

**Fiscal Decentralization and Municipal Governance in
Mexico
The Case of Chihuahua**

Prepared for delivery at the 1997 meeting
of the Latin American Studies Association,
Continental Plaza Hotel,
Guadalajara, Mexico,
17-19 April, 1997

DRAFT

Emily Edmonds Elías
University of California, San Diego
Department of Political Science, 0521
9500 Gilman Dr.
La Jolla, California, 92093-0521
(619) 534-3548
eedmonds@weber.ucsd.edu

I gratefully acknowledge the support of a field research grant from the Tinker Foundation and the Center for Iberian and Latin American Studies (CILAS) at the University of California, San Diego.

The 1980s was a decade of change in Latin America. Economically the region experienced the most serious crisis since the period of the Great Depression. Politically there was a general move away from the authoritarianism that characterized the preceding decade toward more open, pluralistic forms of government.

One of the aspects that accompanied this change in style of governance was the devolution of political power to the state and municipal level. Faced with fiscal crisis and increased political demands for urban public services, many Latin American states began to adopt administrative decentralization policies in an attempt to both reduce financial pressures on the federal government and to increase the efficiency of public service provision. The logic behind this type of reform was straightforward: devolving administrative responsibilities to states and municipalities would not only result in greater allocative efficiency, given that local governments were better situated to assess their priorities and design cost-effective solutions, it would also improve the overall quality of governance because local constituents were thought to be in a better position to monitor public expenditure and policy outcomes in their communities.¹

The regional move to promote decentralization met with mixed success. In some countries (e.g., Argentina, Brazil) local governments are now responsible for local taxation and play an important role in the provision of public services; while in other countries (e.g., Chile and Mexico) municipal governments are still subject to a considerable amount of state and federal level involvement and therefore do not enjoy the same level of autonomy. Several factors appear to account for the varied levels of decentralization in the region; however, analyzing the reasons behind this variation is beyond the scope of this paper.² The main focus here is to examine how the national decentralization reforms implemented in one country, Mexico, have impacted governance

¹ See Nickson, R. Andrew. *Local Government in Latin America*. Boulder: Lynne Rienner Publishers Inc., 1995.

²For one explanation see Eliza Willis, Christopher Garman and Stephan Haggard, "Decentralization in Latin America." Paper prepared for Annual Meeting of the American Political Science Association, August 29-September 1, 1996.

at the municipal level, and to determine whether these reforms have truly produced greater levels of decentralization thirteen years later.

The paper is arranged in the following manner: The first section discusses the reforms introduced in 1983 by President de la Madrid. Then, because local political autonomy largely depends upon fiscal self-sufficiency, the second section of this paper addresses the current municipal finance system in Mexico and evaluates some of the problems associated with the distribution of various sources of municipal revenue. One of the most interesting findings from this analysis is that, ironically, the aspects of municipal finance most affected by the reforms (e.g., revenue sharing) have not necessarily functioned to increase the real level of municipal autonomy. Instead it is in the area least touched by the reforms (i.e., locally generated revenue) where municipal governments find the greatest opportunities to exercise more independence from higher levels of government. The third section uses a case study of the capital city of Chihuahua to illustrate the point mentioned above, and also offers some preliminary suggestions about the factors that facilitate and inhibit a municipality's ability to increase the level of revenue it generates locally. Finally, the conclusion offers some propositions about the future prospects for and implications of greater municipal autonomy in Mexico.

1983 Decentralization Reforms

Like many countries in Latin America, Mexico implemented reforms designed to decentralize the federal government in the 1980s. These reforms were introduced after the onset of the debt crisis and reflected a growing awareness that extreme bureaucratic centralization was not sustainable during times of acute financial hardship. Two interrelated factors led President Miguel de la Madrid to implement decentralizing reforms in 1983. First, over-crowding in the Federal District placed considerable strain on the urban infrastructure and ecological environment. Second, the debt crisis made it increasingly difficult for the federal government to provide adequate public services to

citizens.³ Decentralization was one attempt to address these problems. It was the hope of the de la Madrid administration that sharing administrative functions and responsibilities with state and local governments, would allow the federal government to simultaneously increase administrative efficiency and decrease its own accountability by shedding bureaucratic responsibilities.

The 1983 reforms had three main goals: 1) to decentralize, both administratively and geographically, all federal agencies; 2) to strengthen federalism by increasing the power of states and local governments; and 3) to promote regional economic development.⁴ Each of these goals gave rise to a different project.

To begin the process of decentralizing federal agencies, each ministry was instructed to come up with a plan for its own decentralization. This effort was coordinated by the Ministry of Budget and Planning (SPP) and met with mixed success. Some ministries (e.g., Health and Education) actually achieved significant levels of decentralization, while others remained highly centralized.⁵

³For an interesting discussion of de la Madrid's attempt to implement economic austerity in the Federal District without provoking opposition to the PRI, see Diane Davis, *Urban Leviathan: Mexico City in the Twentieth Century*. Philadelphia: Temple University Press, 1994.

⁴Before 1983 there were several smaller efforts to promote decentralization. The administrations of Luis Echeverría (1970-1976) and Jose López Portillo (1976-1982) recognized the problems associated with high levels of income maldistribution, unemployment and low standards of living. Both presidents addressed these problems by promoting regional development. One method of achieving this goal was to foment economic (industrial) development in the larger peripheral cities by increasing investment and employment opportunities. This strategy had the double value of promoting the growth of smaller metropolitan areas while at the same time alleviating overcrowding by creating attractive alternatives to the larger metropolitan areas. In order to promote these objectives, Echeverría introduced the Ley General de Asentamientos Humanos (LGAAH) to coordinate urban planning for the three levels of government. The López Portillo administration continued this idea in the Plan Nacional de Desarrollo Urbano (PNDU), which specifically aimed to discourage the growth of Mexico City and to promote the decentralization of industry, private sector activities, and public services by encouraging them to locate in the thirteen "priority zones." The most ambitious plan of the López Portillo administration was the Plan Global de Desarrollo whose primary aim was to solve problems associated with urbanization. The Plan (created by Miguel de la Madrid) had little chance to produce results given that it was introduced at the end of the sexenio. For more on this see Victoria E. Rodriguez, *The Politics of Decentralization in Mexico: Divergent Outcomes of Policy Implementation*. Dissertation, University of California, Berkeley, 1987, pp. 69-75.

⁵ Rodriguez, *The Politics of Decentralization in Mexico: Divergent Outcomes of Policy Implementation*, p. 78. The decentralization of the Ministry of Education greatly improved the ability of the states to establish schools and provide teacher's education by transferring material and financial resources from the federal to the state governments. However, it is important to note that there appear to have been ulterior political motives for decentralizing this particular ministry. Education was a perfect target for

Overall, this initiative resulted in more deconcentration than decentralization.⁶ That is, while various federal agencies and ministries opened field offices in places outside Mexico City, the main locus of power remained in the hands of politicians and bureaucrats in the Federal District.

The effort to "strengthen federalism" was designed to increase the power (independence) of local governments vis-a-vis the state and federal government through reform of Article 115 of the Mexican Constitution. This reform also aimed to provide municipal governments with the ability to respond more effectively to local needs.

The revised version of Article 115 established that:

- 1) the political structure of ayuntamientos (city governments) would be strengthened so as to be able to provide legal security and maintain their autonomy.
- 2) municipios would have the right to manage their own finances and the ability to design their own rules of governance.
- 3) municipios would have responsibility for providing the following services: potable water and drainage, street lighting, street cleaning, markets and supply centers, graveyards, slaughterhouses, street paving and maintenance, parks, gardens, public security, and traffic police. If necessary, these services could be provided with the help of the state. This provision also stated that additional services could be provided when the state or local legislatures determined that a municipio has the administrative and financial capabilities to do so.
- 4) municipios have the right to keep all revenues collected from property taxes and from the provision of public services.
- 5) municipios have the right to design and implement their own urban planning projects.
- 6) the working conditions of municipal employees be regulated in order to provide them with some employment security.

decentralization because the main educational institution for teachers, the Escuela Normal Superior de Mexico, was very verbal about its opposition to the government. Clearly one of the motivations behind establishing alternative teacher training centers was to weaken the hegemonic influence of La Normal.

⁶For a discussion of the difference between decentralization and deconcentration see John Baily, "Centralism and Political Change in Mexico: The Case of National Solidarity in Wayne Cornelius, Ann Craig and Jonathan Fox, eds., *Transforming State-Society Relations in Mexico: The National Solidarity Strategy*, San Diego: Center for U.S.-Mexican Studies University of California, San Diego, 1994.

7) municipalities have the right to make agreements of assistance and cooperation with the state and federal government for the delivery of public services and for realizing public works that the former is unable to do alone.⁷

The overall impact of the 1983 reforms was mixed. As Rodriguez (1987) has shown, decentralization was more successful in those areas that did not require that the federal government relinquish its hold on political power. That is, local autonomy over resources was greater in areas that did not require large amounts of federal funding.

However, in many cases the reforms were almost destined to fail because efforts to decentralize public services were not accompanied by a concomitant effort to strengthen municipal administrative capacity to take on increased responsibilities. As a result, many local governments found themselves responsible for providing services that they had neither the resources to finance nor the infrastructure to administer.

The third decentralization reform was aimed at promoting regional development. This goal was to be accomplished by promoting industrial investment in places outside of Mexico City and by providing municipalities the legal and financial capabilities to operate without interference from the federal government. Legal support for municipal fiscal autonomy was stipulated in the revisions made to Article 115. In addition, the revenue sharing system was reformed and the federal government strengthened its commitment to provide discretionary grants to states and municipios.

Like the initiatives mentioned above, the effort to reform the revenue sharing agreements between the federal and state governments also met with mixed success. For while they did create a more equitable distribution of funds among states than had previously existed, federal revenue was still not allocated by strictly objective criteria. Inequity persisted in large part due to the fact that the power to allocate funds to

⁷Rodriguez, *The Politics of Decentralization in Mexico*, p. 119-121. Three provisions of the Article are not included here because they relate primarily to the state governors and legislatures. See also Roberto Ortega Lomelín, *Federalismo y Municipio*. Mexico, D.F.: Fondo de Cultura Económica, 1994; and Lileana Mazariegos Ramos, *El Poder del Municipio*. México: Banco Nacional de Obras y Servicios Públicos, S.N.C.

municipios was given to the state governors and the distribution of funds was not regulated by any legal formulae. So, although the reforms effectively deconcentrated the power of the federal executive, they did not result in true decentralization because power remained highly concentrated in the hands of the state executives who had sole discretion over the allocation of state resources.

It is clear that the reforms of 1983 did not produce the type of decentralization that the rhetoric promised. Indeed, by concentrating the power over fiscal resources in the hands of the governors, the de la Madrid administration was careful to structure the reforms in such a way as to delimit the extent of municipal autonomy. Nevertheless, de la Madrid was quite aware that the level of centralization in Mexico was extreme and could seriously compromise future economic growth and social well-being. This may account for the fact that the president chose to implement his reforms by way of a constitutional amendment.. For this type of reform could simultaneously achieve short-term political ends and provide the legal groundwork necessary for decentralization to become permanent.

Municipal Finance

In many respects, the core of local political autonomy depends upon fiscal self-sufficiency. Political actors without resources wield little influence regardless of the constitutional powers afforded to them. It is therefore important to understand the process by which local governments obtain their fiscal resources. Identifying the origin and locus of control of the major sources of municipal revenue will offer clues about the role of specific actors in the political process of securing the funds necessary for effective local governance. The following section addresses the system of municipal finance as it has evolved since 1983.

Local governments in Mexico obtain their income from three main sources: revenue sharing transfers from the federal government (*participaciones*); discretionary

grants from federal and state agencies (usually through agreements called *convenios*); and locally generated revenue from taxes (*impuestos*), fees (*derechos*), and surcharges (*aprovechamientos*). National and state-level taxation and revenue sharing with states and municipalities is coordinated by the Secretaría de Hacienda y Crédito Público (SHCP). Federal ministries are also responsible for funding the costs of public education and health care. According to World Bank figures, *participaciones* account for approximately 63 percent of municipal revenue, while taxes (mostly property) and fees/surcharges make up only eleven and ten percent respectively.⁸ The remaining sixteen percent of the municipal budget is made up of a combination of funds from discretionary grants from the federal government as well as monies generated from the sale or lease of state-owned property.

Revenue Sharing

Like most Latin American countries grappling with economic crisis in the 1980s, Mexico sought to strengthen the financial capacity of local governments with a system of revenue sharing. The practice of transferring federal funds to states and municipalities was theoretically beneficial to the *municipios* for a number of reasons. First, revenue sharing agreements linked municipal budgets to systems of national taxation which increased the elasticity of municipal income in relation to overall GDP. In other words, states now received a specific percentage of national revenue, rather than a fixed amount. Second, the agreements introduced transparency and predictability which allowed municipal governments to program expenditures in the medium term. Third, the transfers were allocated according to redistributive formulae and functioned as multipurpose grants which enabled local governments to allocate resources according to their own priorities.⁹

⁸World Bank, *Mexico: Decentralization and Urban Management Urban Sector Study*. Washington, D.C.:World Bank, 1991, pp. 35-38. It is possible that these figures reflect a national average rather than a generalizable rule because state INEGI reports reflect a considerably different breakdown. See INEGI's *Anuario Estadístico* for state breakdowns.

⁹Nickson, *Local Government in Latin America*. The author notes that unlike some countries in the region which relied solely on the federal transfer mechanism, the Mexican government also promoted local autonomy by granting local governments the powers needed to stimulate local revenue generation. As

In Mexico, the first attempt to implement a system of allocating federal transfers to states occurred in the late 1940s with the introduction of a three percent sales tax. At that time, the federal government allowed each state to decide whether it would coordinate its tax system with that of the central government. Those states that chose to incorporate themselves in the new system received just over a third of the revenue generated from the sales tax collected in that state, and agreed to redistribute 60 percent of that amount among its municipalities. Initially only the Federal District and the territories of Quintana Roo and Baja California Sur entered into this arrangement with the federal government. However, between 1949 and 1952, Aguascalientes, Morelos, Querétaro, Tlaxcala, Michoacán, Sinaloa and San Luis Potosí also became a part of the system of fiscal coordination.¹⁰

The Ley de Coordinación Fiscal (LCF), first adopted in 1953, established the legal framework to regulate the already-existing contractual agreements between the federal government and each state. Its purpose was to coordinate fiscal transfers from the former to the latter. Between 1953 and 1972, the states of Colima, Yucatán, Hidalgo, Campeche, Tabasco, Puebla, Guerrero, Chihuahua, Nayarit and Tamaulipas joined the group of states that adopted revenue sharing arrangements with the federal government. At this time the law still maintained that states would receive approximately one-third of the revenue generated by the three percent sales tax collected in that state. It was not until 1972, when an LCF reform established a four percent sales tax, that the rest of the states (Jalisco, Nuevo León, Sonora, Oaxaca, Guanajuato, Veracruz, Coahuila, Zacatecas, Chiapas, Baja California and the State of Mexico) were incorporated into the fiscal coordination system.¹¹

noted above, the de la Madrid administration reformed Article 115 of the Constitution to increase the authority of municipal governments to assess and collect taxes and to grant municipal control of local revenue. p. 53.

¹⁰Díaz Cayeros, Alberto. *Desarrollo económico e inequidad regional: hacia un nuevo pacto federal en México*. Mexico, D.F.: Fundación Friedrich Naumann, Grupo Editorial Porrúa, and Centro de Investigación para el Desarrollo, 1995, pp. 81-82.

¹¹Díaz Cayeros, *Desarrollo económico e inequidad regional*, p. 83.

The Current Revenue Sharing System

In an effort to avoid multiple taxation on a single source of income and create a more equitable system of distribution among the three levels of government, the López Portillo administration overhauled the tax system in 1980. There were two related reforms that altered the fiscal relation between the federal government and the states.

The first reform included a provision for the creation of the National System of Fiscal Coordination (SNCF)--a system designed to establish and coordinate a comprehensive tax collection system that allowed for a more equitable distribution of federal tax revenues to states and municipios. The SNCF established two types of optional agreements between the Ministry of Finance (SHCP) and the state governments: agreements of adherence to the SNCF (through the LCF) and agreements of administrative cooperation. The advantage to entering into one of these agreements was that the state was ensured a more substantial share of federal funds. However, the states were not entirely free to do as they pleased with the revenue because the agreements also stipulated that at least 20 percent of the funds must be distributed among the municipios¹²

The second major reform implemented in 1980 was the revision of the LCF to more equitably distribute federal revenue among the states and municipios. Contracts under the 1980 LCF stipulated that states cease to impose multiple indirect taxes in exchange for a share of a federally administered national tax. And although LCF contracts between states and the federal government were theoretically voluntary, failure to sign was equivalent to forfeiting all access to federal funds.

According to the reformed LCF, the federal government was required to allocate revenue to the states using three different mechanisms: the Fondo General de Participaciones (FGP), the Fondo Financiero Complementario (FFC), and the Fondo de

¹²Rodriguez, *The Politics of Decentralization in Mexico: Divergent Outcomes of Policy Implementation.*, pp. 238-239.

Fomento Municipal (FFM).¹³ Prior to 1990, the formulae used for allocating these funds were determined by origin-based criteria. Recently the formulae were changed to reflect need-based criteria in order to promote a more equitable distribution of federal transfers.¹⁴

The Fondo General de Participaciones (FGP), allocates a certain percentage of total annual federal tax revenue to the states. This fund represented 13 percent of total annual federal tax revenue in 1980. By 1994, this figure had increased to 21 percent. A minimum of twenty percent of this fund must be reallocated to the states' municipalities.¹⁵ Before 1990, proceeds of the FGP were distributed according to a formula based on the origin of federal tax collections. Each state received a base allocation roughly equal to the share received in the previous year. However, over the five year period from 1990 to 1994, the agreement was changed so that it progressively adopted a new formula. The final formula established that the fund be allocated half by population and half according to the origin of excise taxes, but with some weighting according to the previous year's percentage increase in local revenue collection. In 1990, 20 percent of the increment was to be distributed by this formula, and 80 percent by the previous rules, in 1991, 40 percent and 60 percent etc., so that by 1994 the new rules were to supposed to be in full effect.¹⁶

Currently, the FGP is distributed to states according to the following criteria: "45.17 percent on the basis of state population, 45.17 percent on the basis of state contribution to federal tax receipts, and 9.66 percent in inverse proportion to the receipt per head of each state resulting from the first two criteria."¹⁷ The last criterion was added to compensate somewhat for the disparities among state contributions.

¹³ It appears that the FFC, which was 0.5% of overall federal income, progressively became part of the FGP in the period between 1990 and 1994. (World Bank, p. 18) Accordingly, the following discussion does not mention the FFC by name.

¹⁴See Nickson, *Local Government in Latin America* and World Bank *Decentralization and Urban Management*.

¹⁵Nickson, *Local Government in Latin America*, p. 204.

¹⁶World Bank, *Decentralization and Urban Management*, p. 18.

¹⁷Nickson, *Local Government in Latin America*, p. 204.

The second mechanism of revenue sharing is the Fondo de Fomento Municipal (FFM), which is comprised of one percent of the federal tax collected on export of oil and natural gas. All of the proceeds from the FFM must be distributed among a state's municipalities. However, rather than be given directly to the ayuntamientos, these funds are channeled through the state government, which means that there are many opportunities for misapplication of the revenue generated by the FFM.

By the old formula, FFM funds were distributed based on population and in inverse proportion to FGP allocations. As of 1995, the proceeds of the FFM are distributed according to the amount of FFM funds a state received the previous year and according to the rate of growth of local contributions (from property rights and other sources). The rationale behind this formula is that those states and municipios with the highest rates of municipal property tax collection should be rewarded for stimulating local revenue generation.

Other forms of revenue sharing include a tax on vehicle ownership and funds derived from the fees from oil production and the tax on the export of petroleum products. Although these taxes are collected by the federal government, at least twenty percent of proceeds from the vehicle must go to the state governments. Similarly, all of the funds from the oil tax must be given to border and coastal municipios who must bear extra costs as ports of exit and entry.¹⁸

The Ley de Coordinación Fiscal also stipulates that the federal government cannot manipulate the amount or date of allocation. That is, disbursements must be made according to a pre-established calendar. Similarly, states must reallocate federal funds within five days of their receipt. These funds are to be used according to locally determined priorities.

¹⁸Ordóño Pérez, Alejandro and Fernando Azpeitia Sánchez, "Participaciones federales a estados y municipios." *Federalismo y Desarrollo*, No. 51, July, 1995.

Relative Importance of Federal Transfers

Federal transfers represent varying percentages of states' budgets. Some states (e.g., Coahuila) depend on the federal government for almost 90% of the state budget. In others (e.g., Nuevo León), transfers make up only 22 percent of the budget.¹⁹ The differences are due to three general factors: 1) differences in natural resource endowment and levels of industrialization/production; 2) variations in ability to get credit (take on public debt) from the federal government; 3) variations in the amounts received from other federal sources (e.g., through CDSs and PRONASOL).²⁰

According to the World Bank, revenue sharing is the largest single source of municipal revenue (60 percent of total municipal receipts in 1984) in Mexico. However, it seems likely that this was true for all states only in the pre-PRONASOL period (i.e., before 1988). For after 1990, several states experienced substantial increases in the number and amount of discretionary grants they received from "other sources."²¹

Federal law dictates that states give their municipios at least 20 percent of the total amount received from the FGP and vehicle tax, and 100 percent of the FFM. However, because there are no legal criteria to regulate how these funds are divided among the municipios, state legislatures exercise complete discretion in their allocation.²²

This is not to say that the amounts allocated to specific municipalities are completely arbitrary. To the extent that some states have formulae for distribution, it appears that origin (which is proxied by local or federal tax collections or by population) constitutes the primary basis for allocation.²³ For example, as Nickson states: "In the States of Puebla and Coahuila, the transfer is almost exclusively based on population size.

¹⁹Díaz Cayeros, *Desarrollo económico e inequidad regional*, pp. 102; see also INEGI figures.

²⁰CDS's are Convenios de Desarrollo Social. These agreements and the PRONASOL program will be discussed in some detail below.

²¹ See Table 10, p. 103 in Díaz Cayeros, *Desarrollo económico e inequidad regional*.

²²Although state legislatures have the legal authority to allocate the *participaciones*, I suspect that in most states it is the governor who decides both what percentage of the funds will be allocated, and how the federal transfers will be divided among the municipios.

²³World Bank, *Decentralization and Urban Management*, p. 19.

In the States of Nayarit and Colima, the municipalities of the state capitals automatically receive 39 percent and 34 percent, respectively."²⁴ It must be added that several states (e.g., Chihuahua, Campeche and Durango) have no distribution formula at all. Precisely because there is no national (federal) law to regulate the process, and because allocation is seldom carried out publicly, there is great potential (and incentive) to manipulate the allocation of federal transfers according to political criteria.

Many of the problems associated with municipal transfers are related to the difficulties of specifying the origin of tax collection (especially the IVA). For example, many people live in one municipio and work in another. This means that much of the revenue that should accrue in the "home" municipio actually goes to the "work" municipio. Thus it appears that population is a more accurate indicator of origin of tax receipts. The administrative procedure of actually transferring the funds is also problematic. Despite the existence of a law which prohibits this action, some states fail to transfer municipal shares promptly, or make this transfer in kind rather than in cash.²⁵ Other states have laws that require them to deposit the funds in local government accounts within a specified period of time.

Effectiveness of Revenue Sharing

There is some debate about the effects of high levels of federal transfers. Some say that larger transfers discourage local revenue generation, while others argue that local tax efforts are not adversely affected by growing central government transfers. There is empirical evidence in Latin America to support both arguments.²⁶

In Mexico (at the aggregate level) during the 1980s, large federal transfers and grants did coincide with a decline in local tax effort despite the fact that the system was designed to encourage the generation of local revenue. Indeed, according to the World

²⁴ Nickson, *Local Government in Latin America*, p. 205.

²⁵ See Nickson p. 205 and World Bank, *Decentralization and Urban Management*, p. 38.

²⁶ Nickson, p. 55.

Bank, transfers functioned as a substitute for local taxes: "Like the central-to-state transfers, they [municipal transfers] provide subnational governments with a means of taxing their constituents using central government tax instruments."²⁷ World Bank figures show that property tax revenues dropped by 60 percent between 1980 and 1984. The trend is thought to have continued through 1989, although by 1990 there was evidence to suggest that tax revenues increased following the reform of the LCF which rewarded state fiscal effort.²⁸

There is also some debate over the effectiveness of revenue sharing agreements for redistributing resources among states and municipalities. For although federal allocations to states and municipios increased significantly in absolute terms between 1980 and 1984, once the figures are adjusted to reflect the rate of inflation, it becomes apparent that these increases were nominal. Moreover, the distribution of federal funds among municipios remained grossly inequitable during the same period.²⁹

A more recent study shows that between 1982 and 1992 federal transfers increased from 2.2 to three percent of GDP. In terms of real growth, the system of distribution of *participaciones* among states was most beneficial to the poorest states. Notwithstanding the benefit, the most underdeveloped states continued to receive the lowest levels (in absolute terms) of federal transfers. In per capita terms, there was a strong bias in favor of richer (especially oil producing) states.³⁰

It appears that the current formulae do produce a more equitable distribution of federal transfer money. In particular, the provision that the FGP be allocated according to both population and origin of tax receipts has done much to increase the revenue of poorer states. However, poorer states do not benefit as much from the other two sources of federal revenue--which represent substantial amounts of revenue. Richer states have a

²⁷ *Decentralization and Urban Management*, p. 19.

²⁸ *Decentralization and Urban Management*, p. 36. As mentioned previously, FFM allocations favor states with high rates of local tax collection.

²⁹ Rodriguez, *The Politics of Decentralization in Mexico*, p. 242.

³⁰ Díaz Cayeros, *Desarrollo económico e inequidad regional*, pp. 97-100.

clear advantage in obtaining funds from the FFM, which favors states with high rates of municipal tax collection. Similarly, the vehicle ownership tax disproportionately favors richer states, as does the tax on the export of oil. So while the new formulae are an improvement on past methods of distribution, it is clear that the current form of allocation has the effect of punishing poor states for being poor.

Discretionary Grants

Discretionary grants make up the second major source of municipal revenue from the federal government. Since the administration of President Luis Echeverría (1970-1976), the allocation of these grants has allowed the federal government to coordinate central planning with state and local level planning and budgeting.³¹ The first coordinating structure, Comité Promotor del Desarrollo Económico (COPRODE), was established in the early 1970s as a consultative mechanism designed to link the private sector to federal and state agencies so that together they could formulate and implement economic development plans. President López Portillo (1976-1982) continued to link multi-year planning to annual budgeting with the Convenio Unico de Coordinación (CUC)--a treaty-like agreement between the federal government and individual states to set local priorities and coordinate joint financing of public works projects.

Funds for state and local level projects were channeled through CUCs and COPRODEs by the Ministry of Budgeting and Planning (SPP). In the mid-1970s, federal subsidies were also channeled through these bureaucratic structures in order to cover shortfalls in state and municipal budgets. By the end of the decade the convenios were used to increase the role of the states in administering federal development programs (e.g., PIDER and COPLAMAR).

³¹Bailey, John. "Centralism and Political Change in Mexico: The Case of National Solidarity," p. 108.

Even before he became president, de la Madrid began to introduce his own vision of the budget and planning coordination mechanisms.³² In 1981, the CUC was replaced by the Convenio Unico de Desarrollo (CUD). Also, the COPRODEs were renamed COPLADEs (Comites para la Planeación de Desarrollo Estatal) and became "planning cells" that brought together representatives of both federal and state planning-budgeting agencies to discuss and coordinate state and local projects.³³

During the de la Madrid sexenio (1982-1988), several federal development programs were consolidated into one regular budget line, "Regional Development," or Ramo 26.³⁴ According to Bailey, Ramo 26 had two purposes: "to promote deconcentration by giving the state governments some flexibility in choosing from a mix of federally funded welfare and infrastructure programs, and to distribute federal investment money preferentially to the poorest states."³⁵ Although Ramo 26 did not control a large amount of investment, Regional Development funds were extremely important to many states because they were adversely affected by the substantial budget cuts made as a result of the severe economic crisis of the 1980s.

Under President Carlos Salinas (1988-1994), the CUDs were renamed Convenios de Desarrollo Social (CDSs) and continued to be cost-sharing investment agreements between the federal and state governments designed to realize state and local level projects. The CDSs supplied investment grants to states and served as instruments for financing capital expenditure. They were funded by the Regional Development Budget which was part of the National Development Plan (PND)--a plan designed to promote urban and regional policy and public sector investment. During the first half of the Salinas

³²De la Madrid was the head of the Ministry of Budget and Planning during the López Portillo administration.

³³Bailey, "Centralism and Political Change in Mexico," p. 109; World Bank, *Decentralization and Urban Management*, p. 3, 7.

³⁴It is important to note that Carlos Salinas, the secretary of SPP during the de la Madrid administration, was the engineer of these changes. It is not surprising then, that Ramo 26 later evolved into the National Solidarity Program.

³⁵ Bailey, "Centralism and Political Change in Mexico," p. 109.

sexenio, SPP was the federal ministry in charge of drafting the PND and coordinating public sector investment.³⁶

The CDSs and COPLADES were used to disburse the Regional Development Budget (PDR). According to the World Bank, about 20 percent of public investment passes through these channels.³⁷ COPLADES are made up of representatives of federal delegations, state government ministries, municipios, private enterprise and other interest groups (e.g., unions). This group makes a list of projects for CDS financing. Only part of the money is provided by the federal government; the balance must be contributed by the state/municipio. Although specific projects varied by state, 1991 figures show that nationally the largest share of the funds was used for social welfare, while the second largest share was used for projects in the communications and transport sectors.³⁸

These federal investment grants, in conjunction with matching contributions from state governments, were used to realize projects at the state and local levels. Some municipalities also participate in these agreements. In several states, committees of state and municipal representatives (COPLMUNS or COPLADEMS) have joined forces to realize local projects.³⁹ The agreements provide municipios with federal/state funds to which they must add their own contributions, whether in the form of labor, materials or technical skills. Some states (e.g., the State of Mexico) are able to help fund municipal projects without the aid of federal resources.

³⁶During the de la Madrid administration, the Secretaria de Desarrollo Urbano y Ecología (SEDUE) also played a role in coordinating public expenditures related to the environment and public housing as well as rural and urban development. Salinas abolished this ministry and transferred its functions to the newly created Ministry of Social Development (SEDESOL) in 1992.

³⁷*Decentralization and Urban Management*, p. 9.

³⁸*Decentralization and Urban Management*, p. 11. See also, *Rodriguez, The Politics of Decentralization in Mexico*, pp.252-260.

³⁹Although these organisms still exist in some places, they are generally ineffective because both politicians and citizens misuse the meetings. It is not uncommon for the former to use the forum for self-aggrandizement or for the latter to take advantage of the opportunity to air grievances on matters wholly unrelated to the stated objective of the meeting. Gerardo Manuel Ordóñez Barba, personal communication.

The amount and character of municipal participation in CDS- sponsored projects varies from state to state. Participation levels are determined not only by the political environment of a state, but also by the administrative and technical capabilities of local administrations. For example, in Yucatán the governor controls all federal and state allocations, while in Chihuahua, Nuevo León and Tamaulipas, municipal administrations are much more developed and therefore play a larger role in determining local priorities.⁴⁰ Once they have secured resources from the federal level, state governments can execute individual CDS programs either directly through state ministries or through municipal administrations.

The federal government controls CDS allocations and distributes them according to no specified objective formulae. Instead governors are representatives from federal ministries bargain over municipios that will benefit and projects to be funded. Generally the content of such negotiations is not made public and the consequent conclusion to be drawn is that allocation of CDS funds is made according to political rather than technical or other more objective criteria. Indeed, there is statistical evidence to suggest that federal agency expenditures, federal investment grants, and investments through the *convenios* do not follow any specific pattern. In a study conducted by the World Bank (using data from 1985), regression analysis was used to test whether funds were distributed more consistently to richer or poorer states or whether allocations were made more objectively according to population. The results of the study showed that "in no case is the state-by-state allocation significantly explained by the relevant variable." The World Bank attributed the random nature of overall distribution of federal resources to "the varying objectives of particular sectoral programs" as well as to "political pressures."⁴¹

⁴⁰*Decentralization and Urban Management*, p. 10, 15.

⁴¹*Decentralization and Urban Management*, pp. 9-11.

Although the convenios provide municipios with an important source of revenue, they are not necessarily positive in their overall affect. For example, the funding acquired through this arrangement is often for one-time expenditures or physical infrastructure projects. These projects, while beneficial, do little to provide long-term solutions for the most serious problems facing municipal administration. Another drawback to the CDSs is that the funded projects often do not reflect local priorities. This outcome is due to the relatively unequal bargaining position of the municipios vis-a-vis the state. It is not uncommon for state governments to impose their priorities on those of the municipio.

Additionally, it is not clear how viable the convenio arrangement will fare now that Mexico's party system is becoming more competitive. There is little evidence (either within Mexico or internationally) to support the position that state and municipal governments of opposing parties will easily cooperate to realize joint projects rather than compete with one another. Indeed, as we shall see in the case of Chihuahua, there is a great deal of conflict over exactly this kind of issue. Two factors have the potential to further complicate partisan disputes over responsibility.

First, partisan based competition between state and local governments "obscures the clarity in the division of functional responsibilities which is critical to public responsibility."⁴² In other words, because state and municipal responsibilities are not, in practice, clearly defined or separate from one another, it is often difficult to determine which level of government to hold accountable when demands are not met. When different parties control the municipality and the governor's palace, it is very easy for each party to blame the other for not delivering on its promises.

Second, in Mexico, local officials are elected to office for only three-years and cannot be reelected. Such short terms greatly affect the incentives of municipal-level politicians. Rather than foster a working relationship with their state-level counterparts, local administrators have incentives to undertake highly visible, short-term, quick-fix

⁴²*Decentralization and Urban Management*, p. 41.

projects, since longer-term goals may benefit their successors more (or instead) of themselves. For example, Ward (1995) has shown that in Chihuahua during the mid-1980s, municipal administrations controlled by the opposition PAN party concentrated their efforts on smaller projects such as administrative reform and the expansion of public service provision rather than undertake larger projects (e.g., physical infrastructure) that required federal funding and might also benefit the PRI-controlled state-level government.⁴³

The final negative aspect of the *convenio* process is that it reinforces the tendency for policy incoherence because the jurisdictions of the many federal ministries involved in this process are not clearly defined. This often results in the duplication of efforts and even the simultaneous implementation of contradictory policies. The federal agencies established to coordinate ministerial policies are many times impotent to override the wishes of the heads of the ministries who have few incentives to give up functions/policy areas because doing so would compromise a minister's competitive position within the party.⁴⁴ This reluctance stems from the fact that the official party, which is effectively fused to the bureaucracy, is organized hierarchically according to influential cliques (*camarillas*). Upward mobility is based not on objective criteria, but rather it is based upon demonstrated loyalty to the *camarilla* leaders (and to the president) and the extent of an individual's personal networks within the government.⁴⁵

That the internal structure of the PRI rewards personal loyalty also encourages ministers (as well as all other party members in high positions) to dole out discretionary grants on a political rather than on an objective basis. Indeed, low-level bureaucrats have

⁴³Peter Ward, "Policy Making and Policy Implementation Among Non-PRI Governments: The PAN in Ciudad Juarez and in Chihuahua," in *Opposition Government in Mexico*. Victoria Rodriguez and Peter Ward., eds., Albuquerque: University of New Mexico Press, 1995.

⁴⁴Purcell, Susan and John Purcell. "State and Society in Mexico: Must a Stable Polity Be Institutionalized?" *World Politics* 32:1980, p. 218.

⁴⁵For an extensive discussion of the *camarilla* system, see Roderic Camp, *Mexico's Leaders: Their Education and Recruitment*. Tucson: University of Arizona Press, 1980. For an abbreviated discussion see Vivienne Bennett, *The Politics of Water: urban Protest, Gender and Power in Monterrey, Mexico*. Pittsburgh: University of Pittsburgh Press, 1995.

every incentive to use their personal connections to influence the allocation of public funds, while high-level bureaucrats have it in their interest to control the allocation of as many funds as possible, in order to show the extent of their political power.

The camarilla system further mitigates against policy coherence by creating incentives not to be associated with "the wrong" policy. That is, the party rewards loyalty, but only to the extent that it reflects shrewdness. Bureaucrats who are consistently associated with unsuccessful policies will be rewarded for their allegiance to the creators of those policies. The consequence of this dynamic is that politicians are loath to commit to any long-term policy plan. Instead, they seek to associate themselves with short-term policies that are highly visible and easy to claim credit for. Not surprisingly, the showy projects do little to address the most pressing administrative and infrastructure problems facing local governments.

To date no member of an opposition party has served as the head of a federal ministry.⁴⁶ Consequently, there is no way to compare the behavior of opposition party members to that of PRI members in ministerial posts. Nevertheless, it might be posited that because opposition parties do not have the same relationship with the bureaucracy, their members have different incentives which produce a different strategies for advancement. This is not to say, however, that the outcome would necessarily be different. Indeed, all politicians are likely to make allocative decisions based on "political" considerations.⁴⁷

PRONASOL

Yet another source of federal discretionary is through the National Solidarity Program (PRONASOL). Administered first by SPP and later by the Ministry of Social

⁴⁶The exception would be Antonio Lozano, the current Attorney General, who is a member of the PAN.

⁴⁷As we shall see below, some members of the PAN with discretion over large amounts of funds have in fact adopted allocative methods very similar to those of the PRI.

Development (SEDESOL), the stated objective of this program was poverty alleviation.⁴⁸ This goal was to be accomplished by initiating projects that simultaneously raised the standard of living of the many Mexicans living at poverty level and promoted local initiative, independence and responsibility. There were four fundamental principles for this proposed new relationship between state and society:

- 1) community-generated statements of need and organizational efforts
- 2) effective community participation in Solidarity projects
- 3) joint responsibility for the financial support and realization of projects
- 4) honest and efficient management of resources committed to projects⁴⁹

Solidarity was specifically designed to improve overall physical and social welfare. Its aims included building roads, introducing and expanding the provision of potable water, drainage, school support, health services, electricity, and agricultural infrastructure to eligible communities.

Despite the fact that like the COPLADEs and CUDs, Solidarity projects were defined by agreements between the federal and state or local governments, the latter did not displace the Regional Development mechanisms. Indeed, the two programs coexisted in the Salinas administration. Whereas the COPLADEs emphasized local planning initiatives, Solidarity provided a "rich menu of grassroots-oriented programs." In addition,

⁴⁸In 1992 an administrative reorganization abolished SPP (transferring back to Treasury many responsibilities including the power to make budgets), and established the Ministry of Social Development, SEDESOL. Headed by Luis Donaldo Colosio, SEDESOL was created from the former SEDUE and took over responsibility for the Solidarity program. Bailey, "Centralism and Political Change in Mexico," p. 110.

⁴⁹ Cornelius, Wayne, Ann Craig, and Jonathan Fox. "Mexico's National Solidarity Program: An Overview." in *Transforming State-Society Relations in Mexico: The National Solidarity Strategy*, San Diego: Center for U.S.-Mexican Studies University of California, San Diego, 1994. This book provides a comprehensive view of the National Solidarity Program.

Solidarity had a much larger budget and a structure that allowed the federal government to bypass state governments and deliver services to the municipalities.⁵⁰

One of the Solidarity programs aimed at improving local infrastructure was the Municipal Solidarity Fund.⁵¹ The purpose of this program was to provide administrative training and financial support to improve municipal administrative capacity. Under Salinas, the program worked in the following manner: once the Ministry of the Treasury determined SEDESOL's budget, the latter began to negotiate individual budgets for participating states. Specific allocations depended on the previous year's amount and priority was given to the poorest states. SEDESOL field offices then decided with state governors and COPLADEs which municipalities were eligible to receive funds. It was the responsibility of the municipal president and the cabildo to discuss the program and solicit projects requests from the community. Project proposals were then sent to the COPLADE for approval and, if approved, were to be forwarded to the SEDESOL state delegation for final approval. After qualifying projects were approved, funds were released to the municipio. The municipal treasurer then opened a checking account especially for these funds, and from it paid the appropriate contractors or neighborhood committees as needed for implementation of the project.

During the implementation of the project, neighborhood committees were to prepare reports for the Municipal Solidarity Council--a group that consists of state government representatives; the municipal treasurer, delegates, and director of public works, elected community representatives--and is presided over by the municipal president. Upon completion, the municipal government turns over the project to its neighborhood committee, which then administers and maintains it.⁵² Participating

⁵⁰Bailey, "Centralism and Political Change in Mexico," p.110. Clearly there was more to this program than simply poverty alleviation. For a discussion of the political motivations behind the PRONASOL program see Cornelius, Wayne, Ann Craig, and Jonathan Fox. *Transforming State-Society Relations in Mexico: The National Solidarity Strategy*,

⁵¹ This fund also includes World Bank funding. See Bailey, 112.

⁵²Bailey, 113-115.

municipios must contribute at least 25 percent (either in cash or in kind) of the overall cost of the project.⁵³

According to Bailey, there are three ramifications of the SEDESOL bureaucratic structure for intergovernmental relations and decentralization. First, the most important negotiations occur at the highest levels of government. Treasury must determine the SEDESOL budget, SEDESOL then determines specific state budgets and governors (along with federal agency representatives and COPLADEs) designate qualifying municipalities. Second, the aforementioned procedures force governors and mayors to include popular participation in the projects. This can undercut the power of local bosses and in some cases this means that Solidarity can force states to spend money where they otherwise would not (e.g., outside the capital or municipal seats). Finally, the process of implementing Solidarity programs effectively marginalizes the state legislatures because the important decisions are made at both higher and lower levels of government.⁵⁴

Although SEDESOL survived into the Zedillo administration, its budget and personnel have been drastically reduced and approximately one third of the agencies were transferred to other ministries. Important changes have also been made in the way funds are channeled. Rather than go through a federal ministry, funds are now directly allocated to municipal governments and Municipal Councils. Approximately one half of the program's resources have already been transferred in this manner. If Zedillo has his way, the remaining funds will also be transferred and PRONASOL will be replaced a new program--the "Alliance for Welfare."⁵⁵

⁵³World Bank, *Decentralization and Urban Management*, 13-14. For a more thorough account of the administration of a specific SEDESOL program (Municipal Funds Program) see Jonathan Fox and Josefina Aranda, *Decentralization and Rural Development in Mexico: Community Participation in Oaxaca's Municipal Funds Program*. San Diego: Center for US-Mexican Studies, 1994.

⁵⁴Bailey, 116-117

⁵⁵Kaufman, Robert and Guillermo Trejo. "Regionalism, Regime Transformation and PRONASOL: The Politics of the National Solidarity Program in Four Mexican States." 1995 ms.

Locally Generated Revenue

As discussed above, the amendment of Article 115 conferred on municipalities the responsibility for assessment and collection of property and other taxes. Prior to this reform, taxes were collected by the state and shared with municipalities. The amendment was seen as an important step in increasing the financial and political independence of local government; however, it also perpetuated two problems related to decentralization. First, many small municipios lack both up-to-date property cadastres and the necessary infrastructure to collect taxes. Consequently, they are forced to make collaborative agreements with the state for the assessment and collection of local taxes. For example, in Tabasco the state government assesses and municipios collect, while in the state of Mexico the opposite occurs.⁵⁶ It is not uncommon for state governments to take advantage of the subordinate position of the municipios by charging up to 30 percent of the gross value of tax receipts.⁵⁷

Second, the 1983 amendment did not address the fact that only state governments can establish tax/fee/surcharge rates. Any changes in property assessment, tax rate must be approved by the state congress and the state governor. Furthermore, any of the three actors (municipal president, state congress or governor) can exercise a veto on reformist proposals. The inability of municipios to unilaterally set their own tax rates or to index property values against inflation seriously limits the overall amount of tax revenue that they receive. This problem is further compounded by the fact that state political leaders have incentives to keep taxes low. Indeed, several states have neither increased nor reevaluated their tax rates and bases since the 1970s. Given these circumstances, it is not surprising that the real value of property tax receipts declined drastically during the 1980s.

The impact of inadequate administrative infrastructure and limited taxing power is undeniable. Between 1980 and 1984, property tax revenues dropped by 60 percent in

⁵⁶World Bank. *Decentralization and Urban Management*, p. 36.

⁵⁷Nickson, *Local Governments in Latin America*, p. 106.

real terms. The decline appears to be the result of two factors. First, property tax assessments were not adjusted to reflect the accumulated rate of inflation (almost 600 percent), which means that local and state governments were entitled to collect only a fraction of what was owed to them. Second, many states and municipalities have not updated the physical changes of their tax bases. New construction and changes in land use are not on record and hence do not generate tax revenue for the municipality or the state.⁵⁸

This is not to say that there have been no increases in local revenue generation and collection. Indeed, several states and many municipios have successfully augmented their self-generated revenues. For example, in Baja California between 1988 and 1991 taxes, fees and fines/surcharges all increased by approximately 42 percent.⁵⁹

That Baja California was able to increase its locally generated revenue is due in large part to the efforts of PAN governor Ernesto Ruffo who had several political reasons for undertaking this challenge. First, he believed in the right of self-governance and state autonomy from the federal government. He therefore promoted an overall fiscal and administrative decentralization effort. Second, the key to reducing the dependence of the state on the central government was to achieve fiscal self-sufficiency, or at least decrease the need for federal contributions. Finally, Ruffo (and his party, PAN) called for a reduction of state (Baja California) as well as overall government involvement in the economy. He therefore employed business-like methods and strategies to address budgetary and infrastructure problems. Overall this strategy was successful in that it resulted in a balancing of the state budget and a more transparent system of accounting.⁶⁰

⁵⁸World Bank. *Decentralization and Urban Management*, p. 36; Nickson, *Local Governments in Latin America*, p. 106.

⁵⁹Rodriguez, Victoria and Peter Ward. *Political Change in Baja California: Democracy in the Making?* Monograph Series, 40. San Diego: Center for U.S.-Mexican Studies University of California, San Diego, 1994. pp. 107-109.

⁶⁰For further discussion of PAN policies and strategies, see Ward's "Policy Making and Policy Implementation Among Non-PRI Governments: the PAN in Ciudad Juarez."

Although the increase in locally generated revenues is primarily attributable to the efforts of Baja California's governor, other states were also able to enhance the amounts of money they collected locally. Figures reported by the National Institute of Statistics, Geography and Information (INEGI) show that during the 1989-1991 period, the states of Chihuahua and Nuevo León also increased the amount of receipts generated from taxes and other forms of self-generated revenue.⁶¹

The tendency toward decentralization did not extend to the collection of value-added tax (IVA). In accord with the general move toward administrative decentralization, responsibility for the collection of the value-added tax was given to the states in 1983. States collected and kept 2.2 percent of the revenue generated from this tax, which gave them substantial liquid assets. The remaining 1.8 was to be sent to the federal government. However, between 1983 and 1989, states increasingly began to send less than the 1.8 percent to Mexico City. According to Rodriguez and Ward, this was because states adopted the practice of sending the federal government the amount they (the states) felt it was entitled to receive. In an effort to counteract this unsanctioned form of decentralization, the Salinas administration reinstated the collection of the IVA to the federal government. Not surprisingly, some states continue to demand that the collection of the value-added tax be returned to the states.⁶²

Despite the constraints mentioned above, taxation appears to be the area where municipalities are given the greatest amount of freedom to determine how much revenue they will receive. That is, because participaciones are distributed by federally determined formulae, and CDS funds are distributed through a process which wholly excludes the ayuntamiento, municipios have little to no control over how much money they receive from these sources. However municipios enjoy a certain amount of control over the amount of

⁶¹"Origen de los ingresos y egresos brutos municipales 1986-1992" *Anuario Estadístico del Estado de Chihuahua, Edición 1993*. p. 121; "Origen de los ingresos y egresos brutos municipales 1986-1992" *Anuario Estadístico del Estado de Nuevo León, Edición 1993*. p. 118. INEGI.

⁶²Rodriguez and Ward, *Political Change in Baja California: Democracy in the Making?* p. 109.

revenue they generate from taxation (and collection of surcharges and fees for services). As such this is the most important method that municipios have to increase their revenue. In addition, once collected, this source of revenue is subject to the least amount of state and federal interference. Not surprisingly then, many municipal governments are attempting to increase the amount of revenue generated in their communities. Projects include updating property cadastres, punishing delinquent accounts, and improving their bureaucratic infrastructure so as to have the administrative capacity to provide and charge for public services.⁶³

If municipios are increasingly seeking to establish their own reliable sources of income, we might ask what factors help and hinder this effort. It seems clear that all municipios are constrained by two sets of factors: circumstantial and institutional. The first set is comprised of interrelated attributes such as size, location and level of economic development. Certainly larger, centrally located (rather than marginalized), more economically advanced municipios will be in a better position to raise their levels of revenue. Large populations provide for a more extensive tax base. Centrally located municipios attract not only economic investment, which contributes to local revenue, but they also attract well educated and well trained people seeking jobs. These two factors along with economic development will increase the ability of a municipio to create the infrastructure necessary to administer public services.

The institutional factors that will determine whether a municipality is successful in broadening its economic base are three-year term limits with no immediate reelection and laws that require tax reform to be approved by the governor and state legislature. Three-year term limits are detrimental in that they give politicians very short time horizons and create incentives for smaller initiatives. Projects that aimed at increasing local revenue are

⁶³For example, in the city of Chihuahua the municipal government is making a concerted effort to increase its revenue through these methods. It is also trying to convince the state government to allow it to administer public services such as public security which have the potential to yield substantial resources.

generally not attractive because they may take three years to complete which means that the initiator would not benefit from the reform and may not even be able to take credit for its implementation. Indeed the chances that such a project will benefit the successor are quite high.

As mentioned previously, any changes in tax rates or laws proposed at the municipal level must be approved by the governor, the state legislature as well as the municipal president. Consequently, it is not enough for a municipio to have the economic or administrative capacity to administer and collect taxes; it must also have the approval of higher levels if it is to implement more fundamental reforms of potentially great benefit. This gives rise to many questions concerning the relative difficulty of initiating such reforms in states with divided versus hegemonic government (controlled by one party). These are but some of the salient factors. A more comprehensive study is needed to determine exactly what accounts for the varying ability of municipios to generate locally based revenue.

Case Study: Chihuahua

It is now possible to examine a case study in order to understand how these reforms have played out in one state.⁶⁴ Chihuahua presents an interesting case because it is only the second state in Mexico to be controlled an opposition party: in 1992, PAN candidate Francisco Barrio was elected governor. This opposition victory reflects the fact that since 1983, there has been a considerable amount of electoral competition between the PRI and the PAN throughout the state. At various times in the past sixteen years, the PAN has controlled the states' most important municipios--Camargo, Ciudad Juarez, Chihuahua, Cuauhtemoc, Delicias and Parral--in addition to many smaller localities.

⁶⁴While it is not analytically prudent to make generalizations about an entire country based on one case, information from this example is useful in that it may allow us to identify variables that may help account for the variation in response to the same reforms.

The high rate of political alternation is evidence that both the PRI and the PAN have large amounts of support in Chihuahua. Yet it is interesting to note that with a few exceptions, neither party has a firm "hold" on any city. That is to say, Chihuahua voters have become quite adept at punishing both parties at the polls. Results of the 1995 state and local elections illustrate this point.

In 1992, Accion Nacional won twelve municipal (mayoral) elections, in 1995 it won only ten. What is interesting about these election results is not so much the fact that the PAN now controls two fewer municipios in Chihuahua, but rather that of the ten municipios where PAN candidates won, only two, Ciudad Juarez and Ojinaga, were PAN municipios in both 1992 and 1995. That is to say, voters in the other eighteen cites voted in favor of the opposition party (be it the PAN or the PRI) in 1995.⁶⁵

To the PAN, perhaps what was more important than the municipal electoral losses were the defeats at the congressional level. In 1995, Accion Nacional won only three of the eighteen seats up for election. The most serious consequence of this poor showing was that the PAN lost its majority in the state congress.

Such devastating electoral losses forced the PAN and the Barrio administration to change its focus. Whereas before the Chihuahua state government ignored public criticism and was not attentive to public demands, after the 1995 elections there was a concerted effort to listen to popular opinion and address the needs of the community. Governor Barrio began to receive private citizens on Wednesday mornings in order to listen to their concerns.

Another aspect of the effort to get in touch with the community was the implementation of Jalemos Parejo--a program that promised to help every municipio

⁶⁵In 1992 the PAN won in Camargo, Casas Grandes, Coronado, Cuauhtemoc, General Trias, Hidalgo del Parral, Jimenez, Ciudad Juarez, Namiquipa, Nuevo Casas Grandes, Ojinaga, and Saucillo; while in 1995 it won in Ahumada, Aldama, Chinipas, Janos, Ciudad Juarez, Matamoros, Ojinaga, Rosales, San Francisco de Borja and San Francisco del Oro. Electoral data provided by the Consejo Estatal de Elecciones de Chihuahua; and Eric Magar, *Elecciones municipales en el norte de México 1970-1993*. Undergraduate thesis, ITAM, 1994.

obtain its most highly prioritized service or public works project. Similar to Solidaridad, Jalemos Parejo was designed to coordinate the actions of the state and municipal governments with those of the community in a joint effort to improve local living conditions.⁶⁶ In theory, local communities are supposed to outline their priorities with the help of the ayuntamiento and a representative of the Jalemos Parejo program. Once the group chooses a particular project it must come to an agreement about the division of responsibility for financing the project. Local communities are supposed to contribute as much as they can, whether in the form of financial or human resources.

In practice, municipal governments were each asked to sign an agreement with the state government stating their willingness to participate in Jalemos Parejo. The program was deemed to be "synonymous" with the state government. This meant that if an ayuntamiento refused to sign the agreement, the governor's office would understand this action to mean that the municipio considered itself self-sufficient and therefore waived its right to receive fiscal transfers from the state government. Of the 67 municipios in Chihuahua, only five refused to sign the Jalemos Parejo agreement.⁶⁷

Despite the fact that the state government was successful in twisting the arms of the municipios to participate in the program, it soon became apparent that many were unhappy with the way that Jalemos Parejo was implemented at the local level. Specifically, many PRI mayors complained that in their municipios the state level representatives happened to be the PAN candidates for municipal president who had lost in the previous election. PRI members found this objectionable because it was a clear attempt on the part of the PAN to gain an advantage in future elections. An additional complaint advanced by PRI mayors was that the program infringed upon the municipality's

⁶⁶Information about the Jalemos Parejo program is taken from various articles found in *Diario de Chihuahua* and *El Heraldo de Chihuahua*, and interviews conducted in the field between 6 July and 6 August, 1996.

⁶⁷In one project alone (Agua para Todos) in the capital city of Chihuahua, the Barrio administration has invested over one hundred sixty-four million pesos (over twenty-one million dollars).

right to autonomy because state level representatives often consulted directly with the community without the knowledge or involvement of local officials.

By July of 1996 opposition to Jalemos Parejo had grown so much that 52 (of 57) PRI mayors had occupied the capitol building in protest and demanded an audience with the governor to express their dissatisfaction. Backed by their party, this group claimed that Jalemos Parejo was designed to use state funds for electoral ends and was therefore unconstitutional. Initially Barrio refused to receive the PRI mayors claiming that the program did not have electoral ends and was perfectly legal and that the only way he would be convinced otherwise was by a Supreme Court ruling. The governor and his party went further and criticized the PRI of behaving irresponsibly and unconstructively as an opposition party. For a while it appeared that Barrio and the state might win this war of attrition, However after nearly two weeks of a mutually damaging stalemate, when it was clear that the municipal presidents would not back down, the governor agreed to meet with them to discuss modifications to the program.⁶⁸

It is interesting that one of the five PRI municipal presidents who did not join the demonstration was Gustavo Ramos Becerra, the mayor of the city of Chihuahua. Indeed, from the time Ramos Becerra took office, he and Barrio have had a friendly and cooperative working relationship. The main reason that both men chose to foster a harmonious relationship between the state and its capital city appears to be a concerted effort to avoid the acrimony between the governor and Ramos Becerra's predecessor (also a member of the PRI) which proved to be politically damaging to both the individuals and the parties. The arrangement between Barrio and Ramos Becerra appears to have included an agreement that the mayor of Chihuahua would have complete control over the funds allocated to the capital through Jalemos Parejo. The absence of a state-level intermediary greatly feed the hands of Ramos Becerra to distribute the money as he

⁶⁸As of September 1996, negotiations were still underway and the dispute had not been resolved.

wished. The same sort of arrangement seems to have been made with PAN mayors, who were also did not object to the implementation of the program.

The Chihuahua example illustrates the extent of a state's control over the funds are allocated to municipios. For while legally each municipio is entitled to receive federal and state transfers in addition to their locally generated revenue, it is possible for state governments to structure access to those funds in such a way as to compromise the political and fiscal autonomy of municipal governments.

It is somewhat ironic that the PAN, a party whose members who have long demanded municipal autonomy, would choose to implement a program so similar to those of PRI against which they fought so hard.⁶⁹ Indeed, if decentralization is not advancing in states led by politicians who claim to understand the importance of municipal autonomy, what is to be expected in states where traditional political forces have an interest in maintaining the status quo?

Conclusion

As we have seen, the 1983 reforms did not truly decentralize the structure of local governance in Mexico. Rather than increasing the real level of municipal autonomy through legal *and* fiscal transfers of powers, the reforms placed tremendous amount of discretion in the hands of the state governors--who, at the time, remained under the thumb of the president. It can be said that in many respects the reform of Article 115 accomplished exactly what President De la Madrid intended: the reduction of federal responsibility without forfeiting political power. And while this deconcentration left municipios less empowered than the rhetoric implied, the reforms of 1983 did lay the

⁶⁹In addition to Ruffo, PAN members such as Vicente Fox and Francisco Barrio himself have long demanded that the federal and state governments allow municipios to run their own affairs. In fact as the municipal president of Ciudad Juárez, Barrio was largely responsible for leading the fight for increased municipal autonomy. As a result of his efforts, Juárez is the only municipio in Chihuahua that manages public services such as water/drainage, garbage collection and public security without the need of state or federal help.

constitutional groundwork for municipal governments to defend themselves from federal and state interference. Indeed, municipios in many states of the Republic are increasingly demanding that their autonomy be respected by higher levels of government.

This has become especially important in the aftermath of the most recent economic crisis. In the wake of the 1994 currency devaluation it has been increasingly difficult for the federal government to provide public services and decentralization is once again an attractive policy option. However, unlike in 1983, the ruling party is also experiencing a serious crisis which not only inhibits its ability to act as a unified manner, but also means that decentralization is more threatening than it was thirteen years ago. For devolving responsibilities and decentralizing power creates the potential for the opposition (either from other political parties or from vying factions of the PRI) to gain a stronger foothold in important states and municipios. Once these types of stronghold are established it will be extremely difficult to remove them and neither the president nor the ruling party will be able to dictate political outcomes in the states as it did in the past.

Currently, municipal governments in Mexico can either subject themselves to outside interference by remaining dependent upon federal and state funds, or they can look for ways to increase locally generated revenue and thus assert their independence from higher levels of government. For many municipios this is hardly a choice if size, location and/or lack of human and economic resources preclude them from opting for the latter route. Other municipios, however, have started to look for ways to increase their financial and administrative independence. As we have seen in the case of Chihuahua, the no political party can be counted on to distribute resources according to completely objective criteria. Thus it appears that true municipal autonomy will become increasingly important if local governments are to protect themselves from the dangers associated with the partisan swings and divided government situations that are increasingly becoming a part of Mexican politics.

Bibliography

- Anuario Estadístico del Estado de Chihuahua*. 1993. INEGI.
- Anuario Estadístico del Estado de Nuevo León*. 1993. INEGI.
- Arreola Ayala, Alvaro. 1985. "Elecciones municipales, " in Pablo González Casanova, Coordinador, *Las Elecciones en México: evolución y perspectivas*, México: Siglo XXI Editores.
- Bailey, John. 1994. "Centralism and Political Change in Mexico: The Case of National Solidarity," in Wayne Cornelius, Ann Craig and Jonathan Fox, eds., *Transforming State-Society Relations in Mexico: The national Solidarity Strategy*, San Diego: Center for U.S.-Mexican Studies University of California, San Diego.
- Bennett, Vivienne. 1995. *The Politics of Water: Urban Protest, Gender, and Power in Monterrey, Mexico*. Pittsburg: University of Pittsburg Press.
- Borja, Jordi, Fernando Calderón, María Grossi and Susana Peñalva, eds. 1989. *Descentralización y democracia: gobiernos locales en America Latina*. Buenos Aires: CLASCO.
- Cabrero Mendoza, Enrique. 1995. *La nueva gestión municipal en México: Analysis de experiencias innovadoras en gobiernos locales*. Mexico: Centro de Investigaciones y Docencia Económica and Grupo Editorial Porrúa.
- Davis, Diane. 1994. *Urban Leviathan: Mexico City in the Twentieth Century*. Philadelphia: Temple University Press.
- Diario de Chihuahua*. Various articles, 6 July to 6 August, 1996.
- Diario de Juárez*. Various articles, 6 July to 6 August, 1996.
- Díaz Cayeros, Alberto. 1995. *Desarrollo económico e inequidad regional: hacia un nuevo pacto federal en México*. Mexico, D.F.: Fundación Friedrich Naumann, Grupo Editorial Porrúa, and Centro de Investigación para el Desarrollo.
- Fox, Jonathan, and Josefina Aranda. 1996. *Decentralization and Rural Development in Mexico: Community Participation in Oaxaca's Municipal Funds Program*. San Diego: Center for U.S.-Mexican Studies, University of California, San Diego.
- Graham, Lawrence S. *The State and Policy Outcomes in Latin America*, New York: Praeger.
- Guillén López, Tonatiuh and Gerardo Ordóñez Barba, coords. 1995. *El Municipio y el Desarrollo Social de la Frontera Norte*. Mexico: Fundación Friedrich Ebert.

El Herald de Chihuahua. Various articles, 6 July to 6 August, 1996.

INEGI. 1994. *El Ingreso y el gasto público en México*. Instituto Nacional de Estadística, Geografía e Informática.

Kaufman, Robert and Guillermo Trejo. 1995. "Regionalism, Regime Transformation and PRONASOL: The Politics of the National Solidarity Program in Four Mexican States." ms.

López Chavarría, José Luis. 1994. *Las elecciones municipales en México*. Mexico: Universidad Autónoma de México.

Massé Narváez, and Eduardo Sandoval Forero coordinators. 1995. *Políticas públicas y desarrollo municipal: problemas teórico-prácticos de la gestión pública y municipal*. Mexico: El Colegio Mexiquense.

Mazariegos Ramos, Ileana. 1987. *El Poder del municipio*. Mexico: Banco Nacional de Obras y Servicios Públicos, S.N.C.

Merino, Mauricio, coordinator. 1994. *En busca de la democracia municipal: la participación ciudadana en el gobierno local mexicano*. Mexico: El Colegio de México.

Morris, Stephen. 1995. *Political Reformism in Mexico: An Overview of Contemporary Mexican Politics*. Boulder: Lynne Rienner Publishers Inc.

Morris, Arthur and Stella Lowder, eds. 1992. *Decentralization in Latin America: An Evaluation*. New York: Praeger.

Nickson, R. Andrew. 1995. *Local Government in Latin America*. Boulder: Lynne Rienner Publishers Inc.

Ordoño Pérez, Alejandro and Fernando Azpeitia Sánchez. 1995. "Participaciones federales a estados y municipios." *Federalismo y Desarrollo* No. 51, July, 1995.

Ortega Lomelín, Roberto. 1994. *Federalismo y Municipio*. Mexico, D.F.; Fondo de Cultura Económica.

Purcell, Susan and John Purcell. 1980. "State and Society in Mexico: Must a Stable Polity Be Institutionalized?" *World Politics* 32:194-227.

Rodriguez, Victoria E. 1987. *The Politics of Decentralization in Mexico: Divergent Outcomes of Policy Implementation*. Dissertation, University of California, Berkeley.

Rodriguez, Victoria and Peter Ward. 1992. *Policymaking, Politics, and Urban Governance in Chihuahua: The Experience of Recent PANista Governments*. Austin:

Lyndon B. Johnson School of Public Affairs, University of Texas. US-Mexican Policy Report number 3.

Rodriguez, Victoria and Peter Ward. 1994. *Political Change in Baja California: Democracy in the Making?* San Diego: Center for U.S.-Mexican Studies University of California, San Diego.

Rodriguez, Victoria and Peter Ward., eds. 1995. *Opposition Government in Mexico*. Albuquerque: University of New Mexico Press.

Torres, Blanca, coordinator. 1986. *Descentralización y democracia en México*. Mexico: El Colegio de México.

Ward, Peter M. 1995. "Policy Making and Policy Implementation Among Non-PRI governments: The PAN in Ciudad Juárez and in Chihuahua," in *Opposition Government in Mexico*. Albuquerque: University of New Mexico Press.

World Bank. 1991. Mexico: Decentralization and Urban Management Urban Sector Study.

Interviews

Ing. Manuel Avitia Talamantes. Director Técnico de la Junta Municipal de Agua y Saneamiento de Chihuahua, Chihuahua.

Lic. Rodolfo Figueroa. Director de Comunicación Social de la Presidencia Municipal de Chihuahua, Chihuahua.

Lic. Gilberto Gallegos Daniels. Director de Programas Especiales de la Coordinación de Fortalecimiento Municipal, Gobierno del Estado de Chihuahua.

Lic. César Reyes Portillo. Director Administrativo de la Junta Municipal de Agua y Saneamiento de Chihuahua, Chihuahua.

Lic. María Concepción Torres O. Jefe del Departamento de Comunicación Social de la Junta Central de Agua y Saneamiento del Estado de Chihuahua.