the UN, who lacked experience with supervised credit, and was concurred in by a mining engineer, who is executive officer of the Junta. To interject agricultural credit into self-sufficient Indian communities, where barter at the Sunday morning, local market is the principal means of commerce, will be the supreme test of North American ingenuity.

Fortunately, the technician sent by International Development Services did not arrive until December 1953, which was after the planting season had passed. It was, therefore, too late to interest the local farmers in production credit. Instead, he set about showing them how to side-dress their potatoes with fertilizer and how to control insects and diseases through the proper use of chemical sprays and dusts. He recruited the social worker to start sewing classes and health clinics, and to begin giving demonstrations in some of the rudiments of home sanitation. Moreover, it was soon discovered that the law governing the operations of the Agricultural Bank virtually prohibited the extension of credit to the Indian farmers. It had to be amended in two respects. First, to enable the Indian families to legally mortgage their crops and livestock as security for loans; and, second, to allow the bank to advance loans equal in amount to the estimated value of the security. These amendments to the law were approved in July, 1954. They not only opened the door to a credit program in Chinchero, but also made it possible for the Agricultural Bank to begin to respond to the needs of Indian farmers throughout the country.

In the meantime, the local field staff has been an important catalytic agent in enlisting the interest and active assistance of other government agencies. For example, the Public Health Department has earmarked 300,000 soles for a rural sanitary

program in the Cusco area. The sanitary engineer from the Chinchero project of UN will direct the use of these funds, putting most of the money into the construction of sanitary privies and the establishment of pure water supplies for the Indian communities. The Cusco branch of the Ministry of Agriculture has sent technicians to Chinchero to advise on methods of plant and animal disease control, and has designed a dipping vat which the UN technicians are constructing to try to rid Indian-owned hogs and sheep of lice and ticks. A doctor from a neighboring district now holds a weekly clinic in Chinchero for the Indian families. His charges, paid by the UN project are only 50 soles, about \$2.50, per clinic, plus transportation in one of the jeeps used by the agricultural technicians in their educational work with the local families. For the first time in history, many of the Indians have received the attention of a trained medical man.

Two programs of technical assistance sponsored by the U.S. government have been of great value to the UN technicians in launching their efforts in Chinchero. One of these is the joint Peruvian-United States program in elementary education, which is carried out by the Servicio Cooperativo Peruano Norteamericano de Educacion (SECPANE). The other is the work in agricultural extension, conducted by the Servicio Cooperativo Inter-Americano de Produccion de Alimentos (SCIPA). The latter has not operated in the Chinchero district, but one of its rural agents stationed at Cusco has been of great assistance in advising the UN technicians with respect to the agricultural practices that are sound and desirable in the highlands, and has "opened the doors" for them to many sources of information and guidance. SECPANE has had a program in the district for several years. It operates a fifth-grade, "nuclear" school in the Village of Chinchero, and ten other second- and third-grade schools in surrounding villages. It has made two rooms in its Chinchero school building available to the UN project; its teachers have cooperated in local surveys of families, farms and living conditions; and it has granted the use of school land on which to erect a building to house machinery and equipment, as well as land for demonstration plots and gardens.

Great progress has been made in gaining the confidence of the Indian families. Each week, several dozen women and girls come to the classes in sewing, home sanitation and child care that are held by the social worker. She is able to go into the homes and give simple demonstrations in ways and means of improving diets and of making life in the miserable, little houses more healthful and less laborous. Several families have hired the tractor purchased by UN funds to plow their land that has been in pasture. Some of it is of such heavy soil that it can hardly be turned by oxen. For the use of the tractor they pay an amount equal to the estimated cost of operating the machinery, which is about \$3.60 per acre for plowing and discing and making it ready for planting. A part of the UN funds has been used to buy a small threshing machine, which can be hauled from one tract to another by a jeep. It has been kept busy threshing barley and wheat, for which the families are charged enough to cover the cost of operating the machine.

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On many days, the small thresher can be seen operating in a field only a few hundred yards from another where a neighboring family is threshing its grain by the traditional method -- using oxen to tramp the straw into a fine mulch, which is then thrown up into the air to let the wind separate the straw and chaff from the kernels of grain. Likewise, the tractor, with its large three-bottom turning plows, or its heavy disc, is often working in a small tract of no more than one or two acres, while nearby a gang of six or seven men with foot plows -- small, narrow spades -- breaks a neighbor's field by the methods that were in use at the time of the Incas.

The modern and the traditional are working side by side in Chinchero, and the potentialities of the changes that are in the offing are tremendous. The use of machinery will have at least two immediate consequences: the amount of land in crops will be significantly increased; and considerable labor will be available for work outside of the district. Now there is almost as much land in pasture as in crops. The traditional system is to farm the land for four years, and let it lie idle for three years, during which time it is heavily pastured with sheep and a few cattle. Moreover, most of the soil is heavy, and some of it is poorly drained. Thus, there is available for crop production some land that cannot be worked with spades or ox-drawn, wooden plows. With machines to break and drain land, and with the introduction of modern crop rotations and improved pastures, it would be rather easy to increase the total cultivated acreage by 40 to 50 per cent, without violating sound principles of soil conservation. Through the use of fertilizers, disease-free seeds, and chemical insecticides, it may be possible to increase the yield of the land now under cultivation by 40 to 50 per cent. Thus, an 80 to 100 per cent increase in agricultural output appears to be possible in the Chinchero district.

Such an achievement will depend not only on sound agricultural and technical guidance, but on the willingness of the Indian families to accept the new methods of farming and ways of living that will be involved. The reaction of the Indians to a commercial, scientifically-based agriculture, in which modern farm machinery plays a considerable part, will determine Chinchero's future. If a significant proportion of the 1,300 to 1,400 Indian families, comprising 5,000 to 7,000 people, respond with reasonable speed to the new ideas and practices that are being suggested to them, and if the program can be continued for five to ten years, the results will be revolutionary in Chinchero. A pattern will have been set which could be a really significant and wholesome contribution to the solution of Peru's "Indian problem". To flatly predict that the UN program in Chinchero will be blessed with such results is both hazardous and unnecessary. Felix Callanaupa and his neighbors will probably make the final determination, and future reporters can write the story of the outcome.. But North Americans might well remember that there are thousands of areas like Chinchero in Peru and the neighboring Andean countries, and that the progress which is made toward relieving the human misery and indignities now suffered by millions of Indian families, not

only affords an opportunity for Christian benevolence but may also determine the kind of world in which our children will live.