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MONEY AND POLITICS IN LATIN AMERICA

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To my former fellow students, now professors, and my colleagues on the faculty at Mexico City College, founded 1940, who knew the institution before the 1970 move to Puebla, where as the University of the Americas it expired in 1976 because of money and politics.

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Symbols Used in Tables

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#	0
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---	No production
C\$	Cuban pesos
\$	U.S. dollars

Introduction

James W. Wilkie

This volume treats two aspects of budgeting as it is influenced by and interacts with politics. In Part One explicit public budgeting is analyzed in a study on Mexico and one on Cuba, the latter also referring to Venezuela and Mexico. In Part Two implicit budgeting is treated in the financing of private industrial corporations. Running through these three diverse studies of the Latin American scene is the political thread that examines governmental power to comprehend and reorient flows of money according to national policy choices about paths of development.

Explicit budgeting may be defined as planned control over direct distribution of funds in as unambiguous a way as possible, including realistic projections and audit of results. "Implicit budgeting," a term coined here, is defined as relatively unplanned distribution of funds through indirect means as affected by factors beyond the immediate control of presidents. Central government funds are portrayed here as explicitly budgeted; decentralized government expenditures such as those for the nationalized public utilities are discussed as implicitly budgeted and they are what central governments would like to make more explicit in order to increase their power. And flow of credit through the society is presented as one type of implicit budgeting of which governments are only dimly aware. If governments need to know the impact of explicit and implicit budgets upon society, they must remember (and make the public aware of) the fact that presidential power is limited to explicit budgets. When this distinction is not made, we misconstrue governments as able to accomplish goals beyond their reach.

The budgetary analysis of policy making in Latin America offered here is intended to present new methodology for understanding planned and unplanned flows of money as influenced by political considerations. It shows how far we have progressed since 1967 when historical investigation of the Mexican explicit budgetary system moved the field beyond mere analysis of the growth of total funds into detailed analysis of how categories of funds are spent in over 25 budgetary subtotals, grouped according to

economic, social, and political functions in society.¹ Although the detailed approach met some initial resistance,² it has now grown into a substantial field of inquiry developed chiefly by political scientists and policy analysts. In addition to the studies on Cuba and Mexico presented here, there has been research on Brazil, Chile, Colombia, Venezuela, Bolivia, and Costa Rica;³ and we have new budgetary research on the subnational level in Mexico⁴ as well as on the comparative international level for Latin America,⁵ often in relation only to one or two kinds of expenditure.⁶

Where did the young field of budgetary analysis start and where is it headed? Early studies examined the budget not for its own importance but as a minor aspect of public finance, such as fiscal policy, tax collection, money and banking, and import and export patterns.⁷ With the work of Aaron Wildavsky on the United States in *Politics of the Budgetary Process* in the early sixties, the field of bureaucratic bargaining over funds gained recognition.⁸ When Wildavsky extended his approach to the international sphere,

¹For traditional studies using aggregate funds, see Aguilar (1947) and Mahar and Resende (1975). For a transitional study, see Peacock and Wiseman (1961). For the new approach to detailed analyses, see Wilkie (1967, 1970a).

²See criticisms, e.g., in Skidmore and Smith (1970), and response in Wilkie (1970b).

³On Brazil, Hayes (1973a, 1973b); Ribeiro de Oliveira (1974); and Gama de Andrade (1971); for further bibliography, see Santos and Brasil de Lima (1975). On Chile, Sinding (1973). On Colombia, Bailey (1974). On Bolivia, Wilkie (1969, 1971, 1974). On Costa Rica, Wilkie (1974, chaps. 6 and 7).

⁴Coleman and Wanat (1975).

⁵Ames (1975); Wilkie (1971, 1974, chaps. 6 and 7).

⁶On the military, see Schmitter (1973a); Weaver (1973); Heare (1971, 1973); and Loftus (1968). On the military versus educational expenditure, see Ames and Goff (1975). On the military versus social and economic expenditure, see Hayes (1975).

⁷See Wallick and Adler (1951); Adler, Schlesinger, and Olson (1952); Santillán López and Rosas Figueroa (1962); and International Bank for Reconstruction and Development (1973). The latter work apparently will not be formally published like the other Bank studies of Latin American countries (cf. IBRD 1951) because Mexican government officials felt that it was too critical.

⁸Wildavsky (1964).

he unfortunately came to a dead end because of his failure to take into account or even to recognize the need to test comparative quantitative analysis and to analyze the nature and actual expenditure of budgets throughout the world,⁹ actual expenditures which must be seen as influencing the bargaining process that led to the approval of the projected budgets in the first instance.

One scholar whose budgetary research did not dead-end is W.W. Rostow, who learned the limits of analyzing bureaucratic bargaining in the understanding of budgets and expenditures. He capitalized upon his experience in the Lyndon Johnson administration (1963-69) in the United States and later wrote about funds as they relate the functions of the state quantitatively to their concomitant functional budgetary categories — security, welfare, and the constitutional order.¹⁰ In his view the failure of the promises of the Great Society were traceable to the fact that the Johnson group had not grasped the concept that if amounts and bargaining are not related to an overall quantitative view of budgetary functions, programs are doomed.¹¹

According to Rostow, because of inattention to the budget and failure to realize that relative shares of total actual budgetary expenditures usually differ widely from budgetary plans, the Johnson government deceived itself into believing that it could give the United States both “guns and butter” in the new era of prosperity; and this tragic misconception led the Johnson administration into its misadventures as it sent troops to intervene in the affairs of nations from the Dominican Republic to Vietnam. In the aftermath of Vietnam, Rostow turned to budgetary analysis as a means of understanding governmental policy, since it is now all too clear that the classic choice between butter and guns remains.

Rostow has explained well in *Politics and the Stages of Growth* how he, as an economist interested in the economic “take-off” of nations to achieve modernity, shifted his frame of analysis:

Since this is an essay in history and the social sciences as well as a tract for the times, I owe the reader a brief account of how I have proceeded.

In *The Stages of Economic Growth* I did not deeply explore the process by which nations made the broad collective decisions which determined the content of their national life at each stage of growth. My concern then was primarily with the pattern of growth itself — as common technologies were diffused to highly distinctive societies — and with certain consequences of those strategic decisions for the timing of industrialization, the allocation of resources, and war, as the stages of growth succeeded each other.

Immediately upon completion of *The Stages*, in 1959, I decided to turn the problem around in my hand and see what happened if politics, rather than growth, was made the focus of analysis. This book does explore the factors deep in history, culture, and the active political process which have shaped modern societies. But politics is clearly a different business than economics, intertwined as they are. And it took some time before I had constructed an intellectual framework with which I felt comfortable.

The essence of that framework is the linkage between a view of politics as the effort to balance and reconcile problems of security, welfare, and the constitutional order, with the stages of growth.¹²

Writing about his scheme of analysis, Rostow said:

There is a double balancing built into this view of the art of politics. It is not only likely that the imperatives of security, welfare, and constitutional order will clash among themselves, but each involves potential conflict and choice: war versus the possible costs of not fighting; welfare versus growth; justice (including individual freedom) versus order. . . .

The pursuit by government of these tasks raises immediately a kind of economic or, even, input-output problem. The execution of security, welfare, and constitutional tasks requires resources. Resources are inherently scarce and must be drawn away from private consumption and private investment. Once mobilized by government, resources must be allocated among uses that rarely converge and usually conflict. Lionel Robbins' classic definition of economics is relevant to a great deal of government and politics: ‘Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.’

In first approximation, the inputs are men, money, and obedience; the outputs are security, welfare, and the maintenance of the constitutional order. The inputs must be drawn away from what men would rather do with their lives, their resources, and their natural bent. The outputs must be allocated among the three tasks of government, usually in an environment of competition among them.

The view of politics as a kind of economics does not wholly apply for two major reasons.

First, because a nation's security policy, while partially reflected in the budget, involves fears, and sometimes hopes, so great as to make the economist's fine calculations at the margin misleading. One can deal in such quasi-economic terms with, say, the Anglo-German naval race before 1914 or, even, in relatively quiet

⁹Caiden and Wildavsky (1974).

¹⁰Rostow (1971).

¹¹Personal communication, July 27, 1972.

¹²Rostow (1971, p. 2).

times, the United States-Soviet missile race. The restraints of Bismarck's expansionist policy and that of the Japanese in the period 1895-1905 also permit a certain quasi-rational approach to limited war, parallel to that which governed some of the mercantilist exercises in limited violence during the eighteenth century. But in certain moments of crisis — for example, Europe in 1914, the Cuba confrontation of October 1962, or the Middle East in June 1967 — the discontinuities felt by the major actors are such that the elegance of welfare economics or game theory breaks down. One moves from fine calculations at the margin to grosser hopes and fears, and to grosser actions to achieve or to fend them off.

Second, a resource mobilization and allocation view of politics must take into account that persuasion — political leadership — as well as law enforcement, is an output of government. Those ultimately charged with setting the priorities and striking the balances must seek to make their decisions acceptable. Only in the marginal case of obsessive totalitarian rule is the resource primarily required to maintain an acceptable balance between justice and order physical; and, even with Hitler and Stalin persuasion and positive incentive played their part along with terror. Put another way, one critical instrument of government is normally the politician's effort to persuade men that their consent should be granted, by evoking some deep-rooted consensus, widely accepted ideas, the pull of shared memories, transcending the issues at conflict. And there is something in man, the social animal, to appeal to. There are positive values to be found for some in commitment and, even, sacrifice in public, as in family, enterprises.

This creative, almost artistic, dimension in the relation between ruler and ruled does not easily fit a numerical input-output model.

But a political leader's capital in performing this task, as well as more mundane tasks, is also limited and requires allocation among competing ends. [Shorter, a recent analyst,] has put the point vividly in a particular context that I would here make in general:

... the political historian has a resource allocation problem to explain just as surely as does the economist. The resource over which Atatürk disposed was a capacity to persuade and to compel. This resource was deployed over many fields simultaneously, so he had a continuous problem of deciding upon proportions. To have leapt from one exclusive application of political resources to another would have been fatal. Or to have ignored the scarcity of political resources relative to the useful things that political action might have accomplished would have led to the Young Turk phenomenon of over-commitment. A major factor in Atatürk's success was that he was a better optimizer, in the economist's sense, than his forerunners.¹³

One can go some distance, then, in framing the tasks of government as a matter of mobilizing and allocating resources and viewing politics as welfare economics writ large — extended to issues of national security, on the one hand, and to the mobilization of consent by political leadership, on the other.

Apparently quite independent of the lively development of political science over the past fifteen years, a new branch of public finance has emerged since an article appeared in *The Manchester School*,¹⁴ September 1956, by Alison M. Martin and W. Arthur Lewis, based on the comparative analysis of government inputs and outputs under almost precisely the general headings defined here: security; welfare and growth; and the constitutional order.¹⁵

Rostow completes his argument by noting that the tripart analysis (shown here for Mexico in Tables A-1 and A-2) opens a way of looking at government and politics and offers a method for fruitful cooperation among political scientists, historians, and experts in public finance to integrate previously disparate investigation. In sum, he says: "[True] there are limits to such a quantitative approach to government as an input-output system. But the work of Musgrave and Culbertson [1953] on the United States,¹⁶ Peacock and Wiseman [1961] on Great Britain, Andic and Veverka [1964] on Germany, Wilkie [1967] on Mexico, Shorter [1967] on Turkey, Oshima [1965] on Japan suggests some of the possibilities."¹⁷

To reinforce the research by interdisciplinary scholars, Part One of this book presents two studies analyzing explicit public budgeting, one on Mexico by an economist and one on Cuba by a political scientist who also refers to Venezuela and Mexico.

Enrique A. Baloyra offers an important test of U.S. "liberal" thinking about budgets, thinking that relates types of expenditure to the political persuasion of leaders around the world. Analysts often assume that only democratically elected presidents expend funds in the twentieth-century liberal manner, that is, for social purposes, and that dictators sacrifice the masses to concentrate funds upon capital investment in the economy. If this liberal view is accepted, motivation for policy in Latin America, then, becomes erroneously perceived.¹⁸

Baloyra set out specifically to test with Cuban data the taken-for-granted hypothesis that democratic regimes would

¹³Shorter (1967, p. 55), quoted by Rostow (1971, p. 14).

¹⁴Lewis and Lewis (1956).

¹⁵Rostow (1971, pp. 12-14).

¹⁶Categorization in functional terms began at least as early as the 1940s with the work of Kimmel (1948), who modified analyses by Seidemann (1941).

¹⁷Rostow (1971, pp. 16 and 347).

¹⁸Conservative and radical thought also suffers from this kind of simplistic thinking; for discussion of similarity in liberal and radical views that have dominated U.S. thinking about relations with Latin America to justify U.S. intervention, see Lowenthal (1973).

Table A-1
AVERAGE PERCENT OF MEXICAN CENTRAL GOVERNMENT BUDGETARY EXPENDITURE
BY TYPE OF EMPHASIS AND PRESIDENTIAL TERM, 1869-1974
(Actual expenditure)

Years	President	No. of years in average	Total	Economic	Social	Adminis- tration
1869-70	Juárez	(1)	100.0	5.0	1.6	93.4
1900-11	Díaz	(2) ^a	100.0	16.0	6.6	77.4
1911-12	Madero	(1)	100.0	17.6	9.9	72.5
1912-13	Huerta	(1)	100.0	15.2	8.9	75.9
1917-19	Carranza	(3)	100.0	16.3	2.0	81.7
1920	De la Huerta	(1)	100.0	17.2	2.3	80.5
1921-24	Obregón	(4)	100.0	17.9	9.7	72.4
1925-28	Calles	(4)	100.0	24.8	10.1	65.1
1929	Portes Gil	(1)	100.0	23.2	12.9	63.9
1930-32	Ortiz Rubio	(3)	100.0	28.1	15.8	56.1
1933-34	Rodríguez	(2)	100.0	21.7	15.4	62.9
1935-40	Cárdenas	(6)	100.0	37.6	18.3	44.1
1941-46	Ávila Camacho	(6)	100.0	39.2	16.5	44.3
1947-52	Alemán	(6)	100.0	51.9	13.3	34.8
1953-58	Ruiz Cortines	(6)	100.0	52.7	14.4	32.9
1959-64	López Mateos	(6)	100.0	39.1	19.5	41.4
1965-70	Díaz Ordaz	(6)	100.0	40.6	21.0	38.4
1971-74	Echeverría	(4) ^b	100.0	44.2	23.7	32.1

a. 1900-01 and 1910-11.

b. Data for 1975 and 1976 not available.

SOURCE: Wilkie method (1967, 1970b) utilized by Rostow (1971, pp. 158-159), updated here to 1974.

Table A-2
AVERAGE AMOUNT OF MEXICAN CENTRAL GOVERNMENT BUDGETARY EXPENDITURE
BY TYPE OF EMPHASIS AND PRESIDENTIAL TERM, 1900-74
(Actual expenditure)

Years	President	No. of years in average	1950 pesos per capita			
			Total	Economic	Social	Adminis- tration
1900-11	Díaz	(2) ^a	31.9	5.1	2.1	24.7
1911-12	Madero	(1)	33.4	5.9	3.3	24.2
1912-13	Huerta	(1)	38.6	5.9	3.4	29.3
1917-19	Carranza	(3)	15.1	2.5	.3	12.3
1920	De la Huerta	(1)	25.3	4.3	.6	20.4
1921-24	Obregón	(4)	55.8	10.0	5.4	40.4
1925-28	Calles	(4)	67.9	16.8	6.9	44.2
1929	Portes Gil	(1)	61.5	14.3	7.9	39.3
1930-32	Ortiz Rubio	(3)	56.4	15.9	8.9	31.6
1933-34	Rodríguez	(2)	59.6	12.9	9.2	37.5
1935-40	Cárdenas	(6)	82.2	30.9	15.0	36.3
1941-46	Ávila Camacho	(6)	103.0	40.4	17.0	45.6
1947-52	Alemán	(6)	146.7	76.1	19.5	51.1
1953-58	Ruiz Cortines	(6)	180.8	95.3	26.0	59.5
1959-64	López Mateos	(6)	256.4	100.3	50.0	106.1
1965-70	Díaz Ordaz	(6)	384.9	156.3	80.8	147.8
1971-74	Echeverría	(4) ^b	520.4	231.0	123.4	166.0

a. 1900-01 and 1910-11.

b. Data for 1975 and 1976 not available.

SOURCE: Same as Table A-1, above.

promote the "active state" better than nondemocratic ones by creating welfare-oriented programs. (I defined the active state in nonideological terms as involving government-directed intervention in the social and economic life of a country to overcome the problems left unresolved by the "inactive" nineteenth-century concept of the liberal state, a type of state action under which government does little more than perpetuate the status quo.)¹⁹ The hypothesis for Cuba was tested by contrasting the expenditures of Prío Socorrás with those of Batista, but the results were not published. Only in a budgetary study of Venezuela did he mention his results from the Cuban case,²⁰ results disproving the liberal hypothesis about the relation of politics and expenditure. The importance of the liberal budgetary hypothesis tested with Cuban data led me to ask Baloyra to publish his Cuban research so that we may examine its ramifications, especially in relation to comparative budgetary research on Venezuela and Mexico.

Another value of Baloyra's work lies in his comparison of budgetary systems by classification of expenditure. He compares my 3-category system of classification with the 5 categories of the International Bank for Reconstruction and Development and with the 8 categories given by Peacock and Wiseman, and he warns against reducing to too few the number of categories, suggesting that if too few categories are used and if budgetary policy is taken out of political relationships, the analysis will suffer. To emphasize Baloyra's points in regard to these issues, it is important to note that my own scheme is at once the most inclusive with its 3 categories of economic, social, and administrative expenditure and it is the most detailed with a breakdown into 26 subtotals — 9 economic, 6 social, and 11 administrative. It is my contention that the summary categories make sense only when interpreted against the subtotals. Thus, to place the budget into a political context, I discussed how each of the subtotals interacts with and influences political decisions. In contrast, Baloyra limits his discussion to 18 subtotals in the Cuban case and to only 14 in the Venezuelan one. Although he discusses each subtotal for Cuba, they are not always directly tied to political matters. And in the Venezuelan case he is interested not so much in difference between kinds of expenditures as in their total growth.

The comparative nature of Baloyra's research yields important conclusions about the reasons for including or excluding analysis of revenue in relation to expenditures. Although in Baloyra's study on Venezuela he emphasizes the need to study how money is raised in contrast with how it is spent,²¹ he does not give the same emphasis in his study on Cuba. True, he does take up income for both cases, but his Venezuelan analysis tends to revolve around income from oil exports whereas his Cuban analysis does not give the same

priority to sugar. I argue that once one moves away from Venezuela's oil industry, which employs relatively few people in a concentrated way controllable by the government in a manner that agriculture is not, analysis must downplay the role of income. If it is true for Cuba, it is even more true for Mexico which enjoys an increasingly broad export base. Further, it is my hypothesis that much of Mexico's income has been generated by foreign loans that increase economic activity; and tax revenues go up as the economy expands and not necessarily because this or that group is paying a much higher proportion of taxes. In studying Mexico until perhaps relatively recently, then, emphasis upon the income side of public finance is misplaced.

James A. Hanson examines budgetary data in *The Mexican Revolution* (Wilkie, 1967 and 1970b) to test the apparent contradiction between (i) institutionalization of political power under the Partido Revolucionario Institucional (PRI) and (ii) what I have called the personal power of the president to change the direction and emphasis in Mexican expenditures. A corollary of institutionalized government would seem to be a decrease in presidential power. Yet my data show that after 1960 President López Mateos was able to shift the pattern of expenditures away from economic investments and toward social affairs of the nation, this precisely at the time that Raymond Vernon was arguing that the president of Mexico now found himself unable to maneuver because he was trapped by conflicting interests within the official party.²²

Hanson takes specific exception to the argument recently advanced by Kenneth M. Coleman and John Wanat that my own data prove me wrong. Coleman and Wanat have stated their case in the following terms:

In recent studies by historians and political scientists there has been increasing attention paid to the question of executive impact on the budgetary process in Latin America. Wilkie's prize-winning research into the broad outlines of budgetary discretion in Revolutionary Mexico has both stimulated controversy and redoubled efforts to employ budgetary data productively in assessing the impact of who governs upon how people are governed.

In the present research we return to the Mexican case to reexamine a question which we believe, contrary to Skidmore and Smith,²³ can be productively addressed. It is one which we regard as treated inconclusively by Wilkie, however. In examining the question of executive impact on the policy orientation of government he used data which tended to conceal rather than reveal the idiosyncratic propensities of individual presidents. We do not fault Wilkie for the limits of his study; it was a truly massive enterprise of data collection, synthesis, and interpretation and one which was handled extraordinarily well by a scholar who was breaking new

¹⁹Wilkie (1970a, p. xx).

²⁰Baloyra (1974).

²¹Baloyra (1974, pp. 33-34).

²²See Vernon (1963).

²³Skidmore and Smith (1970).

methodological ground in his own discipline. However, by focusing on the broad contours of public expenditure, Wilkie may have examined precisely those areas of policy-making where the institutional constraints of bureaucratic politics are greatest. Hence, we propose to examine an area in which executive impact can be more clearly isolated. We have chosen to examine the blend of political and economic considerations which seem to characterize the allocation of subsidies to the Mexican states by three Mexican presidents: Adolfo Ruiz Cortines, Adolfo López Mateos, and Gustavo Díaz Ordaz.

To recapitulate the relevant portions of Wilkie's study, it was argued that the Ruiz Cortines budgetary policy represented the continuation of a trend, started in 1946 by President Miguel Alemán, in which allocations for economic development or infrastructure became the dominant feature of government expenditure patterns, often at the cost of social programs. As Wilkie observes:

Overt governmental neglect of social programs and lower level bureaucrats, however, led to struggle in the official family which resulted in the apparent rejection of the Alemán ideology by Ruiz Cortines; but ... he became more *alemanista* than Alemán. Not until López Mateos did the minimum wage and social expenditure again become important in government policy.²⁴

The López Mateos era is characterized by Wilkie as a period of "Balanced Revolution" in which an emphasis on the social welfare expenditures, which had been dormant since the Cárdenas era, was reasserted. ... It will be noted that social expenditures returned to the level of the Cárdenas era for the first time in the López Mateos era. However, it will also be noted that:

- (a) all presidents expended a greater proportion of funds than they had planned on economic matters;
 - (b) all presidents expended a smaller percentage of funds than planned on social policy;
 - (c) all presidents, except López Mateos, expended a smaller percentage of total funds than originally planned in the administrative arena; and,
 - (d) there is little variation in percentage of mean actual social expenditures (range= 13.3%- 19.2%).
- Moreover the significance of these small differences is not assessed by Wilkie with respect to any standard, common or otherwise.

Supplementing these observations with the corollary finding that actual expenditures were almost always 50% higher than those projected, sometimes as much as 90% higher, we can begin to understand something of the institutional constraints of budgetary politics in Mexico.²⁵

In my view the Coleman and Wanat corollary finding means exactly opposite what they say it means because so long as the Mexican government could deliberately underestimate actual revenue by 130-200 percent, then the projected budgeted expenditure could be used as propaganda.²⁶ As I argue in *Statistics and National Policy*, misuse of statistics in this fashion gave the Mexican president power to shift national priorities in a way that we had not hitherto understood: It is only with the Mexican budgetary reform of 1971 that the country's president was constrained by institutional regulations to begin to bring projected and actual expenditures into line through more realistic estimate of collections.²⁷

The Coleman and Wanat argument that the range of variation in percentage of social expenditures has been small and that all presidents must spend more on economic factors than planned does not take into account the absolute factor of rising expenditure of standard pesos per capita summarized in Table A-2. Because the absolute total available has averaged 6 percent growth per year since the Cárdenas era, President López Mateos's per capita outlay for social expenditure was triple that of Cárdenas, and Echeverría's was more than double that of López Mateos, thus giving Mexico's presidents increasingly wide latitude in spending.

Hanson's analysis shows through sophisticated treatment of budgetary data for Mexico that the range of relative variation in social expenditure was higher than Coleman and Wanat claim. Indeed Hanson concludes from his research that Mexican presidents have become personally much more powerful and less subject to institutional constraints since the 1930s than Coleman and Wanat, among others, would have us believe.

Coleman and Wanat aver that my interpretation on this score was inconclusive, but perhaps they misunderstood. The institutionalization of the Mexican Revolution since 1910 has not limited the power of the president as much as it has established a peaceful way of choosing and conferring a 6-year kingship upon succeeding presidents whose terms cannot be renewed. In these terms there is no contradiction between personalism in and institutionalization of the Mexican Revolution. That aside, the Coleman and Wanat approach to central government subsidies to state governments is an important and useful way of looking at money and politics and offers one way of delving deeply into budgetary matters.

Compared with critics who argue that my budgetary approach should include decentralized as well as centralized governmental expenditure,²⁸ Hanson and Baloyra recognize the fundamental distinction between study of the centralized funds over which presidents have control and the decentralized funds over which they do not. (Decentralized

²⁴Wilkie (1970a, p. 278).

²⁵Coleman and Wanat (1975, pp. 77-78).

²⁶As Hanson notes, I show that the "Balanced Revolution" of López Mateos was in fact not as balanced as projections and propaganda claimed; see Hanson's n. 63, below.

²⁷See Wilkie (1974, pp. 12-14, especially Table 1).

²⁸Skidmore and Smith (1970).

funds would be controllable only if subjected — like central funds — to reallocation from one agency to another through the treasury department.) This does not deny that it is important to know the impact on the nation of the public sector's total centralized and decentralized expenditures, but suggests that unless a distinction is made between funds over which presidents have control and those over which they do not, the power of presidents will continue to be misunderstood. Indeed the relatively unrecognized silent struggle between the centralized and decentralized sectors of government which will be fought out during the last quarter of our twentieth century will determine the course of Latin America's future history as presidents attempt to double their power by recentralizing all government in their own hands, power that had been decentralized in the past to prevent presidential abuse of the governmental mechanism.²⁹ As the implicit spending of decentralized agencies has grown to rival the explicit spending of the central government, it has become necessary to study how each is budgeted. (Even though a president may theoretically have control over decentralized budgets by virtue of his power to authorize proposed expenditures, it generally does not mean that he has practical control because, without power to reallocate or audit funds, deviations from projections are inevitable.)

In Part Two, David Eiteman analyzes an Argentine case study of implicit budgeting. If we are to understand the impact of flows of funds on society, we must examine the role of government policy in making credit available or in politically influencing its availability. In this sense Eiteman's study breaks new ground by showing with wealth of detail how unstable governmental policy affects the growth of the private industrial sector.

Given the confused situation of the credit available to Argentine entrepreneurs analyzed by Eiteman, we can begin to appreciate why Argentina has wallowed in a trough of economic problems since the first Perón era. If union policy (which demands ever higher shares of national income) and government action (which exploits the countryside to channel rural export profits into industrialization) explain much about the Argentine malaise,³⁰ Eiteman's study of credit problems suggests another major factor to be considered: that the channeling of funds through implicit budgeting may be almost hopelessly muddled by officials who do not make explicit most of the dimensions of the issues they face.

Eiteman's study also leads us to appreciate the ability of the entrepreneur to survive despite the muddle of government. They managed to find new sources of credit; but at higher and higher interest they could remain in business only by delaying payment of their bills. This factor meant that as suppliers found income restricted by the slow payment of bills for goods and services, the whole economy slowed down, often to near bankruptcy. If the flow of funds to the pri-

vate sector is to be treated or at least understood rationally, the availability of credit should be handled in terms of explicit budgeting.

An important aspect of Eiteman's Argentine analysis is to remind us that planned withdrawal of the government from financial markets does not necessarily slow down inflation. As he points out, government policy between 1955 and 1966 attempted to slow inflation — caused by expanding the money supply to cover the huge deficits of the decentralized state enterprises — by restricting credit to and flow within the private sector. The result, however, was at once to slow the economic activity that would generate taxes and reduce government deficit spending and to drive private business into obtaining credit at exorbitant if not usurious interest rates. In this manner, I argue, more money tends to find its way to the banking and credit sector (foreign and domestic) instead of going into capital accumulation and productive investment. With the advent of the credit-card society in the 1960s and 1970s, countries like Argentina may suffer from the same syndrome as the United States where relatively "open-end" credit is available to individuals who will pay the financial sector ever higher shares of money in order to fuel their drive for nonproductive "consumerism." Societies may well want to choose the course of unrestrained consumption at high interest cost, but if they do, they should notice that available capital shifts from the industrial sector (which provides the jobs and the goods) to the financial sector (which lives off society as nonproductive middleman between the producer and consumer). Unless these factors are taken into account as part of the web of national policy, the causes of inflation and power of the government to slow it will continue to be misunderstood.

Eiteman also confronts the problem of how to understand flows of credit with revaluation of Argentina's currency in 1960. In solving the problem for the purposes of his study, it is clear that those interested in fathoming the Argentine political and economic system but who are not scholars equipped with the analytical tools of the financial specialist, will find it difficult indeed.

With presentation of this volume on money and politics in Latin America, it is my hope to stimulate research into the meaning of explicit and implicit budgeting. Although presidential power is presently limited mainly to explicit central government budgeting, the drive for recentralization to bring autonomous budgets under presidential control has generated an attempt to make more explicit budgeting in the decentralized sector. In the meantime in order to fight inflation and effect national development, presidents may gradually become aware that they must recognize implicit budgeting of governmental credit and interacting restrictions on private credit as they attempt to define the dimensions and process of the political economy in which they live.

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²⁹Wilkie (1971).

³⁰Cf. Díaz Alejandro (1970, chap. 7); Diz (1970); and Villanueva (1966).

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