



Presidential Leadership and Decision-Making in Policy Reforms: The First 150 Days of Vicente Fox

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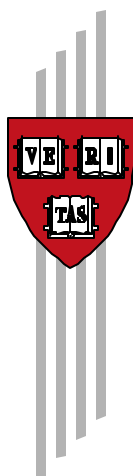
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Presidential Leadership and Decision-Making in Policy Reforms: The First 150 Days of Vicente Fox

Rocío Ramos de Villarreal

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Rocío Ramos de Villarreal

Abstract

At the beginning of the twenty-first century, Mexico, the twelfth-largest economy in the world and the second-largest trading partner of the US, finds itself undergoing profound transformations. After more than seven decades with a hegemonic party exercising presidential power, the country is now immersed in a full-fledged democratic process, after a 'silk transition'.

Politically, there has been a fundamental transformation in the scope of presidential rule and the relationship between the president and Congress. Whereas the legislative branch was subordinate to the executive for over half a century, Mexico's new democracy has ushered in a Congress that is more powerful and independent, and the president now needs to lobby and negotiate with it. In this context, the ability to pass reform measures requires not only expertise in technical design or instrumental consistency but, foremost, skillful tactical management in the political arena.

The purpose of this paper is to present an overview of Mexico's evolution toward electoral democracy and to analyze President Fox's leadership and the decision-making process he employed in his efforts to attain two major policy reforms in his first 150 days as president: the tax reform and the Indigenous bill. This paper applies a conceptual framework based on the life-cycle of reform policies (decision-making chains), in order to analyze Fox's attempt to accomplish these reforms in the context of the changing relationship between the legislative and executive branches.

The significance of these reforms at the outset of Fox's administration cannot be understated, as they weigh heavily on the administration's capacity to tackle the remaining items on its reform agenda: labor regulations, energy policy, national education, improvement of the judicial system, and constitutional reform. Against the backdrop of the new political landscape, Mexico has a tremendous opportunity to develop in the new century if it consolidates the advances in its democratic development. After its smooth transition to electoral democracy, the country is making tremendous efforts to consolidate its position as an emerging democracy. As it struggles to move forward, it is important that the world community knows about these efforts and continues to support them.

Keywords: Mexico, President, Congress, decision-making policy, reform, emerging democracy

JEL Classification Codes: H11

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**PRESIDENTIAL LEADERSHIP AND
DECISION-MAKING IN POLICY REFORMS.
THE FIRST 150 DAYS OF VICENTE FOX**

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General Overview

Worldwide, the triumph of Vicente Fox was recognized as a victory for electoral democracy in Mexico. During his first 150 days as president, he undertook bold and far-reaching strategic actions to deliver upon his campaign promises. So far he has done so by means of his strong charismatic leadership and communication skills, as conveyed through the media, rather than by political support from his own party. As the country takes strides along the path of parliamentary democracy, he has faced strong resistance and real obstacles in an attempt to carry out his first two legislative reforms: tax reform and the passing of the Indigenous Rights and Culture Bill.

Fair elections in Mexico have dramatically transformed the nature and scope of presidential rule and of its relation to Congress: in the past, the president could, in practice, subordinate Congress to pass legislation, which in part accounts for the quick pace at which structural reforms and privatizations were implemented in the past. We have chosen to characterize this relationship between the Executive and Legislative powers as the *Vertical Ex-Lex system*. However, at present the president can no longer take for granted the support of Congress to pass reforms without debate, but rather needs to lobby and negotiate, which we have characterized as the *Horizontal Ex-Lex system*, in which the Legislative power is independent of the Executive.

In this context, Mexico finds itself undergoing fundamental transformations: ongoing structural economic change, the establishment of a more ample and stronger basis for social development, and democratic consolidation. These call for a series of key reforms in the fiscal front, on energy policy, labor regulations, the programs to abate poverty, the judicial system, and even in the Constitution. All of them involve not only aspects of technical design or instrumental consistency but, foremost, of skillful tactical management in the political arena. An appropriate political management entails forging alliances to bring about solid consensus; it also entails persuading the public as well as legislators, in order to make any reform proposal viable and to establish a firm ground for its implementation.

During the era of the Vertical Ex-Lex system, first-generation structural economic reforms – such as the opening of the economy to international trade and finance, deregulation and privatization – did not pose a significant challenge in terms of political management. However, the pending second-generation structural reform agenda, which represents much more than a purely technical matter is bound to face major obstacles without a more comprehensive view on the political economy of policy reform. Such a view should put political management and presidential leadership at the center of the decision-making chain, which characterizes the **life-cycle of policy reform**: formulation/design, communication, political negotiation, implementation, monitoring/evaluation, feedback/fine-tuning. This holds true not only for Mexico, but also for other countries facing similar challenges within the context of political uncertainty rooted in the new independence of the Legislative power from the Executive.

Fox's leadership during his first 150 days as president, as well as the challenges stemming from Mexico's democratic consolidation, can be analyzed from the perspective of political management and presidential leadership along this decision-making chain for policy reform. His first two reform attempts provide ample evidence for such analysis.

The Indigenous Rights and Culture Bill was an attempt to establish a constitutional guarantee of the rights and autonomy of the indigenous peoples in Mexico. A constitutional reform requires not only the approval of the bill by Congress but also the approval of the thirty-one state legislatures and of the legislative assembly of the Federal District.

As to Fox's political management of this bill, Fox's strategic mindset, his communications savvy to face a media contest with Sub-commander Marcos and his political capital were hampered by the power of Congress to oppose the president's desire to accommodate the Zapatista cause. Congress redrafted some of the articles in the bill, making it significantly different from what the Zapatistas originally wanted. This has led to political impasse, even if the approved bill is still to be ratified by all state legislatures, whose majority has, under the federal pact, the power to veto the proposed constitutional change. This reveals the shortcomings of not focusing enough on political negotiations and the forging of solid alliances when addressing an independent Congress.

The independence of the Legislative from the Executive branch of the government is further confirmed when analyzing the current state of progress in attempting to pass the so-called distributive fiscal reform. In this case, the obstacles faced by the president and his cabinet were even greater, and they encountered a hostile environment that was further complicated by a combination of inconsistencies in the reform's design and limited use of tactical management. It has proven extremely difficult to build consensus around a tax reform that claims to be compensatory but is, in reality, regressive; moreover, it was communicated under the guidelines of product marketing, without a strategy for constructively engaging Congress in the process. The lack of time devoted to engaging in comprehensive negotiations with Congress explains the current stalemate between the legislators and the president, who is now making an urgent call to legislators to swiftly approve some fiscal reform, whatever its final characteristics.

The significance of these setbacks at the outset of Fox's administration cannot be understated, as they weigh heavily on the president's capacity to tackle the remaining items on his reform agenda: labor regulations, energy policy, national education, improvement of the judiciary system and changes to the Constitution for Mexico's new political development. Fox's margin of maneuver might become increasingly narrow to the point of immobility. One way he can prevent this from happening is to use political management effectively and endeavor to maintain both consistency and effectiveness within every action along each link of the decision-making chain for policy reform. Another process that might be worthy of

consideration is a political device employed in other countries – the referendum – but it would first have to be instituted in Mexico.

There is no doubt that President Fox is a strong leader, and though he has run into some obstacles thus far, it is far too soon to pass judgment on his presidency. Looking forward, by applying his leadership and communication talents to political negotiations, consensus-building and the forging of solid alliances with other political actors - beginning with Congress - he can tackle a challenging reform agenda and reassure the citizenry about his standing as a statesman.

I. Mexico's Democratic Transition

1.1 From the Hegemonic Party System to Electoral Democracy

Mexico's political system is going through fundamental changes. The July 2, 2000 election was the outcome of a long period of transition to democracy, the result of which has been the peaceful transition of power at the presidential level through a democratic process that I have termed the 'silk transition'.

For decades, political squabbling among rival groups in Mexico occurred within a unique system of governance, which, echoing Juan Linz, we could characterize as one of limited pluralism. In this sense it is helpful to go over the defining features of this system to identify the landmarks in Mexico's transition to democracy.

Ten Stylized Facts of the Transition to Electoral Democracy

1.The Shaping of a Modern State: Mexico's establishment as a modern nation-state can be traced to the outbreak of the first armed revolution of the twentieth century. The prelude to the armed revolution of 1910 was Mexico's first attempt to achieve democracy through peaceful elections. This attempt failed, and President Madero, "the Apostle of Democracy," was murdered in 1911. The country then experienced armed warfare among militarized factions, around which the country's elites eventually rallied. All of these groups aimed at winning the presidency, even if by means of violence, even after the enactment of the 1917 Constitution, which is still currently in effect. Not until 1929 was the party that was to become the PRI (then called PNR, National Revolutionary Party) able to contain the dispute by 'institutionalizing' the conflict among the generals.

2.The Hegemonic Party. In this way the logic of hard power – through armed conflict – gave in to the institutionalization of political conflict within the framework of one entity: the official party (PNR). Between 1929 and 1938 the dispute for the presidency took a back seat to the party's interests, which raised doubts about the actual leverage of the presidents with the party leader. In 1938, an act of presidential leadership put an end to those concerns. President Cárdenas transformed the party (renamed PRM, Party of the Mexican Revolution) into an institution subordinate to the presidency. Later on, with the arrival of the first civilian president since the beginning of the revolution, the party changed again. In 1946, under its current name – PRI (Institutional Revolutionary Party) – it renewed its vows of unconditional loyalty to the presidency. Throughout this process, which ended with the election of Vicente Fox, the constant was the peaceful transmission of presidential power among factions within the hegemonic party. Amidst this

environment, Mexico went through three decades of sustained growth, with average annual rates of 6.5%.

3.The Weakening of the Opposition. During these years of stability and growth, democratic plurality was not a big priority for the Mexican political class. In the golden years of PRI dominance, party opposition did not play a significant role in government elections. The National Action Party, PAN, did not compete for the presidency until 1952, when it got only 8% of the vote, against 74% of the PRI. In the presidential run of 1976, a single candidate was registered: that of the PRI. This aroused concern in a progressive segment of the political elite, which led to the reform of the legal framework within which elections were carried out and thus laid the foundation for what would later become a multi-party electoral democracy.

4. The End of PRI Unity. It was only through the division of the PRI elite that an opposition alternative, apart from the PAN, was created, furthering the transition to electoral democracy. The current party of the PRD (Democratic Revolutionary Party) came to the 1988 presidential election as a coalition of left-wing political forces. With 30% of the total vote, it defeated the PAN, which had a little less than 20% of the vote, but not the PRI, which got close to 50% of the votes.

5. The Vertical Ex-Lex System (Executive-Legislative Power) and Public Policies. Under the system that we shall call Vertical Ex-Lex, constitutional checks and balances, or the division of powers, existed as a matter of law but not *de facto*. The Legislative branch was totally subordinated to the Executive, and in practice it evidenced an extremely low level of opposition to its legislative bills on public policies, as the PRI maintained a broad majority in Congress. This system prevailed in Mexico from the inception of the PRI until 1997, when it lost the majority of seats in the House of Deputies – the outcome of a process of institutional strengthening of the electoral system that is described below.

6. Development of Institutional Framework for Electoral Democracy. Even if the opening of political representation to new parties was a deliberate, top-down calculation, a by-product of concern for signs of social unrest during the late 60's and early 70's, it laid down the foundation for an institutional framework that allowed both greater political pluralism and the subsequent development of electoral democracy. The following table describes chronologically the development of the institutional framework that cleared Mexico's path to electoral reform and the current political transition.

Chronology of Mexico's Path to Electoral Democracy

Year	
1963 Adolfo López Mateos administration	Electoral reform under which all parties obtaining 2.5% of nation-wide votes are entitled to hold five seats in Congress and one additional seat for every further 0.5% of the vote, up to twenty seats, which created the so-called party deputies in the House of Deputies.
1977 José López Portillo administration	Enactment of the Electoral Organizations and Proceedings Act (LOPE), in which true access to Congress was granted for minority parties through a two-fold, segmented electoral system: the majority system and the proportional representation system. This reform included the double vote system. In 300 single-name (uninominal) electoral districts, the relative-majority system remained, up to five multi-name electoral circumscriptions, for which extra 100 seats were allocated. Proportional representation was introduced, lowering the representation rate to 1.5% of the vote. Yet this benefit was extended only to those political parties that did not get sixty or more seats through majority vote.
1986 Miguel de la Madrid administration	A new Federal Electoral Code raised the number of Lower House of Deputies members to 500. It established a fixed number of five electoral circumscriptions of proportional representation, bringing the number of party deputies who could not belong to the party with the most votes (the PRI) to 200. As a result, opposition parties increased their representation in Congress to 30%. However, to guarantee that the party with the most votes also got the absolute majority in Congress, it was granted access to additional seats under the proportional representation rule (up to 70% of such available seats).
1989 Carlos Salinas administration	Modifications are made to the aforementioned code. The formation of a center-left Opposition Electoral Alliance (FDN) had proved to be able to draw a sizeable share of the electoral vote.
1989 Carlos Salinas administration	The opposition wins its first state government election in Baja California. (Ernesto Ruffo becomes the first PAN governor).
1990 Carlos Salinas administration	Creation of the Federal Electoral Institute, headed by the secretary ¹ of the interior.
1993 Carlos Salinas administration	A new reform was made with innovations such as equal access to the media, party finance reform, and limits to campaign spending.
1996 Ernesto Zedillo administration	Enactment of the Federal Code of Electoral Institutions and Proceedings. Autonomy is granted to the Federal Electoral Institute: The secretary of the interior is no longer its head. IFE appointees must be ratified by two-thirds of deputies in Congress.

¹ Secretaries in Mexico are members of the cabinet who are appointed by the president and not subject to ratification by Congress.

	Moreover, the bottom percentage at which a single party can become the absolute majority in the Chamber of Deputies was set at 42%.
1997 Ernesto Zedillo administration	Under the new electoral legislation the government of the Federal District is elected for the first time. Cuauhtémoc Cárdenas of the PRD is the winner.
2000 Ernesto Zedillo administration	The (opposition) Alliance for Change (PAN + PVEM) wins the presidency.
Source: Nohlen, Dieter "Sistemas Electorales y Partidos Políticos", México, FCE, 1988. p. 284-290	

7. The Multi-Party System and the IFE. Thanks to this evolution in the electoral legal framework, which took over a quarter of a century, a competitive Mexican party system developed. Some of the key factors for the onset of electoral democracy were first, the decisive role played by the president in 1989 in recognizing the first state government won by an opposition party (PAN), and second, the creation of the Federal Electoral Institute (IFE), which in turn mounted a formidable mechanism of safeguards against electoral fraud. Making the IFE independent of the government and forming a citizen council to rule its activities were also crucial. All of this was possible because of citizen mobilization and the decisive role played by several presidents who supported these changes. At some point they played against the interests of the hegemonic party, as in the case of the presidential election of the year 2000.

8. The July 2 Elections and the Triumph of Vicente Fox. Mexico greeted the twentieth century with an ephemeral democratic triumph that ended violently with the gunning down of President Madero. At the end of the same century, Mexico attained electoral democracy with the triumph of Vicente Fox in a totally peaceful manner. This historical triumph of the citizenry was possible due to the gradual development of a democratic institutional framework. Under these conditions, Fox won the electoral support of a broad segment of voters in urban areas: the middle class, university students, and the private sectors in western and northern Mexico. The campaign of Vicente Fox, candidate of the Alliance for Change (PAN + PVEM), rested upon two basic ideas that were very effectively conveyed and helped to win the presidency: the "Vote for Change" and "No More of the Same". These ideas proved extraordinarily appealing to the electorate on July 2: according to exit polls, Vicente Fox won over 44% of the "undecided" vote and 66% of the vote of the "unsatisfied" voters who did not approve of the performance of previous administrations.

9. The Non-Partisan Leadership of the New President. The development of the presidential campaigns revealed that the parties' abilities to win votes were wearing off. The growing activities of NGOs, as well as the role played by powerful business groups in campaign financing and the presence of the media as catalysts and challengers of each candidate's platform revealed a significant stagnation of

some of the parties while the candidates approached these groups eagerly. Not surprisingly, after the campaign, President Fox presented an image of a president beyond its own party, and this earned him some support from the public and even from like-minded members of other, non-PAN parties, who supported his reform bills. He does, however, acknowledge the PAN as his stronghold in Congress.

10. From the Vertical to a Horizontal Ex-Lex System. For the first time in its history, in 1997 the PRI did not win a simple majority in the Chamber of Deputies. That meant that it did not get 250 out of 500 Congressional seats. It was no longer certain that the Executive's legislative bills would automatically be approved by Congress. From that year on, legislative work became ever more complex. In the previous legislature, from 1997 to 2000, 673 bills were presented, out of which only 175 were passed, leaving 489 pending and 6 filed away. Thus, from the opening to democratic pluralism with the LOPE until the July 2 election, electoral democracy has opened a whole new range of political challenges that will necessarily affect decision-making within the government, now that the opposition has won the presidency. One of the most important challenges has been to secure an appropriate negotiation mechanism between Congress and the Executive branch, since consensus has not been easy to reach under the new democratic scenario in both chambers of Congress.

PARTY REPRESENTATION AFTER
THE ELECTIONS OF JULY 2, 2000

	<u>PRI</u>	<u>PAN</u>	<u>PRD</u>	<u>PVEM</u>	<u>Others</u>	<u>TOTAL</u>
Deputies	210	207	52	16	15	500
Senators	60	46	16	5	1	128

PRESIDENTIAL ELECTION
(Percentage of votes by party)

<u>PRI</u>	<u>PAN</u>	<u>PRD</u>	<u>Others</u>	<u>TOTAL</u>
36.1%	42.5%	15.5%	5.9%	100%

1.2 The Challenge of Political Management: Fox, the PAN, the Opposition Parties, and a Non-Partisan Cabinet

Even though the PRI lost the presidential election, it remains the largest parliamentary fraction in the Chamber of Deputies: 210 seats, followed by the PAN with 207 seats, with the remainder distributed between the PRD (with 52) and the

other parties. In the Chamber of Senators, the PRI managed to retain the relative majority with 60 senators out of 128, followed by the PAN, with 46 seats.

As for state governors, the PRI kept the majority, with 18 out of 32, in addition to the upper hand in 23 local congresses. It is significant that the Alliance for Change that took Vicente Fox to the presidency has proved ephemeral, so far, as the Partido Verde Ecologista de Mexico has been excluded both from the PAN's main decisions as well as those of the president.

Thus, in this way, President Fox faces as his main challenge persuading Congress to pass strategic legislative bills, such as those comprising fiscal reform, under multiple restrictions: he can not go ahead with his policies without convincing, first, his own party, and second, some members of the parliamentary factions. He must convince 251 Deputies and 65 senators. To push through his constitutional amendments, the PAN must join forces with the PRI and have seventeen state legislatures on its side, despite the fact that the PAN controls only three throughout the country. Moreover, in some states, the ruling government is the outcome of electoral coalitions between the PAN and the PRD—as in the case of Chiapas and Nayarit—where the governors' party allegiance is allegedly “non-partisan”.

Such is the scope of the political management challenge posed by Congress, a challenge that the current administration must meet in order to pass any one kind of strategic reform. Given these circumstances, ‘political management’ best describes the handling of President Fox's priorities through the appropriate use of his political capital. Currently, this capital is based upon a strong support of public opinion and has grown by Fox's capacity to face Congress in a non-partisan fashion. This political capital will erode, however, unless the president is capable of strongly asserting his leadership in the short-run. This urgency is even greater if one takes into account the weight of vested interests and part of the ‘establishment’ of the former political system, who, according to some analysts, are expected to resist change. Those interests may appear as part of the inertia remaining not only in PRI's traditionalist wing, but also within the part of the public administration that still feels comfortable operating under the Vertical Ex-Lex system, seeming not to fully acknowledge the new political complexity of Congress.

Similar to the experiences of presidential systems in other countries, when there is a change of party in the Executive branch, an incoming president faces the urgent task of proving that the president is in complete charge of his government. In this context, there have been several alternative fronts on which the president has exercised his skills in political management to pursue reforms. Among these we find a) consensus-building and b) institutionalization of conflict².

The president's political management skills will be all the more effective if the relative merits, i.e. costs and benefits, of each alternative for every key issue within

² In a recent article (March 2001, “Triangulación de Tercipelo”) published by a Los Angeles newspaper, Denise Dresser has pointed out that such strategy originated during Fox's campaign, when Dick Morris was his consultant.

the hierarchy of public policies and reforms are acknowledged. During the first days of his administration, as a non-partisan president, Fox has tried to push the most pressing matters of his strategic agenda with the support of sharply different groups. On the one hand, he has sought the support of the left-leaning members of the PRI and PRD in Congress in passing the indigenous bill initiative, and has done so in a swift, nimble manner. Then he has pursued the right, supported by the leadership of his PAN constituency, to push his fiscal reform. We could say that his practical strategy has produced a zigzag motion, moving first to the left and then to the right. Hence, during the first four months of government, he has tried to pass the indigenous bill through the institutionalization of the indigenous conflict in Chiapas and fiscal reform through consensus building in Congress.

In spite of the diversity and conflicts of interests, matters such as the public electric utilities reform, the banking and finance reform, and the labor reforms all require a strong investment of political capital by the president. His challenge will be to establish specific rules for the democratic participation of groups with opposing interests, including those resistant to change due to their links with the former establishment.

A President without a Party?

Vicente Fox had climbed up the PAN's ranks at breakneck speed and not through the normal channels. Fox was first a businessman and then a state representative and governor of Guanajuato state. He set out to win the presidency three years before the election, creating a campaign structure outside the PAN called the "Friends of Fox," who worked both for him and the party. This strategy caused conflict with the wing of the PAN headed by the current Senate leader and former presidential candidate, Diego Fernández de Cevallos.

In selecting his cabinet, Fox did not include many people from the PAN, which provoked astonishment within the party. Ever since, Fox has talked about keeping a healthy distance between himself and the party. In contrast, he has reached out to the other parties, first during the campaign, later on during the formation of a transition team, and again during the formation of his cabinet, where he attempted to include members of the PRD in the social development, comptroller's, and environment secretaries. This move was not successful, but people from different ideologies were nevertheless included in the cabinet, including members of the PRI. In fact, the number of secretaries who presumably lack a defined party allegiance is significant.

As another example of his political management, during the first 150 days of his administration, he decided on a no-commitment strategy with his own party; in doing so, he has maintained a high degree of independence that enables him to hold divergent opinions and adopt political views of other parties. As seen during the handling of negotiations with the EZLN (Zapatista National Liberation Army), the PRI and PRD deputies proved to be better allies, by far, than those of the PAN

itself, which publicly voiced its opposition to President Fox and opted to be absent when the Zapatistas appeared before Congress. This presidential behavior is clearly different from that of his predecessors. The contacts maintained by former presidents with the opposition parties did not represent, before the year 2000, a move away from their own party.

1.3 Pending Issues and Strategic Reforms on the President's Agenda

President Fox's agenda of fundamental challenges and pending reforms is very broad; its scope seems to go well beyond his six-year term. First, he must strengthen the democratic development of the country in two areas with farther-reaching implications than electoral democracy: parliamentary democracy and participatory democracy, as well as the establishment of the referendum as a mechanism that allows the Executive to save itself from a possible stalemate provoked by the Legislative branch.

Additionally, he faces the socio-economic challenge of building up the foundations for high rates of growth that will prevent the widening of the income gap that makes Mexico one of the countries with the most unequal income distributions in all of Latin America. He must also face challenges from outside the country's borders, where Mexico's strategic importance increases, especially from the perspective of the United States.

The Political Challenge and the Three Aspects of Democratic Development

The political challenge implies, first, presenting society with immediate results, given popular expectations and the commitments to change that were made during the presidential campaign. Therefore, a short-term plan is essential. This should specify viable policies and programs to be included, among other medium- and longer-term issues, in the National Development Plan. Second, the political challenge calls for the consolidation of the democratic momentum, beyond the successful achievement of electoral democracy.

On July 2, 2000, electoral democracy was consolidated and the hegemonic party system was left behind. This achievement was regarded both domestically and abroad as an unquestionable democratic triumph, characterized by its peaceful and institutional nature. This triumph was even more impressive during the period between the July 2 election and the inauguration of President Fox, which ran smoothly.

However, consolidating the democratic transition in Mexico and reaching full democracy implies besides strengthening **electoral democracy**, developing two other forms of democracy: **parliamentary democracy** and **participatory democracy**.

Parliamentary-style democracy in Mexico has yet to develop so that it fosters between the factions of Congress the capacity to differ both in ideology and on issues of importance to the different parties, without blocking the emergence of accords on basic aspects of policies and strategic reforms necessary for institutional change. It also implies counting on an effective Congress that has the capacity to plan, agree upon, and implement pending reforms and issues of primary importance to the development of the country. It will be difficult, indeed, for President Fox to push such reforms through if he does not also agree with Congress on an economic, political, and social development project of national significance with a long-term view within which those reforms fit.

Beyond electoral and parliamentary democracy lies participatory democracy, which is characterized by broad citizen participation in the very processes of reform. More than six out of every ten registered voters cast a ballot on July 2, but their participation need not end with their vote. It ought to continue in civic forums – whether be it through NGOs, citizen forums, the political parties themselves or the media – in order to oversee compliance with the programs of the 2000-2006 administration.

At this level of democratic development, organized society can play a crucial role as a complement to public opinion, which has so far supported the image, popularity, and leadership of President Fox even more so than his own party. In the absence of conditions that would allow parliamentary and participatory democracy to thrive, there exists the risk that a less institutional kind of democracy might prevail: referendum democracy.

Indeed there are unwanted risks to a parliamentary democracy: the risk that the Executive branch finds itself paralyzed by the Legislative, as happened in Mexico in 1997. The way out of this strait jacket for the Executive would be to establish a mechanism such as the referendum. This is undoubtedly one of the most important issues facing Fox in the short-term. If consensus with the Congress is not reached, and if parliamentary democracy is not consolidated, alternatives must be found to push through necessary reforms. In such cases, a kind of democratic governance, in which the president risks his own political capital to get the support or rejection of civil society, comes into play. In this scenario, the use of extraordinary Constitutional powers would be required, as in Argentina at the beginning of 2001, thus weakening the party system and the institution of the presidency itself.

The Pending Issues and the Social and Economic Challenge

The socio-economic challenge entails the transition to a new economic model, which encompasses the following elements:

- An inclusive market economy that can match openness to globalization with strong market institutions and better conditions of access for 44 million people living in poverty.
- A macroeconomic policy that can generate higher rates of growth and avoids cyclical crises and “stop and go” episodes caused by periodic unsustainable external deficits during periods of growth, which then lead to drastic devaluations and forced recessive-inflationary adjustments.
- A growth strategy capable of creating 7.5 million new jobs between 2001-2006. This implies bolstering investment in capital gain and innovation, in order to raise the GDP growth trend from 3% in the 1990s to 6.5% in 2004-2006, as was the case in the period between 1950 and 1980. For this to occur, domestic saving and investment rates must hike at least an extra 7 percentage points of GDP each; investment from 21 to 28%, and internal saving from 18 to 25%, while keeping external savings at 3%.
- A sustained increase in productivity through technological change (innovation) of at least double the current rate – less than 1% of yearly GDP – through appropriate research and development programs.
- Fostering economic growth without harming the environment, requiring environmental policies and measures that are both feasible and integrated into the productive processes.
- Reducing the levels of social inequity. In the short-term, this means assisting 26 million Mexicans who live in extreme poverty and extending the coverage of PROGRESA (cross-sector federal antipoverty programs in Mexico covering education, health, and nutrition), which currently covers only 13 million people in remote and rural areas.
- Complementing anti-poverty policies with a drastic improvement in education levels. The best long-term social policy in a market economy involves creating permanent jobs. In order to do so, the economy must grow and the average education levels of the population must be raised.
- Addressing the historically drawn-out conflict in Chiapas, which has gone through different stages, in which the EZLN and the government have negotiated extensively without definitely solving it.
- Reducing the great economic inequality between the regions of the country. In this area, Fox has raised great expectations: since the first days of his government, he announced the establishment of a program called “Puebla-Panama”, an ambitious policy framework of regional development for the South of the country, with a view to extend economic cooperation to the whole of Central America.

As soon as he took office, President Fox addressed some of the most important pending issues to establish his agenda of strategic reforms for the first stretch of his administration:

- a. The passing of the Indigenous Culture and Rights bill, which is essential to achieving peace in Chiapas and to promoting the social and economic

development programs that can raise the cultural level of the indigenous population within the framework of their rights and culture.

- b. Fiscal reform, which will allow fiscal revenue to rise from 11% to 17 or 18% of GDP. At the same time, the creation of a transparent, simple, and low-cost tax system that is efficient against evasion.
- c. Bank and Finance Reform, done through new legislation, in order to allow financial intermediation to flow in an effective manner, as well as the channeling of savings to productive investment in a suitable environment.
- d. The energy reform, which the last administration could not get passed, implies a profound restructuring and modernization of both the electric utility sector, the natural gas sector and the petrochemicals industry. One of President Fox's campaign promises was not to privatize PEMEX or the public electricity company, CFE. However, if the capitalization and modernization of the sector is not achieved, the economic and social costs to the country could be substantial, not to mention the competitive disadvantage that it would impose on the national economy.
- e. Labor reform is an important pending issue that has been postponed during the last few governments. It calls for changes to the law to increase flexibility in the job market and to encourage, at the same time, increased worker productivity in order to raise real wages.

The Challenge of Institutional Order and Security

Few issues are as politically sensitive as that of institutional order and public security. This has been one of the main concerns of voters, both in federal and local elections. The media coverage of the problem, as well as the forceful statements of the presidential candidates on the topic, made all the campaign rhetoric converge on the following points:

- Addressing the profound mistrust of the population toward the forces of public order.
- Substantially improving the administration of justice in Mexico, thoroughly revising the judiciary at all levels.
- Dealing with corruption within the administration as well as the impunity of public officials.
- Dealing with organized crime and the threat that drug trafficking poses to the authority and effectiveness of the state, especially when the government and the military branch themselves have been under suspicion of infiltration.

The External Challenge

The United States will remain the most important strategic front for foreign policy, particularly in the areas of labor migration and drug trafficking. During his campaign, Fox put the migration issue at the forefront of his strategic agenda, even incorporating it into the president's office organization. As for drug trafficking, the preparation of a joint strategy is still pending. Both countries should be able to agree on a distribution of costs in the fight against drug traffic that is efficient, fair, and above all, effective.

In addition, both President Fox and his Secretary of Foreign Affairs Jorge G. Castañeda, have revealed their intention to turn Mexico's foreign policy into a more assertive tool, consistent with the new economic and geostrategic importance of the country. In this sense, it is predictable that the new Mexican activism will translate into a more decisive international agenda in support of human rights and the promotion of democracy, even if this must change some of the traditional principles of Mexico's foreign policy, such as non-interventionism in other states' internal affairs. The reaction of public opinion, both nationally and abroad, to a revision of relations with Cuba and Fidel Castro's regime is still difficult to predict.

The strategic improvement of free trade agreements is – as expressed by the new Secretary of the Economy, Luis Ernesto Derbez – necessary to find the way to make these agreements more focused, in order to reach new market niches for Mexican products. Therefore, the search for new markets is foreseeable, in order to broaden Mexico's commercial exchange.

There is also the challenge of improving Mexico's tourist profile abroad. The new administration rightly supposes that the current revenues from tourism are well below their potential, estimated at \$US40 billion a year.

The scope of these challenges and pending issues, as well as the problem of very high public expectations placed on the administration to solve these issues, make it urgent to define a strategic course of action that is based both on President Fox's leadership and political management. This calls for an appropriate organization of both his team of aides at the Presidential Office at Los Pinos as well as his cabinet.

II. Fox's Presidential Leadership and Decision-Making in Policy Reform.

2.1 The Power of Presidential Style and Fox's Leadership

Main Features and Relevance of President Fox's Leadership within a Presidential System

Throughout the duration of the old regime, the Mexican presidential system proved to be surprisingly resilient, making room for diverse political arrangements. It accommodated presidents from the ranks of the military as well as a long chain of civilians; it accommodated populist as well as conservative economic policies; it welcomed keen politicians and statesmen as well as civil servants and Ivy League-educated people. All of these different and sometimes diverging profiles fitted well with the institution of the presidency.

More importantly, the *Presidencia* was one of two cornerstones supporting a system that was extremely effective at institutionalizing conflict between rival political groups. The other cornerstone was the PRI, which throughout various transformations maintained complete allegiance to the president.

The PRI clearly developed into a reliable political instrument at the service of the president. It not only mobilized nationwide political support to back up or even rubber-stamp policies, but it also channeled and contained most varieties of dissent to the president's policies, particularly at the territorial level, even if the PRI also encompassed, for a long time, organized labor.

Under this arrangement, the PRI gradually adopted a subordinate position *vis-à-vis* the president, to the point of becoming an instrument for the legitimization of some of the president's candidates for key electoral positions, even if they had no previous political career. It became by no means unusual to see a former member of the cabinet running for office as a PRI candidate.

Eventually, the exception confirmed the rule, and a growing number of prominent public managers benefited from both PRI and presidential appointments to state governorships and seats in Congress, both in the House of Deputies and the Senate. Through such a mechanism, the president secured firm political support for his core policy mix. Such was the era of what I termed the Vertical Ex-Lex system, in which Congress posed no significant challenge to the content of the policy reforms of the Executive; both branches of government worked in tandem to bring about a set of core economic policies.

The election of an opposition candidate as President of Mexico redefines the nature of the presidency as an institution that no longer holds control of the PRI's political machinery. The two other main political parties are far from playing a role

similar to that of the PRI in its relation with the Executive power, and perhaps they might not even aspire to do so. There is now, *de facto*, true separation of powers between the Executive and the Legislative, with the consequent checks and balances, even if there is still uncertainty as to the consequences of this basic fact on the quality and consistency of policy-making. It is in this context that the presidency, as an institution yet to be redefined, becomes increasingly vulnerable to any possible swings in the president's perceived leadership, in the cohesion of the cabinet, as well as in the consistency of its core policy mix.

Given the key fact that President Fox's political career cannot be clearly characterized as *panista*, it is altogether reasonable to say that in the first months of the new government the Mexican presidency is now party-free. This new autonomy of the presidency is even more evident, as was previously mentioned, in the resistance found by President Fox in the PAN, his own party, in the negotiations with the Zapatista movement, as well as the attempt to have the tax reform approved.

Meanwhile, as seen during the unfolding of the political strife spurred by the management of negotiations with the Zapatistas and the submittal of the fiscal reform package, Fox is keen to make direct appeals to the public as a means of mobilizing support against his political opponents. In doing this he has proved on several occasions to be quite effective. The fact that he places special importance on communication with large segments of the population suggests that President Fox wants the country to move toward more participatory democratic development.

With respect to his strategic relationship with the Legislative branch, a key challenge faced by the new president is to use his political capital to strengthen the presidency, thus allowing it to prevent political gridlock in Congress, as well as to limit over-exposure to direct pressure from 'special interests.' Whether he decides to try to accomplish this by means of mechanisms such as the plebiscite is an open question, even if he has hinted this on several occasions. Indeed, resorting to plebiscites might prove to be a feasible tool to ensure governance and sound strategic policies, in the event of Congressional gridlock. However, as the ample evidence from other Latin American countries might suggest, this is hardly a sign of institutional robustness. The way in which the president uses his political capital, in particular whether he decides to invest it in strengthening institutions or even in innovating them (e.g. the improvement of the judicial system, in the political front, and the financial regulatory framework, in the economic one) is an important concern of this paper.

Finally, one of the key tasks of leadership for the new president is that of effectively using his cabinet to buffer the presidency from political blows aimed at his personal and direct involvement with issue-specific policy processes. In any case, and with the benefit of hindsight, the new government has probably derived many key lessons from the management of the first two attempts at bringing about strategic reforms. These shall prove invaluable in the coming rounds of negotiation within the broader reform agenda.

Scope and Limits of Fox's Leadership in Bringing about Effective Reform: Use, Depreciation, or Expansion of his Political Capital

As an immediate outcome of his electoral victory and the excitement this provoked in public opinion at home and abroad, Fox's presidency currently faces a real problem of excessive expectations: some of those who voted for him seem to underestimate the political difficulties he faces. Nevertheless, the same spurt of excitement automatically gave the elected president a precious allotment of political capital, the so-called 'democratic bonus'.

Main constraints stemming from Congress

- PAN and Green have only 223 out of 500 deputies.
- The PRI still holds a relative majority in the Senate.
- For minor legislation, simple majority in both chambers is needed.
- For constitutional reform, two thirds are needed.
- The chances of successfully passing key policies, such as the budget for 2001, depend heavily upon the prevention of an all-out veto from the PRI in the presence of entrenched reluctance from the PRD, while maintaining the support of public opinion.

Against the inconvenience of dealing with a divided Congress, in which the PAN alone cannot secure endorsement of Fox's policies, presidential leadership will unfold under a number of opportunities and constraints:

- The democratic bonus has indeed bolstered Fox's endowment of political capital; however, he has little time to deliver visible results in some key policy areas, which in part explains his ordering of reform priorities (Chiapas, fiscal reform).
- Popular support for him is active and can be effectively used to nullify opposition to the reforms, yet managing the level of expectations to more realistic levels within the remainder of 2001 will prove to be a continuing challenge.
- Fox's background as a successful entrepreneur gives him a good understanding of business' interests; however, he still needs to broaden his experience in dealing with entrenched bureaucracies and vested interests within government.
- The thrust of his push for change can, in practice, clash with influential groups and gain only weak support from adversaries in Congress.

Lastly, his policy mix can reflect a significant, albeit not extreme, intent on change, for any mix that moves too much to an extreme will put the unity of his cabinet, his relationship with Congress and with his own party, under stress.

2.2 The President's Team: Reorganizing the Cabinet for a New Regime

During the final stages of Vicente Fox's presidential campaign, he stated repeatedly that should he win the presidency of Mexico, he would rely on "outstanding people, people who really love Mexico" to form his cabinet. He then said that he would see to it that no honest, well-qualified public officials from the incumbent government were excluded from the selection process.

Afterwards, he set about on a search for cabinet talent which was, to say the least, innovative and bold in outlook. He made public his intention to make use of specialized executive talent-search firms to target the best possible candidates for each office. In doing so, he wanted to signal his commitment to change; yet he also made it clear that he felt by no means constrained by his party loyalty to bring about a new presidency with a partisan cabinet. Furthermore, he articulated his vision underlying critical policy issues: that strategic challenges call for managerial solutions. Managerial solutions can, of course, be either political or organizational in focus. Nevertheless, in light of this new vision, they call for skillful, tactical management, rather than grand design.

However true his final decision might have been to this original vision, newly elected President Fox made a first assertion of his personal leadership. Such a move caused, on the one hand, a wave of enthusiasm and a positive endorsement of public opinion. On the other hand, it helped to reassure incumbent public officials that there would not be an aggressive overhaul (with the PAN stamp) during a delicate administrative transition process. Nevertheless, it stirred some unrest among the PAN ranks, which did not seem to appreciate any intention on the part of the president to alienate his party.

Consistent with this managerial view, and only a few days after his victory, Fox recruited a small team of collaborators who would then be part of a transition team entrusted with the responsibility of a smooth administration handover. He then pointed out that members of the transition team would not necessarily become part of his cabinet.

The transition team set about working like a consulting agency, with a mandate to present a Public Policy Project for Mexico 2000 – 2025. The team was touted as multiparty. Yet, of its eighteen members, eleven were close to the PAN. These were responsible for economic, political, judicial, social, and international affairs, as well as justice, administration, state reform, and public affairs. Fox's foreign policy was to be coordinated by Jorge G. Castañeda, a writer and political scientist, and Adolfo Aguilar Zinser, a senator.

Fox also named a former anti-drug czar, Francisco Molina, to help oversee the transition at the Attorney General's office. Fox's coordinators of economic affairs were Luis Ernesto Derbez and Eduardo Sojo.

Coordinating political affairs were Santiago Creel, a former congressman who came in second in the election for Mexico City mayor in July 2000 *vis-à-vis* the PRD candidate, and Rodolfo Elizondo, a senator; both are active PAN members. Surprisingly enough, Porfirio Muñoz Ledo, one of the founders of the Party for the Democratic Revolution, coordinated political reform, a project Fox said might lead to amendments in the Constitution. Muñoz Ledo, a former labor and education secretary, was the only member of the team who had ever been a cabinet member. Fox's personal secretary was Alfonso Durazo, a member of the PRI and the former secretary to Luis Donaldo Colosio, the PRI's presidential candidate, who was assassinated during the 1994 campaign.

Fox said he would announce his actual cabinet and top advisers for his government in late August or September, yet he delayed this announcement until November. Although the people on the transition team were obvious favorites for cabinet posts, Fox's decision to hire headhunters proved an effective point of leverage, for in the end only a few of the members of the original transition team were confirmed as secretaries in their designated area. Such was the case of Jorge G. Castañeda, now secretary of external affairs, Luis Ernesto Derbez, now secretary of the economy (in charge of industrial policy and economic growth policies), and Santiago Creel, now secretary of the interior.

As to the reasons for the delay in the announcement of his cabinet (which was made in different sessions, with the economic cabinet being announced first), the Center for Strategic and International Studies in Washington D.C. correctly points out several factors, of which the following are particularly relevant to this paper:

1. Although rejecting quotas of power for his own National Action Party (PAN), he had to give consideration to highly qualified *panistas*, especially because traditional party leaders head the PAN factions in the Chamber of Deputies and in the Senate.
2. After some negotiations, the PRD rejected his offer to bestow secretary posts on three of its most prominent members, who also had valuable government experience: party president Amalia García Medina (social development), outgoing Mexico City mayor Rosario Robles Berlanga (comptrollership), and ex-Mexico City environmental secretary Alejandro Encinas (environment).
3. Finally Fox designated as secretary of finance a man who inspired instant confidence in the markets at home and abroad.³

³ George W. Grayson and Armand Peschard-Sverdrup, "Vicente Fox Unveils First Bloc of Cabinet Selections", *Hemisphere 2000 MEXICO ALERT* Volume VIII, Issue XVII, Part I, November 22, 2000.

2.3 Executive Innovation: the Organizational Framework for Cabinet Work

The Commissioners

Within the Office of the Presidency, there are three commissioners who are in charge of social policy (social and human development commissioner), economic policy (economic growth with quality commissioner) and national/public security (law and order commissioner).

When President Fox finished his cabinet appointments, he made it clear that each of them was expected to collaborate with a special commissioner, who would be granted the highest authority to serve as a functional link between the secretaries and the president. Thus, each one of these special commissioners was to be considered just as prominent as the president himself for the purpose of both programs/policies coordination and follow-up. Yet, albeit quite real, the power of their authority was in principle moral, rather than formal.

This seems reasonable, given that the new president wished his commissioners to help him coordinate government programs so that he could address his many political priorities without any adverse impact on the performance of strategic policy objectives. The same rationale applied to the work of the cabinet secretaries. Since they are too busy with day-to-day work, they would benefit from coordinating with the commissioners on strategic planning issues, with a medium- and longer-term perspective.

From this perspective, the commissioners have been entrusted with three basic tasks:

1. **Program monitoring and evaluation.** This task depends critically on a very intensive flow of information; hence the need for total credibility in the authority of the commissioners and their staff, for these also collaborate to define performance indicators. This is a key responsibility, as the commissioners take care of testing monitoring and evaluation methodologies, in order to appraise the impact and cost/benefit of federal programs, both strategic and regular, in order of priority.
2. **Program intra/inter agency coordination.** This work entails a thorough appraisal of policies/programs' operational efficiency. The commissioners' aim is then to ensure that inter-agency execution of each policy/program is adequately carried out without redundancy or overlapping. In this sense, the commissioners shall clearly establish each strategic policy/program's set of priorities and objectives across the agencies' special commissions and

taskforces, thus seeing to their efficient implementation. Similar criteria apply to the execution of intra-agency programs.

3. **Strategic planning and prospective analysis.** This requires that each commissioner, within the corresponding policy sector (economy, social/human development, law/public security), should step back and articulate a broad-based, medium- and longer-term vision of where each sector should be going. This is not a task left only to the staff of each secretary, and ensures that strategic program and policy objectives correspond to a higher-angle view; i.e. that of the president and his commissioners.

The president meets every Monday with the so-called Los Pinos Group, which includes the three commissioners, the three cross-sectorial coordinators (described in the next section in more detail), as well as the secretary of the interior, the secretary of finance and the secretary of foreign relations. This group focuses on:

- The appraisal of key policies and strategies.
- The assessment of top concerns or events which impinge on the successful attainment of core government objectives.
- Risk factors agenda; i.e. those events, outcomes and processes and issues (both domestic and international) which might entail a threat: e.g. the evolution of the fiscal deficit, a fall in the price of oil, controversial elections or natural disasters.

Customarily, he tries to hold a meeting with the extended cabinet (i.e. with all his secretaries and other top-level officials) every first Monday of the month. The ensuing Mondays he holds a sector-specific meeting with each of the commissioners and the corresponding secretaries. This is why it is still the custom to refer to this arrangement as 'sectorial policy coordination' in the parlance of the previous system, as one recalls that the Public Administration Organic Law has not yet been amended to reflect these changes.

The first testing exercise for this organizational framework has been the drafting of the newly minted National Development Plan, meant to provide a six-year framework of policy core-guidelines in every sector. This document calls for a coordinated effort by the cabinet, high-level officials, the three commissioners, and the coordinators, ensuring its overall coherence in detail.

The moral character of a commissioner's authority might well stretch beyond good policy advice, as serious consideration has been given to their revision of all of the programs' budget allocation. If such were the case, a basic shift would be taking place in the exercise of program public spending.

Cabinet Organization

			Sectoral		
			A	B	C
Cross-sector			Economy Growth and Development <i>Eduardo Sojo</i>	Social and Human Development <i>José Sarukán</i>	Law and Order <i>Adolfo Aguilar Zinser</i>
	D	Public Policy <i>Eduardo Sojo</i>	I	II	III
	E	Government Innovation <i>Ramón Muñoz</i>	I	II	III
	F	Strategic Planning and Regional Development <i>Carlos Flores</i>	I	II	III

I

Secretary of Finance <i>Francisco Gil Díaz</i>	Secretary of Foreign Relations <i>Jorge G. Castañeda</i>
Secretary of the Economy <i>Luis Ernesto Derbez</i>	Secretary of Communications and Transportation <i>Pedro Cerisola</i>
Secretary of Energy <i>Ernesto Martens</i>	Secretary of Tourism <i>Leticia Navarro</i>
Secretary of Labor <i>Carlos Abascal</i>	Secretary of the Environment and Natural Resources Victor Lichtinger
Secretary of Agriculture Javier Usabiaga	

II

Secretary of Social Development <i>Josefina Vázquez</i>	Secretary of Agriculture <i>Javier Usabiaga</i>
Secretary of Public Education <i>Reyes Tamez</i>	Secretary of Agrarian Reform <i>María Teresa Herrera</i>
Secretary of Labor <i>Carlos Abascal</i>	Secretary of Health <i>Julio Frenk Mora</i>
	Secretary of the Environment and Natural Resources Victor Lichtinger

III

Secretary of the Interior <i>Santiago Creel</i>	Attorney General <i>Rafael Macedo de la Concha</i>
Secretary of National Defense <i>Gerardo Clemente Vega</i>	Secretary of the Navy <i>Marco Antonio Peyrot</i>
Secretary of Public Security <i>Alejandro Gertz Manero</i>	Secretary of the Comptrollership and Government Administrative Development <i>Francisco Barrio</i>

In social programs, for example, under the previous administration the secretary of finance had a firm grip on social spending, through a budgetary control unit for social programs. This unit sought efficiency in public expenditures within the scope that may now be covered by the commissioner for social and human development.

The Coordinators

There is yet another cross-sector layer of presidential/cabinet decision-making and coordination, in which another set of officials plays a key function: the so-called *coordinators*. In this category, three officials seem to have special importance: the coordinator of public policies (who is also the economic commissioner, Eduardo Sojo), the coordinator of government innovation (Ramón Muñoz) and the coordinator of strategic planning and regional development (Carlos Flores).

These cross-sector coordinators participate actively in most sector-specific cabinet meetings, depending on the issue at hand. Thus, for example, when regional development and anti-poverty programs are discussed, the secretary of social development joins the commissioner of social and human development to meet the president; also attending the meeting would be the coordinator of strategic planning and regional development, the coordinator of government innovation and, if the focus is also the state of Tabasco, the presence of the Puebla-Panamá Plan coordinator could also be required. If basic infrastructure were also at stake, the commissioner for social and human development would, in turn, discuss the agenda directly with the secretary of communications and transportation at another meeting.

The Puebla-Panamá Plan coordinator mentioned above provides an example of another actor in the cross-sector layer. There are other more issue-specific offices that also participate in the new organizational framework, such as the office of indigenous affairs, the office for border affairs, the office for the physically-impaired and the office for Mexican nationals abroad. These offices can be thought of as a third layer of policy management, rather than policy decision-making. Their mandate is more that of providing issue-specific technical support and on-site representation of the presidential office.

Again, it is worth pointing out that this framework has not superseded the formal/sectorial structure for cabinet policy decision-making or implementation. Thus day-to-day policy implementation is still formally carried out within sectorial committees (economic, social, health, communications and transportation, environment, education, etc.), each of which is presided over by the president and the corresponding member of the cabinet. In this fashion, for example, the secretary of energy has authority to coordinate the activities of PEMEX (oil) and CFE (electricity), and to carry out policies. Whenever needed, commissioners and coordinators can be present at sectorial committees.

The layers depicted above are meant to facilitate the flow of information, analysis, and technical support to presidential policy coordination. If, at some point, they were to become a more formal mechanism within the policy process, the Federal Public Administration Law would have to be amended, in order to formally allow the new entities to exist as well as control their own budget.

2.4 Information Flows and Decision-Making Support within the Functional Organization of the President's Office

To many members of the public, the array of new offices and coordination staff literally cluttered around President Fox may seem puzzling, although it builds upon international experience. In some countries, this scheme even contemplates the existence of pro tempore sectorial commissioners in the fashion outlined in the previous section, but rotating this role between officials selected by the president. At best, it may seem redundant to have three top-level officials, and not all of them members of the cabinet, in charge of the same issues. At worst, it may stir concern about the degree of consistency that can be expected from multi-layered policy-making, particularly in strategic areas.

Yet, as has been noted before, the focus of each official within her/his corresponding layer can be clearly differentiated. According to the distinction between day-to-day operational locus given to a cabinet member, and the mid-term, longer perspective of a commissioner, the result is not necessarily absence of coordination or organizational havoc. Instead, if appropriately handled, it can lead to a rich process of policy innovation along the policy-making decision chain. The question then posed would be: Is this currently the case in Mexico's Executive branch of government?

A basic feature to be reckoned with when looking at the work of the first layer, as well as the third, is the reduced size of both the staff of the commissioners and of the heads of special programs and task forces. Indeed their key strength should lie more in creative thinking and crosscutting functions – taking the role of facilitators and coordinators, cutting across bureaucratic compounds and taking advantage of the gains to be realized through networked actions in strategic areas.

The teams in the third layer have been heavily supported, from a logistical point of view, by the formal structure of the secretaries. Thus, for example, the office of indigenous affairs (INI) receives steady technical support from the national institute of indigenous affairs, which in turn, depends on the secretary of social development (SEDESOL). On its own, SEDESOL coordinates heavily with various teams in the third decision-making layer, providing them with technical and logistical support needed to tackle effectively specific aspects of policies from a more in-depth perspective.

In any case, these considerations can be included within a conceptual framework for the analysis of the two policy challenges that President Fox decided to undertake immediately: the Chiapas conflict and fiscal reform.

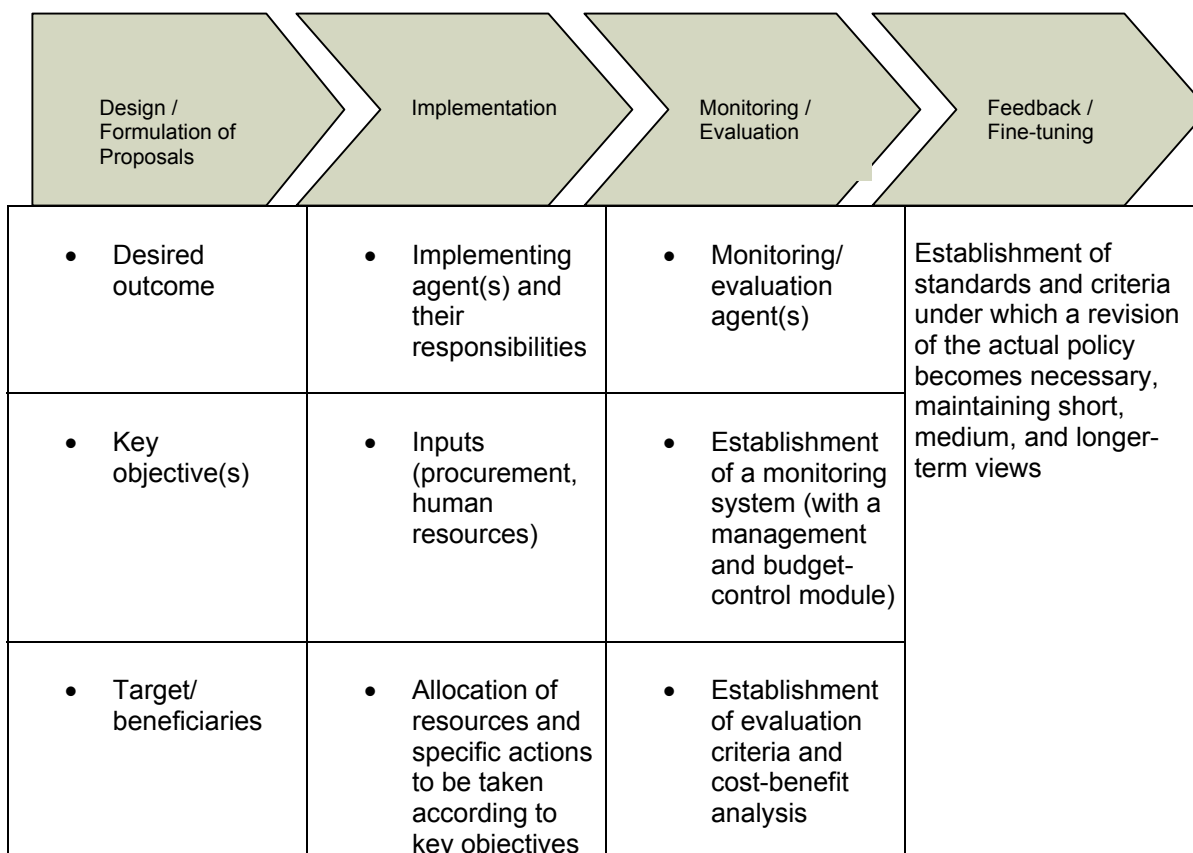
2.5 The Cabinet's Policy-Making Performance: A Conceptual Framework

Basic Links of the Policy-Making Decision Chain

In order to better appraise the work of the cabinet, it is useful to review the chain of events and decisions that describe the **life-cycle of a policy reform**. This chain can be roughly divided into four basic links, before the final outcome is reached:

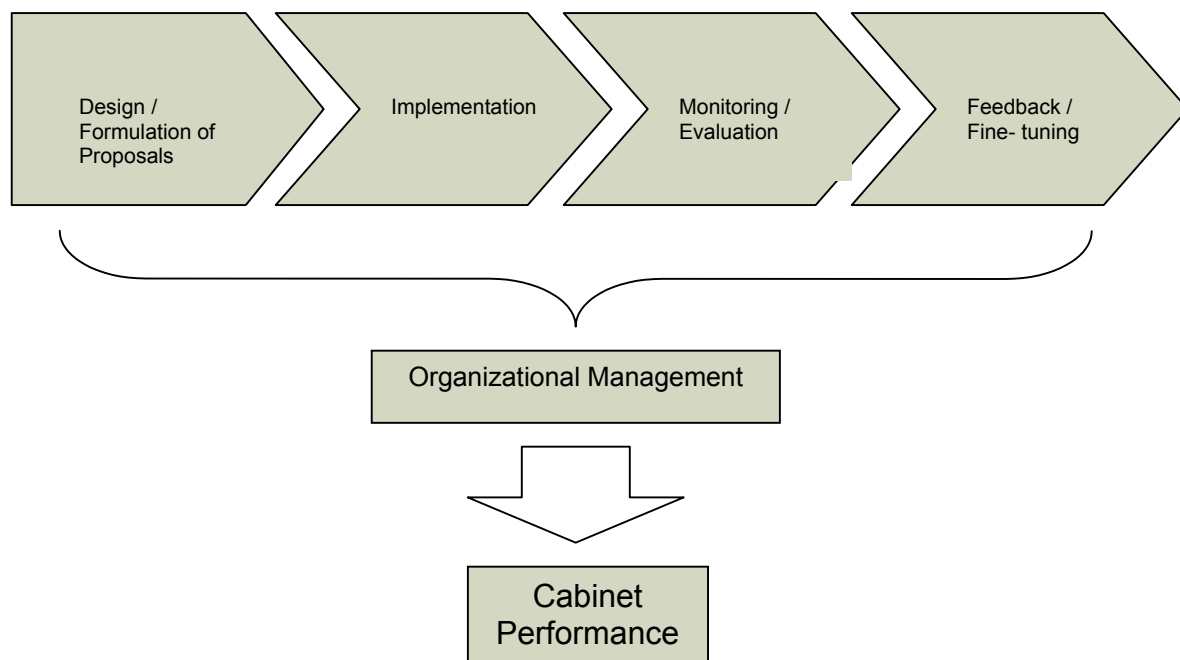
- Design and formulation of proposals
- Implementation
- Monitoring and evaluation
- Feedback and fine-tuning

For each one of these components of the policy-making chain, there are a number of key elements that need to be taken into consideration (see diagram).



Costs	- Coordination arrangements - Bottleneck-breaking in the process of implementation	Establishment of corrective measures within predefined objectives	
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We can use this simple framework to describe and analyze the decision-making process that best characterizes the behavior of President Fox's cabinet and staff. It will also allow us to articulate a broader view of the type of **organizational management** that underlies executive policy-making in Mexico at the beginning of the new administration. Furthermore, explaining the main features behind organizational management in the office of the president can shed light on some possible criteria to use in order to measure cabinet performance. To do so, this framework will be applied to President Fox's management of the two foremost policy undertakings at the outset of his administration: the indigenous bill reform and the tax reform.



Particularly during the Vertical Ex-Lex era, when there was no independence of the Legislative branch *vis-à-vis* the Executive, this simple chain in the policy-making process held true, thereby bringing about some very effective – even if not bulletproof – economic programs. A small circle of top officials would design a policy and discuss it with the president and with some members of the cabinet – or

with the economic cabinet when it was created - confident that it would pass smoothly through Congress and then be ready to be implemented. This is why the communication and negotiation links do not appear in this chain. Monitoring arrangements were flexible, as they need not be disclosed to the public. Fine-tuning was not ruled out, although it was normally not the outcome of a thorough inter-agency consultation process on the relative merits of any given policy. In the present context, organizational management and cabinet performance remain crucial to successful policy-making, albeit from a new perspective and under a significantly different logic.

A Note on Organizational Management and Decision-Making within the Executive

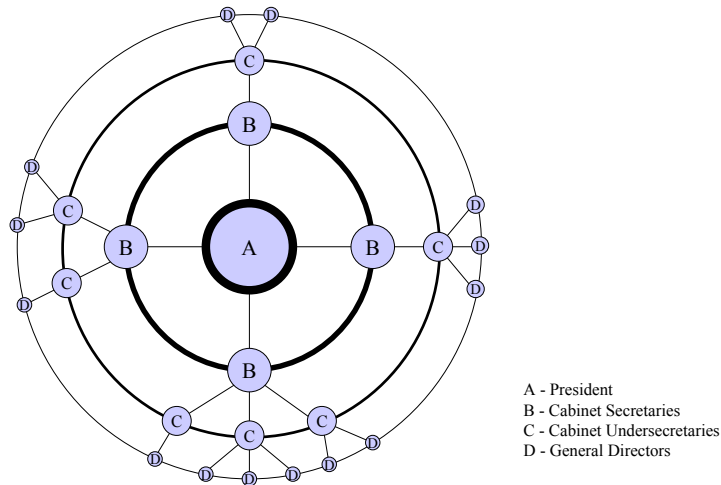
Traditional management has been permeated with the vocabulary of hierarchical command-and-control structures, within clearly defined boxes and turfs. Within this framework, every organization is vitally dependent on the vision and command of the CEO, who rules supreme. From this perspective, leadership is just another input or vital function for an organizational body, which has a life of its own, almost beyond the initiative of subordinated organs or ranks.

However, the last two decades have brought a wave of critical thinking into the philosophy behind organizational strategic planning and development. In fact, a common denominator in this recent tide of innovative organizational thought views organizational management as a process of planning, decision and action that occurs beyond established structural boundaries and their vertical *modus vivendi*.

In contrast from this alternative perspective, management and decision-making can occur across horizontal concentric circles, or constellations, much in the manner of what Frances Hesselbein has suggested for non-profit as well as for profit organizations.⁴

⁴ Frances Hesselbein (1999). "Managing in a World that is Round" in Hesselbein, Frances and Cohen, Paul M. Eds., *Leader to Leader*, Drucker Foundation Leaderbooks, Jossey-Bass Publishers, San Francisco, pp. 9-14.

DECISION-MAKING PROCESS

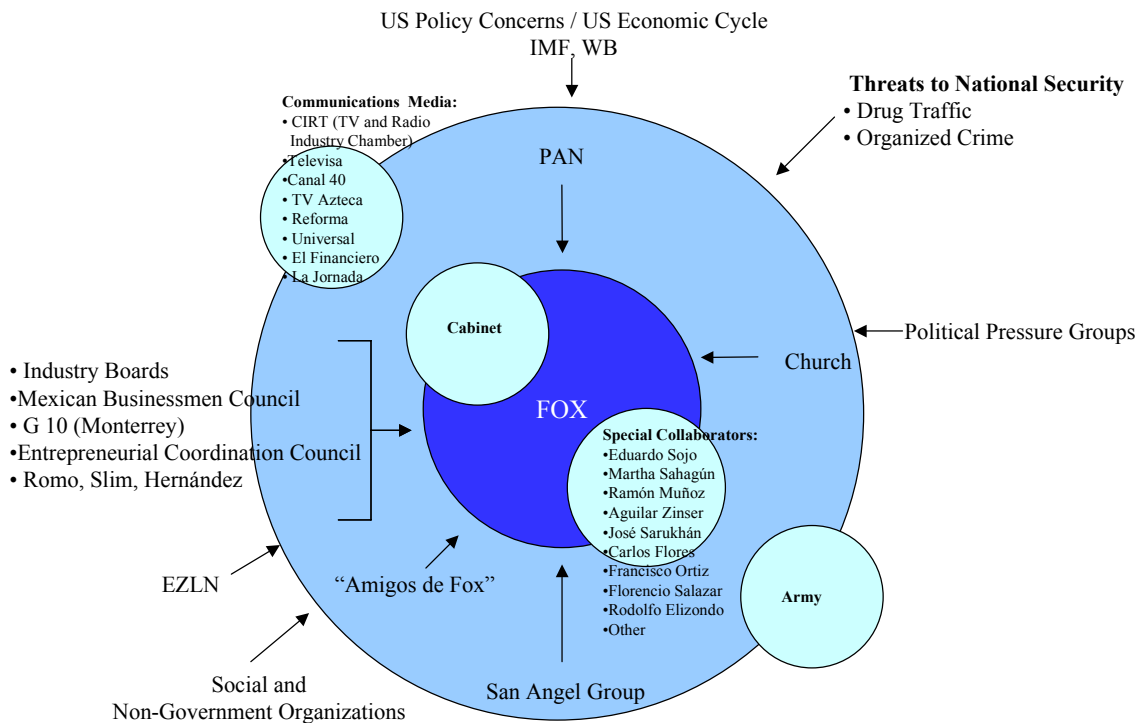


In her scheme, members of the same 'layer' within the formal organizational structure can, in practice, interact directly with one another. This relationship facilitates collective learning, gives a new sense of empowerment to each member of the organization, and can effectively foster innovation whenever a strategy of learning and cross-fertilization between organizational divisions is in place. In line with the decision-making chain analogy, this type of organizational management is a key element of **horizontal decision-making chains**.

An appropriate way to assess the relative merits of this type of organizational management in the policy-making context would be to consider its use in the management of controversial or contentious strategic issues, such as the cases discussed below.

However, organizational management through flexible, horizontal decision-making chains is still not easy to adopt in the Mexican Executive branch of government, insofar as it still is heavily dependent on presidential leadership and the president's use of political management skills in the areas of communication and negotiation, because of the complex constellation of influences he has to address. Among them are: (see diagram)

External and Internal Influences on the President's Decision-Making



* This figure is a modified version of one that appeared in *La Carpeta Púrpura* (2000) in Mexico.

In such a context, horizontal decision-making for policy design and implementation can be used with multiple advantages, although it can be anticipated that sometimes the old hierarchical model may be needed, particularly when the Executive still needs to get a firm grip on government for a fast reaction when special events, such as economic crises or natural disasters, occur.

This flexibility is needed in the context of democratic consolidation under political uncertainty if the Executive branch of government wants to be effective in dealing with these situations.

2.6 A New Framework for Presidential Leadership and the Decision-Making Chain

As Mexico moves toward a more solidly democratic system along the two dimensions of parliamentary and participatory democratic development - as discussed in the previous section - President Fox is responding quickly to the rapidly changing political context. In this new political context, as well as in his strategic response to it, it is convenient to highlight at least three core elements that impact the model of decision-making for policy reform, namely:

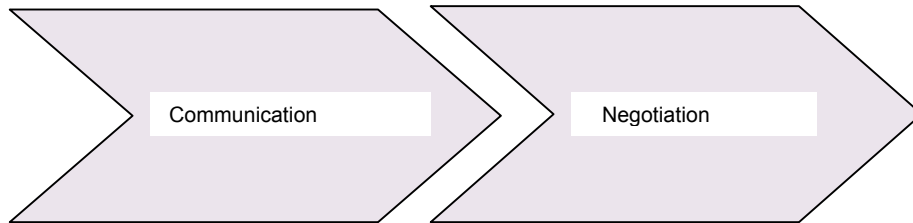
1. **The shift away from the Vertical Ex-Lex model**, where Congress was subordinated to the Executive, **to a Horizontal Ex-Lex model**, under which the Executive can no longer pass policies, let alone legislation, without a skillful, tactical management of strategic negotiation with political parties and interest groups. In this context, communication and lobbying become increasingly important for all interested actors. Yet, whereas lobbying activity is fundamental, it still falls short of becoming sufficient for the approval of policy reforms by Congress. On the other hand, presidential or cabinet presentations can make Congress more responsive to views from the Executive, but do not necessarily involve active negotiation between the Executive and the Legislative branches of government. Therefore it is still necessary for the president and his collaborators to devise negotiations around core objectives. Between this core strategic objective and the negotiation context, in which the Executive and the Legislative can concur, there is a gap to be filled by political management. As will be explained, two alternative paths – consensus-building or the institutionalization of conflict – could be used to fill the gulf, depending on the type of political setting characterizing a particular negotiation.
2. Depending on the degree of uncertainty, particularly around the democratic consolidation process (characterized by colliding constellations of interests, each of them eager to shift policy in its favor), it becomes critical that the authority of the president stems not only from electoral legitimacy (which is insufficient to secure a firm grip on government if there is an uncertain – albeit new and independent - operational relationship between the Executive and the Legislative in a young democracy), but also from party-free leadership. A more classic term for such leadership would be 'statesmanship', i.e. the ability to rule on behalf of the general interest of the commonwealth or nation. To identify the president with the general interest is critical in a democratic transition/consolidation, for the perception of a partisan president can in many cases contribute to the polarization of interests within and outside the political process. However, an excessive reliance on a president without sufficient support from his party may represent a significant risk: the erosion of his natural base in Congress. A key question, then, becomes whether he can present himself as non-partisan and still make his political management effective enough to bring about policy reform. Moreover, if political uncertainty about the relationship between the Executive and the Legislative branches is further exacerbated by the redefinition of party structures in response to the new demands of democratic competition, as it is now happening in Mexico, then an appropriate combination of communication and negotiation by the Executive is even more crucial to building consensus in Congress or institutionalizing conflicts, such as the Chiapas conflict.
3. Statesmanship may translate into party-less leadership if the president moves beyond his party's views on issues such as policy reforms and uses his communication resources to mobilize support from the public at large. Public endorsement then becomes a lever used by the president throughout

the negotiation process. Exercising his leadership in a non-partisan fashion may increase the cost of his communication efforts, making the strategic use of communication even more compelling. The president needs the public to understand clearly the advantages of policy reforms in order to lend him its support. At the same time, he has to start lobbying Congress with an ad-hoc communications package even before starting negotiations.

Accordingly, in our appraisal of the Executive's policy-making effectiveness in Mexico, it becomes fundamental to account, under the Horizontal Ex-Lex system, for two links within our policy reform decision-making chain: that is, the **communication link** and the **negotiation link**. This allows us to understand the policy reform process better through a more precise appraisal of the reforms' strategic constraints derived from uncertainty in political relationships. In turn, this analysis can provide new elements to appraise policy and reform management effectiveness.

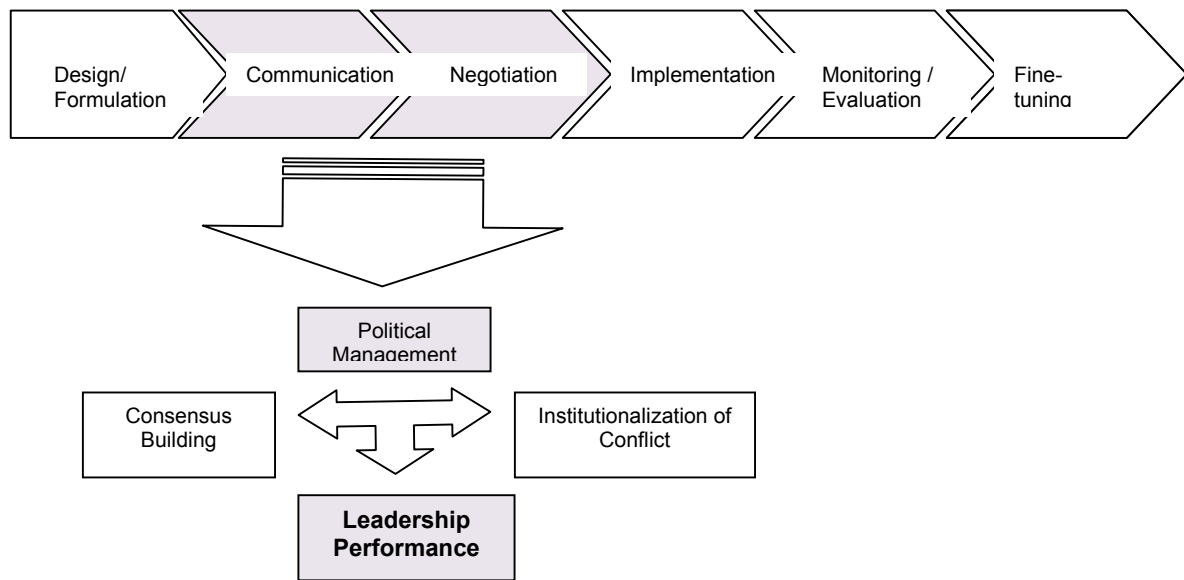
By analyzing the constraints on the Executive in pushing for its policy reform agenda, it is possible to test the effectiveness of its actions in both strategic links, to get the approval of Congress to implement the reforms, i.e. communication and negotiation. As mentioned above, the constraints that limit the attainment of a core strategic objective could be worked out by appropriate political management and leadership.

This consideration has made it necessary to expand the previous diagram of the policy-making decision chain to account for two additional 'links' or components: communication and negotiation.



• Cost/benefit of the communication strategy • Target audience • Intended impact • Intention to be conveyed • Calendar of intended impacts • Message contents • Communication channels used	• Is it possible to generate consensus on the reform proposal? Congress composition, parties involved, public opinion, businessmen, unions, NGOs, and others • Terms (objectives) of negotiation for each of the parties involved • Basic payoff structure (cooperative or non-cooperative, number of possible rounds, etc.) • Relative bargaining power • Strategy and tactics
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Both elements combine to support the president's political management. In turn, an appropriate understanding of political management can provide a basis for assessing presidential leadership, and examining the way it interplays with cabinet performance and organizational management. Hence, the modified version of the policy-making decision chain looks as follows:



On Political Management

Throughout this paper, political management is meant to depict the basic strategy by which the president blends his communication resources with his negotiation actions to accomplish his policy objectives (reform packages, the budget, solving the Chiapas conflict, etc.), while also optimizing his use of political capital.

Let us now consider two basic directions in which he can spend such political capital, depending on the basic negotiation structure he faces for each particular issue and on the kind of communication strategy he employs.

1) **Consensus-Building:** As mentioned before, the first direction is geared towards consensus building in Congress and/or in public opinion. It aims at reaching policy success by means of gathering a critical mass of support, for the Executive's policy objectives. As such, this path can be quite resource-demanding and is usually significantly time-constrained, consuming political capital incrementally as time elapses, depending on the basic payoff structure within any given negotiation.

2) **Institutionalizing Conflict:** The second path aims at institutionalizing conflict. Correspondingly, it aims at reaching policy success by means of establishing adequate institutional mechanisms to channel the views of antagonistic interests. This path recognizes that some policy challenges involve outright losses to some of the parties involved. However, it aims at bringing about second-best (or even less likeable) policies that can nonetheless satisfy minimum effectiveness criteria acceptable to the majority of parties. Moreover, under such a path, the political capital of the president is not necessarily consumed; it can also be invested, as is the case when new dispute-settlement mechanisms prevent the parties from blaming any policy setbacks exclusively on the president.

III. The Indigenous Rights and Culture Bill: An Attempt to Solve the Conflict in Chiapas.

3.1. The Strategic Sequence of the Reforms: Why Indigenous Rights and Fiscal Reform First?

To many Mexicans, the pledges that Vicente Fox made during his campaign, as well as his inaugural speech, seemed unrealistic. With great disbelief, people wondered: What did the new president really mean when he promised to solve the Chiapas conflict in fifteen minutes? Why did he choose to tackle the indigenous bill first and only after that tax reform?

Indeed, these issues, apparently the most complex in a broad agenda of reforms and pending issues, became the focal points for President Fox. Why not start with education, energy, or labor reform?

The priorities of Fox's political strategy in the first month were clear: he moved between the two extremes of the political spectrum to address issues of importance to the right (fiscal reform) and to the left (indigenous bill).

Fox may have chosen the indigenous bill as a first priority not only to break away from Zedillo's policy of containment towards the EZLN, but also to break the standoff with the Zapatistas and redirect the conflict back to the path of political dialogue. By doing so, he would enhance his political capital enough to ease his way into fiscal reform. Moving along this strategy meant first drifting toward the left and then toward the right, while trying to maintain the support of public opinion.

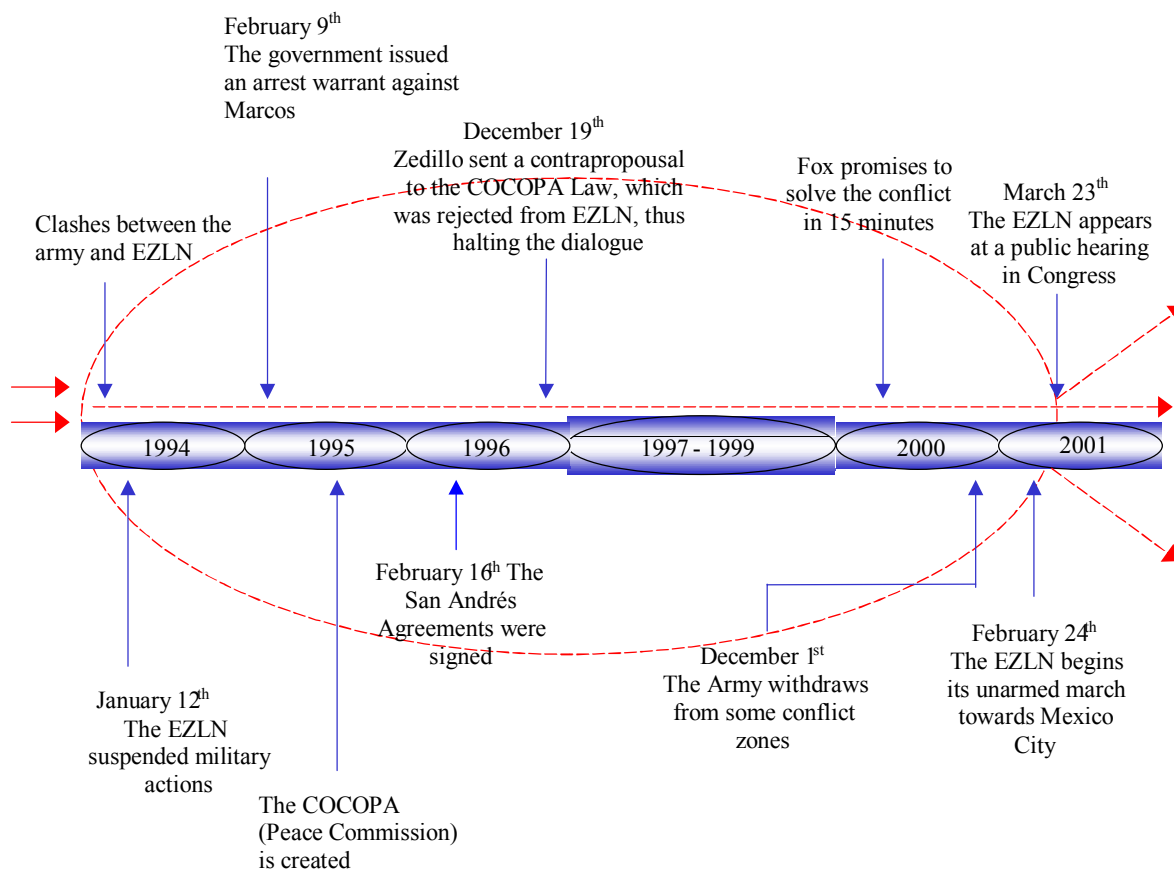
The debate on the indigenous bill and fiscal reform has spanned the 150 days of President Fox's administration. Some view this strategy as a mistake, others as a stroke of genius. It is, however, too soon to evaluate fully the performance of President Fox's leadership. The success of this performance will depend in part on adequate political management as well as on the efficiency of the decision-making processes he selects for his reforms.

3.2 Background: The Uprising in Chiapas, the March for Peace, and the Indigenous Bill

The indigenous bill is not the brainchild of President Vicente Fox; yet he genuinely wants to resolve the Chiapas conflict and launch ambitious programs to foster inclusive economic and social development in the southern region of the country. This section will set out to analyze the conflict of Chiapas within the framework of our chain of decision-making for policy reform, as seen from the perspective of presidential leadership.

The Conflict in Perspective

Evolution of the Conflict in Chiapas



On January 1, 1994 the EZLN came to public prominence with a declaration of war against the government of Mexico, precisely on the day that the North American Free Trade Agreement went into effect.

With the outbreak of the Zapatista movement, the contrast between two Mexicos became apparent worldwide: one Mexico of global integration with the world economy, as promoted by the government, and another of poverty and exclusion. The actual armed fighting lasted only twelve days, but the war waged on in the media, clearly taking the conflict to the world stage.

Former President Carlos Salinas ordered an end to military action in order to start dialogue and then created the post of peace commissioner for Chiapas, appointing Manuel Camacho Solis to the position on January 10, 1994. During the initial negotiations, the EZLN expressed its social, economic, and political demands. The outcome of this negotiating process was a document with thirty-four commitments and thirty-two proposals to solve the conflict, which the EZLN rejected after consultation with the indigenous communities.

In spite of this setback, the EZLN decided not to resume hostilities. On June 12, 1994 in their "Lacandona Jungle Declaration" the Zapatistas outlined the conditions for a peaceful transition to democracy and organized a national democratic convention.

On November 8, 1994, a national mediation commission (CONAI) was created by Congress and recognized as official mediator with the EZLN. This precedent is key to the continuity of dialogue throughout the conflict.

The conflict remained latent after Ernesto Zedillo took office as president. Although there was no fighting, the Zapatistas withdrew into the Lacandon jungle and from there used press communiqués to maintain public awareness of the movement throughout President Zedillo's term.

A political compromise was reached on February 16, 1996 with the signing of the Accords of San Andrés Larráinzar. The government agreed to recognize the indigenous peoples in the Constitution and to broaden their political representation. In November of the same year, the COCOPA (The commission for concord and peace) met with the EZLN to draft a legislative bill in indigenous rights and culture, which was based on the San Andrés Accords. A month later (December, 1996), former President Zedillo set forth a counterproposal bill on Indigenous Rights and Culture that was rejected by the EZLN because it did not conform to the San Andrés Accords. This caused a two-year interruption in the dialogue.

In March 1998, the PAN brought up the indigenous bill issue again and drafted its own counterproposal to the COCOPA bill, which was also rejected, causing a new stalemate until the end of the Zedillo administration.

The conflict in Chiapas became a daily war fought in the media and through the internet, but the risk of armed conflict remained latent as the government established military posts in the area.

In addition to dealing with the concerns of the indigenous peoples, the government also needed to deal with a lack of credibility in its capacity to bring about peace. To the public, it is striking that the country can be open to globalization with thirty-one free-trade agreements while still having critical unresolved social conflicts derived from extreme poverty and stagnation.

The presidential campaign of Vicente Fox dealt with the conflict from an electoral perspective, declaring, "The armed conflict of Chiapas could be solved within fifteen minutes". Once in power, he would focus more realistically on the more complex aspects of this policy.

Given that Fox entered the presidency as a true statesman and that he had a formidable endowment of political capital before the eyes of the nation and the world, it was only appropriate that he focused his full attention on national security issues, foremost of which was the conflict in Chiapas. Since he had a strong will to address this conflict, it took no time for him to dismantle some military posts in the conflict zone.

Dealing with the Conflict

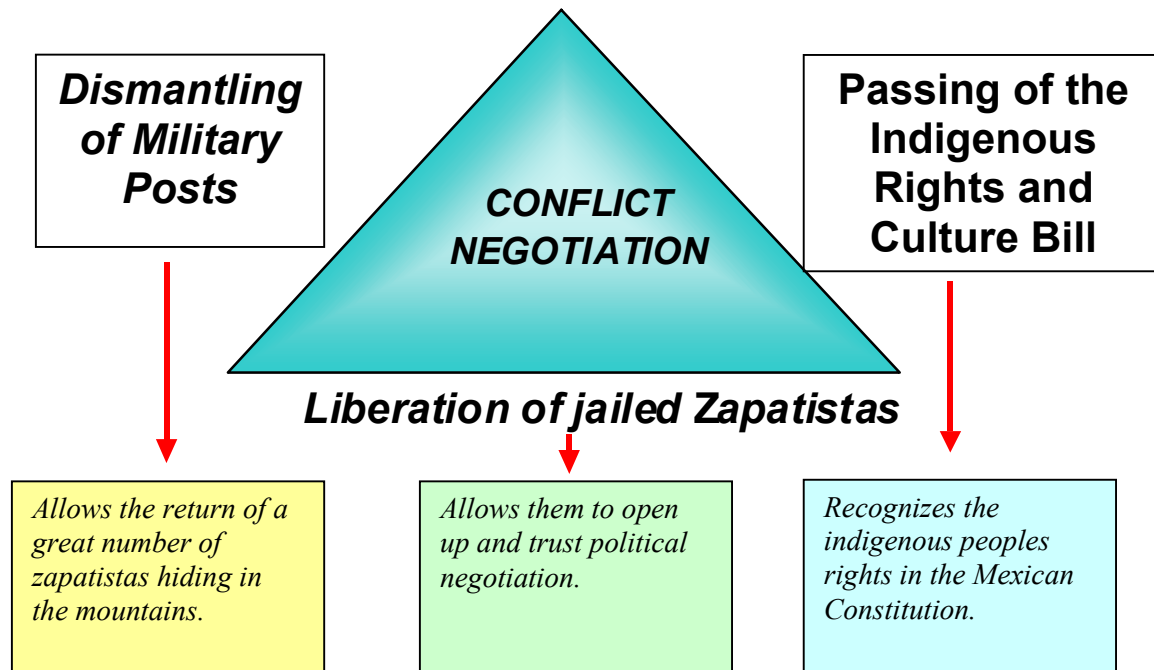
At the same time he was pronouncing his first address to the Nation, the army was withdrawing from several military posts in the state of Chiapas, which can only be regarded as a strategic move of great significance. Given his first decision as president was to dismantle military posts in Chiapas, what was the strategic mindset of the president in attempting to solve the problem?

Fox's objective was to put an end to a latent military threat from the Zapatistas and to reach a dialogue involving Congress, the president, and ultimately, society at large. Also important is to address the Zapatista cause through political means. The ultimate goal is to guarantee the environment of peace and stability required to advance the region's socio-economic development, and to reverse the marked inequality and exclusion in which many people – indigenous or not – have lived for generations.

To be fully realized, this objective had to address several core issues:

- The disarmament of the Zapatista army.
- The path to political dialogue.
- The approval of the indigenous bill.
- An integrated, inclusive social and economic development plan in the framework of political dialogue with the country's indigenous groups.

In this context, the solution to the conflict required first the fulfillment of EZLN requests, that is, the addressing of the three demands posed by Marcos: 1) disarmament of the military bases in the area; 2) liberation of the jailed Zapatistas; and 3) approval of the Indigenous Rights and Culture Bill (see section entitled, 'Main Contentious Issues within the Bill' ahead).



Getting the EZLN to give up arms and to engage in political dialogue is the most convincing sign of the finalization of the conflict. However, reaching this point presupposes several stages, the first of which is resuming dialogue.

It was necessary to comply with every specific Zapatista request: first, the dismantling of seven military posts (Guadalupe Tepeyac, Río Euseba, Roberto Barrios, Cuxulhá, Jolnachoj and Amador Hernández). The dismantling of these military posts was necessary in order to allow native Mexicans to return to their communities after being displaced to the mountains, where they lived under precarious conditions of poor health care and malnutrition.

The liberation of the imprisoned Zapatistas was also a matter of great concern. On February 9, 1995, when the identity of the Zapatista leaders was revealed – including that of Sub-commander Marcos – arrest warrants were issued, the army advanced toward the communities, and the EZLN retreated to the mountains. Therefore, as of 2001, dialogue could not resume until the leaders were freed, among them Commander German, who is currently the EZLN commissioner for dialogue with Congress and the federal government.

With regard to the third point, the passing of the Indigenous Rights and Culture Bill, the accords agreed upon by the federal government and the EZLN in the town of

San Andrés Larráinzar, Chiapas, on February 16, 1996, had to be revived. The pending question was that of granting autonomy as well as recognition of the indigenous peoples in the Mexican Constitution, in addition to broadening their political participation and representation, as drafted by the COCOPA in a proposal that reflected the San Andrés Accords.

Why is it so important for the EZLN that the bill, which has passed, corresponds to the San Andrés-COCOPA proposal? Because it reflects the fundamental demands of the Zapatistas. On the other hand, it has always been the one issue to which the federal government has been more reluctant to commit. This was evident in the several attempts at circumventing the San Andrés Accords, actions which greatly eroded the government's credibility.

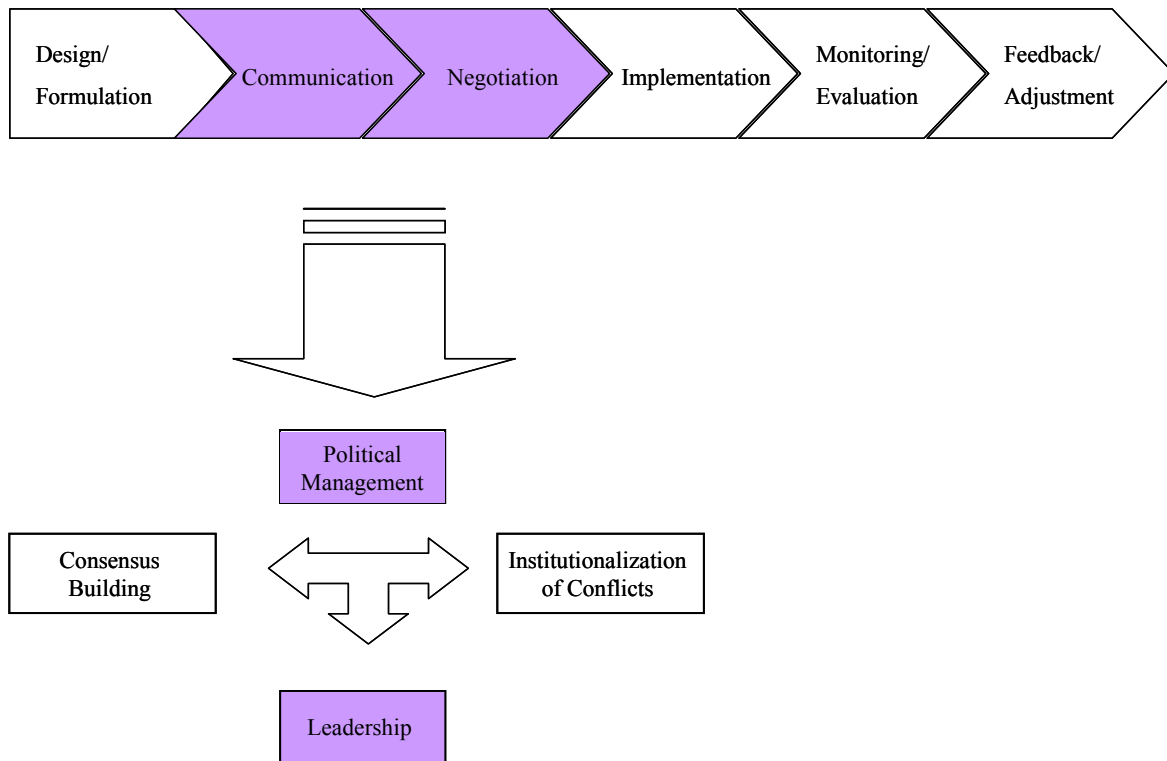
This lack of government credibility is central to all of the communiqués, speeches, and documents of the EZLN. Thus, the Zapatista march represented a chance to create public awareness of the indigenous plight, to show their leverage in the country, and to highlight the need for recognition of their rights and culture at the constitutional level.

We can now discuss President Fox's strategy to solve the conflict within our framework of chain of decision-making for policy reform.

3.3 Vicente Fox's Strategy and the Application of the Chain of Decision-Making for Policy Reform: The Proposal, its Communication and Negotiation.

According to our framework, Fox's strategy means leading the conflict onto the road of political dialogue and passing the indigenous bill as a balancing and supporting element between national security concerns and broader socio-economic development objectives. Were he to succeed, he would bolster his political capital, enabling him to pursue the other pending reforms on his presidential agenda. However, the success of this strategy would require the best political management he could muster on two fronts: communication and negotiation.

Application of the Framework of Decision-Making for Reform to the Management of Conflict in Chiapas Toward the Passing of the Indigenous Rights and Culture Bill



Design/Formulation of a Strategy to Address the Conflict

Given the situation he faced, Fox's strategy to reach his objective of solving the conflict was:

1. To send unmistakable signals of willingness to negotiate, such as the dismantling of military posts and their conversion into community development centers.
2. To embrace and protect Marcos and the Zapatista march through the country.
3. To promote the Zapatistas' appearance before Congress in the Legislative Palace.

For their part, the Zapatistas sent their own signal by marching to Mexico City unarmed. Fox responded sensitively to this gesture, for he protected the march and gave it ample and effective support through the secretary of the interior and the commissioner for national security. As a first step, he also had to make sure that Marcos appeared in Congress with full media coverage.

Besides having to implement these three points, other factors were taken into account.

- The president could not rely on the automatic support of legislators of his own party, the PAN. Some of the PAN leaders were less than cooperative with Fox.
- Presumably only some members of the cabinet showed public support for the president's strategy until the EZLN's congressional appearance.
- Those federal agencies connected with indigenous issues (interior ministry, commission for peace in Chiapas, the office for the development of indigenous peoples and the ministry of social development) did not have the means to communicate and negotiate with the Zapatistas, as these were at the disposal of the President's peace commissioner, Luis H. Alvarez.
- Nevertheless, as has been said, Fox was convinced that the legitimacy of his electoral triumph, as well as his very high popularity ratings at home and abroad, would give him enough clout to make his way through the maze of opposing views on these issues.

As a first strategic move, Fox had to achieve two objectives: To restore credibility in the federal government before the EZLN, so as to make it return to the negotiations table and abstain from armed conflict. Then he had to build political consensus for his indigenous bill. This was not easy, for he had to accept almost unconditionally the terms demanded by the EZLN.

Thus, Fox had no alternative but to make the indigenous issue a personal cause, risking his political capital with public opinion. However, if the EZLN managed to speak in Congress, he would achieve an important political success: taking the indigenous conflict to the arena of political dialogue, laying the foundation for disarmament of the Zapatistas, and thus enabling the end of the armed conflict.

The Communication Strategy and the Media Contest between Fox and Marcos

During his presidential campaign, Fox had a chance to display in full his mediation talents, which are widely acknowledged as one of the sources of his leadership. Yet, faced with the Chiapas conflict, he was about to meet his match. Indeed, a public contest ensued between President Fox and Marcos. Fox's communication strategy focused on two fronts: before the EZLN and before public opinion.

In communication with the EZLN, three stages can be identified:

- The first started with President Fox's inaugural speech on December 1, 2000, restating his political will to end the conflict, while the dismantling of some strategic military posts in Chiapas was taking place. In this first stage, Fox had an open and convincing attitude.
- The second stage was characterized by the beginning of a public dialogue/debate through the media, in which the images of both President Fox and Sub-commander Marcos were at play and their media savvy highlighted. Fox took every opportunity to remark that he "was looking forward to the arrival of the Zapatistas with open arms," without paying too much attention to criticism that he was giving in to Marcos's wishes.
- At the third stage, there was at last direct communication between the EZLN and the government. On March 12, a meeting took place in the COCOPA offices at the Senate. Architect Fernando Yáñez (Commander German), the EZLN representative, and Luis H. Álvarez, Commissioner for Peace in Chiapas (who would later become the liaison between the government and the EZLN), took part in this meeting.

Never has this dialogue between President Vicente Fox and Sub-commander Marcos been personal. All along, it has been carried out by the media. This opened the question of who was more convincing and had more popular appeal. Fox managed to outperform Marcos shrewdly, by convincing public opinion that he was truly committed to restarting dialogue.

Negotiation

Fox negotiated on two fronts. On the one hand, he focused on the creation of an atmosphere conducive to dialogue with the EZLN that was strikingly different from the rigid attitude of the former administration. On the other hand, he set out to generate the consensus in Congress necessary to pass the Indigenous Rights and Culture Bill quickly. Certainly, this would all have a cost, but it would also bring about big rewards in terms of increasing his political capital. If President Fox had made a mistake in handling this issue, the political cost would have been very high, as this was the first strategic issue on his agenda and one with the highest levels of local and international media visibility in years. The stakes were high, taking into account the fact that fiscal reform would be the next issue on Fox's strategic agenda.

The combinations of factors that raised the stakes and made the risks very visible in the handling of the Zapatista issue suggest that the negotiating attitude of the

president was that of a risk-taker, that is, a political player who risks his political capital to further his goals.

In the course of this preliminary round of negotiations, the positions of the president and the Zapatistas showed one main difference: the Zapatistas retained most of the bargaining power. Therefore, it was they who set the terms for restarting dialogue, using popular skepticism of the government in their favor.

In contrast, Fox was counting heavily on his charisma and leadership ability to negotiate. This did not allow him to impose any terms and lessened his freedom, which forced him to bear the total cost of the negotiations. This attitude led to strong opposition of the most traditional PAN and some very conservative business leaders. In addition to his personal leadership, negotiations demanded of Fox a considerable response from his cabinet to attain results.

The president was quick to announce the fulfillment of the "three signals" demanded by the EZLN to restart dialogue. An additional goal behind this public gesture was to take the Zapatistas to Congress as a symbol of political dialogue as opposed to armed conflict. However, the Zapatista march was the first strategic move between the new government and the EZLN. The objective seemed modest enough, but fundamental: to make the EZLN return to the negotiating table.

Even though Vicente Fox could not count on the support of his party, he did not change his strategy. To many of his natural allies in the PAN, the president was making a bad mistake, for he appeared to be giving in to all of the EZLN's demands without getting anything in return. The vote was clear: the PAN voted against, and the PRD and PRI in favor of the EZLN's presence in Congress (see chart on following page). This outcome was portrayed by the media as an "eruption of peace".

*Distribution of Votes in the Chamber of Deputies on the Issue of
Allowing the EZLN to Appear in Congress:*

Party	Votes For	Votes Against	Abstentions
PAN	0	189	1
PRI	143	21	6
PRD	52	0	0
PT	5	0	0
PVEM	15	0	0
PSN	2	0	0
PAS	2	0	0
CD	1	0	0
Total	220	210	7

SOURCE: Analiza, Carpeta Legislativa, Second Fortnight,
March, Year V, No. 3, Mexico City, p.6.

In addition to the opposition of PAN senators to the appearance of the Zapatistas in Congress, more disagreement was voiced by some prominent business leaders, who were concerned about the possible effects on the financial markets of a misreading of President Fox's strategy.

In spite of the obstacles, Fox looked for consensus in different parties. To the president's satisfaction and that of his team, both the PRI and the PRD responded to his call. This fact was crucially important in successfully completing the strategic move of the Executive. Before public opinion, Fox stood as a president with a vision of a statesman, capable of transcending party interests. The remainder of this episode up to the end of April 2000 was positive, for all involved parties realized gains.

The Zapatista leaders succeeded at:

- Reinforcing their leadership of the national indigenous movement.
- Raising their international credibility.

Whereas President Fox succeeded at:

- Leading the Zapatistas away from armed conflict and back to political dialogue.
- Strengthening his internal and external legitimacy and increasing his political capital.
- Raising the odds for success for his economic projects in the South, especially the Puebla-Panamá Plan.
- Distancing himself from the National Action Party (PAN), while at the same time remaining popular among its ranks, a strategy that was necessary to prepare for fiscal reform.
- Appearing as a politically compromising and sensible counterpart to the Zapatistas and as conciliatory with the PRI and the PRD.

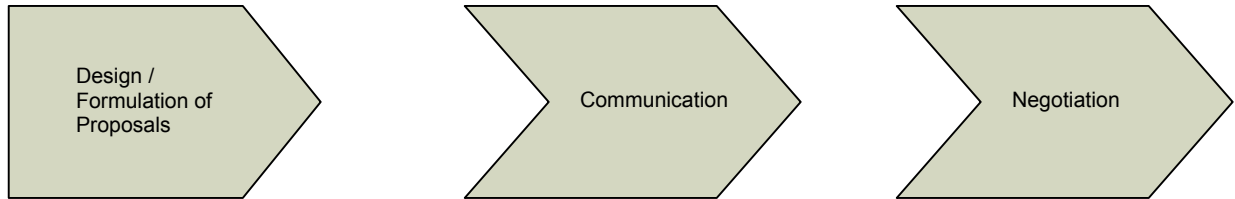
What would have happened had the Zapatistas returned empty-handed, without being able to appear in Congress? First of all, they could have appeared in the European Parliament, and secondly, guerrilla warfare in Chiapas would have resumed while the route to political negotiation would have been blocked. However, according to some political analysts, thanks to the opportunity of using the tribune of the Mexican Congress, the Zapatista movement took a further step toward its redefinition as a non-belligerent political agent in the peace process.

Marcos pointed out during the march to Mexico City that the Puebla-Panamá plan would have to be the Guatemala- Panamá Plan, because if it were up to him, the Mexican South would not participate in it.

With the advance of negotiations in Chiapas, the dismantling of military posts in the state, and the return of the EZLN people to their communities, there were clear signals that a peace process was viable. In the event of attaining peace in Chiapas, a positive environment would be in place to jump-start the Puebla-Panamá Plan, as well as another new socio-economic program called “March to the South”.

As for the relative distance between the president and the PAN leadership, it would be important from a strategic perspective to count on greater knowledge of the preferences revealed in Congress. Those who head the traditional wing of the PAN drastically refused to support Vicente Fox and even made strong public statements against him. However, after the presentation by the EZLN representatives in Congress, the reaction of the PAN was positive, which became apparent in the unanimous passing of the indigenous bill in the Senate on April 25 and by majority by the PRI and the PAN – though not by the PRD – in Congress on April 27.

PARTIAL DECISION-MAKING CHART



The objective was to end armed fighting, which was a latent threat, and move onto high-level political dialogue with Congress, the president, society, and the media. This would create an environment of stability and social peace that would allow for the laying of the foundations for an inclusive socio/economic development in the region. To achieve this, Fox decided: • To embrace the Zapatista cause and to protect Marcos and the Zapatista march through the country. • To promote their presence in Congress and have them speak at this forum. • At the same time, to offer credible peace signals through the dismantling of military posts and their conversion to community development centers. • To liberate political prisoners and pass the indigenous bill to Congress.	• Communication between Fox and Marcos becomes a media contest dialogue, which highlighted a face-off involving both leaders. • What matters most is dialogue and peace in Chiapas. • The central message was to create an environment of trust and confidence to further dialogue. • Tolerant, inclusive discourse of Vicente Fox on the indigenous issues.	The central part of the negotiation was to take the Zapatistas to Congress as a symbol of political dialogue as opposed to armed fighting. • Strong political will to negotiate. • Withdrawal of military positions and transformation into community development centers. • Promotion of the participation of EZLN before Congress as mechanism to dialogue. • Honest, open attitude before public opinion and Mexican society.
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3.4 Afterthoughts on the Recent Passing of the Bill and Current Impasse with the Zapatistas

On April 25, 2001 the Senate unanimously passed the Indigenous Rights and Culture Bill, which could have been a step further in reopening the peace dialogue between the government and the National Zapatista Army of National Liberation (EZLN). The bill, which includes amendments to five constitutional articles, was ratified by the Chamber of Deputies.

However, the EZLN voiced its disapproval of the bill, for it did not fully correspond to the one drafted by the COCOPA that they wanted to be approved (see next section). The principles of free determination and autonomy of the indigenous peoples were not adopted in Congress when the bill was approved.

Additionally, a new article was introduced in the Constitution to acknowledge and guarantee the political, jurisdictional, social, and economic rights of the country's more than ten million indigenous peoples. The text addressed not only the indigenous issue, but it also included a third paragraph to the first article, in which all discrimination "based on ethnic origin or nationality, gender, age, physical or mental handicap, social condition, (...) religion, opinions or preferences that lessens the rights and freedoms shall be banned." On the other hand, it also established in a transitory article the need to change the country's electoral laws to promote indigenous participation.

Although the text was approved by all political parties, the Party of Democratic Revolution (PRD) expressed its disagreement with the limitations of the bill and the haste with which it was put to vote. At the beginning of the Senate session, the PRD made a motion to postpone the discussion of the project, arguing that several indigenous groups had so requested. The motion was rejected.

Clearly, this represented a victory for President Fox. His leadership capability and political management have generated political consensus beyond his own party profile on a matter critical to the strategic reforms agenda. Although the risk of history repeating itself remains – in other words, the rejection of the proposal by the EZLN, as happened during President Zedillo's term – the fact is that Fox's leadership as president has been effectively displayed.

From an organizational point of view, the president's political management required support beyond the swift response from the defense secretary and the social development secretary to dismantle military posts and convert them into community centers. The rest depended greatly on presidential leadership and his effective handling of communication and negotiation.

The main features of the new bill, which differ with the COCOPA-Fox bill, were written by a handful of PAN and PRI members of the Senate, as summarized below.

Main Contentious Issues within the Bill

San Andrés Larráinzar Accords	San Andrés-COCOPA Bill	Recently Passed Bill
• <i>Legally</i> (New legal framework): Article 2. Legal recognition of indigenous communities as public law entities with the right of free association among individuals and municipalities.	• <i>Legally</i> Article 115, IX. Indigenous communities as public law entities and municipalities that recognize their belonging to an indigenous group shall be able to associate freely.	• <i>Legally</i> Article 2, section A. State constitutions and federal entity laws shall develop the features of self-determination and autonomy, as well as the rules of indigenous communities as entities of public interest.
• <i>Autonomy to Local Legislatures</i> (New legal framework): Article 3. The recognition that the specific features of free self-determination and autonomy that best convey the actual situation and legitimate aspirations of the indigenous peoples must be established in the state legislatures.	• <i>Autonomy to Local Legislatures</i> VII. State constitutions and state laws shall establish the applicable terms under which the principles will be carried out, consistent with their own features, making sure that the rights that the Constitution bestows on indigenous populations are respected.	• <i>Autonomy to Local Legislatures</i> VIII. Last paragraph, mentioned above.
• <i>Collective Use of Natural Resources</i> D. Gaining collective access to the use and exploitation of natural resources, except for those directly controlled by the nation.	• <i>Collective Use of Natural Resources</i> Article 4. Indigenous peoples shall have the right to... V. Making collective use of the natural resources of their lands and territories, which include all of the habitats that the indigenous peoples use or settle, except those directly controlled by the nation.	• <i>Collective Use of Natural Resources</i> Article 2, VI. To use natural resources, respecting the modalities of ownership established in the Constitution and the applicable laws, as well as the rights of third parties or community members. The use of natural resources shall be enjoyed by those who live or reside in the communities, except for the strategic areas mentioned in the Constitution. These communities shall be able to associate in ways consistent with the law.
• <i>Territory</i> A. Territory: It is defined as any indigenous community established within a territory encompassing its entire natural habitat. The territory is the material base of their survival as a people.	• <i>Territory</i> Article 4,V. (mentioned above).	• <i>Territory</i> Article 2, V. Preserving and improving the habitat and preserving the integrity of their lands in terms established by this Constitution.

• <i>Municipal Liberty of Association</i> They shall have... the right of free association in municipalities of mostly indigenous population, as well as the right of several municipalities to associate to coordinate the actions of the indigenous peoples.	• <i>Municipal Liberty of Association</i> Article 115, IX. As entities of public law, indigenous communities and the municipalities that recognize their indigenous nature shall have the liberty to freely associate to coordinate their actions.	• <i>Municipal Liberty of Association</i> Article 115, III. Indigenous communities within municipalities shall have the right to associate in the terms and to the purposes established in the law.
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Source: *Milenio*. Sunday, April 29, 2001, Mexico.

The Zapatistas have objected to the new bill on three grounds:

- Although the bill provides the right to self-determination, it is now in the hands of state legislatures, unlike what was established in the San Andrés Accords.
- The resolution fails to recognize the right of indigenous peoples to the natural resources in their lands and territories, granting only preferential use of those resources.
- The text recognizes indigenous peoples as entities of public law, but not as entities of private law.

After this, the EZLN declared a suspension of dialogue with Congress and the Fox administration, giving way to an impasse.

Fox's success in bringing the Zapatistas back to dialogue was set back by the different views on indigenous rights and cultures expressed in the Senate where there was neither consensus nor effective negotiation among the parties to pass the indigenous bill the Executive had proposed without changing it.

Without question, in the former Vertical Ex-Lex system the interior secretary would have played the most important part in the negotiation, mediation, and public handling between the parties. On the other hand, under the new Horizontal Ex-Lex, the Legislative branch can formally and/or informally disagree with the Executive; therefore, making constitutional amendments requires an agreement between parties and social groups, which is more difficult to achieve than it was under the Vertical Ex-Lex system.

Within our framework of the decision-making chain (Design, Communication, Negotiation), we can draw these conclusions:

- Fox's strategy succeeded in embracing and protecting the Zapatista march so that the EZLN would give up its arms and move on to political dialogue at the Chamber of Deputies.
- On the communication link, President Fox and his communication team were also successful. The media dialogue between President Fox and Sub-commander Marcos prevented the Zapatistas from walking out empty-handed after a long march. The main objective attained was resuming the peace dialogue and moving from media communication to direct political communication between a representative of the EZLN (Commander Germán) and the Peace Commissioner for Peace in Chiapas Luis H. Álvarez.
- As to the negotiation link, admitting the Zapatistas to Congress and accepting the three Zapatista conditions for the continuation of the peace dialogue was done appropriately. However, the EZLN rebuttal of the recently approved bill and the ensuing series of reproaches between the PRD, the PAN, and the president suggest a difficult scenario for the next round of negotiations. It is no longer sufficient for President Fox to opt to support the Zapatistas against the views of Congress, for this would also erode his political capital. A possible and more sensible course of action is to delegate more responsibility to his own team, demanding a more proactive role from it in easing negotiations between the Executive and the Legislative and the Zapatistas in the next round of negotiations.

IV. Tax Reform: the Proposal for a New Distributive Public Treasury

4.1 Tax Reform in Context

The new government's economic policy has been anchored on a two-tier target growth policy, with an estimated rate of growth above 4% during the first years of its term, increasing steadily up to 7% by the end of the six-year term (sexenio). Accordingly, a fiscal reform that extends to tributary, budgetary, and financial matters is considered a *sine qua non* condition to achieve these targets. The president has pointed out that the cost of Congress not passing the bill on time and in the proposed way would be slower economic growth, an increase in the public deficit, and therefore higher public debt.

During his presidential campaign, Fox pledged to increase social spending (on education, health care, decreasing poverty, etc.) as well as investments on infrastructure for the development of the country. But alas, over 87% of federal resources are already accounted for, which leaves a meager margin available to increase spending. That is why fiscal reform is a strategic element that will enable the government to have more room to maneuver in its efforts to follow through with its commitments.

Public revenue derived from taxes in Mexico is relatively low: only 11% of GDP in 2000; this is even lower when compared to the average of OECD countries (26.3%) or even countries like Chile (14.8%) and Brazil (17.8%) (see table below).

TAX REVENUE AS A SHARE OF GDP 1998*	
Countries	1998
Canada	28.2
Spain	19.7
United States	19.0
Brazil	17.8
Chile	14.8
Argentina	10.4
Mexico 2000	10.7
Mexico 2000**	12.25
OCDE average	26.3
Average for Argentina, Brazil and Chile	14.3

*Does not include social security contributions or taxes on property.

** Including 35% of royalties on the extraction of oil.

Source: Mexican Secretary of Finance, 2001, Mexico.

The proposal of the new Mexican government to raise tax revenue by six or seven percentage points, to seventeen or eighteen percent of GDP, is bold. It is interesting to point out, however, that the underlying fiscal challenge for Mexico is not only increasing tax collection rates, but also lowering the very high fiscal deficit.

The previous administration acknowledged that in 2000, the deficit was 1.1% of GDP. Yet, revised figures released by the current administration show that the deficit is much higher when one considers the outstanding payments for the bank and highway bailouts. Even if these payments are not included in the calculation of the government's public debt, they should be regarded as part of the deficit because of their effects on public finance. In addition, a series of investment projects for PEMEX and the CFE were financed with private-sector funds, for which the government has to pay over several years under a different scheme. Considering these payments as well as those resulting from the banking and highway bailouts, the fiscal deficit rises from 1.1% to 3.42% of GDP.⁵

CONTINGENT DEBTS OF THE PUBLIC SECTOR
(billions of pesos)

Concept	1999	2000	Variation
IPAB (Cost of the bank bailout and its administration)	537.3	563.4	26.1
FARAC (Cost of rescuing bad investments in road infrastructure)	90.8	105.4	14.6
Udi's Program (Debt instruments pegged to inflation)	30.7	34.9	4.2
Pidiregas (Differed future payments on large infrastructure projects for PEMEX and CFE)	98.1	149.0	50.9
Support to Debtors	39.0	32.5	-6.5

Source: Bank of Mexico

The implication of the fiscal problem is that if the Fox government wants to increase spending on social programs and build more infrastructure, as well as promote small and medium-size businesses, it needs to raise the tax collection coefficient. A higher coefficient would allow the government to cover these expenses in a non-inflationary fashion, gradually reducing the deficit and reaching

⁵ As estimated by the Bank of Mexico.

fiscal balance by the year 2003. However, the authorities have to clarify which deficit figure they will finally adopt: either 1.1% or 3.42%.

The new government has underlined the urgency of a broad tax reform that would be geared to the abatement of transaction and operational costs involved in tax collection (this would be accomplished particularly by curtailing tax evasion and improving the efficiency of tax collection) while increasing the tax base. To this end, it would be sensible to point out that a pervasive inefficiency in tax collection can be observed in the Mexican treasury, as seen through the following efficiency coefficient, calculated by dividing the revenue derived from VAT collection by the VAT rate:

Total VAT Revenue (as % of GDP)		VAT Rate (%)		Efficiency Coefficient
3.5%	÷	15%	=	0.23

The efficiency ratio has roughly stayed the same at 0.23 between 1980 and 2000.⁶ As for tax evasion, evasion has increased steadily with the pace of growth of small service sector-related businesses within the informal economy.

The president has placed much importance on the proposal to increase the value-added tax (VAT) within the tax reform bill. Before elaborating on this proposal, it is appropriate to first examine its current structure:

Current Structure of the VAT

As part of total revenue, VAT is the second-largest tax source for the federal public treasury, second only to the income tax (ISR). According to tax collection estimates in the Income Act of 2001, VAT brought in 30.1% of revenues to the federal government between 1980 and 2000. In the last year, it equaled 3.5% of GDP (see next chart).

⁶ Center of Studies on Public Finance of Congress, Mexico City, March, 2001, p.18

RELATIVE WEIGHT OF THE VAT FOR PUBLIC REVENUE

(Millions of Pesos and Percentages)*

Year	General rate	VAT revenue (MXP at current)	VAT revenue (MXP at constant)	Real % change	% of budget revenue	% of federal revenue	% of total tax revenue	% of GDP
1980	10.0	110.4	22,075.8		8.3%	16.2%	17.5%	2.3%
1981	10.0	174.3	27,886.1	26.3%	11.3%	18.7%	20.6%	2.7%
1982	10.0	216.3	21,101.0	-24.3%	7.6%	14.2%	15.7%	2.1%
1983	15.0	544.5	28,675.4	35.8%	9.3%	16.0%	27.4%	2.9%
1984	15.0	905.2	29,923.8	4.4%	9.2%	17.7%	30.3%	2.9%
1985	15.0	1,365.2	28,293.8	-5.4%	9.3%	16.3%	28.9%	2.7%
1986	15.0	2,291.8	28,120.6	-0.6%	9.6%	17.1%	25.8%	2.8%
1987	15.0	6,168.6	31,352.5	11.5%	10.5%	17.7%	28.9%	3.0%
1988	15.0	13,547.2	34,299.9	9.4%	11.3%	19.0%	28.2%	3.3%
1989	15.0	17,482.0	34,824.7	1.5%	11.8%	18.2%	27.2%	3.2%
1990	15.0	25,796.6	40,134.7	15.2%	13.4%	21.0%	31.0%	3.5%
1991	15.0	31,732.7	39,965.6	-0.4%	12.5%	17.9%	30.2%	3.4%
1992	10.0	32,702.8	35,858.5	-10.3%	10.9%	15.2%	24.8%	2.9%
1993	10.0	37,420.0	37,420.0	4.4%	12.9%	19.3%	26.1%	3.0%
1994	10.0	38,536.9	35,534.3	-5.0%	12.4%	17.5%	24.0%	2.7%
1995	15.0	51,785.1	34,604.1	-2.6%	12.4%	18.5%	30.4%	2.8%
1996	15.0	72,109.6	36,931.9	6.7%	13.3%	18.4%	31.9%	2.9%
1997	15.0	97,741.6	42,518.5	15.1%	15.3%	19.2%	31.3%	3.1%
1998	15.0	119,871.3	45,166.3	6.2%	15.8%	22.0%	29.7%	3.1%
1999	15.0	151,183.5	49,620.4	9.9%	16.1%	22.4%	29.0%	3.3%
2000*	15.0	207,236.5	57,665.0	14.2%	15.9%	22.0%	32.9%	3.5%

Source: Center for Economic Studies of the Public Finance Center of the Chamber of Deputies. Based on data from The Ministry of Finance, *Public Treasury Report 1981-1999* and *Report on Economic Situation, Public Finance and Public Debt*. 4th quarter, 2000, and *Public Expenditure Law 2001*.

The VAT collection system in Mexico consists of a general rate of 15%, applicable all over the country except along the border region, where it is at 10%; 0% on foodstuffs and medicine, as well as on selected goods and services.

Compared to other regions, the 15% VAT rate is higher than the Latin American average (13.5%), but lower than the average OECD member's rate (16.9%).

According to the structure of rates and special VAT brackets (tax regimes), only 48% of household spending is subject to the general rate. The remaining expenditure has a 0% rate or an exemption (see chart on following page).

STRUCTURE OF HOUSEHOLD SPENDING IN MEXICO

(Spending on goods and services, according to tax treatment, with respect to income level)

<i>Income level</i>	<i>General rate</i>	<i>Zero rate</i>	<i>Exempt</i>	<i>Total</i>
I (poorest)	36.5%	49.1%	14.4%	100%
II	36.4%	47.6%	16.1%	100%
III	39.4%	43.2%	17.4%	100%
IV	38.8%	41.4%	19.8%	100%
V	39.2%	37.5%	23.3%	100%
VI	40.4%	37.3%	22.3%	100%
VII	43.3%	33.1%	23.7%	100%
VIII	44.6%	30.6%	24.8%	100%
IX	49.2%	25.4%	25.4%	100%
X (richest)	58.6%	14.6%	26.9%	100%

Note: The total of partial amounts cannot correspond with total because of rounding up.

Source: The Chamber of Deputies, Center of Public Finance Studies, 1998, Mexico.

4.2 The Proposal for a New Distributive Public Treasury

In response to the need for a comprehensive fiscal reform, the ministry of finance designed a proposal with the support of President Fox and the central bank. The result of this effort was announced as the new distributive public treasury reform, which covered three areas: finance, budget and tax. Since the most discussed and controversial part of this proposal was the tax reform, we will focus on it.

The main objective of the reform is to raise tax collection through VAT by 120 billion pesos (2% of GDP), which represents a 23% increase in tax collection from the 2000 level. Additionally, it plans to address three key aspects: simplification of tax payments, legal transparency, and elimination of preferential regimes.

The reform also aims to eliminate distortions, which would improve efficiency and curtail evasion derived from smuggling and informal economic activity. The tax reform also aims to increase the taxpayer collection base.

The following list summarizes the main changes to the current tax structure as proposed in the new distributive public treasury reform. Number two is most relevant to our analysis and will be examined in more detail.

1. The consolidation of VAT to a 15% rate except along the international border regions (both to the North and South), where it would remain at 10%.
2. The disappearance of exemptions on foodstuffs and medicines (that would imply moving from a zero to fifteen percent rate), which has been controversial due to its regressive nature. As a counterargument, it was estimated that the current zero-rate on these goods benefits the wealthier households, as 40% of the higher-income households already reap 72% of the benefits from this fiscal exemption. However, this would not alter the basic fact that the share of total household income spent on them would be much higher for the poor.
3. The elimination of exemptions in health care, school tuitions, books, transportation, agriculture, fishing, farming, and in food and gasoline coupons (benefits).
4. The reduction of the top income tax rate to 32% for individuals (from 40%) and corporations (from 35% to 32%) and the elimination of a 5% tax on dividends.
5. Establishment of incentives for reinvestment through the deduction of immediate depreciation. As a support policy for small and medium-sized businesses, the obligation of paying VAT at the moment of return would be eliminated if the invoice has not been charged.
6. The amendment of article 115 of the Constitution to enable state and municipal governments to retain a fraction of the revenue from the VAT.
7. Curtailing fiscal evasion and informal economic activities through the prosecution of high-profile smugglers in order to broaden the collection base up to 4% of GDP for the remainder of the administration.
8. Maintaining the exemption on money exchange operations, profits and financial operations of the stock market.
9. Starting the tax on new cars (ISAN) at 10% and increasing it according to the emissions of pollutants by vehicles.

A Compensatory Policy?

In the above list, proposals two and four have fueled public criticism against the reform. These proposals make the reform regressive in character, for on the one hand, it hurts the poor (who spend a sizeable amount of their income on food and medicines), whereas on the other, it favors the well-off by lowering the tax rate on personal income or corporate wealth.

Since, politically, this is not a trivial concern, it has become a priority for the government to give a distributive character to the VAT proposal. Sensitive to this, the secretary of finance has proposed direct-subsidy programs for the poor that will take advantage of existing capacity in federal anti-poverty programs.

The compensation mechanism would operate as follows: given the estimated maximum amount that poor households are able to spend on foodstuffs and medicines, a direct money transfer would be made to 5.15 million households deemed to live in extreme poverty. They would receive a bi-monthly 'money gram'⁷ for 220 pesos (i.e. 110 pesos would be the monthly compensation).⁸

Also contemplated is a fiscal credit on salaries for industry workers. People whose income does not exceed 50,000 pesos annually will be exempt from paying income tax, and also will receive from their employer an additional amount of money – computed according to their salary – twice a month.

In total, 44 million people should be compensated. Of them, 26 million might receive the money gram; the remaining 18 million would need to have a formal job to get the credit on their salary, or else pay the price of being in the informal sector. Clearly it will take a concerted effort to craft a more equitable mechanism of compensation.

Therefore, the real challenge of such a compensatory policy lies in its cumbersome implementation in terms of its efficacy to compensate the target population of 44 million poor people. It should also be noted that real challenges lie in efficiency – minimizing costs of implementation – and transparency – preventing corruption.

4.3 The Experience of Tributary Reform from the Perspective of the Decision-Making Chain for Policy Reform.

Tax reform was Vicente Fox's second strategic bill in his first months as president, once he addressed the challenge of addressing the Zapatista issue. He may have

⁷ Each money gram will cost \$1.60 pesos.

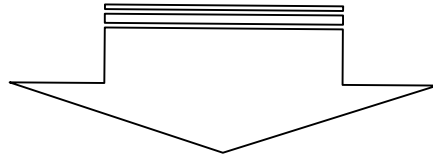
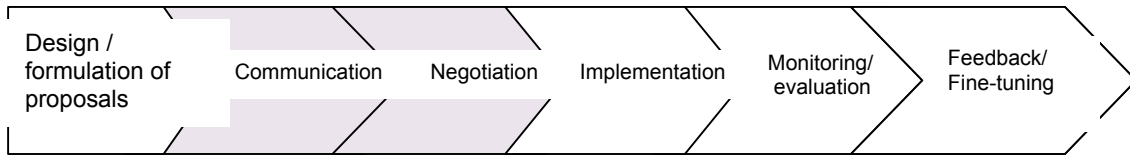
⁸ Although there is already a framework of intersectorial coordination to make adjustments.

believed that given the successful way in which he managed his first challenge, he could invest some part of his increased political capital in a high-risk reform, such as the fiscal one. He intended to make tax reform an issue endorsed by public opinion resulting from his strong leadership and unquestionable popularity. However, Congress did not pass the tax reform during the ordinary sessions period, which ended on April 30, 2001, and this was a significant setback.

What could have gone wrong? Was Fox's proposal doomed from the beginning? According to our conceptual framework, the problems behind the first fall of this proposal for reform are to be found in three links of our decision-making chain:

1. The reform suffered from design problems.
2. Therefore, it lacked an effective communication strategy.
3. It had to accommodate a difficult negotiation in Congress between the president, his own party (PAN) and the opposition (PRI and PRD).

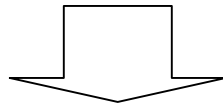
If we focus the analysis of the president's management of tax reform from the perspective of our decision-making framework, we can put forth a general description of his underlying strategy before stopping on each of the three links that merit our attention, as shown in the following diagram:



Political Management

General Strategy: To capitalize on the successful outcome of the Chiapas issue, in order to promote tax reform through consensus building.

Negotiation Strategy: To obtain support from the PAN and public opinion, so as to overcome the opposition of the PRI and the PRD. Since the PRD drafted its own proposal and would not give in, President Fox sought to negotiate with PRI legislators to get them to vote for the reform.



Consensus-Building for the Passing of the Tax Reform in Congress

Design and Preparation of Tax Reform

The president's proposal for tax reform has been criticized on a number of grounds. The proposal received criticism for being regressive in nature; lacking an appropriate mechanism to compensate the poor; and favoring the rich by lowering personal income and corporate taxes.

In addition, the proposal has been criticized for being almost totally based on VAT and for preserving tax privileges. Compared to other countries, Mexico has a very complex structure of rates and preferential tax brackets that makes the proposal unbalanced and socially unfair.⁹ Lastly, the proposal adversely affects the middle-class, because they will bear the highest proportion of the new tax burden without getting any form of compensation.

Communication

After successfully risking his political capital on creating the conditions for dialogue with the EZLN, even if it meant distancing himself from the PAN, President Fox moved on to tax reform, even if this was a "tough task... against time and starting from minus ten". In this manner, as he said, he started the first of his major economic reforms, confident and optimistic, having attained very high ratings of public approval. According to government surveys, he enjoyed an approval rate of 89% during his first four months in office.¹⁰

During the first months of the year 2001, reform was announced under the name of comprehensive fiscal reform, although the federal government modified its name in March to new public treasury. Later, when the discussion on tax collecting aspects became stronger, the adjective, "distributive," was added, so as to hail the birth of the new distributive public treasury.

In addition to seeking support from the public, Fox hosted meetings at his official residence with business leaders, members of the PAN and opposition parties, as well as legislators. He did so to explain the advantages of his proposal and to ask for their support, but not as part of a more thorough and effective consultation process with them.

Partly due to the extensive media coverage of the reform, and to the underestimation of how difficult it would become to build a consensus around the reform proposal, Fox concentrated his communication efforts at swaying the public with high-profile media appearances, a TV campaign, and special radio broadcasts.

⁹ Support Elements for the Analysis of the Reform Proposal for VAT. Center of Studies on Public Finance, Congress, March 2001.

¹⁰ El Financiero. Finance Section, April 2, 2001, p.5.

On April 2, 2001 he addressed the nation for the first time, arguing for the reform, whose objectives, he said, were “to guarantee economic growth of the country ...to fight poverty, to improve income distribution and the quality of education, and healthcare.” He asked for the citizens’ and legislators’ support for his bill, stressing that it was equitable because “it would not [adversely] affect the poor”.

On April 17, he made another public address to the nation, asking for support for his reform. He also asked the wealthier households and businesses to take care of their responsibilities and pay their taxes.

According to the chief of staff of the secretary of finance, the benefits of the proposal have not been accurately conveyed, while some sectors have effectively distorted and misrepresented the proposal by talking only about its possible drawbacks.

Because the proposal that was sent to Congress was over a thousand pages long – which makes clear the difficulties of fully grasping its contents – a document also called the new distributive public treasury¹¹ was drafted to provide guidelines for government spokespeople when explaining the reform proposal.

¹¹ Document drafted by the General Coordination of Communications of the Ministry of Finance, April 2001.

Guidelines	Message*
First: the New Public Treasury	The noun encompasses tax, budget, and finance reforms to be presented before Congress. The adjective 'New' is connected with society's wishes and expectations of change.
Second: The key was focusing the discussion away from integral tax and especially away from VAT	The project's broad and comprehensive nature must always be emphasized, especially when referring to its three parts: budget, fiscal, and finance reform.
Third: The essence of a) Tax reform; and b) Budget reform	a) To count on the country's own resources in order to satisfy its needs and avoid public debt. b) Public review of where and how revenue is spent.
Fourth: The project's motto: Our family is like our country; if we all cooperate, we will all benefit	Main concept in all media communications. The connection between two important concepts for citizens (family and homeland) and two positive verbs (cooperate and benefit) is powerfully conveyed.
Fifth: The family metaphor	Specific examples that are easily understood by different audiences should provide the project with a nurturing, heartwarming image.
Sixth: "The president proposes and Congress decides"	Emphasizes the president's confidence that Congress will enrich the proposal and reach serious, long-term commitments on the matter.
*The message is directed to society. Source: General Coordination of Public Communication of the Ministry of Finance, Mexico City, 2001.	

The objective was to ensure the existence of a uniform interpretation of the government's message, so that society received it in a clear, consistent manner. In addition to this, a political marketing strategy, also under the name of new distributive public treasury, was created to enhance all the positive points (see chart) of the reform and to be broadcasted through radio, television, and the internet.

Just as these messages suggested, the intention was to expose tax reform to public opinion and to emphasize its comprehensive scope. The media, however, have focused more on the tax aspect, so the communication effort has lost a great deal of its original momentum.

It would seem that the economic viability of the country hinged on tax reform (and especially the elimination of VAT exemptions). Unfortunately, this view has generated extreme, bi-polar views.

It should be noted that there was lacking another important component in this strategy: a comprehensive negotiations effort aimed at different audiences, particularly Congress (friends, opponents, and the undecided). Such an effort

would have been especially useful in preventing misunderstandings in Congress and the Senate. However, the publicity effort of Fox's communication strategy backfired: the lack of adequate communication cost him potential allies, sparked mistrust and confusion, and diminished some of his political capital, without any visible improvement in the relations between the Legislative and Executive branches on this issue. Recently, Fox declared: "in the marketing department, our new public treasury failed."¹² It could be argued that a marketing effort means more than focusing on the mass media by means of advertising spots. It also implies additional channels to distribute different arguments about a policy's virtues and advantages, and even its potential drawbacks.

Negotiation

From the very beginning, the Fox team's prospects for negotiating were complicated by the premature announcement of the possible taxation of foodstuffs, medicines, and other basic tax-exempt products (during the interlude between his and Zedillo's administration), which triggered concern among a broad range of potentially affected segments (the poor, pharmaceutical companies, shipping companies, writers, publishing houses, agribusiness, small businesses, etc.). These groups had time to organize and form an opposition front, which has lobbied intensely against the reform in Congress.

On April 3, the Executive formally presented the proposal in Congress. It consisted of seven bills on taxes and nine on financial reform. Passage requires a simple majority in both chambers (50% of the votes plus one). In the Chamber of Deputies, 251 votes are needed. Therefore, even with the PAN's support, 44 additional votes are required. In the Senate, 51 votes are needed, which means that an additional five are required.

Faced with this scenario, it is obvious that the support of the PAN, half-hearted as it is, will not suffice. Convincing PRI legislators will be necessary, especially since opposition parties (PRD, PVEM, PT) have already expressed their refusal to support the president's tax proposal.

One of the challenges that the federal government still faces is articulating convincing schemes of income compensation, let alone redistribution, since conventional wisdom dictates that taxing foodstuffs and medicines will increase poverty and make basic products more expensive. Since it is an unpopular measure, the parties are reluctant to spend their political capital for its sake, although the president has repeatedly stated his willingness to absorb all of the political costs.

The PRI (210 deputies, 60 senators) leadership has said that it would vote *en masse* against taxing foodstuffs and medicines, both in the House of Deputies and

¹² Presidential address, on occasion of the Fifth National Assembly of PAN City Mayors, April 29, 2001.

the Senate. The party knows, however, that raising government revenue is urgent and will play, up to a certain point, the part of flexible opposition.

The PRD (52 deputies, 16 senators) has completely rejected the initiative and deemed it unworkable. It has an alternative proposal, which it claims would raise revenue even more, through means other than taxing food and medicines, for example, by broadening the tax base, tackling tax evasion, and eliminating special tax brackets.¹³

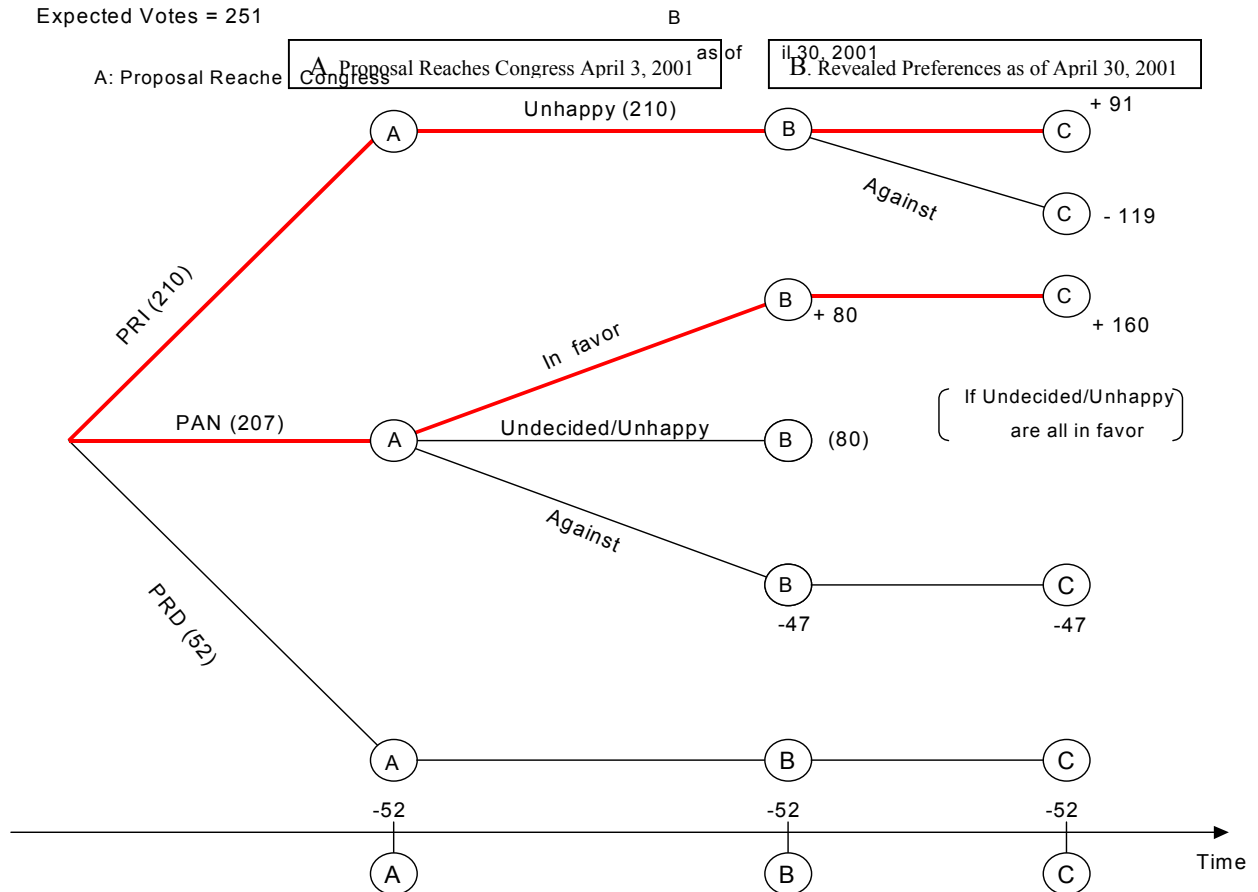
The PRD Tax Proposal

- Raising the VAT for the highest segment of consumption to raise the income tax (IRS) for companies with high profits.
- Broadening the collection base by taxing high-income sectors and not the lowest-income population (especially not food and medicines). It claims revenue can reach 200 billion pesos.
- Eliminating fiscal consolidation.
- Eliminating the simplified returns for shipping companies, agribusinesses and cooperatives.
- Taxing speculative capital.
- Raising luxury car taxes.
- Eliminating the small taxpayer category and changing it to personal micro-businesses.
- Simplification of returns and notifications.
- Enforcing the compulsory nature of land taxes on government companies.
- Including fees on oil production.
- Designing a single tax database.

As for the PAN (207 deputies and 46 senators), although it has voiced opposition to the proposal, some of its members approved of it, claiming it could be improved. 47 PAN deputies are openly against it and the rest are undecided. The PAN Senate leader declared: “the time of one man and one party is over in Mexico”, then added that the PAN would examine the proposal to determine the extent of its support for it in Congress. It is within his own party that Fox faces the most costly opposition, for, as several political analysts have pointed out, every time the PAN refuses its support, the cost of winning the favor of PRI legislators increases.

¹³ On April 16, Andrés Manuel Lopez Obrador, head of the Mexico City government (PRD), sent the president a letter with his proposal to avoid taxing basic products. Using the example of international cases, he holds that fighting corruption would save the federal government about twelve billion dollars; a program of debt renegotiation of the IPAB would represent savings of six billion dollars, and an austerity plan could save expenses for two billion dollars. Additionally, fighting tax evasion could generate, in his estimates, up to thirty billion dollars.

If one were to depict the strategic challenge of generating a coalition of favorable votes for the president's reform in Congress, it might resemble the following diagram:



The political management challenge of consensus-building for tax reform under this optimistic scenario implies that the president receives the support of the 80 undecided PAN members and at least 91 PRI members. Effective political management should enable Fox to reach these numbers (C).

The political cost¹⁴ of support for the reform for any of the prospective 'converts' will rise proportionately with the degree of support to the core elements of the reform (taxing foodstuffs and medicines). Getting those votes becomes less costly as the more controversial measures are phased out, or even eliminated.

This analysis is useful as a guide to show the distribution of potential support for the reform in its original form. Under a new scenario, a change in proposals or alliances would change the political cost that the parties and the president would have to pay.

As we have seen, it is very difficult for the Chamber of Deputies to pass the reform as long as it includes taxing foodstuffs and medicines, since not even the PAN legislators themselves all agree with it.

The tax-collection part of the reform will not be discussed in April 2001, and an extraordinary sessions period is unlikely. In all likelihood, it will be discussed at the next ordinary sessions period, starting in September and ending in December 2001. As he tries to build consensus, President Fox will face further problems:

- a) The three main workers' union associations (The Labor Congress, FSTSE, and UNT) will be adamantly opposed to any fiscal reform that lowers the workers' purchasing power.¹⁵ They will join forces to block the bill's passage.
- b) The Amendment of Article 115 of the Constitution (which would provide more resources to municipalities for the provision of public goods and infrastructure) would, according to some critics, cause, "the impoverishment of the states and would bring chaos if the municipalities were free to levy any taxes they chose without coordination among them."¹⁶
- c) Some of the most important business organizations, such as the CONCAMIN and the CANACINTRA, claim that it is still too soon to expect an agreement with the federal government. For instance, they disagree with the new income tax rates for individuals, because they estimate that the new rates will not benefit the middle class. The country's industrial business community opposes taxing their revenues, whereas agribusiness demands

¹⁴ The political cost for every change of vote could rise, based on the degree of commitment of each deputy toward his constituency. That is, the more committed a deputy feels toward his constituents, the costlier it will be to change his intended vote.

¹⁵ *El Financiero*, April 2, 2001, Mexico.

¹⁶ *Reforma*, March 28, 2001, Mexico.

a special tax bracket in order to refinance, as in many countries around the world.

- d) The World Bank has recognized the political difficulty facing the reform bill, given that the authorities have anchored the reform to the taxation of food and medicines as an unavoidable necessity for the economic viability of the country.

Debate on Fox's Reform Implementation

It is important to point out that in fiscal policy, there is no absolute first best; there is no single policy that will address all issues and always be efficient, effective, equitable, and politically costless. Therefore, it is necessary to have a second best option, or even less likeable ones. The two fundamental and troublesome concepts in the proposal submitted to Congress are compensation and redistribution.

The government has proposed that out of the extra revenue of 120 billion pesos (13 billion dollars), 8 billion would be used to implement a compensation policy and 58 billion on social spending.¹⁷

In spite of this, doubts remain as to the practical effectiveness of the compensation policy, and some questions have been posed: how would the government purge the beneficiary databases of PROGRESA (the main federal anti-poverty program) and at what cost; how would the secretary of social development coordinate with the secretary of finance; how vulnerable are such funds to misuse? Furthermore, what would be done about the 18 million poor people that need to be compensated but are not covered by any of the anti-poverty programs?

The issue of implementation has not been subject to careful analysis in Congress. Analysis of the relative merits and potential drawbacks of different implementation schemes has been meager in the absence of a basic consensus on the core of the reform.

¹⁷ Source: Secretary of Social Development (SEDESOL).

4.4 Afterthoughts on President Fox's Political Management as Applied to Tax Reform.

Although there is agreement in public opinion and among legislators that revenue must be increased through taxation, many do not agree with the president's proposal.

Fox has kept faithful to his risk-taker stance by defending an unpopular reform and showing himself ready to pay the political cost. He has tried to convince Congress, the parties, and the public through the media, and through meetings with the different interest groups, but with little success. His zigzag strategy – which implies swinging between the right and the left of the policy agenda – was seen to place burdens upon the shoulders of the poor and to lack a clear, transparent scheme to fend off the regressive biases of the proposal. Had he persisted in pushing the more controversial points of the reform, his political capital would have been greatly affected, due to the several challenges we have identified in our chain of decision-making framework:

Decision-Making Design Challenges:

- This was not a comprehensive reform that could deal effectively, once and for all, with all the fundamental issues of tax policy.
- The proposed tax reform was squeezed in with the public treasury reform, but no proposals for substantive changes in the allocation of public spending were made. In this context, some critics have pointed out that the specific spending targets to be met with additional revenue were not stated. The government's answer was that further infrastructural and social spending needs to be made, but it gave no specifics.
- Tax revenue should increase by 6 or 7% of GDP, but the reform for 2001 would only increase it by 2%.
- Foremost among the criticisms is that the proposal's distributive benefits were contradictory: it hits the poor as soon as they pay for vital goods over the counter (through the VAT on foodstuffs and medicines), but it does not ensure that all the poor affected will be compensated. The proposed 'moneygram' of 220 pesos every other month will target 5.15 million households, which hopefully will benefit nearly 26 million people. Between that and 44 million who live in poverty there is still a worrisome gap of 18 million that would be difficult to attend to.
- People who are not in federal anti-poverty programs such as PROGRESA are said to be compensated in a program of fiscal credit on their salaries.

People whose income does not exceed 50,000 pesos annually will be exempt from paying income tax and also will receive from their employer, twice a month, an additional amount of money, computed according to their salary. The problem here is that a sizeable number of people living in conditions of poverty do not have a formal job, let alone a salary. There is still exclusion and neglect of the millions of individuals who do not even know what a payroll is.

Communication Problems

- The tax reform was marketed as a mass consumer product. There are lessons to be learned about whether this is the most effective way to deal with such a complex issue.
- The public was told that this was a distributive policy before the compensation mechanisms were clearly established.
- The advantage of eliminating preferential regimes – tax brackets – was not adequately highlighted and communicated.
- Not surprisingly, the reform bill did not generate enough consensus for its immediate approval either by society or by Congress. There has been talk of adjustments, such as a list of exempt basic items, but none of this was finalized as of May 1, 2001.
- Sending members of his social and economic cabinet to Congress to defend the policy proved to be of limited use without an equally consistent lobbying effort. As the president publicly acknowledged, the “sale of the reform” in this manner was not effective.

Negotiation

- The negotiation strategy had difficulties from the outset, for the parties were approached only after the Zapatistas appeared in Congress. There is evidence that the reform proposal was made known to a few selected members of the financial sector first and then to legislators. This continued to create a difficult environment for the tax reform in Congress. Lobbying and political negotiation could have been dealt with more carefully.
- The proposal also included extending some special tax brackets, such as transportation. However, the necessary lobbying with the parties was not undertaken. From this perspective, the beneficiaries of the reform, for

instance those registered in PROGRESA, would have supported it had the reform been explained to them in a clear and timely fashion.

- Although he approached his party, President Fox did not receive its full support. This remains a continuing challenge. On the other hand, the PRI and PRD joined forces to put off discussion on the reform.

Alternatives are needed in order to build consensus among legislators, but this will take time. Thus an alternative scheme favored by state governments would lower the VAT to 13% and allow the states to collect the rest (2%). However, the president himself has pointed out that given its scope and market size, Mexico City would keep most of the VAT collected by the states, which may seem far from equitable under the federal pact.

Finally, we should remark that the Executive's bill should undoubtedly be modified. This is perhaps a small price in exchange for parliamentary democracy and the division of power in the style of our Horizontal Ex-Lex system.

PARTIAL DECISION-MAKING CHART

Design /Formulation of proposals	Communication	Negotiation	Implementation
Bill designed by the secretary of finance with the backing of the central bank and submitted by the Executive to Congress. It is estimated that there will be economic growth of 4.5% in the year 2001 and of 7% at the end of the presidential term. Improving income distribution and dealing with health care, education and poverty issues are proposed.	Fox has always shown a great ability to communicate. Aware of the possible unpopularity of the measures, he used the media to try and get support for reform.	Congress did not pass the reform during its ordinary session period, which ended April 30, 2001. According to our organizational framework of presidential decision- making, there were problems in the design, communication, and negotiation of the reform.	Out of the 120 billion extra pesos that would probably be obtained, 8 billion would be for a compensation policy to soften the impact of the reform; and 58 billion would go to social spending.
Fiscal reform seeks to raise revenue by 2% of GDP (13 billion dollars)	In the media the reform is portrayed as beneficial. At the same time, people were warned that not passing it would be costly for everybody. Communication has been intense, but basically through the media.	The PAN has 207 deputies and 46 senators. Regarding the tax reform proposal, the PAN deputies are divided in three groups: against it (47 deputies), in favor (80) and undecided (80).	Compensation policy of giving 110 pesos monthly to 5.15 million poor households. The implementation of this policy has problems.
a) Reducing VAT consolidation at 15%. Elimination of exemptions for foods and medicines. b) Consolidation of income tax with a maximum rate of 32%.	He assured low-income families that they would get more than what they would pay. However, some of the radio and television advertisements deny claiming that the poor would not be hit hard by the reform.	The PRD – 52 deputies and 16 senators- disqualified the proposal and deemed it unviable. It has an alternative proposal. The PRI – 210 deputies and 60 senators-, promised to vote against the taxation of food and medicines. However, they are aware of the need to increase revenue and will play, to some extent, the role of a flexible opposition.	There is a proposal to amend Article 115 of the Constitution and allow states to collect part of the VAT taxes.
The poor and the middle class would bear the cost of the reform.	Fox asked for the trust and the vote of the legislators and claimed to be willing to pay the political costs. He has held private meetings with PAN legislators to explain the benefits and get their support.	Reform was not passed in April 2001. It will likely be discussed in an extraordinary sessions period or in the next period starting in September 2001.	While implementing the tax reform the government will have to reduce tax evasion and work more efficiently to cut transaction costs when implementing the reform. After implementing the reform the government will have to make an account to Congress.

V. Leadership and Policy Reform During the First 150 Days of the Fox Administration: Preliminary Appraisal.

On the Indigenous Rights and Culture Bill

In the management of the indigenous issue Fox risked his political capital to the point of putting himself in the delicate position of receiving adverse reactions from several PAN leaders and from some prominent members of the business community.

The risk was worth the effort. Vicente Fox walked away strengthened, having effectively garnered public support while building consensus in Congress. On the other hand, he has yet to gain from conveying the message to his party that the stagnation and inequality in the region must be considered as a matter of national security that endangers the cohesiveness of the country, and that the most viable way to achieve this cohesiveness is through inclusive development, in which the indigenous peoples are themselves agents of a change that respects their rights and culture.

The process of passing the indigenous bill and the solution to the armed conflict in Chiapas and its redirection to dialogue seems to be leading to another round of negotiations, after the EZLN rejected the bill that Congress passed. However, another round of negotiations must wait until the approved bill is taken to state legislatures, where it has to be approved by a simple majority.

With respect to his political management, it should be emphasized that on the first phase of the Zapatista march to Congress, when Fox faced disagreement and opposition from his party, he could tackle this problem through effective leadership. In this phase, he shrewdly used his communication talents, which won him a victory in his management of the media, even in the face of a challenge from Sub-commander Marcos.

Later on, after the successful handling of the Zapatista issue, Fox won the support of Congress and society. He also won the support of his party, who initially opposed Fox's approach to dealing with the Zapatistas. However, his lack of grip on the PAN remains the weakest link of the chain. The indigenous bill proposed by the Senate and rejected by the Zapatistas provoked a new confrontation between Diego Fernández de Cevallos (PAN Senate leader), President Fox and Sub-commander Marcos.

In this context, a preliminary evaluation of the constitutional reform to have an indigenous rights and culture law shows that there was a weakness in the

negotiation link of the decision-making chain. In this matter, it was up not only to Fox, but also to the secretary of the interior to act as mediators between the parties and society in this new **Horizontal Ex-Lex** scenario.

Tax Reform

After the victory that followed the negotiation with the EZLN, President Fox moved on to tax reform, calling it a distributive reform in which everybody wins. However, it is impossible for the reform scheme to achieve this. President Fox's claim confused public opinion and eroded his political capital¹⁸. The fact that his proposal was not passed during the sessions period ending in April 2001 makes this a continuing challenge for the current administration, for it could not convince either public opinion, legislators, or economic sectors to support it. An appraisal of this issue, so far, leads to the conclusion that it was not possible to build consensus around the tax reform proposal, due to challenges unsuccessfully met along three links of the decision-making chain: **design**, **communication** and **negotiation**.

In the case of **design**, it was just not possible to build a consensus around a reform that seemed internally inconsistent. It is, indeed, an extremely difficult task to "sell" a tax proposal containing a regressive bias but being presented as a distributive measure. This contradiction *per se* complicates any discussion about the relative merits of any compensatory mechanism on behalf of the poorest households.

Moreover, even if a mechanism was found to compensate the poor, the middle class still would not be compensated. Considering that Fox obtained most of his votes on July 2 from the middle class, the potential to alienate them also poses a serious political threat to him.

As for his **communication** strategy, the president has publicly recognized that it was not effective. A more statesmanlike strategy would have been to have the finance secretary propose the bill, and after the reactions to it, the president would then intervene to balance the proposals and draft a negotiated reform package.

Mass media marketing as a policy reform tool is of very limited use when it is not matched by a careful lobbying effort within a comprehensive communication strategy, especially when the reform being promoted, such as the tax reform, has significant undesirable effects. Thus, it is sometimes better to act rapidly and make the first move, as was the case during Fox's management of the Zapatista issue. However, sometimes, as in the tax reform case, it is much more effective if the president's cabinet members take the initiative to present and explain the proposal, and if there are adverse reactions, then the president can intervene as a statesman, balancing and conciliating diverse opinions.

¹⁸ As a point of reference, *Reforma*, a Mexico City newspaper that has established a reputation for its use of polls to rate public officials' popularity, has recently lowered President Fox's rating from 7.5 to 6.8. *Reforma*, May 7, 2001, Quarterly Presidential Appraisal Survey.

Political management of both reforms focused mainly on communication, disregarding the negotiation link. More intensive lobbying of Congressmen might have proven more effective. In the case of tax reform, disregarding negotiations led to the postponement of Congressional discussion of the reform to an extraordinary sessions period or until a new ordinary sessions period takes place. In this context, the old statement that 'timing is everything' holds very true with respect to the timeframe of the tax reform in the coming months.

As a result of the slowdown of the US economy the prospects for steady growth in Mexico seem less fairly gloomy: by April of 2001 the central bank revised its estimate of economic growth for that year, setting it at 3.0%, while the federal government also dropped its estimate, from 4.5 to 3%. Furthermore, some financial analysts estimated it to be as low as 1.0%. Under such a scenario, a sharp slowdown of the economy seems inevitable, making it even more difficult to assimilate any revised form of a tax squeeze. This is what probably prompted the former president's spokeswoman, Martha Sahagún, to announce in timely fashion that the federal government was willing and ready to compromise or negotiate on the VAT issue.

Although tax reform is a continuing challenge, the preliminary conclusion on his first 150 days in power is that Fox should have focused more on the **negotiation** link. Also in terms of communication, he should have moved from a mass marketing strategy to one of a slightly more differentiated, albeit explanatory kind. As we have said, the problem of building consensus around this kind of reform is not one of seasoned marketing, but one of conscientious crafting that includes:

- a. An adequate design of the reform, with defensible and clear-cut merits for well-defined segments of the population. This design can be applied to a country of daunting social contrasts, striving to solve a delicate issue in an emerging democracy.
- b. Clear and concise communication efforts aimed at persuading different audiences with differentiated arguments, through differentiated media. Closely related to such efforts are appropriate lobbying efforts, targeting a range of possible coalitions in Congress. Adequate consultation mechanisms before launching any marketing or lobbying effort can be crucial to a consensus-building strategy.
- c. A negotiation strategy that avoids wasting the president's political capital, and in which congressional lobbying would only be a starting point for skillful, tactical management that might lead to more predictable alliances in favor of a reform proposal.

Concluding Remarks

Finally, it is important to maintain a proper perspective in appraising Fox's attempts to make changes in Mexico. His leadership is not in question, and it has been effectively displayed in his first 150 days as president. Also, in spite of the setbacks and real obstacles he has encountered, it is necessary to consider that this is a government of transition and that he has undertaken very ambitious reforms. Fox will need to be evaluated in an adequate time frame, and we have only witnessed his first five months in the presidency.

It took time for other leaders, such as Felipe González or Nelson Mandela, to effectively navigate through radical reforms in their respective countries. However, while President Fox aims to transform the organization and operation of the government in Mexico and carry out fundamental reforms, he needs to craft a new relationship with the Mexican Congress. As suggested at the beginning of this paper, the new government has probably derived many key lessons from the management of the first two attempts at bringing about strategic reforms. These shall prove invaluable in the coming rounds of negotiation within the broader reform agenda.

President Fox certainly needs time to make his moves, whether they are instituting minor changes or undertaking complete overhauls in key sectors. A keen Mexican politician recently stated that Fox had "awakened the tiger", meaning that he had promoted and stirred in the Mexican people the urge to see real change. Fox chose to bring this kind of change to Mexico through institutional means rather than through violence, as was the case in 1810 during Mexico's struggle for independence and once again in the revolution of 1910. However, although President Fox still needs time, it is also true that nowadays, in Mexico, opportunity is not a lengthy visitor.

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