Original Research Paper
Volume-8 | Issue-4 | April-2018 | PRINT ISSN No 2249-555X
Management

FISCAL POLICY IN MEXICO

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ABSTRACT This paper presents an analysis of the fiscal policy that the governments of Mexico have implemented as part of the strategies for the social and economic development of the country. This is a documentary research, applying a qualitative descriptive model, which results in a descriptive study of the characteristics that the fiscal policy in Mexico has shown, allowing to obtain all the information to arrive at the results. The findings show a pro-cyclical fiscal policy, the expenditure policy being more expansive in times upswing and contracted during times of economic recession, while the income policy is slightly contracted or expanded in the behaviors of economic development.

KEYWORDS : fiscal policy, economic development and economic stability.

INTRODUCTION

Fiscal policies have evolved since the financial crises of the 50's and 80's of the 20th century, as a result of the Second World War and the development of the neoliberal capitalist system, governments were forced to adopt new models in public management, which would allow them to face the changes of the phenomenon of globalization. To date, public policy scholars have controversies about how governments should exercise these functions (Gámez & Hernández, 2008 p. 167)

Aguilar (2006) argues that the public administration is still halfway, that the work of institutional and administrative reform to restore the effective performance of the government after its fiscal and political collapse of the last century have not been completed, the ghosts of the old governability still persist: poverty, inequality, authoritarianism, corruption, etc.

In the analysis of public policy, Subirats, Larrue and Varonne (2008) say that they point to the resolution of a public problem recognized in the government agenda, which represents the response of the political administrative system to a social reality deemed politically unacceptable. This is where public policies are impelled by the actors that emerge in it, according to the common interest of the different participants.

Fiscal policy has become the main tool of countries in crisis, to move to the new model of governance, characterized by promoting the economic, social and financial development of the whole society, within the principles of equality and equity.

GENERALITIES OF FISCAL POLICY

The government is the one who carries out all the public management actions, the question arises: how to define those reciprocal relations between the different groups, classes, actors that intervene in it? Torres and Santander (2013, p 23) says that talking about the materialization of state action without talking about public policies is difficult and studying public policies without inserting them into a state context does not make sense. Ortegón (cited by Torres and Santander, 2013 p 23) explains that when referring to public policies it is impossible to ignore the role of the State, its impact on society, political processes and the institutional context. Fiscal policy emanates from this legacy of public policies, having in its main function ensuring the progress of the entire society: economic, social, financial and political development, whose responsibility to carry it will be the government itself.

According to Ramírez (2006), as a result of the failure of stabilization policies in terms of growth and economic development in emerging countries, the need to implement countercyclical economic policies to reduce the instability of the production system has begun to be mentioned. In this regard, Stiglitz (cited by Ramírez, 2006) says that in developed countries, it has been observed that periods of recession have shortened while those of expansion have lengthened, unlike what happens in underdeveloped nations. In developed countries countercyclical policies are carried out, while in the underdeveloped nations it seems that pro-cyclical policies have been operating, which increase the periods of recession.

The general theory of J. M. Keynes considers that fiscal policy significantly influences the activities of the productive agents of an economic system, and that it is capable of reactivating the growth of the economy when countries go through periods of recession. His analysis starts from refuting the second postulate of classical theory, according to which the utility of salary is equal to that of its marginal utility of labor. It emphasizes that the prices are rigid to the downside in the short term, which refutes the thesis of voluntary unemployment of the classical theory. For Keynes, people did not make their decision to employ themselves based on real wages, as the classics held, but based on nominal wages, and wages are not flexible downwards, therefore, the labor market cannot present an immediate adjustment for variations in prices. The price rigidity implies that the short-term aggregate supply is inelastic and, therefore, the variations in the product will only respond to changes in demand (Laverde, 2009 p 93).

Given the fiscal disciplines that are imposed by financial institutions, theoretically one might think that the countercyclical nature of fiscal policy only makes sense in a Keynesian model and not in a neoclassical one. In a Keynesian model there is an authority that tries to minimize product fluctuations and inflation based on the management of public expenditure (López, Baquero and Gómez, 2009 p.54).

Ramírez (2006) tells us that a countercyclical fiscal stance should entail the execution of a considerable fiscal deficit when economic conditions are bad, and small fiscal deficit or surplus in good times. But the behavior of the fiscal budget can be determined by two different causes: the reflection of the economic environment or the result of discretionary political decisions.

The discussion on countercyclical fiscal policy is a relevant issue for the Latin American region, which faced in the last decade three crises of different external origin: 1995, 1998-1999 and 2001-2002. It is essential to pay attention to economic growth and its stability, respond prudently to periods of market euphoria and maintain policy margins to face the "drought phases in international financial markets" (Alarco and Del Hierro, 2016 p 160).

CASE STUDY: MEXICO

The government of Mexico, since the eighties, has aimed to achieve fiscal balance in public finances, through a fiscal discipline focused on cost containment. The country has gone through high fiscal and commercial deficits to achieve the goals dictated by the macroeconomic foundations of international organizations, showing a country faithful to fiscal disciplines (Inzunza and Sánchez, 2013, p 137). With respect to fiscal policy, Ramírez (2006), using the filter Hodrick and Prescott (1997), demonstrates the procyclicality of fiscal policy in the period 1980-2004 for Mexico, and it is assumed that as long as a policy of healthy public finances is keep, this will be sustained in the same way.

Inzunza & Sánchez (2013 p 137) say that in spite of the economic stagnation, consequence of a series of neoliberal recipes and a reductionist vision of the State, the Mexican government does not stop implementing measures that were institutionalized for more than three decades, which shows adverse results for the country's growth.

This fiscal discipline is based on high austerity plans, limits the availability of sufficient resources to boost productive investment, hence the limitations imposed by fiscal discipline are also the limits to grow, which is the origin of the problem (Inzunza & Sánchez, 2013, p 156). Fiscal discipline finds its limit in the systematic fiscal imbalance due to the permanent contracting of debt. This shows that the fiscal balance does not remain neutral to the countercyclical fiscal policy, maintaining a restrictive role for public finances.

The document "holdings of the Mexican tax system" shows the fragility of the fiscal policy of Mexico, which has not been able to raise sufficient resources for the government to develop its public functions and address several of the issues that have hampered the economic growth of the country, recommending the need for the expansion of spending on public investment to reactivate the productive apparatus.

Furthermore, Mexican fiscal federalism has impacted negatively in its state and municipal governments. Canaviere & Zúñiga (2015 p 90) explain that financial transfers in Mexico, specifically those conditioned, have generated laziness in those responsible for administering the property tax. This shows the low capacity of the lower governments to generate their own economic resources to sustain themselves, making it difficult for them to promote the economic and social development in their regions.

CONCLUSIONS

Mexico's fiscal policy is held back by the fiscal disciplines imposed since the 1980s by international financial institutions, making their governments to focus only on achieving healthy finances, that allow them to comply to external pressures.

By focusing fiscal policies in balancing the finances of the State, the economic and social needs of individuals are displaced. The government promotes distorted policies of income and expenditure, which impact the economic and social growth of a large part of the society, benefiting only those elite groups to continue developing their economic competitive potential.

To achieve sustained and sustainable economic development that allows citizens to improve their economic and social status, it is necessary for the Mexican government to stop following fiscal disciplines. It's necessary to start promoting expansionary policies of public investment in times of crisis, which generate a greater dynamism of domestic consumption that activates the rest of the capacity of its productive apparatuses, raising a higher level of employment.

Once it manages to activate its economic development, it must implement aggressive income policies that generate budget surpluses to amortize the debts generated in times of recession.

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