

## RECENTRALIZATION: THE BUDGETARY DILEMMA IN THE ECONOMIC DEVELOPMENT OF MEXICO, BOLIVIA, AND COSTA RICA\*

The purpose of this study is to suggest that public expenditure<sup>1</sup> growth in some Latin American countries involves a fundamental problem regarding presidential power and the nature of state policy. Because (a) central governments have been subject to political difficulties, long-term programs often have been affected by the abuse of presidential authority, and/or because (b) decentralized government agencies have been judged more efficient to develop and carry out modernization policy, one may note that in at least three countries of Latin America the power of the central government has been restricted increasingly to social and administrative matters.

With the rise of an autonomous sector designed to carry out economic policy in such countries as Mexico, Bolivia, and Costa Rica, important centralized activity of the state has been delimited to be outside the sphere of politics. Thus an institutional framework tends to grow which is not necessarily responsive to changing interest groups and which by its very nature may prevent planning and/or policy change. In this regard, fiscal policy for industrialization, for example, may have serious implications for political stability, the base upon which economic development rests.

### I: Decentralization

Until only recently, Latin American governments have been concerned generally with limiting the role of the chief executive. After independence, so many presidents came to abuse their authority that the organizers of government in many Latin American countries sought to strengthen legislative and judicial functions at the expense of the executive branch of government. Beginning in 1911 with José Batlle y Ordóñez's Uruguayan model in this hemisphere, a number of states have experimented with the creation of decentralized agencies which are intended to operate autonomously, much like a private business. Theoretically, such corporations allow apolitical *técnicos* (highly specialized professionals)<sup>2</sup> to develop long-range plans which are immune from the vagaries of politics. If such agencies are not self-financing, they may be empowered to negotiate their own loans and credits; and in return for interim central government subsidies, the decentralized sector often is expected eventually to generate a profit from the use of national resources in order to provide funds for expanded central government activity. In this manner, national

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In development of this study, the author wishes to make clear at the outset that he is not necessarily arguing either for or against recentralization of governmental finances. The author is indebted to Edna Monzón de Wilkie for assistance in field work and in preparation of this study. Gratitude is acknowledged to David T. Geithman for a careful critique of ideas presented here; to Waldo W. Wilkie for aid in completing calculation of data; and to Lyle C. Brown for editorial advice.

<sup>1</sup>"Public expenditure" is here defined as (i) all central government expenditure; and (ii) all decentralized outlay, including public enterprises and mixed public and private corporations as well as governmental commissions, institutes, and independent agencies, etc. The subtotals for "i" and "ii" give a consolidated financial statement.

For purposes of this work financial analysis generally is limited to expenditure (in contrast to taxation) policy; and analysis is taken up in terms of political (in contrast to strictly economic) aspects of investigation. Since the paper deals with budgetary problems, it is intended to discuss apparent bottlenecks and difficulties rather than to stress successes in Latin American state policy. Although much of the data presented here is not strictly comparable from country to country, every effort has been made to adjust data where necessary.

<sup>2</sup>The term "*técnicos*" often has been translated to mean "economic technicians" (as in Raymond Vernon, *The Dilemma of Mexico's Development: The Roles of the Public and Private Sectors* (Cambridge, Mass.: Harvard University Press, 1963, pp. 136-138). The term here is used more broadly to refer to specially educated persons (*licenciados, ingenieros, economistas, arquitectos*, etc.) who attempt to develop complicated public policy without primary regard for political considerations. *Técnicos* are employed in central as well as decentralized agencies, but generally they have more latitude in the latter which may be less dominated by political appointees. Nevertheless, one may not assume that *técnicos* operate efficiently in contrast to politicians. Not only do both move about within and between the central and decentral spheres, but also both are confronted with multilayered administrative departments, many of which are staffed (a) by persons appointed under previous leaders; or (b) by time servers who have acquired some sort of tenure. Furthermore, all *técnicos* do not necessarily have the same ideological outlook let alone agree on the appropriateness of alternatives with regard, for example, to monetary policy as it effects economic growth rates.

resources are used for national rather than private or foreign profit.

With the advent of the Alliance for Progress in the 1960's, the United States virtually forced some Latin American nations to develop rational budgetary plans in order that assistance might be channeled to avoid duplication; to prevent programs from working at cross-purposes; and to martial priorities.<sup>3</sup> Perhaps it is ironic that the U.S. would ask the Latin Americans to formulate overall blueprints lacking in the U.S. itself, but even the U.S. Congress assented to the Alliance's requirements for the creation of governmental agencies which could develop plans. Though the rise of "uncontrollable expenditure" in the U.S. (especially in social welfare trust funds) has meant that American presidents have decreasing discretionary power to influence public sector expenditures, the upshot of Alliance programs has been to encourage Latin American countries to bring their own decentralized sector under executive control.

Not all Latin American countries face the dilemma posed by the growth of decentralized budgetary expenditure. Table 1 shows that among the six countries for which this writer has summary data,<sup>4</sup> decentralized expenditure amounts to less than one-third of public expenditure in Argentina as well as Venezuela. In contrast, about half or more of public expenditures are decentralized in Mexico, Bolivia, Costa Rica, and Brazil, the latter being highest of all. (The U.S. case is discussed below in special terms.)

The present study is limited to a comparative analysis of public expenditure in Mexico, Bolivia, and Costa Rica in order to assess the role of governmental policy as ascertained by this investigator's field research in three diverse countries which face the similar problem of attempting to expand presidential power. The view developed here is that while recentralization of economic development may be desirable in order to overcome many problems, the political and

social ramifications of such policy merit extended discussion.

## II: *Selected Case Studies*

Of the three countries studied here,<sup>5</sup> each has had an important revolution and each is now attempting to reform the pattern of government and budgetary policy which emerged in earlier years. Mexico's experience began in 1910 with a political upheaval lasting until 1930. During the 1930's Lázaro Cárdenas developed a policy of social action in his country's Revolution when he emphasized immediate benefits for the masses. From 1940 to 1960 Mexico was engaged in an industrial revolution, a program actually beginning during the Cárdenas period. Since 1960, Mexico's leaders have claimed to develop a balanced revolution by diverting federal funds from economic expenditure into social outlay.

In this regard, much discussion as to whether the Revolution is dead or alive after sixty years misses the point that the Mexican government and the Partido Revolucionario Institucional (PRI) successfully have continued to justify the holding of power in the name of an open-ended institutional framework which develops new approaches for changing times.<sup>6</sup> Beginning especially with President Calles (1924-1928)<sup>7</sup> executives began to establish decentralized agencies to conduct economic affairs of the state; such policy reached a peak during the era of President López Mateos (1958-1964). Under his successor, however, the executive branch of government fully realized that it had created a system over which it had little or no control; and President Díaz Ordaz (1964-1970) developed a series of presidential decrees designed to reorganize the government framework and to give the Ministry of the Presidency real as well as theoretical power over national development.

<sup>3</sup>With regard to a country in which consolidated accounting antedated the 1961 Alliance for Progress, it is interesting to note that by laws of 1959 and 1960, Colombian autonomous agencies have been obligated to submit their budgets to the Ministry of Finance as an annex to the central budget. In 1962 apparently 43.4% of public sector expenditure was decentralized, according to the Joint Tax Program of the Organization of American States and the Inter-American Development Bank, *Fiscal Survey of Colombia* (Baltimore: Johns Hopkins Press, 1965), p. 231.

<sup>4</sup>Most countries do not yet have either the means to develop or publish a consolidated statement. Problems of comparability in such countries are occasioned by the fact that accounts may be shown on a gross or net basis and in rare cases amortization of the debt may not be included in totals. Also, accounting may be incomplete because according to problems of definition, some decentralized agencies may not be included in calculations. Without exhaustive investigation in Argentina, Brazil, and Venezuela, for example, it is not possible to assess the comparability of data for these countries.

<sup>5</sup>Because of space limitations, generalizations are made at the usual risk of oversimplification, but it is hoped that this problem has been kept to a minimum.

<sup>6</sup>For further discussion see (a) James W. Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910* (2nd ed.; Berkeley: University of California Press, 1970); and (b) James W. Wilkie and Edna Monzón de Wilkie, *México Visto en el Siglo XX: Entrevistas de Historia Oral: Ramón Beteta, Marte R. Gómez, Manuel Gómez Morín, Vicente Lombardo Toledano, Miguel Palomar y Vizcarra, Emilio Portes Gil, Jesús Silva Herzog* (México, D.F.: Distributed by Cuadernos Americanos for the Instituto Mexicano de Investigaciones Económicas, 1969).

<sup>7</sup>President Porfirio Díaz actually began such policy by arranging for the government to begin purchase of railways.

TABLE 1

<sup>a</sup>Relative Budgetary Power of Centralized and Decentralized Subsectors of Public Expenditure in  
Six Latin American Countries and the United States  
(Total Amount = 100.0 Per Cent)

Country	Year	<sup>b</sup> Total Amount (In Millions)	Per Cent	
			<sup>c</sup> Centralized	<sup>c</sup> Decentralized
Argentina	1962	240	87.0	13.0
<sup>c,d</sup> Bolivia	1970	6 066	27.8	72.2
<sup>d</sup> Brazil	1965	9 956 000	24.7	75.3
<sup>c</sup> Costa Rica	1968	1 535	51.2	48.9
Mexico	1967	79 451	51.4	48.6
Venezuela	1967	12 685	67.8	32.2
United States	<sup>e</sup> 1967	<sup>f</sup> 432 429	86.9	13.1

<sup>a</sup>Decentralized subsector includes public enterprises, mixed public and private corporations, governmental commissions, institutes, independent agencies, etc.

<sup>b</sup>In local currency at current prices; includes debt amortization as well as interest payments (see text for discussion).

<sup>c</sup>May double-count some or all transfers from one subsector to the other.

<sup>d</sup>Projected outlay in contrast to actual expenditure.

<sup>e</sup>Fiscal Year 1966-1967.

<sup>f</sup>Includes \$274.2 billion debt amortization and \$12.6 billion interest.

Sources: Argentina, Secretaría de Estado de Hacienda de la Nación, *Memoria*, 1962, pp. 14-16, 103.

Bolivia, Ministerio de Finanzas, *Presupuesto General de la Nación*, 1970; *Gobierno Nacional Central*, p. 2.

Brasil, Ministério do Planejamento e Coordenação Econômica, *Consolidação Orçamentária do Governo Federal*, 1965, p. 16.

Costa Rican Comptroller General's Office.

Mexican Comptroller General's Office.

Venezuela, Banco Central, *Informe Económico*, 1968, pp. A114, A121.

United States, Bureau of the Census, *Statistical Abstract*, 1970, p. 378; and (for 274 172 million dollar debt amortization) U.S., Treasury Department, *Annual Report*, 1967, p. 593.

Bolivia underwent a sweeping revolution after 1952 when Víctor Paz Estenssoro led his Movimiento Nacionalista Revolucionario (MNR) to power. Paz hoped to prevent future violence by following the Mexican example of developing an institutionalized revolution, a program he began to introduce especially during his second term in the presidency, 1960-1964. However, he was overthrown in November shortly after beginning his third term in office.<sup>8</sup> During the MNR's twelve consecutive years in the presidency (Hernán Siles Zuazo filled the term 1956-1960), a number of important decentralized agencies were created as part of a tradition already established by pre-revolutionary governments. Post-MNR presidents brought decentralization to a nadir, and only in the 1970's did a reaction against such a framework come in the form of

an administrative reorganization. Though the military-dominated governments after 1964 had claimed to be developing the MNR revolution in a "purified" form free from political considerations, this issue did not prove to be convincing because administrative problems were compounded as the central government gave up more and more power to autonomous agencies. Not until 1970 did a group of central government *técnicos* propose specific actions to end near total chaos in governmental planning. These *técnicos* claimed that their policy represented a new and viable alternative to MNR policy which influenced the 1950's and 1960's.

Costa Rica's revolution came in 1948 when José Figueres, an apolitical farmer and industrialist, was joined by Padre Benjamín Núñez's labor-oriented

<sup>8</sup>For a concise history of Bolivian affairs since the 1930's, see James W. Wilkie, *The Bolivian Revolution and U.S. Aid Since 1952: Financial Background and Context of Political Decisions* (Los Angeles: Latin American Center, University of California, 1969).



Catholic groups in a successful attempt to overthrow the pro-Communist government of President Teodoro Picado. As Figueres has noted, in 1948 he was interested specifically in following the Uruguayan model of state decentralization in order to limit the power of the president; and with a new basis for state action implanted, Figueres turned over his office to the duly elected opposition.<sup>9</sup>

By 1953, however, Figueres felt that he should return to the presidency in order to establish the principles of his new Partido Liberación Nacional (PLN), principles which implicitly if not explicitly favored the development of Costa Rica's middle class. During his presidency for the period 1953-1958 he followed his earlier program of decentralization, a process continued by the opposition which alternated in power with the PLN during the 1960's.

Not until Figueres prepared to return to power for the term 1970-1974 did he realize that he had established a system over which he lacked control. Thus at the very time that he wished the presidency to assume state power in order to follow up his middle-class revolution of 1948 with a "revolution for the masses," he found that the form of government he himself had instituted was not flexible to meet the demands of a new era.

Country comparisons given in Table 2 portray differences between Mexico, Bolivia, and Costa Rica as well as provide a comparison with the U.S., the most influential country in each of the three nation's affairs. In relation to total population and total GNP of the U.S., the selected countries located in Northern, Central, and South America appear small. In terms of GNP per capita, Mexico and Costa Rica have a better position than Bolivia, but neither compare favorably with the U.S.<sup>10</sup>

Surprisingly, public expenditure per capita in the three Latin American countries is within the same range (and this observation also holds for the amount of decentralized outlay). Expenditure of approximately 140 dollars per capita is only about one-sixteenth of the expenditure per capita in the U.S., which explains to some degree why public sector policy in the former countries often does not appear to have much impact on the masses. If the decentralized portion of this amount is deducted, funds over which the president has relative control decrease to 71, 55, and 74 dollars per capita in Mexico, Bolivia, and Costa Rica, respectively, compared to 1 887 dollars in the U.S.

Actually, the controllable figure for the U.S. is inflated because of special factors, especially programs resulting from legislation which often stipulates rates to be paid and conditions of eligibility for beneficiaries. Such problems are particularly true for the following decentralized and/or open-ended programs: social security payments, unemployment coverage, farm price supports, public assistance grants, and veterans benefits.<sup>11</sup> Actually, in 1967, built-in costs for relatively uncontrollable programs including debt amortization and interest payments made up over 90% of total U.S. civilian outlays.<sup>12</sup>

Though debt amortization is *excluded* from some types of functional analysis of expenditure (as in the U.S. government's budgetary analysis), it is *included* here to make U.S. figures comparable to Latin American data. Latin American governments customarily include debt redemptions in their budgets in order to show that they are meeting national and international obligations, as well as to reveal the proportion of governmental fund raising activity required for repayment of previously expended loans.<sup>13</sup>

<sup>9</sup>Views developed here on Costa Rican affairs are taken from tape recorded conversations with José Figueres by James W. Wilkie, Albert L. Michaels, and Edna Monzón de Wilkie (Oral History Interviews, Buffalo and Columbus, 1968); also discussion of the Uruguayan model (and the 1933 Tennessee Valley Authority example) is discussed by Father Benjamín Núñez in James W. Wilkie, Albert L. Michaels, and Edna Monzón de Wilkie, Oral History Interviews, Guatemala City, July 16, 1970.

<sup>10</sup>In relation to territory, however, population density in Costa Rica and Mexico exceeds that for the U.S., a factor which might indicate that those countries do not necessarily need more population as much as they need to develop the quality of life for the population already in existence.

<sup>11</sup>U.S., *Budget, 1971*, p. 42. It should be noted, however, that since 1945 independent federal corporations must secure their funds from congressional appropriations, like any other governmental agency, and unexpended balances revert to a general fund.

<sup>12</sup>U.S., *Budget, 1969*, p. 15; and U.S., Treasury Department, *Annual Report, 1967*, p. 593. If debt amortization is excluded from analysis, in 1967 the uncontrollable amount was about 61%. The comparable estimation for 1971 was 69% (see U.S., *Budget, 1971*, p. 42).

<sup>13</sup>In contrast to many Latin American countries which are dependent upon foreign loans, in the U.S. 95% of the public debt is domestically held (D.J. and A.F. Ott, *Federal Budget Policy* [2nd ed.; Washington, D.C.: Brookings Institution, 1969], p. 109). Thus, debt transactions exclusive of interest payments are omitted from the U.S. government budgetary analysis on the grounds that borrowing and repayment involve exchange of assets and are neither receipts nor expenditures. It could be argued, however, that debt redemption should be included in U.S. government analysis in order to show the extent of obligations falling due in any given year. In societies which live on credit, provision for meeting obligations becomes an important part of state policy, depending, for example, on inflationary and deflationary conditions. Such policy may influence the capital market of funds available for public and private financial activity (including new borrowing); and it may be argued that funds used for debt repayments will be spent differently by the private sector than if they are not repaid and are spent by the public sector. With regard to arguments for including in the budget loans by the government (as distinguished from loans to the government discussed above), cf. Wilfred Lewis, Jr. (ed.), *Budget Concepts for Economic Analysis* (Washington, D.C.: Brookings Institution, 1968), Part 1.

The matter of debt problems will be raised in further detail below (see Parts IX and X of this Chapter).



TABLE 2

Country Comparisons: Mexico, Bolivia, Costa Rica, and the United States

Indicator	Mexico 1967	Bolivia 1970	Costa Rica 1968	United States 1967
1 Population (Million)	45.7	3.8	1.6	199.1
2 Total Hectares (Million)	197.3	109.0	5.1	936.3
3 Density (1 as a Per Cent of 2)	23.2%	3.5%	31.4%	21.3%
4 <sup>a</sup> GNP (Million Dollars)	\$24 112.0	<sup>b</sup> \$911.0	\$747.0	\$803 914.0
5 <sup>a</sup> GNP Per Capita (Dollars)	528.0	240.0	467.0	4 037.0
6 <sup>c,a</sup> Public Expenditure (Million Dollars)	\$6 362.0	\$511.0	\$232.0	\$432 429.0
7 <sup>a</sup> Public Expenditure Per Capita (Dollars)	139.0	134.0	145.0	2 172.0
8 <sup>a</sup> Decentralized Expenditure Per Capita (Dollars)	68.0	79.0	71.0	285.0
9 Public Expenditure as a Per Cent of GNP	26.4%	56.1%	31.1%	53.8%
10 <sup>a</sup> Income Tax Collections (Million Dollars)	\$809.0	\$18.0	\$15.0	\$95 497.0
11 Income Tax as a Per Cent of Public Expenditure	12.7%	3.5%	6.5%	22.1%
12 Income Tax as a Per Cent of GNP	3.4%	2.0%	2.0%	11.9%

<sup>a</sup>Non-deflated.<sup>b</sup>Provisional 1969 data.<sup>c</sup>Public Expenditure = Centralized plus Decentralized Outlay.Sources: 1: *UCLA Statistical Abstract of Latin America, 1967*, (Los Angeles: Latin American Center, University of California), p. 57.2: *Ibid.*, p. 52.

3: Calculated.

4: *UCLA Statistical Abstract of Latin America, 1968*, p. 241; Bolivia, Ministerio de Planificación y Coordinación, *Revista de Planificación y Desarrollo* 1 (1970) p. 3; Costa Rica, Banco Central, *Estadísticas Económicas, 1963-1968*, p. 11.

5: Calculated.

6: Calculated from Table 1 with exchange rates given in *UCLA Statistical Abstract of Latin America, 1967*, p. 189 and *Bank of London and South America Review* 4 (1970) p. 527.

7: Calculated.

8: Calculated from Table 1.

9: Calculated.

10: Mexican Comptroller General's Office; Bolivia, Ministerio de Finanzas, *Presupuesto General de la Nación, 1970*, p. 9 (second series of pagination); Costa Rica, Dirección General de Estadística, *Anuario Estadístico, 1968*, p. 305; United States, *Budget, 1971*, p. 585.

11-12: Calculated.

### III: Functional Analysis

Functional analysis for public expenditure in Mexico, Bolivia, Costa Rica, and the U.S. is presented in Table 3. Since it is necessary to distinguish between centralized and decentralized analysis as well as to develop a consolidated view of expenditure which helps us to understand the total impact of public activity in relation to political decisions, in effect Table 3 is concerned with presenting alternative views of reality.

Though it would be helpful to examine the historical nature of these realities, as we have seen, data for the decentralized and consolidated budgets are only available for the late 1960's. Mexico was the first of the four countries to attempt to integrate the decentralized sector into a unified budget, beginning to expand coverage of data in 1965. Bolivia adopted its consolidated budget only in 1970; and Costa Rica has not solved its problems by the onset of the 1970's. The U.S. began to develop its consolidated budget in the fiscal year 1969 by providing reorganized data for the

TABLE 3

<sup>a</sup>Functional Analysis of Public Expenditure in Mexico, Bolivia, Costa Rica, and the United States  
<sup>b</sup>(Totals = 100.0 Per Cent)

	Mexico 1967	Bolivia 1970	Costa Rica 1968	United States 1967
Centralized	\$40 853.0	\$1 684.0	\$786.0	<sup>c,e</sup> \$381.0
Economic	37.6%	26.1%	16.5%	2.8%
Social	20.3	30.9	38.9	2.4
Administrative	42.1	43.0	44.6	94.8
Decentralized	<sup>d</sup> \$38 599.0	\$4 382.0	\$749.0	<sup>c,e</sup> \$62.0
Economic	75.5%	86.8%	40.4%	19.6%
Social	19.5	8.7	57.2	67.5
Administrative	5.0	4.5	2.4	12.9
Consolidated	<sup>d</sup> \$79 452.0	\$6 066.0	\$1 535.0	<sup>e</sup> \$432.0
Economic	55.4%	69.9%	28.2%	4.8%
Social	22.7	14.9	47.8	11.0
Administrative	21.9	15.2	24.0	84.2

<sup>a</sup>Economic functions include communication and transport; development and conservation of natural resources; development, promotion and regulation of industry. Social functions include educational and cultural services; health, labor affairs, public assistance, and medical services. Administrative functions include general administration; military outlay, pensions; and debt amortization and interest. For more detailed definitions see James W. Wilkie, (1) *The Mexican Revolution: Federal Expenditure and Social Change Since 1910* (2nd ed.; Berkeley: University of California Press, 1970), p. 13; and (2) *The Bolivian Revolution and U.S. Aid Since 1952: Financial Background and Context of Political Decisions* (Los Angeles: Latin American Center, University of California, 1969), pp. 65-67.

<sup>b</sup>In millions of local currency; except U.S. in billions.

<sup>c</sup>U.S. projected in contrast to actual outlay; actual functional analysis not available for subsectors because of conversion to consolidated account (the "international" subfunction is divided here according to economic, social, and administrative activities; "space research and technology" is considered an economic activity). No deductions for interfund transfers.

<sup>d</sup>Functional analysis prepared by the Mexican Comptroller General's Office.

<sup>e</sup>The consolidated account is calculated on a different basis than that used for the subsectors, which the government has not revised for its new concepts, thus subtotals do not add to \$432 billion.

Source: Mexican and Costa Rican percentages are adapted from data provided by the Comptroller General's Offices in Mexico City and San José. Bolivian data are from Bolivia, Ministerio de Finanzas, *Presupuesto General de la Nación, 1970*, pp. 9-11, 13-14. U.S. percentages are adapted from *Budget, 1968*, pp. 333-367 and 456-461; *Budget, 1971*, pp. 587-591; and Treasury Department, *Annual Report, 1967*, p. 593.

period of the 1960's. Thus with some adaptation for comparability, consolidated data are available only in the contemporary period.<sup>14</sup>

In 1967, Mexico's central government was proportionally more active in economic affairs than any of the countries under discussion. With almost 38% of

expenditure centered on economic matters, it retained direct control which was relatively quite high. In this manner, combined socio-administrative matters came to only about 62% of outlay.

In Costa Rica (1968) and Bolivia (1970), social expenditure of the central government reached (or was

<sup>14</sup>Bolivia has some consolidated figures dating from the early 1960's, but centralized and decentralized aspects are not always clear. Cf. Bolivia, Dirección General de Estadística y Censos, *Boletín Estadístico* 93 (1967) pp. 1-3; and U.S. Agency for International Development/Bolivia (USAID/Bolivia), *Estadísticas Económicas* 11 (1970) p. 39.

For historical series on central government expenditure in Mexico (1910-1963) and Bolivia (1930-1966) see this author's works cited here in Tables 4 and 9. A summary of Costa Rican data is given in Table 13. Because of adjustments of data for comparability, methods developed here may differ slightly from functional analysis prepared, beginning in recent years, by each government. [See also Chapter VII, below].

scheduled to reach in the latter case) a secondary position in relation to administrative outlay, which has traditionally been highest in all except for Mexico during the period of its industrial revolution.<sup>15</sup> Bolivian and Costa Rican socio-administrative outlay came to about 74% and 84%, respectively. Though these figures were higher than in Mexico, they were low compared to central government activity in the U.S.

Using the criteria of functional expenditure developed in this paper, U.S. central government activity for 1967 cannot even be said to be socio-administrative in nature, rather it was dominated by non-social and non-economic outlays in which defense (18%), debt amortization (72%), and debt interest (3%) helped administrative activity to reach almost 95% of centralized expenditure.<sup>16</sup>

With regard to decentralized expenditure, Mexico and Bolivia have concentrated economic activity in this sphere; Costa Rica has emphasized social affairs, in spite of the fact that its social portion of centralized outlay reached about 39% (the highest of any country discussed here). In comparison, the U.S. decentralized sector exceeded even Costa Rica's decentralized social activity.

The consolidated result for Mexico and Bolivia shows basic economic orientation, compared to Costa Rican and U.S. budgets, which are generally concerned with socio-administrative activity. Similarities between policy in the three Latin American countries, however, are revealed in the fact that the general economic impact of consolidated outlays is much greater than that imputed from only analyzing the centralized activity for which presidents are directly responsible.

What are the implications for statecraft if economic affairs are increasingly delimited to be outside of politics? And what are the prospects of incorporating decentralized or autonomous agencies into state planning in order to prevent new kinds of challenges to central government authority? Whereas in the past regionalism was considered to be the major threat to central government political power, it appears that today the threat to a strong presidency comes from the rise of agencies which in effect constitute states within states. This development represents a new and more sophisticated challenge to central authority than existed when leaders struggled over federal and confederal issues of government. The problem involves various aspects of central government effec-

tiveness and assumptions about the role of the decentralized sector in each of the three Latin American countries.

#### IV: Mexico

The Mexican central government has never been very effective in estimating its income and expenditures; and perhaps this has accounted for political success. In a country where the division of the revenue pie is not clear to ministries which compete for funds, governmental options are left open for pragmatic action. Thus a voracious military lost relative power in Mexico, for example, as it was subject to budgetary ledgerdom. The central government provided the absolute amount of funds promised to the military; but as budgets expanded over projections, the generals received a declining proportion of actual expenditure compared to the percentage propagandized in the projected budget.<sup>17</sup> Between 1949 and 1969, the central government underestimated its income by an average of 55% each year. Only once since 1949 did estimates come close to actual collections (in 1953 the government collected only 9% more than projected). In all but four other cases, collections ran between 41% and 200% of estimations; and in those four cases, growth was at about one-third higher than planned. The greatest problem in government estimates came in the early 1960's when planning was deficient by an average of 76%, the most serious underestimation coming in 1965 when the decentralized sector was integrated into consolidated accounting.<sup>18</sup>

The record of the decentralized sector since 1965, when data are available, is much better than that of the central government. Between 1965 and 1969 total collections ran only an average of 21% higher than estimates.<sup>19</sup> Though in 1966, 1967, and 1968 planning was relatively accurate, in 1969 revenue was underestimated by over 20%; and in 1965 income was underestimated by nearly 50%.

The pattern of Mexican central government expenditure for the period from 1947 to 1969 is shown in Table 4. Presidents Adolfo López Mateos and Gustavo Díaz Ordaz functionally expended actual total central government funds the same way, although the latter projected to spend almost as much for social as economic development. Both of the presidents reduced the share of the budget devoted to economic affairs, emphasizing new social outlay necessitated by the shift

<sup>15</sup>See Table 4.

<sup>16</sup>In terms of analysis which omits amortization of the debt from accounts, in 1967 interest amounted to 13% and defense to 69% of central government outlay. In the U.S. consolidated analysis, however, the totals were 8% and 44% respectively. See U.S., *Budget*, 1971, pp. 587, 591-592.

<sup>17</sup>Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910*, pp. 100-106.

<sup>18</sup>México, Contaduría de la Federación, Cuenta Pública, "Estado Análítico de Ingresos," yearly.

<sup>19</sup>*Ibid.*



TABLE 4  
Average Per Cent of Mexican Central Government Budgetary Expenditure by Type of  
Emphasis and Presidential Term

Years	President	No. of Years Average	<sup>a</sup> Total = 100.0 Per Cent		
			Economic	Social	Administrative
A. Projected					
1947-1952	Alemán	6	39.2	18.6	42.2
1953-1958	Ruiz Cortines	6	43.8	20.4	35.8
1959-1964	López Mateos	6	38.9	31.6	29.5
1965-1969	Díaz Ordaz	5	38.1	37.4	24.5
B. Actual					
1947-1952	Alemán	6	51.9	13.3	34.8
1953-1958	Ruiz Cortines	6	52.7	14.4	32.9
1959-1964	López Mateos	6	39.1	19.5	41.4
1965-1968	Díaz Ordaz	4	40.3	20.6	39.1

<sup>a</sup>For definition of functional emphasis, see Table 3, note "a."

Source: Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910*, p. 32. México, Secretaría de Hacienda y Crédito Público, *Presupuesto General de Egresos de la Federación*, yearly; and México, Contaduría de la Federación, *Cuenta Pública*, yearly. For analysis which omits debt amortization see Clark W. Reynolds, *The Mexican Economy: Twentieth-Century Structure and Growth* (New Haven: Yale University Press, 1970), p. 291; further, Reynolds' gives Mexican government functional categories which are slightly different from those developed in this study.

from industrial to balanced revolution. In the meantime, funds spent on general administration increased (in spite of projections) to gain renewed support from a bureaucracy which felt that it had not received benefits commensurate with other sectors of society. Such action was apparently appropriate for stability as the PRI has faced electoral problems in the Federal District, the seat of greatly centralized government.<sup>20</sup>

The growth and importance of Mexican decentralized capital investment in projected public sector outlays (see Table 5) shows that since the late 1940's the central government increasingly has lost influence in this aspect of national development. The same situation was true in 1925 before active central government policy was stimulated by President Calles.

And when Cárdenas assumed the presidency in 1934, growth of central government expenditure further eclipsed outlays of decentralized investment (then limited to the Mexican National Railways), which declined to less than 30%. With Cárdenas' expropriation of the foreign-owned oil industry in 1938, however, the decentralized sector received new impetus, a capacity of growth that came to fruition under President Alemán, who emphasized increased investment in decentralized electrical power development as well as in railways.<sup>21</sup>

Actual capital investment figures (in contrast to projections since 1939) are not available except for the recent presidency of Gustavo Díaz Ordaz;<sup>22</sup> and the data are not broken down as to centralized or

<sup>20</sup>See James W. Wilkie, "New Hypotheses for Statistical Research in Recent Mexican History," *Latin American Research Review* 6:2 (Summer 1971), pp. 3-17 [see Chapter I above].

<sup>21</sup>It is interesting to note that Presidents Cárdenas and Avila Camacho projected capital investment in agricultural affairs at about the same share (20%) as President Alemán; see México, Dirección de Inversiones Públicas, *México: Inversión Pública Federal, 1925-1963*, pp. 55-57.

<sup>22</sup>For projected regional figures 1939-1963 see *ibid.*, *passim*; and for 1959-1966 see Wilkie, "New Hypotheses for Statistical Research in Recent Mexican History," Table 3.

TABLE 5

Decentralized Mexican Investment as a Percentage of Total Public Sector Investment, 1925-1970

<sup>a</sup>(Projected Data Based Upon Incomplete Reporting)

Year	Per Cent	Year	Per Cent	Year	Per Cent
1925	54.9	1941	33.8	1956	55.7
1926	44.1	1942	31.2	1957	53.7
1927	44.3	1943	32.4	1958	57.3
1928	41.4	1944	37.9	1959	56.1
1929	41.8	1945	44.1	1960	66.8
1930	40.8	1946	40.8	1961	64.8
1931	36.3	1947	48.1	1962	65.7
1932	41.1	1948	48.3	1963	60.7
1933	37.6	1949	53.4	1964	61.3
1934	35.7	1950	58.0	1965	66.5
1935	29.9	1951	50.7	1966	66.4
1936	28.6	1952	49.7	1967	62.7
1937	28.6	1953	53.5	1968	62.4
1938	28.8	1954	54.6	1969	64.2
1939	42.9	1955	56.5	1970	63.8
1940	49.3				

<sup>a</sup>Data for 1925-1938 are for actual expenditures.Source: México, Dirección de Inversiones Públicas, *Inversión Pública Federal, 1925-1963*, 33-40, 111; and *idem.*, *Inversión Pública Federal, 1964-1965-1966*, Tables 2, 12, 18; and source for Table 6, pp. 145-170.

decentralized outlay. Though these data (given in Table 6) do not tell us the impact of central government policy, the fact that they exist at all indicates that for the first time the central government is not only able to gauge the real role of public sector policy, but also to determine this role as it affects Mexico's 32 political entities. Of the total 87 007 million pesos invested between 1965 and 1969, 25.1% was social in nature, with only 2.2% of the total being devoted to administrative functions. Thus, 72.7% went into economic investment, including 10.3% devoted to agricultural, ranching, and fishing programs.

With regard to industrial development (39.9% of total investment), almost one-quarter was allocated to the state of Veracruz (23.4%); Tamaulipas (13.8%) and Tabasco (10.9%) also received greater shares than the Federal District (8.2%), which has traditionally been Mexico's industrial center. In the four cases, investment was divided about equally between oil and electrical development in all but the Federal District, where investment was dedicated to outlays for iron and steel development.

Infrastructural investments in transport and communications (22.5% of total public investment) were not so concentrated as the industrial growth they are designed to support. Only the Federal District with 10.9% (an amount which includes the construction of a subway system) and Veracruz with 8.2% had relatively high amounts. In spite of criticism concerning the construction of Mexico City's subway (some intellectuals believe that the money might have been better spent for rural development), the relationship of investment to population was fairly well balanced under Díaz Ordaz.

Where critics of Mexican centralization of the Federal District can make their best case today lies outside the sphere of industrial policy. Since the population in the capital is located in the narrow confines of a valley and apparently is most susceptible to political mobilization, two-thirds of the public sector's heavy emphasis on social expenditure was located there. This emphasis weighed the total effect of public sector expenditure toward the Federal District; if social outlay is subtracted from total investment in

TABLE 6  
Mexican Public Sector Capital Investment by Entity, 1965-1969, Compared to Population in 1970  
(In Per Cent)

	Actual Expenditure			<sup>d</sup> Population 1970
	<sup>a</sup> Total Amount	<sup>b</sup> Industrial Share	<sup>c</sup> Transport and Communication Share	
Total Mexico	100.0	100.0	100.0	100.0
Aguascalientes	.6	.2	1.3	.7
Baja California	2.0	1.1	3.1	1.8
Baja California Territory	.9	.2	2.4	.3
Campeche	.7	.3	1.9	.5
Coahuila	3.7	4.6	2.8	2.3
Colima	.6	.3	1.6	.5
Chiapas	1.8	2.1	2.7	3.3
Chihuahua	3.9	3.7	6.5	3.3
Distrito Federal	24.5	8.2	10.9	14.3
Durango	1.4	.7	1.4	1.9
Guanajuato	3.8	5.7	4.4	4.7
Guerrero	2.0	2.2	2.2	3.3
Hidalgo	1.5	1.3	2.2	2.5
Jalisco	2.6	2.3	4.6	6.8
México	3.8	4.4	5.3	7.9
Michoacán	1.8	1.1	3.2	4.8
Morelos	.8	.4	1.3	1.3
Nayarit	.5	.4	1.0	1.1
Nuevo León	2.2	3.1	2.3	3.5
Oaxaca	2.0	2.4	2.4	4.2
Puebla	1.7	2.0	2.1	5.2
Querétaro	1.3	.4	3.7	1.0
Quintana Roo	.4	.1	1.0	.2
San Luis Potosí	1.2	1.0	2.6	2.7
Sinaloa	4.3	1.1	6.6	2.6
Sonora	2.2	1.3	4.0	2.3
Tabasco	5.6	10.9	2.4	1.6
Tamaulipas	7.9	13.8	3.0	3.0
Tlaxcala	.3	.2	.6	.9
Veracruz	12.2	23.4	8.2	7.9
Yucatán	1.2	.8	1.5	1.6
Zacatecas	.6	.3	.8	2.0

<sup>a</sup>87 007 million pesos; total includes social (25.1%), agricultural/ranching/forestry (10.3%), and administrative/defense (2.2%); investments not shown separately here.

<sup>b</sup>34 719 million pesos equals 39.9% of total amount.

<sup>c</sup>19 593 million pesos equals 22.5% of total amount.

<sup>d</sup>48 225 238.

Sources: This actual investment data has been provided by Mexico's Dirección de Planeación Sectorial y Regional in the Ministry of the Presidency; subsequently it has been published as México Dirección de Inversiones Públicas, *Inversión Pública Federal, 1965-1970*, p. 174. Cf. [Emilio Múgica Montoya, coordinador], *Programa de Desarrollo Económico y Social de México, 1966-1970* (México, D.F.: Comisión Intersectorial, Secretaría de la Presidencia, Secretaría de Hacienda y Crédito Público, n.d.) for an analysis of projections (295 pages plus appendix) which unfortunately was printed only for extremely limited distribution.

Population data are from Dirección General de Estadística, *IX Censo General de Población, 1970, Resumen General Abreviado*.



Table 6, the Federal District's share in investment declines from about one-quarter to 10.8%. Thus disaggregation of total amounts leads to a very different view than that presented in official partial summaries.<sup>23</sup>

That the central government has gained this new capacity to assess development is impressive. With the tremendous growth of decentralized agencies and the confusion as to their legal status, the government of Díaz Ordaz showed real organizational talent in even compiling the figures given in Table 6. That the central government would eventually have to undertake this task became increasingly evident after 1940.<sup>24</sup> Of the nearly 300 decentralized agencies for which the Ministry of National Patrimony could give information in a 1964 Directory,<sup>25</sup> 6 were founded by Porfirio Díaz; 3 by Alvaro Obregón; 5 by Calles; 8 during the era 1929-1934; 20 by Cárdenas; 45 by Manuel Avila Camacho; 54 by Alemán; 53 by Ruiz Cortines; and 79 by López Mateos.<sup>26</sup>

Priorities of expenditure in the public sector are presented in Table 7 with some reservation. Not only is the data only becoming more complete in recent years, but periods in the series alternate between projected and actual data. Nevertheless, it is apparent that centralized and decentralized governmental investment in industry gained slowly. As suggested above, the government did not conceive its role to lie in industrial development until the very late 1930's, and the concept grew slowly after heavy initial outlay in 1940. Not until the mid-1950's did the public sector devote as much as one-third of capital investment to the industrial sector, and forty percentile shares were not reached until the 1960s.

In the meantime, the public sector conceived its role to lie mainly in the development of communica-

tions and transportation systems. Even though infrastructural investment declined between 1925 and 1970 from 93.9% to 21.5%, the growth of outlay in real terms (adjusted for inflation) means that it was gaining many more pesos per capita than during the 1920's and 1930's when three-quarters of public capital investment was devoted to communications and transportation. In 1938, for example, this category received (in real terms) 22 pesos per capita, an amount that reached 41 pesos by 1968.<sup>27</sup>

Whereas in the past many observers have felt that Mexico's modern industrial growth depends upon the development of markets in rural areas (thus necessitating capital investment in the rural sector),<sup>28</sup> the terms of debate appear to have changed in a way that few have foreseen (or in a way that few realize). Though investment priorities (Table 7) saw outlay for agriculture (including irrigation, ranching and forestry) usually exceed expenditure for industry until 1947, after that date the reverse was true. But even more importantly, investment in the agricultural sector has lost out to expenditure on social welfare. Indications that social development might be considered more important than outlay for agricultural development came in 1929, 1930, 1931, 1933, 1934, and 1952; and since 1956 social welfare functions consistently have been thought to be more important than agricultural growth. Thus the *de facto* issue does not now appear to be whether agricultural development has priority in the process of national modernization, but how great a percentage of investment funds should be allocated to improving the quality of life needed to modernize society. As suggested above, the Federal District has received the greatest share of social welfare expenditure; and in 1965, for example, when President Díaz

<sup>23</sup>For example see México, Secretaría de la Presidencia, *Sexto Informe que rinde al H. Congreso de la Unión el C. Presidente de la República Gustavo Díaz Ordaz*, 1970, Anexos 1-4.

<sup>24</sup>On Mexican planning in general, see William P. Glade, Jr., "Las Empresas Gubernamentales Decentralizadas," *Problemas Agrícolas e Industriales de México* 11:1 (1959); Miguel S. Wionczek, "Incomplete Formal Planning: Mexico," in Everett S. Hagen (ed.), *Planning Economic Development* (Homewood, Illinois, 1963), pp. 150-182; Robert J. Shafer, *Mexico: Mutual Adjustment Planning* (Syracuse: Syracuse University Press, 1966); Clark W. Reynolds, *The Mexican Economy: Twentieth-Century Structure and Growth* (New Haven: Yale University Press, 1970); and Roger D. Hansen, *The Politics of Mexican Development* (Baltimore: Johns Hopkins Press, 1971).

<sup>25</sup>México, Secretaría del Patrimonio Nacional, *Directorio General de Organismos Descentralizados, Empresas de Participación Estatal, Establecimientos Públicos, Comisiones, Juntas e Institutos Dependientes del Gobierno Federal*, 1964, preámbulo. The Directory noted, however that its listing was incomplete because of lack of available data as well as deficiency in juridical classification of the agencies.

<sup>26</sup>It would be presumptuous to say that the number of agencies created by presidential period as given above is complete. Not only are 21 agencies listed without date of formation, but also there is no indication of their original dates of creation prior to the latest reorganization. The 1969 Mexican government *Manual* which gives the latter information, however, offers data only on less than 100 of the almost 250 agencies which it lists. Such confusion indicates that even by 1970, Mexican government information on what constitutes the decentralized sector still leaves much to be desired and that national planning is far from complete. See México, Secretaría de la Presidencia, *Manual de Organización del Gobierno Federal, 1969-1970*. Cf. David Ibarra, "Mercados, Desarrollo y Política Económica: Perspectivas de la Economía de México," in *El Perfil de México en 1980* (2 vols.; Mexico, D.F.: Siglo XXI, 1970), I., pp. 192-197 for a useful alternative but incomplete list of decentralized agencies.

<sup>27</sup>Calculated from (a) Mexico City's 1939 wholesale price index converted to 1950 terms; and (b) population estimates also supplied by the Dirección General de Estadística. (Between 1938 and 1968, in current prices, Mexico's total public investment increased from 198 million pesos to 20 447 million pesos, according to the sources for Table 7).

<sup>28</sup>See, for example, Sanford A. Mosk, *Industrial Revolution in Mexico* (Berkeley: University of California Press, 1950).

TABLE 7  
Average Mexican Centralized and Decentralized Public Sector Investment Priorities by  
Presidential Period, 1925-1970  
<sup>a</sup>(In Per Cent)

Years	President	No. of Years in Average	Industry	Communication, Transportation	Agriculture, Ranching, Forestry	Social Welfare
1925-1928	Calles	4	†	79.1	20.1 15.1	5.8 ✓
1929	Portes Gil	1	†	73.5	10.2	16.3
1930-1932	Ortiz Rubio	3	†	76.6	11.5	11.9
1933-1934	Rodríguez	2	†	75.9	11.0	13.1
1935-1940	Cárdenas	6	5.1	66.3	18.1	9.6
1941-1946	Avila Camacho	6	10.6	59.1	16.9	11.6
1947-1952	Aléman	6	22.0	43.0	20.1	13.6
1953-1958	Ruiz Cortines	6	32.4	37.2	14.9	13.8
1959-1964	López Mateos	6	34.6	29.9	9.8	22.4
1965-1970	Díaz Ordaz	6	40.3	22.4	10.5	24.7

†Indicates zero or less than .5%.

<sup>a</sup>Excludes administrative/defense category not listed separately; readers should note problematic nature of data in which actual and projected figures are used according to availability in order to construct the time series. Actual outlay is given for 1925-1938, and 1965-1969. Projected investment is presented for 1939-1964 and 1970.

Source: 1925-1963 data are from México, Dirección de Inversiones Públicas, *México: Inversión Pública Federal, 1925-1963*, pp. 19, 53-58, and 119.

Data for 1964 are from *idem*, *Inversión Pública Federal, 1964-1965-1966*. (Mimeo., 1967). Data for 1965-1970 are from source in Table 6 (cf. México, Secretaría de la Presidencia, *Sexto Informe que rinde al H. Congreso de la Unión el C. Presidente de la República Gustavo Díaz, 1970*, p. 97, which gives higher totals with some percentage differences but which is incomplete because no total regional distribution is presented).

Ordaz announced that the capital city was authorized to receive only 10% of total investment funds,<sup>29</sup> the actual figure came to almost double that amount.<sup>30</sup>

In spite of problems in coordinating centralized and decentralized activity discussed above, the Mexican economy and its industrialization have continued to make major yearly gains. Table 8 shows that for the 1960's, the average increase per year for real Gross Domestic Product (GDP) was 7.1%. The subtotal for industry was even higher, averaging 8.9%, with the manufacturing sector equalling that growth rate.

In suggesting at the outset that a lack of planning has given the Mexican government political successes, perhaps one may hypothesize at this point that the Mexican economy is so healthy that disarticulation of state policy may at times be positive. Because this idea is both controversial and complicated, it will be reserved for discussion after the cases of Bolivia and

Costa Rica have been examined. In any case, it is related to a number of dilemmas facing development problems in Latin America.

#### V: Bolivia

If Mexican governmental disarticulation has been an implicit threat to the power of the presidency, the Bolivian situation is even more critical. Although theoretically central governments maintain control over decentralized agencies through appointment of directors, as a matter of practice, influence (let alone control) generally is possible only by overcoming great difficulties. If agencies do not use standardized accounting practices, inter-agency comparability is impossible. In addition, agency role vis-à-vis the central government is hard to ascertain because audits are rarely undertaken and a director infrequently knows

<sup>29</sup>"Primer Informe de Gobierno [del] Presidente Gustavo Díaz Ordaz," *El Día*, September 2, 1965, suplemento, p. 2.

<sup>30</sup>Calculated from source for Table 6.

TABLE 8  
Percentage Growth of Mexico's Real Gross  
Domestic Product and Industrial Output  
(Based on 1960 Prices; in Per Cent)

Year	GDP	Industry	
		<sup>a</sup> Total	<sup>b</sup> Manufacturing
1961	4.9	5.3	5.5
1962	4.7	5.5	4.6
1963	8.0	9.8	9.2
1964	11.7	15.7	17.4
1965	6.5	7.3	9.5
1966	6.9	9.6	9.4
1967	6.3	8.7	6.8
1968	8.1	10.0	10.1
<sup>c</sup> 1969	7.3	8.3	8.0

<sup>a</sup>Includes mining, petroleum, manufacturing, construction and electricity.

<sup>b</sup>Included in industrial total.

<sup>c</sup>Preliminary.

Source: *El Mercado de Valores*, November 30, 1970, p. 700.

the extent of his own agency's activities. Thus the agency becomes a state within a state precisely because the central government has given up power without realizing what it has done. (It should be noted also that often it is difficult for the chief executive to find out what his own central government is actually doing, let alone determine the activity of autonomous agencies.)

The Bolivian problem of governmental disarticulation is compounded by several factors, not the least of which is that there is even less statistical information available than for Mexico. First, the President of Bolivia has been hampered in his planning activities by the congressional prerogative by earmarking taxes, a problem which Mexican presidents do not face. By 1964, when earmarked taxes were omitted from the budget in order to eliminate accounts not subject to audit, they made up 36.5% of gross expenditure.<sup>31</sup> Second, budgets generally are not prepared at the beginning of the year but long after *de facto* decisions have been made (the 1970 budget, for example, did not appear until August). Third, functional analysis of public sector finances has been confused by lack of

data on the relative power of the president compared to autonomous agencies.

Whereas data published by the Bolivian Planning Ministry in 1966 show the central government as controlling over 70% of public sector expenditure,<sup>32</sup> revised data provided by the U.S. Agency for International Development (USAID) in Bolivia reveal otherwise.<sup>33</sup> Between 1963 and 1969, when some reliable data are available, the central government expended the following shares of public sector outlay, respectively: 26%, 26%, 31%, 33%, 33%, 33%, and 32%. Furthermore, the first detailed analysis of consolidated accounting (resumed in Table 1 above) indicates that the central government role in 1970 might be as low as about 28%.

Although no functional analysis is available which would offer an actual view of public sector investment priorities for (a) any year and for (b) each region of the country, the historical trend presented in Table 9 shows that central government outlay in the era financially dominated by Víctor Paz Estenssoro (1945-1969) gave the central government a small role in economic development.

Bolivia's recent history of central government expenditure revolves around the policy of Paz Estenssoro. Paz made a financial revolution during 1945 and part of 1946 when he served as Minister of Finance. His policy of emphasizing social outlay at the expense of economic expenditures carried through in subsequent years until his MNR gained power in the revolution of 1952. Although economic emphasis gained somewhat, it was still far below the pattern set during the period from 1942 to 1944 by President Peñaranda. Paz's downfall in 1964 did not change the pattern he set in 1945.

Only in the budget for 1970 does one note a projected shift from social outlay to more balanced policy. If the *técnicos* (many of whom were formed during the MNR period) have their way, the central government would begin to assume direct control over economic development. In the past, this control theoretically was delegated to (a) USAID; and (b) a proliferation of autonomous agencies.

As discussed elsewhere, USAID never lived up to its promises. During the 1950's much aid was needed for direct budgetary supports which could keep the Paz government from being overcome by radical labor-left leaders and Communists. Even during the 1960's, when USAID attempted to switch to economic development (in spite of Alliance for Progress calls for social outlay), a shift toward economic projects by USAID was offset

<sup>31</sup> Earmarked taxes are excluded from analysis here; see Wilkie, *The Bolivian Revolution and U.S. Aid Since 1952*, p. 52.

<sup>32</sup> Bolivia, Secretaría Nacional de Planificación y Coordinación, *Bolivia en Cifras*, 1966, p. 6.

<sup>33</sup> USAID/Bolivia, *Estadísticas Económicas* 11 (1970) p. 39.



TABLE 9

Average Actual Per Cent of Bolivian Central Government Budgetary Expenditure  
by Type of Emphasis and Era

Time Span	Era	Years	Total = 100.0 Per Cent		
			Economic	Social	Administrative
1942-1944	<sup>a</sup> Pre-Paz	3	26.8	20.8	52.4
1945-1951	<sup>b</sup> Post-Paz	7	10.5	28.4	61.1
1952-1964	<sup>c</sup> MNR	13	15.0	34.6	50.4
1965-1969	<sup>d</sup> Post-MNR	5	13.1	36.0	50.9
1970	<sup>e</sup> "Técnicos"	1	<sup>f</sup> 26.1	<sup>f</sup> 30.9	<sup>f</sup> 43.0

<sup>a</sup>Encompasses parts of Peñaranda and Villarroel presidencies.

<sup>b</sup>Encompasses epoch initiated by Paz Estenssoro's period (January 1, 1945 – July 19, 1946) as Minister of Finance Under President Villarroel; and includes Hertzog and Urriolagoitia presidencies.

<sup>c</sup>Encompasses Paz and Siles Zuazo presidencies.

<sup>d</sup>Encompasses Ovando, Barrientos, and Siles Salinas presidencies. Because the Bolivian government attempted a budgetary reorganization during 1965-1966, this author was concerned that long-standing data for time-series analysis might be disrupted (see Wilkie, *The Bolivian Revolution and U.S. Aid Since 1952*, p. 18). The reorganization, which involved the maintenance of data on cards according to programs, has since been abandoned and the time series for activity by ministry reconstituted. This data has been adjusted here in order to make post-MNR functional budgetary analysis consistent with data through the MNR period.

<sup>e</sup>Encompasses Ovando, Miranda (one day), and Torres presidencies.

<sup>f</sup>Projected in contrast to actual outlay.

Source: Wilkie, *The Bolivian Revolution and U.S. Aid Since 1952*, p. 21; Balances, Departamento de Contabilidad, Tesorería Nacional; and Bolivia, Ministerio de Finanzas, *Presupuesto General de la Nación*, 1970.

by new non-economic programs conducted in Peace Corps and military assistance operations.<sup>34</sup>

Bolivian economic affairs, then, were decentralized among autonomous agencies, most of which operated with losses. The central government found that it not only could not count on anticipated agency profits from tin, transport, and oil, for example, but also that often it would have to subsidize a series of unprofitable ventures.

Given the confused growth of agencies shown in Table 10, it is no wonder that in 1970 Bolivian *técnicos* could claim that only through a governmental reorganization could the central government rationally develop the country's potential.<sup>35</sup> Although the MNR government established a Ministry of Planning and Coordination in 1963, like many such ministries in Latin America, it found coordination to be an excruciating process. As the *técnicos* noted of the existing system in 1970:

With regard to planning, the situation is chaotic. In spite of the existence of a planning agency

headed by an official of ministerial rank, the other ministers and the directors of decentralized agencies generally make their own plans (or simply do not plan at all but fall back on their daily routine). Consequently, the coordination of planning as well as execution and evaluation of planning is virtually nonexistent . . .<sup>36</sup>

The *técnicos* went on to note:

The administrative function is carried out in a process which is extremely complex and costly. The existing rudimentary systems require 173 different operations for simple payment of one budgetary item; permission to pass merchandise through customs requires more than 87 steps; and even a simple request for annual vacation in a decentralized agency . . . means 59 operations before the employee can obtain his final authorization.

But there are even worse examples of defective bureaucratic processes. In one ministry,

<sup>34</sup>James W. Wilkie, "Public Expenditure Since 1952," in James M. Malloy and Richard S. Thorn (eds.), *Beyond the Revolution: Bolivia Since 1952* (Pittsburgh: University of Pittsburgh Press, 1971), Table 3 [see Chapter V, above].

<sup>35</sup>[José Ortiz Mercado, coordinador], *Estrategia Socio-Económica del Desarrollo Nacional, 1971-1991* (2 vols.; La Paz: Ministerio de Planificación y Coordinación, 1970).

<sup>36</sup>*Ibid.*, I., pp. 116-117.

TABLE 10  
Growth of Bolivian Public Sector Agencies Since 1952

Agency	Pre-1952 Agencies	<sup>a</sup> 1952-1963	<sup>a</sup> 1963-1969	Total by 1970
Government/Administration/Defense	8	0	7	15
Agriculture/Ranching	3	3	5	11
Mines and Petroleum	2	3	1	6
Industry and Commerce	1	6	2	9
Energy	0	2	0	2
Public Works/Communication/Transport	7	2	10	19
Finances	8	0	1	9
Education and Culture	4	4	3	11
Social Welfare	7	3	8	18
Housing	0	2	1	3
Health	2	0	3	5
Total	42	25	41	108

<sup>a</sup> It is interesting to note that one recent observer claims that the MNR was not really revolutionary because it represented an "elitist life style." According to James M. Malloy in *Bolivia, The Uncompleted Revolution* (Pittsburgh: University of Pittsburgh Press, 1970), pp. 306-307, one of the reasons Paz Estenssoro fell from power in 1964 was because he "felt the need to create a new technocratic elite which could truly lead the country to development," thus he "paid less and less attention to party affairs."

Ironically, as seen in this table, post-MNR governments fragmented state power by creating so many new decentralized agencies that the *técnicos* now seek to clean up the confusion through recentralization. If the popular sector, however, has its way with the current President of Bolivia, Juan José Torres, decentralization apparently will be developed with a vengeance, with students, workers, miners, and peasants taking control from the *técnicos*.

Source: [José Ortiz Mercado, coordinator], *Estrategia Socio-Económica del Desarrollo Nacional, 1971-1991* (2 vols.; La Paz: Ministerio de Planificación, 1970), I., p. 115c.

for example, it has been discovered that 59 different operations are necessary to receive a letter and file it with a response. And as a corollary of these examples, the process for granting a mining concession in Bolivia, a country dedicated to mining, requires 250 steps.<sup>37</sup>

These revealing statements do much to puncture the myth of state planning propagandized by recent Bolivian governments. At first, Bolivian leaders (following examples of other Latin American countries) believed that by simply establishing a Ministry of Planning and Coordination, disarticulation between the centralized and decentralized agencies (as well as between agencies within each sector) could be resolved. However, Bolivia's *técnicos* explicitly have pointed out why mere coordination does not work:

For the last thirty years the government has been  
asystematically creating an excessive number of

decentralized agencies, with an average of one agency each three years. Since 1965 the average has been three agencies per year without attention to *scientific principles* of administration. Under a false concept of the meaning of "autonomy" or "autarky," this growth has provoked a breaking away of agencies from the nucleus of governmental control. This phenomenon must be attributed fundamentally to the absence of juridical norms concerning the concept of [centralized-decentralized relations which are] neither defined scientifically nor juridically in the country's legislation. In the final analysis, [relations are affected by personal influence which central government officials are able to exert over directors of decentralized agencies].<sup>38</sup>

In short, Bolivia is only now finding out what Mexico has fully discovered in the last ten years: coordination without a budgetary control is a vague term without much meaning for effective state planning.

<sup>37</sup> *Ibid.*, I., p. 117.

<sup>38</sup> *Ibid.*, I., pp. 114-116.

But if the Bolivian central government had been so inept at managing the affairs of a "revolutionary" society, how can one account for a dramatic growth in GDP during the 1960's?

As shown in Table 11, total real GDP averaged a yearly gain of 5.0% between 1959 and 1969. Industrial growth showed surprising strength after 1962, and it would appear that the attempts by Paz and Barrientos to encourage private sector investment were handsomely rewarded. As in the Mexican case of the 1960's, the manufacturing subtotal grew at the same average as the total for industry (6.8% a year), although the Mexican average was several percentage points higher.

TABLE 11

Percentage Growth of Bolivia's Real Gross Domestic Product and Industrial Output  
(Based on 1958 Prices; In Per Cent)

Year	GDP	Industry	
		<sup>a</sup> Total	<sup>b</sup> Manufacturing
1959	— .3	4.0	—1.8
1960	4.3	2.2	9.7
1961	2.1	—1.5	.2
1962	5.6	10.1	10.7
1963	6.4	9.9	6.6
1964	4.8	6.5	8.9
1965	6.9	11.3	9.8
1966	7.0	8.8	12.3
1967	6.3	12.8	3.2
1968	7.2	7.7	6.3
<sup>c</sup> 1969	4.8	3.5	8.9

<sup>a</sup>Includes mining, petroleum, manufacturing, construction, and electricity.

<sup>b</sup>Included in industrial total.

<sup>c</sup>Preliminary.

Source: Bolivia, Ministerio de Planificación y Coordinación, *Revista de Planificación y Desarrollo; Cuentas Nacionales, 1950-1969* 1 (1970) p. 7. For a devastating criticism of the Ministry's method for arriving at the above figures, see Laurence Whitehead, "Basic Data in Poor Countries: The Bolivian Case," *Bulletin of the Oxford University Institute of Economics and Statistics* 31 (1969) pp. 205-227.

Internal warfare set off by the Che Guevara movement did not appear to affect the growth of GDP, but that may be because the figures themselves are questionable.<sup>39</sup>

If the Bolivian *técnicos* are critical of the state's role in national development, their position is important from two points of view. In the first place, it is clear that they consider the role of the *técnico* to be the most important influence and the indispensable, vital basis for the rational direction of their society. The tone of their work is one of omniscience. If they are given their due place in the power structure their program is simple:

The new Administration and its newly formed bureaucracy must be based upon three basic precepts: (a) loyalty to the society which it serves; (b) passion for responsibility to public service; and (c) permanent intellectual and professional growth. As opposed to the private sector, the public sector increasingly utilizes new technologies, principally with regard to research on economics, finance, and production. But this positive State contribution to the development of productive forces until now has not been systematically and organically carried out. Rather, [it has responded in many cases to urgent or arbitrary decisions made by international or foreign agencies]. The new bureaucracy must participate in the new mission which the State has in modern society.<sup>40</sup>

Furthermore, the *técnicos* noted that there are two positions concerning the role of the public sector; the first of which they do not deny, but seek to correct:

The first position stems from the idea that the State is a "bad administrator," and it condemns direct state intervention in the economic life of the country, [assigning it the supplementary role of maintaining] . . . "tranquility and public order." The result is a curious mixture of neoeconomic liberalism and political absolutism.

The other position, sustained in the present strategy for development, [postulates that the State] . . . must fulfill a directive, innovative, and entrepreneurial function [so as to create

<sup>39</sup>Nevertheless, during the 1960's, most observers were convinced that the Bolivian economy made great strides forward, regardless of problems in measurement. Utilizing a variety of analyses touching on qualitative aspects of development, a consensus emerged that Bolivia was beginning to overcome its historical backwardness. See, for example, Malloy and Thorn (eds.), *Beyond the Revolution: Bolivia Since 1952*; Dwight B. Heath, Charles J. Erasmus, Hans C. Buechler, *Land Reform and Social Revolution in Bolivia* (New York: Praeger, 1969); and Cornelius H. Zondag, *The Bolivian Economy, 1952-65; The Revolution and its Aftermath* (New York: Praeger, 1966).

<sup>40</sup>Ortiz Mercado, *Estrategia Socio-Económica del Desarrollo Nacional, 1971-1991*, I., p. 126.



economic development. Such growth will be produced to the extent that masses are mobilized in a system of planning which adapts to our national characteristics and which] substitutes "the rules of the free market," with the common effort directed toward pre-fixed rationally planned goals.<sup>41</sup>

That the Bolivian *técnicos* should develop a detailed strategy for national development is admirable, but in the analysis of their country they have omitted four important factors. First, they have assumed that the plan will be carried out in an apolitical vacuum, an assumption belied by the fact that between October 6 and October 7, 1970, the presidency changed hands at least three times. Second, baseline analyses for projected growth in all fields is woefully inadequate; and few historical studies are available which would show whether or not there is a reservoir of experience which would provide a realistic stimulus for change. Third, the fact that the decentralized sector has advantages in hiring better qualified personnel means that generally the least attractive bureaucrats go into the central government. Fourth, financial considerations are absent from planning.<sup>42</sup> For these reasons, any hope that the *técnicos* might be able to carry out their plan is very remote indeed.

In sum, it is interesting to note that in spite of ambitious plans for the 1970's, Bolivian government politicians in general have been concerned in the past about the lack of high level manpower capable of conducting the country's public affairs. Because of the country's high rate of illiteracy (almost 69% in 1950, the date of the last population census),<sup>43</sup> and because of continued problems in educational development, the common stereotype places Bolivia among the countries in Latin America which suffer from disadvantages which the more developed countries such as Costa Rica do not face.

#### VI: Costa Rica

Costa Rica has long been described as a land of literate, middle-class, rural folk who have solved many problems in their society by employing more school teachers than soldiers. In this view, Costa Rica does not suffer from the ills of its Latin American neighbors because it has (a) equitably-sized landholdings (in

contrast to latifundia) and (b) deeply rooted democratic traditions which make a "model political system [with] . . . governmental agencies that operate independently of presidential control."<sup>44</sup> Unfortunately, this stereotyped description does not appear to be as accurate as previously supposed; and it is being reevaluated by the country's current chief executive, José Figueres, who himself was greatly responsible for setting up the so-called "model."

When José Figueres led a movement in 1948 to overthrow a Communist-oriented government, he set out to establish a system in which the chief executive would have little power. In his view, the centralized government would provide for peace, stability, and honesty in which the private sector would prosper. His solution to this problem was to expand state ownership and control beyond the traditional areas of insurance and railways to include banking, electric power, public housing, communications, and agricultural enterprises. Of the nearly 130 decentralized agencies in Costa Rica,<sup>45</sup> only 9 agencies are listed as having been founded prior to the Figueres revolution.<sup>46</sup>

Even as Figueres took much economic activity out of the political arena, he encouraged the development of private entrepreneurship and the growth of a free market economy, two elements of Costa Rican life which had led to his own business success. In short, he sought to create a mixed-capitalistic system (or, as he would have termed it in his earlier days, a "mixed-socialistic system") in which the central government would not play a dominant role.

By creating a series of autonomous agencies, his system would permit long-term planning and political considerations would be reduced to a minimum by appointing directing boards with staggered terms overlapping with alternate presidential periods. In this manner, no political party could control any agency, unless it could win successive terms in the presidency; and to date this has not happened since the Figueres revolution. In contrast to the Mexican PRI and the Bolivian MNR, the Costa Rican PLN has never been able to gain one-party domination.

The importance of decentralized sector expenditures as compared to total centralized outlay is given in Table 12. Although these data include (a) problems of definition and (b) possible double-counting of intersectoral transfers, they do give some indication of the relative power of the autonomous agencies since 1950.

<sup>41</sup>*Ibid.*, I., p. 128.

<sup>42</sup>*Ibid.*, II., pp. 503-541.

<sup>43</sup>UCLA Statistical Abstract of Latin America, 1962, p. 25.

<sup>44</sup>Joseph A. Ellis, *Latin America: Its Peoples and Institutions* (New York: Bruce, 1971), pp. 204-205.

<sup>45</sup>Costa Rica, Dirección General de Estadística y Censos, *Anuario Estadístico*, 1968, pp. 306-307.

<sup>46</sup>See the incomplete *Manual de Organización de la Administración Pública de Costa Rica* published in 1962 by the Costa Rican Ministerio de Economía y Hacienda. Cf. Universidad de Costa Rica, *El Desarrollo Económico de Costa Rica*; Vol. 4, *Sector Público de la Economía Costarricense*, 1962, pp. 27-28.

TABLE 12

Comparison of Costa Rican Centralized and Decentralized Actual Expenditure, 1950-1968

Year	Centralized	Decentralized	
	<sup>a</sup> Actual Outlay (In Million Colones)	<sup>a</sup> Actual Outlay (In Million Colones)	<sup>b</sup> Per Cent Devoted to Economic Functions
<sup>c</sup> 1950	136.1	<sup>c</sup> 96.5	<sup>c</sup> 78.2
1951	144.2	96.0	76.1
1952	190.4	112.4	75.8
1953	222.1	155.3	77.9
1954	244.0	156.4	74.3
1955	303.8	201.8	72.8
1956	297.4	266.2	77.8
1957	325.9	266.5	73.0
1958	341.5	298.6	74.8
<sup>d</sup> 1959	350.2	<sup>d</sup> 252.6	<sup>d</sup> 41.1
1960	376.1	255.8	45.1
1961	408.2	294.2	46.0
1962	437.7	377.3	46.4
1963	477.7	414.9	47.1
1964	531.2	449.5	50.4
1965	569.5	586.7	51.8
1966	675.7	582.3	43.1
1967	747.6	633.5	44.3
1968	785.7	749.0	40.4

<sup>a</sup>In current prices; may double-count intersectoral transfers, thus accounting for some of discrepancy discussed in notes "c" and "d" below.

<sup>b</sup>Functions of the National Insurance Institute are here divided equally between economic, social, and administrative outlay.

<sup>c</sup>The 1950-1958 decentralized series may be incomplete, depending upon treatment of semi-autonomous public agencies. See also note "a" above.

<sup>d</sup>The 1959-1968 decentralized series appears to be more complete than the 1950-1958 series (see also note "a" above), except cf. Costa Rica, Dirección General de Estadística y Censos, *Anuario Estadístico, 1968*, pp. 306-307, for example, which gives a higher amount for 1968 depending upon how decentralized sector is defined. For a very different definition of this sector, see the classification system developed by the Central Bank of Costa Rica.

Sources: Centralized figures are from the account books of the Costa Rican Comptroller General's Office; series is consistent for the entire period, 1950-1968.

Decentralized data for the period 1950-1958 are from Universidad de Costa Rica, *El Desarrollo Económico de Costa Rica*, Vol. 4, *Sector Público de la Economía Costarricense*, 1962, pp. 96-97. Data for 1959-1968 were provided by the Department of Budgetary Control of the Comptroller General's Office.

Clearly they suggest that if state planning is to be carried out, consistent series must be developed which take into account the problems of definition and transfer.

With regard to the decentralized sector, the percentage share of year-to-year outlay dedicated to economic activities shows amounts less than 50% after 1959. These figures include capital and current outlay, the latter being as important for the purposes of

political analysis as the former for economic interpretation. Without an adequate organizational framework (including, for example, budgeting for qualified administration, project guidance, and auditing), the success of capital investment outlays remains very much in doubt.<sup>47</sup> As suggested in Table 3, then, the decentralized economic impact on Costa Rica in recent years has not been as great as the PLN itself originally might have hoped.

<sup>47</sup>Costa Rican problems in supervising the expenditure of decentralized agencies are discussed in Part VIII below.

In addition to developing decentralized government, Figueres attempted to restrict the chief executive even further (and specifically to prevent the corruption in government which the civil war sought to overthrow in 1948). Thus, Figueres capped what was essentially a revolution in public administration by creating a comptroller general's office to control central government expenditure. In short, he would strictly limit the budgetary power of the presidency. In fact, however, the comptroller general (named by the legislative assembly for an eight-year term)<sup>48</sup> has come to rival the president's budgetary power, because without his consent, funds cannot be transferred from one account to another; and he has the power to exercise some budgetary controls (including audits) over the decentralized sector.<sup>49</sup> In contrast to Mexico, where presidential discretionary power over central government funds is absolute, the Costa Rican presidency is limited much as the Bolivian chief executive who has to contend with earmarked taxes, except that the Costa Rican president also is limited by the comptroller general as well as by the decentralized sector.

Given the above limitations on the Costa Rican presidency, one can appreciate the decreasing economic leverage of the executive office as shown in Table 13. Prior to the Figueres revolution of 1948, presidents spent over one-third of the central government budget on economic matters. President Rafael Angel Calderón Guardia, "the protector of the masses," actually devoted about 47% of the budget to economic development mainly by reducing administrative expenses to an all-time low. It was during the "eight-year period" of Calderón Guardia and his protégé Teodoro Picado that "corruption" reached unprecedented levels in Costa Rican history, allegedly through favoritism in the letting of contracts for economic development.<sup>50</sup>

In 1948 the cost of the civil war meant a shift in expenditures. Economic outlay declined as the share of administrative expenses increased to cover the cost of

the civil war. Since the Figueres group personally had financed the overthrow of the Picado government at considerable cost, difficulty, and risk, it was reimbursed for expenses by the new government.<sup>51</sup>

The last year of notably high central government economic expenditures was 1949. Most of the 49% economic share in expenditure involved the nationalization of the banking system and the refunding of the national debt. Once these one-shot measures were undertaken, and the process of creating decentralized agencies was undertaken in earnest,<sup>52</sup> the central government's share in economic functions began to decline steadily.

Under presidents of the 1950's, the share in economic outlay finally fell below 20%, a figure which declined to about 17% by the late 1960's. In short, we may see in Costa Rica the evolution of what may be called the "socio-administrative state," a system in which the central government tends to concentrate on social and administrative matters. Although theoretically a decentralized sector will manage economic affairs, as in Costa Rica, the decentralized sector itself may tend to function in ways which are only partially economic. Thus, a situation can arise in which state power is segmented, with no direction or order in economic affairs.

By the late 1960's Figueres and his PLN were becoming aware of the above problems. Furthermore, Figueres began to feel that the revolution of 1948 mainly had benefited the middle sector of Costa Rican society, in spite of all the PLN's talk over the years of helping the country's masses. Figueres felt that problems of population growth, urbanization, and a decline in prices for the country's coffee and banana exports meant new challenges to government. Not only did these problems (which had not been entirely foreseen in 1948) overshadow the old issues of "corruption" and "Communism" over which the civil war had been fought, but academic investigations of Costa Rican life suggested that old stereotypes were never true. Thus, the meaning of Costa Rica's high

<sup>48</sup> Though the PLN has controlled the legislative assembly since 1953 (see Henry Wells, "The 1970 Election in Costa Rica," *World Affairs* 133:1 [1970] pp. 13-28, especially p. 15), an eight-year appointment for the Comptroller General makes him independent for all practical purposes; he cannot be removed from office except by a two-thirds vote of all legislative members (see Costa Rica, *Asamblea Legislativa, Ley Orgánica de la Contraloría General de la República*, 1968, pp. 10-12).

<sup>49</sup> *Ibid.*, *passim*.

<sup>50</sup> In Oral History Interviews with Wilkie, Michaels, and Wilkie, José Figueres (Buffalo, March 23, 1968) has stressed the issues of corruption as well as Communism as reasons for generating the Revolution of 1948.

<sup>51</sup> For a justification and an accounting, see Movimiento Liberación Nacional, *Los Pagos de la Guerra de Liberación Nacional* ([San José]: Editorial Liberación Nacional, 1953). The Figueres group apparently intended to use some of this repayment to overthrow other dictators in the Caribbean, but was frustrated by internal problems of organizing a new government while defending the country against incursions from Nicaragua.

<sup>52</sup> Among the older decentralized agencies, the State Liquor Factory was phased out of central government subventions by 1947 and the railroads ten years later.

Figueres' 10% levy on capital holdings in 1949 permitted nationalization of the banks, not only increasing economic outlay but also the absolute amount of funds spent that year; in 1949 the central government spent 208.6 million colones, compared to 114.9 million in 1948 and 136.1 million in 1950.

TABLE 13  
Average Actual Per Cent of Costa Rican Central Government Budgetary Expenditure  
By Type of Emphasis and Presidential Term

<sup>a</sup> Term	President	No. Years in Average	<sup>b</sup> Total = 100.0 Per Cent		
			Economic	Social	Administrative
1929-1932	González Víquez	4	33.3	18.0	48.7
1933-1936	Jiménez Oreamuno	4	33.8	18.9	47.3
1937-1940	Cortés	4	37.7	22.5	39.8
1941-1944	Calderón Guardia	4	46.6	20.4	33.0
1945-1947	Picado	3	35.6	24.5	39.9
<sup>c</sup> 1948	Picado/León Herrera/Figueres	1	23.4	23.8	52.8
1949	Figueres	1	49.3	16.4	34.3
1950-1953	Ulate	4	28.6	25.3	46.1
1954-1958	Figueres	5	23.4	30.2	46.4
1959-1962	Echandi	4	17.9	36.0	46.1
1963-1966	Orlich	4	18.5	35.2	46.3
<sup>d</sup> 1967-1968	Trejos	2	16.7	37.5	45.8

<sup>a</sup>Terms of budgetary control do not coincide exactly with periods in the presidency (for example, with regard to the five-year period, Figueres served from November 8, 1953 to May 8 1958).

<sup>b</sup>For definition of functional emphasis see Table 3, note "a"; total includes extraordinary outlay such as Inter-American Highway funds (1942-1946) and expenditure outside the budget (as in 1956 and 1962).

<sup>c</sup>Disaggregation of the *subvención* and *afectaciones especiales* categories (for which no actual breakdown is available for 1948) is based upon percentage distribution of projected outlay. Data for year include extraordinary expenses of the civil war.

<sup>d</sup>The 1967-1968 Costa Rican governmental functional classification, for example, differs from official data reorganized here for comparability with Mexican and Bolivian figures. Thus the Costa Rican Comptroller General's Office calculates shares for economic, social, and administrative outlay as 18.1 per cent, 44.4 per cent, and 37.5 per cent, respectively. Much of the difference is accounted for by the government classification of its retirement fund (5.3 per cent) as a social expenditure, which in analysis here is included as an administrative outlay. (See Costa Rica, Contraloría General de la Nación, *Liquidación del Presupuesto del Gobierno Central*, 1967, p. 13A; and 1968; Table 6.

Source: Adapted from account books of the Costa Rican Comptroller General's Office.

literacy rate was called into question;<sup>53</sup> and a student of land problems surprisingly suggested that Costa Rica needs *land reform* in order to overcome problems of latifundia.<sup>54</sup> The left wing of the PLN, led by Father Benjamín Núñez, set forth a document suggesting ways to remedy the ills of Costa Rica's problems, especially including rising unemployment.<sup>55</sup>

Although Figueres did not accept all of these criticisms, he campaigned for the presidency in 1969 in terms of the new problems (as well as recalling the glories of 1948). Fully aware that he had created a

presidency which possessed little direct effectiveness, he confronted the issue of reorganizing his own system so that he would have the power to face new problems. In sum, the governmental structure created after 1948 was one which was intended to decentralize the state; by 1970 the PLN felt the need to recentralize governmental affairs.

Yet while Costa Ricans discussed aspects of a new negative image of their country, and as old stereotypes fell by the wayside in critical reexamination of the national situation, the growth of GDP and

<sup>53</sup>Rafael Cortés, *Panorama de la Educación después de Noventa y Cinco Años de Educación Gratuita y Obligatoria* (San José: Universidad de Costa Rica, 1967), quoted by Father Benjamín Núñez in his Oral History Interviews with Wilkie, Michaels, and Wilkie, Columbus, April 21, 1968.

<sup>54</sup>See José Manuel Salazar, *Tierras y Colonización en Costa Rica* (San José: Universidad de Costa Rica, 1962). This work, written as a thesis, was an important factor leading to the establishment of Costa Rica's Instituto de Tierras y Colonización in 1962.

<sup>55</sup>*Patio de Agua: Manifiesto Democrático para una Revolución Social* ([San José]: Impresos Urgentes, [1968]).



industrial output yielded a counter-image. Table 14 shows that although growth of GDP was highly erratic, the average for the period from 1958 to 1968 was 6.1%. As in Mexico and Bolivia, the average for industrial output was equal to growth in the manufacturing sector, but the 9.1% average was higher than either of the other two countries.

One could well ask whether or not either of the above images of Costa Rica is accurate. First, with regard to national problems, Costa Ricans have

TABLE 14

Percentage Real Growth of Costa Rica's  
Gross Domestic Product and its  
Industrial Output, 1958-1968  
(Based on 1936 Colones; In Per Cent).

Year	GDP	<sup>a</sup> Total	Industry
			<sup>b</sup> Manufacturing, Mining, and Quarrying
1958	2.8	9.6	7.4
1959	5.5	8.6	4.2
1960	8.0	7.7	13.0
1961	2.7	2.0	-2.3
1962	9.6	13.9	14.4
1963	5.8	12.2	13.7
1964	2.3	1.9	7.3
1965	10.6	10.9	7.7
1966	7.0	10.4	11.1
1967	5.1	9.6	12.3
1968	7.8	13.7	11.7

<sup>a</sup>Includes manufacturing, mining, quarrying, construction, and electricity. Mining and quarrying have been very minor to date.

<sup>b</sup>Unfortunately for comparability with other countries, manufacturing is lumped together with mining and quarrying; this amount is included in the total for industry.

Source: Calculations for growth of GDP are made from data in Costa Rica, Banco Central, *Memoria Anual-1967*, I., p. 169; and *Estadísticas Económicas, 1963 a 1968*, p. 12. Standard colones are calculated with San José wholesale price index provided by the Banco Central de Costa Rica; with regard to the price index see the Bank's *Ajuste del Índice de Precios al por Mayor*, 1966.

followed with great interest the collapse of the Uruguayan model for development.<sup>56</sup> Whereas once that country was characterized as the "portrait of a democracy" and as "the Switzerland of Latin America," today it is beset not so much by rural-urban problems (as an eminent political scientist predicted little over fifteen years ago)<sup>57</sup> but by a system of decentralization which investigators neither know much about nor which politicians can control. Thus even the political recentralization of the Uruguayan central government (which was accomplished in 1966 by the abolishment of a nine-man presidency in favor of a one-man presidency) can resolve few problems, because most of the state's economic activity and high levels of consumption remain beyond central government control.

Because of Uruguay's problems, some Costa Ricans have suggested that their country might find itself in the same situation due to similarities in smallness of size, limited production possibilities, heavy social expenditure and decentralization of government. Thus Father Benjamín Núñez, leader of the PLN left wing, has stated:

I recommend that a small and underdeveloped country like Costa Rica should choose the road of poverty to become some day a rich country. We cannot pretend to have the standard of living of capitalistically developed nations. The standards of our living conditions must be defined *not* according to the American way of life, but instead, according to our *own* way of life, dictated by our environment, our national resources, our own technical development and our own historical evolution. The problem is that the capitalist world, the developed world, has sold to the under-developed countries like Costa Rica the idea that in order to be well-developed, they must have, from the start, the standards of living that the U.S. has reached after a long process of capitalization.<sup>58</sup>

Although Núñez's opinion might seem extreme, it reflects an important view that Costa Rican life needs reorientation, regardless of apparent economic growth.

Second, with regard to the image of increasing economic development, perhaps the growth of GDP in Costa Rica (and/or Bolivia and Mexico) is part of a political imperative. If the economy does not show

<sup>56</sup>Between the mid-1950's and mid-1960's, Uruguay's average yearly growth of GNP in constant prices was only .1%, with the period 1961-1966 showing an average yearly decrease of .1%. See U.S., Agency for International Development, *A.I.D. Economic Data Book: Latin America, 1967*, p. 9.

<sup>57</sup>Russell H. Fitzgibbon, *Uruguay: Portrait of a Democracy: An Informal Survey of the Switzerland of Latin America* (London: Allen and Unwin, 1956).

<sup>58</sup>Father Benjamín Núñez, in Wilkie, Michaels, and Wilkie, Oral History Interviews, Columbus, April 22, 1968.

growth, the party in power cannot long continue to justify its holding of power. In this latter sense, those decentralized agencies changed with calculating GDP share common ground with political leaders. Since economic change is usually measured by central bank officials or planning agency officers, they themselves are at least partially responsible for the successes or failure of highly visible policy. All too often, then, there is no independent evaluation of economic progress; and in this one case, at least, some officials of the centralized and decentralized sectors may find that their interests coincide in emphasizing positive rather than negative factors in analysis.

These and other matters are subsumed under some basic dilemmas which arise from the relations between two governmental sectors. One sector is responsible directly to the people through the elective process; the other sector is independent from either the people or their elected representatives. It is to these problems that we now must turn after examining centralized and decentralized relations in three countries of Latin America.

#### *VII: Problems of Government*

As seen in the above analysis in three Latin American countries, the budgetary dilemma in economic development is complex. Not only is economic development dependent upon the role of *técnicos* capable of making crucial decisions concerning the allocation and management of funds, but the *técnicos* in decentralized agencies may be in a position to challenge subtly the authority of the central government in many ways.

First, if the central government turns over its economic powers to decentralized agencies, its own *técnicos* remain in a position which is relatively powerless. If economic expenditure plays a more dynamic role in national development than social and administrative outlay, the president has little leverage to change the direction of his country's affairs. Though we have seen that social expenditure is vital to national development, its results cannot be implemented with rapidity.

Second, although it may seem efficient to create new agencies which fall outside the realm of traditional bureaucratic sloth and inefficiency, the best personnel may well abandon central government structures in order to gain the freedom, recognition, and perquisites granted to employees of the decentralized agencies. Needless to say, the central government is thus weakened by a decline in the quality of its manpower as well as in its budgetary powers.

Third, if two systems of government exist and only the centralized portion is directly responsible to the elective process, one might well ask who wants to

serve at the pleasure of the public. Most of the decisions made at the decentralized level are obscure and remote to the man in the street, who does not understand, for example, rediscount rates, credit allocations, import substitution policies, or subsidies and guarantees to mixed public and private corporations. The cases which do tend to be understood by the general public involve instances such as increase in bus fares or the clashes of student group with student group (and subsequently with the police). In those cases the careers of the centralized government officials are jeopardized. Thus, it would be logical for many political leaders as well as *técnicos* to prefer to enter the relative safety of decentralized service which is not necessarily responsible to public complaints, demands, or whims.

Fourth, decentralized sectors have been set up to encourage long-term development. By taking such planning out of the hands of politicians, who may change with relative frequency, *técnicos* may make commitments for periods which extend throughout several presidencies. Clearly, such action is necessary for efficient expenditure of funds and to coordinate the phased development of complicated projects. Nevertheless, what happens to the wishes of the electorate should they decide upon a change in the order of national priorities? Not only may the central government lack the discretionary funds to redirect national life but also it may have to support decentralized agencies which are not financially self-supporting. While this latter aspect may give some leverage to the central government, decentralized projects are often governed by rules and regulations set down by the very international agencies which the central government does not want to alienate because of its own scarce resources and/or pending new agreements. In addition, if the *técnicos* of a national decentralized agency find themselves frustrated or blocked in their plans, they often find it convenient to use their international connections to move into an international development agency, further depleting the stock of manpower necessary to administer the affairs of the developing country.

Fifth, if central governments are to assert their authority over the entire public sector, they must revamp the central government bureaucracy so that it is as qualified as its competitor. Even if the central government were able to overcome the "law of bureaucracy" which requires the creation of new agencies because it may be impossible or too expensive to reform administratively the existing organization (although some agencies may have outlived their usefulness), decentralized officials may rebel at losing their independent standard of operation. In any case, expanded social outlay for education of qualified central government manpower would cut into the public expenditure pie.

Sixth, because decentralized agencies take their tasks seriously, they may find that they must develop their own standards and procedures which are not compatible with those of a national bureaucracy. This means that in many cases these agencies cannot be directly compared or even that audit of expenditure cannot be undertaken on a comparative basis.

Seventh, with the development of consolidated accounts, one might suppose that central governments can rationally plan development. Yet the exact opposite may be true: consolidated figures may merely show how funds are being expended, only giving the impression that the result was preprogrammed. In this manner, presentation of data on diffuse and uncoordinated plans may appear to give spurious coherence to government operations.

Eighth, if the development of consolidated analysis precedes actual fusion of the decentralized agencies into the central government proper, one might expect to gain some partial insights into the effects of consolidation. This would be true especially in the three countries under analysis here because each has attempted to regain control over the decentralized sector (as will be discussed further below). Thus, on the one hand, whereas one might suppose that the consolidated budget allows planning ministries to coordinate policy and reduce expenditures in one sector as they raise outlays in the other, such might not be the case, as in Bolivia. On the other hand, however, there are indications that the Mexican case has succeeded where Bolivia has failed. In the meantime, Costa Rica has offered a confused middle ground.

Elsewhere I have described Bolivia's status as that of a "frozen revolution,"<sup>59</sup> that is, central government activity long has emphasized socio-administrative outlay. In short, the central government has not been able to gain much control over the economically-oriented decentralized sector; and it remains to be seen whether or not the *técnicos*' plans for administrative reforms and a 1970 budgetary shift to give the central government more economic importance can be accomplished in the midst of political chaos.

The Mexican case is somewhat different. As I suggested in another study,<sup>60</sup> central government deemphasis of economic outlay after about 1960 may have been made possible by the growth of decentralized economic activity. In this manner, the Mexican central government could take a more direct social action in its own budgetary activity. If the growth of decentralized outlay in absolute terms for the period

from 1965 to 1969 is any indication of expansion under President López Mateos (1959-1964) when no total data are available, one could surmise that such growth would relieve the central government of need to continue high levels of economic expenditure. As a matter of fact, about 90% of the capital investment projected by the decentralized sector for the period from 1959 to 1963 was scheduled for economic development.<sup>61</sup>

In the Costa Rican case, it would appear that not only has the central government continued to deemphasize economic expenditure (Table 13), but also that the decentralized government has failed to take up the slack, mainly because the latter sector has become as heavily involved (if not more involved) with social and administrative affairs as with economic activities (Table 12). Though the series prior to and after 1959 are contradictory because of definition of the decentralized agencies, one could say that Costa Rica appears to be reacting to unplanned developments rather than attempting to guide the course of events.

Ninth, though politicians often are presumed to pervade the inefficient centralized sphere of government and are posed against *técnicos* mainly located in the efficient decentralized agencies, actually, the latter entities are often managed by political appointees who, even with the help of *técnicos*, may not be able to determine the full range and impact of their agencies. The full-fledged *técnico* may not be interested in preserving the autonomy of the decentralized sector but in integrating centralized and decentralized government so that his talents of rationally organizing the whole state may be best brought to bear, as projected in the Bolivian case discussed above. In any event, the *técnico*'s influence may not stem from actually holding power, but in simply being the man who presents alternative courses of action to those who make decisions.<sup>62</sup>

#### VIII: Budgetary Controls

As suggested throughout this study, Bolivia, Costa Rica, and Mexico increasingly have sought to bring the decentralized sector under presidential control. That the Bolivians had achieved little success by 1970 is attested in the following quote:

Until 1965 the budget included only authorizations for central government outlay. The decentralized sector approved its own

<sup>59</sup>Wilkie, *The Bolivian Revolution and U.S. Aid Since 1952*.

<sup>60</sup>Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910*, p. 273.

<sup>61</sup>México, Dirección de Inversiones Públicas, *México: Inversión Pública Federal, 1925-1963*, pp. 111-118.

<sup>62</sup>This view of the *técnico*'s power to influence decisions through the choice of technical alternatives is stressed by Vernon, *The Dilemma of Mexico's Development*, p. 137.



budgets.... Since that date, a consolidated budget has been worked out with all the budgets of the decentralized sector being approved by the central government.

Nevertheless, above all, the result has been only formal, because the Ministry of Finance has resources of information and mechanisms to audit only central government programs. [With regard to the decentralized sector], in practice the budget does not even constitute a limit on expenditures; and also it is not even known whether or not programs have been carried out as planned....<sup>63</sup>

Presumably the Bolivian solution to this problem is akin to that of Costa Rica. According to a Costa Rican reform of May 30, 1968, the Constitution of 1949 was revised to permit autonomous agencies to enjoy only the right of administrative independence, with loss of the privilege of making its own policy.<sup>64</sup> The presidency itself has set up the mechanism for making policy and controlling public investments.<sup>65</sup> In the meantime, however, the Comptroller General's Office reported in 1967 that "the inevitable limitation of personnel prevents a complete and permanent control of public administration; therefore it is possible only to make selective and periodic checks [of certain institutions]."<sup>66</sup>

Attempts to integrate planning of the entire public sector in Mexico have a longer history, much of which has been described ably by others.<sup>67</sup> Suffice it to say here that the first Mexican plan for national investment was created by the Nacional Financiera for the period from 1953 to 1960, but that not until 1958 was the Ministry of the Presidency charged with full powers of planning.<sup>68</sup> Although since 1965 the Mexican Comptroller General's Office has integrated the income and outflow of decentralized funds into public expenditure accounts, that office does not have the funds or personnel necessary to audit the decentralized agencies, hence except in all but a few cases it must accept each agency's own report at face value. Also, as in Bolivia and Costa Rica, before full policy

control will be possible, the agencies themselves will have to adapt standardized accounting procedures.

A constant flow of regulations from the Mexican presidency has attempted to close gaps in the centralized government's control over the decentralized sector, one of the most recent being a proposal by President Luis Echeverría Alvarez. Within seventeen days of taking office, he sent to the Chamber of Deputies a projected Law for the Central Government Control of the Decentralized Sector. This law was designed to oversee personnel and financing of the agencies, as well as to establish a permanent registry of investments and profits, especially in mixed public and private corporations in which the state has minority share in control of operations.<sup>69</sup> Further, with regard to decentralized entities in which the state has majority share in direction, the 1971 federal budget specifically prohibits those agencies from applying for, obtaining, or accepting any credits or liabilities for whatever purpose or from whatever source without first obtaining permission from the Ministry of Finance.<sup>70</sup>

#### IX: Recentralization

That the process of recentralization of government in Mexico, Bolivia, and Costa Rica has gotten underway has historical importance. In a sense, nineteenth-century economic development in Latin America was an aberration after the extremely centralized control exercised by Spain and Portugal over their colonies in the New World. Though this control often was more theoretical than real, Latin American countries did have to find ways within "the system" in order to evade unworkable policy. During the nineteenth century, theoretically the state abdicated its inherited right to control economic life, even though many traditional limits on the free movements of goods continued, especially as related to geographical battles over centralism versus federalism.

With the onset of the twentieth century, the power of central governments generally came to be constitutionally established in order to provide a focus

<sup>63</sup>[Ortiz Mercado], *Estrategia Socio-Económica del Desarrollo Nacional, 1971-1991*, I., p. 47. Departments and municipalities have their own budgets and also are excluded from audit by the central government.

<sup>64</sup>Cf. Article 188 in Costa Rica, Asamblea Legislativa, *Constitución de la República de Costa Rica (7 de Noviembre de 1949)*, 1967 edition, revised in 1968 edition.

<sup>65</sup>See, for example, Costa Rica, Oficina de Planificación, *Informe sobre el Control del Programa de Inversiones Públicas*, 1965.

<sup>66</sup>Costa Rica, Contraloría General de la República, *Memoria Anual*, 1968, 1-B.

<sup>67</sup>See note 24 above.

<sup>68</sup>See two publications by the Comisión de Administración Pública of Mexico's Secretaría de la Presidencia: *Prontuario de Disposiciones Jurídicas para las Secretarías y Departamentos de Estado, 1970*; and *Manual de Organización del Gobierno Federal, 1969-1970*.

<sup>69</sup>*Tiempo* (Mexico City), December 28, 1970, p. 5.

<sup>70</sup>*El Mercado de Valores* (Mexico City), January 4, 1971. The approved new law is given in *ibid.*, January 11, 1971.



for national integration. Though even today regional caudillos continue to exist in Bolivia<sup>71</sup> — and strong men continue to dominate Mexican states —, the geographical-constitutional issue of central versus regional control pales beside the new administrative issue of who will control national funds.

Given state taxation powers and the fact that the state is the greatest source of employment, especially in countries which have limited economic activity, the power to spend funds and offer jobs becomes crucial in political battles, often to the exclusion of any ideology whatsoever. In this light, it is understandable why Mexico, Bolivia, and Costa Rica would attempt to limit presidential authority (including abuse involving nepotism and cronyism) by decentralization of decisions.<sup>72</sup>

Since economic growth as shown in the development of GDP for Mexico (Table 8), Bolivia (Table 11), and Costa Rica (Table 14) continued in spite of decentralization of the political economy, the theoretical implications have interesting ramifications. One can argue (A) that efficiently coordinated and controlled government would have permitted (and will permit in the future) growth to proceed at even greater rates than in the past. Conversely, one could assert that (B) growth has been possible precisely because decentralization prevented the central government from organizing a monolithic state which would have completely disrupted the free market. These arguments require some extended explication.

*Argument A.* In the first instance, arguments for recentralization have led central governments to wonder about the extent of their role (direct and/or indirect) in national affairs, traditionally measured in terms of governmental activity as a percentage of GDP.<sup>73</sup> Table 15 partially answers this question by presenting the limited data available for the three countries under consideration. Apparently the role of the Mexican central government since 1950 has ranged as high as from about 10% to 15%. Though these percentages may not appear to be very high, in reality,

it may be noted that no other single element of society has such influence. Thus the central government sets a tone within which national development takes place and within which the private sector must operate. Furthermore, these percentages finance operations in which the central government's power is multiplied by its licensing of business, controlling imports, and subsidizing of development, for example, as well as taxing the private sector selectively in order to encourage the growth of certain industries, depending upon geographic considerations.<sup>74</sup>

The importance of the Mexican decentralized sector can be shown only for the period since 1965. Since it has ranged from between about 11% to 13% of GDP, we may suppose that such figures date from at least the early 1960's, with growing importance to those levels during the 1950's.<sup>75</sup> Given the importance of the decentralized sector, it is no wonder that both politicians and *técnicos* have displayed extraordinary interest in expanding their authority directly over this sector in order to enhance central government influence.

The Bolivian case presents an interesting irony. While MNR officials unanimously condemned the tremendous inflation which threatened to topple their government, Table 15 shows that inflation finally gave the central government some importance as a percentage of GDP figures. With the onset of drastic stabilization policies in 1957, the central government percentage of GDP dramatically increased to 9%, a figure which on the average held up through 1968. Prior to 1957 the MNR percentage never went over 4%; and in 1955 it dropped below 2%.

As Table 15 shows, the importance of the Bolivian decentralized sector is manifest, although apparently it has steadily declined from over 25% to about 20% in relation to GDP. If the *técnicos* have their way, however, they would expand state power to closely control that sector. Because apparently the percentage of Bolivia's total public sector expenditure has never exceeded about 35% of GDP, planned expansion of the public sectors importance to over

<sup>71</sup> James M. Malloy, *Bolivia: The Uncompleted Revolution* (Pittsburgh: University of Pittsburgh Press, 1970), p. 291. However, Carlos Serrate, an MNR leader, has maintained in Oral History Interviews with James W. Wilkie and Edna Monzón de Wilkie, Los Angeles, 1971, that Malloy's views in this case are greatly exaggerated.

<sup>72</sup> Unfortunately, however, nepotism and cronyism appear to have been nourished by decentralization — there have been not only more jobs to bequeath but fewer checks on activities.

<sup>73</sup> For a view indicating that the economic measure of GDP should be supplemented by the development of measures for social modernization, see the Poverty Index offered in Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910*, Part II.

<sup>74</sup> If recentralization is effectively consummated, the central government will become even more important as it mobilizes the fragmented resources of the decentralized sector to enhance its position as the single most visible and influential organized element of society. For further analysis in this regard, see discussion of Table 15 and Part X.

<sup>75</sup> Roberto Anguiano Equihua, *Las Finanzas del Sector Público en México* (México, D.F.: Universidad Nacional Autónoma de México, 1968) sheds no light on the growth of decentralized expenditure. To resolve the question, historical investigation would have to be made in the accounts of each agency.

TABLE 15  
Public Expenditure as a Per Cent of Gross Domestic Product, 1950-1968  
(In Current Prices)

Year	Mexico			Bolivia			Costa Rica		
	Centralized	Decentralized	Total	Centralized	Decentralized	Total	Centralized	Decentralized	Total
1950	7.9	a	a	4.3	a	a	10.2	<sup>b</sup> 7.3	<sup>b</sup> 17.5
1951	8.6	a	a	5.0	a	a	9.9	6.6	16.5
1952	10.8	a	a	3.7	a	a	11.8	6.9	18.8
1953	8.8	a	a	2.4	a	a	12.4	8.7	21.1
1954	10.7	a	a	2.3	a	a	12.6	8.0	20.6
1955	10.1	a	a	1.7	a	a	14.5	9.6	24.1
1956	10.3	a	a	2.8	a	a	13.9	12.4	26.3
1957	9.9	a	a	9.0	a	a	13.7	11.2	24.9
1958	10.7	a	a	10.0	a	a	13.9	12.1	26.0
1959	10.5	a	a	9.2	a	a	13.6	<sup>b</sup> 9.8	<sup>b</sup> 23.4
1960	13.4	a	a	7.9	a	a	13.6	9.3	22.9
1961	12.5	a	a	8.5	a	a	14.0	10.1	24.1
1962	11.5	a	a	8.5	a	a	14.9	11.9	26.8
1963	10.4	a	a	8.8	25.5	34.3	13.8	12.0	25.8
1964	12.2	a	a	8.9	26.0	34.9	14.8	12.5	27.3
1965	14.6	10.8	25.4	10.6	24.2	34.8	14.4	14.9	29.3
1966	11.6	12.7	24.3	10.2	21.8	32.0	16.0	13.7	29.7
1967	13.3	12.6	25.9	10.2	21.4	31.6	16.3	13.8	30.1
1968	12.1	12.5	24.6	10.0	20.1	30.1	15.8	15.1	30.9

Figures here are not exactly comparable to data in Table 2 because of differences in definitions and sources.

<sup>a</sup>No data available.

<sup>b</sup>For problems of discontinuity in series, see Table 12 notes.

Sources: For Mexico, a new presentation of GDP figures in market prices since 1950 is given in Leopoldo Solís, *La Realidad Económica Mexicana: Retrovisión y Perspectivas* (México, D.F.: Siglo XXI, 1970), p. 270; data for 1960-1969 are from *El Mercado de Valores*, November 30, 1970, p. 700. Thus, percentages can be calculated without the problem of accounting for unexplained GDP deflation methods; decentralized and centralized expenditures used in calculations are from sources given in Table 4 above.

For Bolivia, a new presentation of GDP figures in market prices since 1950 is given in the Bolivian source for Table 11 above. Percentages can be for the first time also calculated without the problem of variation in deflators between GDP and expenditure; expenditures used in calculations are from sources in Table 9 above and USAID/Bolivia, *Estadísticas Económicas* 11 (1970) p. 39.

For Costa Rica, data on GDP are from sources in Table 14 above; and United Nations, *Statistical Bulletin for Latin America* 2:1 (1965) p. 36. Data on expenditures are from Tables 12 and 13 above.

50% of GNP (Table 2)<sup>76</sup> may seem implausible. Though this difference may only seem to be further evidence that Bolivia's *técnicos* do not take into account the reality of their country's affairs, if projected administrative and budgetary reforms are carried out in the 1970's as planned, they may reveal a greater extent of decentralized activity than hitherto has been recognized. In any case, the *técnicos* are

proposing nothing short of an administrative revolution which may well delimit the sphere of the private sector as the importance of the public sector grows with rapidity. Whether such a revolution can be undertaken successfully remains to be seen.

Only Costa Rica has a long-term series for the importance of the decentralized sector. Even with its limitations (see Table 15, note "b"), one can infer that

<sup>76</sup>With regard to Table 2, it is estimated that Bolivia's GNP is 98% of GDP.

the decentralized sector gained near parity with central government activity by 1956. Thus the total but fragmented public sector impact in Costa Rica reached at least 25% during the period 1955–1964, after which the amount increased to about 30% of GDP. Clearly, if the PLN were to “guide” national development to make a new revolution for the masses, it would have to engage in active recentralization of affairs.

Though in Argument “A” one could hypothesize that increased central government controls and integration of the entire public sector would spur new development,<sup>77</sup> it is possible to develop another theory concerning the growth of government influence. This hypothesis is related to the expansion of credit, specifically as reflected in payments on the public debt.

Examination of Table 16 shows that in comparative terms, Mexico has dedicated a much greater share of its central government outlay to amortizing the public debt (as well as paying interest) than either Costa Rica or Bolivia.<sup>78</sup> In a sense, the fact that any country can devote extremely high amounts of its centrally controlled funds simply to provide a revolving fund to finance governmental activity offers an index (however imperfect) of national and international confidence in such state policy.<sup>79</sup> With regard to Mexico, not since the era of Porfirio Díaz has such a large percentage of central government funding been allocated to payment of the public debt. In 1961 López Mateos surpassed Díaz’s 32.3% share for 1900–1901, but by then Mexico’s debt was basically domestically held.<sup>80</sup>

This hypothesis on the expansion of governmental credit is not meant to suggest that Mexico has entered into a neo-Porfirian era, but that the government has been able to expand the scope of its activity by expanding the amount of domestic funds it has available. Thus, a high percentage of budgetary repayment does not necessarily mean that the country has lost control of its financial decisions. Although these figures do not tell us a complete story because debts of non-central government agencies are excluded,<sup>81</sup> unless officially accepted as federal obligations by the Mexican Congress, they do suggest that the Mexican

investor has gained a great deal of confidence in his central government.

TABLE 16

Public Debt Payments as a Percentage of Actual  
Central Government Expenditure, 1947–1969  
(Includes Amortization and Interest)

Year	In Per Cent		
	Mexico	Bolivia	Costa Rica
1947	15.6	3.6	12.8
1948	16.0	3.4	11.2
1949	14.2	.8	13.2
1950	16.0	4.7	27.3
1951	16.5	2.9	18.9
1952	13.8	1.6	14.3
1953	14.7	.9	12.3
1954	13.3	.9	11.7
1955	20.1	2.3	14.0
1956	16.0	1.5	13.7
1957	17.6	2.6	15.3
1958	15.6	4.1	13.9
1959	22.0	5.0	12.1
1960	27.3	4.0	11.1
1961	36.2	2.5	12.6
1962	27.2	4.6	12.1
1963	17.1	4.3	11.2
1964	24.4	5.0	15.1
1965	26.9	3.1	16.0
1966	21.5	6.1	17.7
1967	28.9	10.4	16.5
1968	21.7	11.0	16.5
1969	<sup>a</sup> 20.3	8.8	18.3

<sup>a</sup>Preliminary

Sources: Tables 4, 9, and 13 respectively; and Costa Rica, Ministerio de Hacienda, *Memoria Anual, 1969*, pp. 122–123 in part B.

<sup>77</sup>Cf. Vernon, *The Dilemma of Mexico's Development*, Chapter 7; he contends that Mexico may have run out of traditional stimuli (such as exports of raw materials and imports of tourists) which have helped the country over economic-growth hurdles in the past.

<sup>78</sup>For broad aspects of and bibliography for financial intermediation not discussed here, see Dwight S. Brothers and Leopoldo Solís, *Mexican Financial Development* (Austin: University of Texas Press, 1966).

<sup>79</sup>See note 13 above.

<sup>80</sup>Whereas in 1911 only about 24% of Mexico's federal debts were domestically held (Jan Bazant, *Historia de la Deuda Exterior de México, 1823–1946* [México, D.F.: El Colegio de México, 1968], p. 169), about 98% was domestically held in 1961 (Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910*, p. 301).

<sup>81</sup>However, data in Joseph S. La Cascia, *Capital Formulation and Economic Development in Mexico* (New York: Praeger, 1969), pp. 34–35, indicate that indebtedness of the country's decentralized enterprises also was about 98% domestically held in 1961.



Perhaps the goal of a developing country such as Mexico is to build up such a large debt service that, like the United States, it can remove amortization of the debt from functional analysis in the budget. In this manner, a huge debt will give the central government leeway to initiate new programs, only considering interest on the debt in functional analysis of expenditure. If this be the case, Mexico is much further on the road to such a policy than its neighbors. The cases for Bolivia and Costa Rica are not as clearcut, mainly because of a lack in data on capital investment. Nevertheless, it is apparent that Bolivia's debt payments in Table 16 were very low until the late 1960's and that Costa Rican percentages have not kept pace with the Mexican figures. Costa Rica's high figure for 1950 involved payments which established the creditability of the post-1948 governments.

*Argument B.* If one could claim that recentralization would permit greater growth than at present (as discussed above), conversely one could argue that growth has been possible because decentralization has done much to prevent the establishment of an inefficient monolithic state. Because the decentralized sector is removed from the political arena and may be unresponsive to changing calls for new policy, its very existence may prevent the development of hasty action by those politicians who work with *técnicos* in the central government to pose as leaders of a new faith — in this case faith in technical answers to all problems.

It would be misleading to suggest that all *técnicos* think alike (or that there is something akin to a "union of *técnicos*"); and one should not think that all *técnicos* would even begin to concur with the ideas for social and economic management of society expressed by the Bolivian *técnicos* quoted above. Thus, even though demagogic political leaders in a country such as Bolivia may from time to time gain political power with the idea of implementing a master plan, they will find it very difficult to get far because they do not really control the state. They will find themselves checked not only by various levels of *técnicos* (as well as by politicians in their own government who would be difficult to deal with in any case), but they will also find themselves blocked by the multivariate decentralized agencies which hold the country's economic power.

If the decentralized agency argument has political validity in an unstable country such as Bolivia, it also has relevance in a one-party state such as Mexico. Since Mexico's Congress is virtually an arm of the president and of the official party, meaningful battles over the nature and direction of society rarely take place in the legislative sphere. Because the decentralized sector has its own bureaucracies with their own special-interest constituencies throughout the country, however, the decentralized system allows a good deal of ideological interplay; and the fact that agencies often work at cross-purposes provides an escape valve for political pressures.

Although Costa Rican politics have neither been chaotic (as in Bolivia) nor one party in nature (as in Bolivia and Mexico), in one sense decentralization has provided a neutral framework to resolve political differences. Shielded from the glare of publicity, board members of opposing political parties have been able to work out solutions to national problems without fanfare or rancorous debate.<sup>82</sup> To sum up this argument, it may be said that decentralization prevents the implementation of any monolithic policy, thus helping to prevent the emergence of a totalitarian government as well as permitting both the private and public sectors to find a way around unrealistic policy.<sup>83</sup>

#### *X: Some Conclusions*

The issue of centralized versus decentralized government has perplexed many Latin American countries and has created a series of dilemmas, many of which are only imperfectly understood. The dilemmas involve the question of who will control the state's funds and how the funds will be spent. Obviously the assignment of expenditure priorities may be confused by fragmented state power. If the central government is to be socio-administrative in nature in contrast to an economically-oriented decentralized sector, then societies may lack that strong leadership which itself has been a problem because leaders often have abused their power or attempted to make it monolithic.

As discussed in this study, three different cases show very different practices and results in the process of decentralization and recentralization. Whereas the Bolivian central government almost completely surrendered its economic development goals to

<sup>82</sup>This argument is drawn from Father Benjamín Núñez's Oral History Interviews with Wilkie, Michaels, and Wilkie, Guatemala City, July 16, 1970. Father Núñez was a member of the board of directors of Costa Rica's Instituto Nacional de Vivienda y Urbanismo for over a decade, serving as President of the Board during much of that time.

<sup>83</sup>Ironically, a master plan for Cuba apparently has failed (and authoritarianism has been made inefficient), for example, in part because of Fidel Castro's desire to decentralize the decision-making process. One may hypothesize that when his government decided to (a) institute on-the-job worker participation in decisions; (b) introduce moral in contrast to material incentives; and (c) implement financial "self-budgeting" of government, Castro himself laid the groundwork for a system he could not fathom, let alone control. Cf. Roberto M. Bernardo, *The Theory of Moral Incentives in Cuba* (University: University of Alabama Press, 1971).



decentralized agencies generating much of their own income, it created a diffuse system which the Ministry of Planning would now like to make monolithic. In the Costa Rican case, the central government decided to set up social as well as economic functions on an apolitical, "business-like" basis. To avoid this extreme fragmentation of state policy, apparently Costa Rica will adopt the type of controls which are also emerging in Mexico and are projected for Bolivia.

Under the new plan of recentralization, decentralized agencies will be permitted only administrative autonomy with policy subject to overall state plans developed under the aegis of the central government.<sup>84</sup> In effect, this compromise means that the autonomous sector will retain its elite bureaucratic status, but will lose its policy-making power. The dilemma here is obvious: How can a decentralized agency be autonomous if it cannot make its own decisions?

An even worse dilemma is suggested by the fact that the result of this compromise requires state funding of two bureaucracies, with the central government employees remaining in a position of inferiority. In this manner, there will continue to be a great disparity between (1) failure in management of social affairs (the social security and medical programs run by many Latin American governments offer a vivid example of this problem, not to mention the inability of governments to cope with problems of education, etc.) and (2) success in management of economic development (graphically measured in terms of GDP, miles of road construction, etc.). After comparing the efficiency of the economic agencies to the productivity of social agencies (decentralized as well as centralized) which deal with the masses, one may well ask how long the public will put up with the gross inefficiency in social services. It is interesting to note that a major cause of Mexican revolution in 1910 stemmed from the fact that social and political opportunities of the Porfirio Díaz era did not keep up with the great economic growth for which the government was responsible. Thus, upheaval occurred when the aspiring middle classes joined forces with the masses, who had been exposed to the idea of a better way of life.

Even as it becomes possible to distinguish between the funds over which the central government does or does not have control, the president and his planning ministers also must make a distinction between understanding (i) the role of the public sector and (ii) methods of actually reallocating expenditures

to determine how state funds will be functionally spent.

As pointed out in the case of the United States, mere incorporation of the decentralized sector accounts into a consolidated system with central expenditures may actually confuse the manner in which policy is made. Whereas the president of the U.S. now better knows the effect of public sector expenditure, the extent of those funds subject to his control is not always clear. Because the decentralized sector in the U.S. contains trust funds and/or earmarked funds to operate decentralized agencies, the president of the U.S. actually may know more about the impact of policy but less how to manipulate policy to change that impact. It is noteworthy that in 1971 President Nixon's Advisory Council on Executive Organization found that U.S. federal regulatory agencies are "not sufficiently accountable for their actions to either the Congress or the President because of the degree of their independence and remoteness in practice from the constitutional branches of government." The Council has recommended that these agencies be stripped of their autonomy and given cabinet-level status, with presidential appointments subject to Senate confirmation, in order that various agencies set up over the course of this century might operate more in step with present-day needs.<sup>85</sup>

The same problem is equally relevant in Latin American countries which have incorporated major income-producing entities (such as tin mines, oil production, etc.) into the public sector. Thus, mere consolidation of accounts does not necessarily help the chief executive decide how to allocate funds because most of the public enterprise finances are beyond his control — such funds not going into the pool of money over which the president has discretionary authority. Consolidated accounts as presented to the public in Mexico (and the U.S.),<sup>86</sup> for example, now tend to give a picture of greater presidential power than actually exists. In an ideal situation, however, leaders and citizens should know what money the president can be held accountable for in manipulating financial resources to resolve unforeseen problems as new needs arise with changing times. Such a budgetary presentation would make clear within the consolidated account the extent and function of centralized and decentralized subtotals by geographical region.

Costa Rican problems perhaps best represent the dilemma which Latin American leaders face in resolving needs for long-range planning versus the need for

<sup>84</sup>For a philosophical justification of such a plan, see Wilburg Jiménez Castro, *Los Dilemas de la Descentralización Funcional: Un Análisis de la Autonomía Institucional Pública* (San José: Escuela Superior de Administración Pública América Central, 1965).

<sup>85</sup>*Los Angeles Times*, February 12, 1971.

<sup>86</sup>Although, as we saw above in Part II, the U.S. budget does try to give a gross picture on the amount of "uncontrollable funds," cf. Table 3, notes "c" and "e" for limitations on the functional understanding of U.S. expenditure.

adapting governmental actions to unforeseen developments and the desires of new generations to influence their own times. Thus Costa Rican President José Figueres is in a unique position to answer a key question facing many Latin American countries. How does one organize government so that it can respond to the needs (real or imagined) of changing times? Over twenty years ago, Figueres faced a problem which involved the creation of institutions to meet the demands of that time. Given Costa Rica's needs of 1948, the decentralized system seemed most appropriate. But given Figueres' desire *today* to use state power in a new way, the system he set up for long-term planning is not necessarily responsive (even with reform) to his four-year mandate to effect change for the masses in Costa Rican life. This dilemma, then, is political, social, and economic. The needs of the centralized and decentralized sectors are different and may be irreconcilable.

With regard to images of state policy, to the cynic (or to the "realist") political needs are not meaningful in countries where the masses cannot be really aware of complex issues built into problems of economic development in the face of expanding populations. In this view, political "needs" are imposed on the populace by leaders, the masses being inarticulate and unable to express themselves effectively. To follow this line of argument further, the masses may not be able to identify with such "needs" even after they have been explained by leaders from outside their milieu. In the latter case, often one-party rule is seen to be the answer to problems of political instability, with the government generating support for many of its programs through its vast bureaucracy or through what may be called the "fiesta system" involving "spontaneous manifestations" which are sponsored by the government.

If such government is to be effective, often it is better that the bureaucracy as well as the populace know as little about what is really happening as is feasible. Thus, in Mexico public debates over whether one-quarter of the central government *projected* budget should be devoted to education<sup>87</sup> serve to confuse the real issue that educators *actually* will be lucky to get half that share. While such policy may be harmful to education, it has helped keep the share of military budgets down; in the latter case it is wise for the Mexican government not to reveal its real inten-

tions in the budget. Hence the policy of perhaps deliberately underestimating central government income is understandable. Also, this helps to explain why the Comptroller General's Office keeps two sets of books: both contain the same basic data on expenditures, but the red-bound yearly volume lacks analytical information carried only in the dark-bound volume, circulation of which is highly restricted.<sup>88</sup>

In taking into account developments in Mexico, Bolivia, and Costa Rica, this writer is struck by the fact that in each country great changes were made (i) in public administration; and (ii) in the way different social classes shared in the benefits of new government orientations. Yet in each country there are degrees of preoccupation about the future of economic growth. With rising populations and the possibility of inflation, each of the three countries is concerned with providing a greater share of benefits to the masses.

Since all three countries look to industrialization (or to greater industrialization) as a major impetus to economic development, they face a common dilemma. Industrialization requires educated manpower; and if developing countries are to compete in a world which uses even more modern technical processes, jobs tend to be eliminated. Unfortunately, all three of the countries under discussion need to develop labor-intensive projects which provide jobs for their expanding populations. If the countries follow the former path, they may be able to reduce an increasing gap between the developed and developing nations, but only at the risk of social upheaval — none of the three countries has the affluence to support unemployment caused by industrialization. Of course, these countries can continue in a traditional life which involves underemployment and labor-intensive employment, but such a course does not solve the problem of development.

If recentralization is to be undertaken, perhaps governments which follow such a debatable policy need officials who promise little but simply attempt to resolve dilemmas with the full realization that their answers will only be temporary and only create new problems. Among the imperfect systems described in this study, Mexico appears to emerge as a model for recentralization. In spite of problems, Mexican *técnicos* in the whole public sector have faced the problem of precisely defining and supervising the decentralized sector; and they have attempted to eliminate

<sup>87</sup>See Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910*, p. 164, note 5.

<sup>88</sup>For an example of data which is thus not generally available, see data on origin of income-tax payments by state in Wilkie, "New Hypotheses for Statistical Research in Recent Mexican History." [See also the Introduction, above].

double-counting of transfer funds as well as to develop standardized accounting procedures. And most importantly, recently they have developed data to understand the functional impact of outlay on the various regions of Mexico.

If the old geographical issues of rural versus urban development and constitutional issues of centralism versus federalism have been downgraded by the problem of financial centralization and decentraliza-

tion,<sup>89</sup> the issue of the one-party versus multi-party state may also be affected until the matter of recentralization of state policy is resolved. In the final analysis, the question of who controls the government (or whether leaders represent the elite, middle classes or masses) is not as important as how the leaders decide to budget their scarce resources. The broader problem is not in obtaining power, but in deciding what to do once political "victory" has been won.

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<sup>89</sup>For discussion of Mexico City's importance in the centralization of financial, administrative, and cultural affairs, see James W. Wilkie, "La Ciudad de México como Imán de la Población Económicamente Activa, 1930-1965," in Bernardo García Martínez *et al.* (eds.) *Historia y Sociedad en el Mundo de Habla Española: Homenaje a José Miranda* (México, D.F.: El Colegio de México, 1970), pp. 379-395 [see Chapter II above].

