

## Mexican Federalism and Its Fiscal Evolution: between Centralization and Autonomy

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**ABSTRACT:** *This study analyzes Mexican federalism from a theoretical and historical perspective, with a particular focus on fiscal federalism. It distinguishes between federalism as a social doctrine and as a structured system of state organization. The evolution of the federal system in Mexico is examined, highlighting its differences from the U.S. model due to Mexico's historically centralized governance. The research emphasizes the challenges posed by fiscal centralization, where the federal government collects most revenues and redistributes them to subnational governments through participations and contributions. The decline in oil revenues has further impacted the financial autonomy of states and municipalities, increasing their dependence on federal transfers. Additionally, recent administrative reforms have reinforced centralization, limiting state capacities for fiscal management and governance. The study concludes that a new federal fiscal agreement is necessary to strengthen state autonomy and improve the efficiency of intergovernmental coordination, ensuring a more balanced and sustainable fiscal federalism model in Mexico.*

**KEYWORDS** -Federalism, fiscal federalism, Mexican federalism, public finance

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### I. Introduction

Addressing the issue of federalism requires a multidisciplinary perspective that integrates political science, law, economics, public administration, public finance, and, significantly, history, as Levi suggests. Some of his arguments will be used to support our initial perspective of federalism as a social doctrine, that is, as an ideology (Levi, 1991). From a more formalist and structuralist perspective, based on the legal framework and certain economic variables, the debate on federalism in Mexico spans nearly two centuries. Over the past 30 years, significant progress has been made, alongside some setbacks, resulting from institutional reforms implemented by the Constituent Assembly and successive administrations to enhance intergovernmental coordination between the federal government and the federated entities.

Formally, a federal state consists of various entities that maintain constitutional autonomy and a degree of political decentralization while uniting for purposes of national governance and popular representation. The existence of federative entities necessarily implies territorial demarcation, a population assigned to that territory, and autonomous and sovereign governing bodies that administer the respective communities. This model contrasts with the centralized state, which consolidates power in a single entity, denying autonomy to its constituent parts and unilaterally regulating all governmental actions within the territory (Gómez, 2018, p. 40).

The debate on federalism necessarily involves a set of governmental components that extend beyond doctrinal and structural aspects. In this regard, decentralization, and fiscal federalism—if not the central axis of discussions on federalism—are among the most impactful factors influencing the autonomy and independence

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of federative members. Additionally, issues such as governmental efficiency, inter-institutional coordination, accountability, oversight, and transparency are closely linked to this discussion.

The objective of this study is to provide a practical perspective to improve the functioning of the federal pact by clarifying the distinctions between federalism and the federal system. Furthermore, it aims to establish fundamental action lines for a proposal that overcomes the limitations that the evolution of federalism in Mexico has imposed on the development of this policy.

## **II. Federalism as a Social Ideology: Theoretical Foundations and Historical Development**

Levi conceptualizes federalism within the framework of Federal State Theory, which he characterizes as a reductionist perspective. However, he argues that when this perspective is translated into behaviors and attitudes rooted in a specific social reality, historical circumstances, and a set of values that contrast with the ideal of the Nation-State, the emergence of federalist doctrine becomes evident (Levi, 1991, p. 627). The federalist movement, according to Levi, gained traction precisely during the period when the sovereignty of the Nation-State was being reaffirmed, particularly in the era of the French Revolution. Kant and Saint-Simon are regarded as the first precursors of federalism, yet the objective and subjective conditions necessary for its implementation were not present in any European country. Consequently, federalism remained an ideal that stood in opposition to the centralizing project of the nation-state. Paradoxically, across the Atlantic, a movement emerged that, drawing upon these ideals, laid the foundation for the first modern federal system: the United States.

According to Levi, three dimensions shape federalism as a social institution: the value dimension, the structural dimension, and the historical-social dimension. From a value-based perspective, Kant's contributions are particularly relevant. Kant's fundamental premise is that peace serves as the cornerstone of federalism, with law functioning as the necessary condition to achieve and sustain peace (Levi, 1991, p. 631). He states, "the idea of a global federation capable of eliminating war and guaranteeing perpetual peace represents the corollary of Kantian doctrine on law and politics." Another essential normative element is cosmopolitanism, which Kant envisions as the foundation of a global order based on cooperative international relations. Additionally, he critically examines international law, questioning its effectiveness as a mechanism for global governance. Kant explicitly addresses the consequences of war between states and the emergence of a cosmopolitan political project in its formative stage: "A sentiment is beginning to awaken among nations, one that recognizes the need to preserve the whole; this gives us hope that, after many transformative revolutions, this supreme goal of nature—a global civic order where all human capacities can fully develop—will ultimately become a reality" (Kant, 2012, p. 61). This passage illustrates Kant's universalist federalist perspective.

From a structural perspective, Levi asserts that the most significant theoretical contributions to federalism come from *The Federalist Papers* (Hamilton, Madison & Jay, 1974, p. 92ff.), a seminal work in federalist doctrine. The pragmatic nature of these writings explains their clarity, breadth, and depth in conceptualizing the modern federal system and its effectiveness. Three core conditions characterize the strength of governance within the U.S. federal model: (1) a plurality of power centers, (2) coordination among these entities, and (3) a precise and limited definition of governmental attributions to ensure political and economic unity among member entities. These characteristics make the U.S. federal system one of the most efficient and democratic models in the modern world.

Regarding the historical-social dimension, Levi contends that no political institution can function without a social foundation and institutional balance. This equilibrium must be maintained despite the contradictions that the social system itself generates. Levi warns that federalism produces strong social contradictions that can disrupt systemic stability due to its inherently bipolar nature. Civil society embodies both unitary and pluralistic tendencies: on the one hand, it operates within a political society that aligns with the federal structure, yet on the other, it remains divided into smaller social units with distinct territorial, cultural, and economic identities (Levi, p. 636). This results in dual allegiances: loyalty to the federal order and loyalty to one's own community.

Unlike Levi, The Federalist Papers do not explicitly address these contradictions or the particularities of the historical-social dimension. Their analysis remains primarily political and situational. However, this dimension can be understood through Tocqueville's seminal work, *Democracy in America* (2012, p. 31). Tocqueville was struck by the social conditions he observed in the United States, encapsulating its political and social system in two words: equality of conditions. He later elaborates that American democracy developed as a result of a social and economic revolution that was inconceivable in Europe: "There is a country in the world where the great social revolution I speak of seems to have reached its natural limits. It took place there in a simple and effortless manner (...); one could say that this country has achieved the results of the democratic revolution occurring among us without ever having experienced the revolution itself" (Tocqueville, p. 39).

In the second volume of his work, Tocqueville provides a more detailed examination of the historical and social circumstances that enabled the construction of the U.S. federal system. He concurs with Levi that the customs and behaviors characteristic of federalism require stable conditions and low levels of social polarization to function effectively.

With these conceptual elements, we establish the fundamental criteria that allow federalism to be understood as a social doctrine—an ideology. From this ideological foundation, the second dimension of federalism emerges: the structural federal system, which will be examined in the following section.

### **III. The Federal System**

The federal state, as previously discussed, is one of the three main forms of state organization, alongside the unitary state and the confederated state. To better understand the federal model, it is essential to contextualize it within broader political system typologies. In this regard, Deutsch's conceptualization of systems theory provides a useful framework for identifying the characteristics of the federal state. According to Deutsch (1976, p. 149), a system is an entity that operates through two simultaneous movements: cohesion, which implies unity, and covariance of units, which represents the process of transformation. In this sense, a system consists of interrelated elements that evolve together as a result of their interactions.

A political system, as defined by Deutsch (p. 169), is an entity that unifies and identifies a group of individuals within a defined territory, coordinating their expectations, cooperation, and obedience under a constitutional legal framework. Its governance falls under the public sector, which encompasses all institutional resources and authorities. From this perspective, a political system comprises four essential elements: territory, population, political entity, and state. The last two elements—political entity and state—are where the federal system can be identified, as they give structure to government operations, regardless of the historical, political, or economic characteristics of a particular country.

According to Deutsch, the federal system is situated between the unitary state and the confederation, which represent two preexisting models. In the unitary state, the primary goal is to achieve common national objectives, necessitating a highly centralized and unified government with broad control over population and territory. Conversely, in a confederation, power functions in the opposite manner: the greater the need for responsiveness to diverse regional and local demands, the more decentralization and autonomy are required.

This conceptual contrast explains the polarity of federalism, as previously discussed. The federal system reconciles these opposing tendencies, a balance that has been successfully applied in the U.S. federal system. In this framework, individuals are subject to two simultaneous levels of political authority (or three, including municipalities), which overlap in jurisdiction but differ in scope. Generally, the federal government assumes responsibility for national defense, transportation infrastructure, international trade, and internal security, while the state governments handle civil and criminal law enforcement, public safety, commercial regulation, and urban planning, among other areas.

### **3.1 Fiscal Federalism and the Allocation of Taxing Powers**

In the realm of fiscal governance, Deutsch emphasizes fiscal participation as a key concept in federal systems. His argument is based on the premise that it is preferable for the federal government to exercise tax-levying powers to collect revenues at the national level and then allocate resources for essential public services, such as traffic control, education, healthcare, and social welfare, wherever they are needed, particularly at the local government level.

Deutsch explains that while the federal government collects taxes nationwide, it does not do so exclusively; subnational entities also levy taxes. A portion of the federally collected revenue is transferred without restrictions, enabling states to address fiscal shortfalls, reduce local tax burdens, and mitigate economic shocks that could create negative spillover effects for neighboring jurisdictions.

This necessitates the assignment of residual tax powers, meaning the allocation of unassigned competencies across different levels of government. In the United States, the Tenth Amendment to the Constitution explicitly reserves non-delegated powers for state governments or the people, stating:

"The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

The central issue here is that the primary goal of a federal system is not to expand central power but to preserve the union. In this regard, Deutsch's assertion that the ultimate test of federalism lies in administrative praxis and fiscal management remains relevant. The survival of a federal system depends on the principle that, while a significant portion of tax revenue is collected at the national level, substantial resources must be distributed to states and localities. This allows subnational governments, which are closer to local realities, to respond more efficiently to public demands than the federal government could.

Wright (1999) aligns with Deutsch's perspective when discussing intergovernmental fiscal relations, emphasizing that the tension between autonomy and dependence is shaped by intergovernmental networks that facilitate the flow of revenues through mechanisms of tax collection, redistribution, and compensation. These interactions are structured according to federal principles and negotiated through cooperative arrangements between federal, state, and municipal governments.

### **3.2 The Federal System as a Political Framework**

A federal system constitutes a new level of state organization that encompasses the territory of all federated entities, while maintaining their autonomy and a distinct separation of powers. Federalism has been adopted in states with large territorial extensions, including Russia, Australia, Argentina, the United States, Canada, Brazil, Venezuela, and Mexico, among others. These countries collectively cover more than half of the Earth's landmass, demonstrating the global reach of the federal governance model.

The federal system can be defined as a state organization characterized by the coexistence of two spheres:

- The federal union, which exercises control and executes common governance functions.
- The federated states, which are responsible for all other governmental functions within their jurisdictions.

This structure entails multiple levels of government, each with a distribution of powers that establishes the framework of federal architecture. As a result, the federal system produces political subsystems, reflecting both territorial and functional divisions of authority.

In essence, the federal system operationalizes the principles of federalism, institutionalizing power-sharing arrangements that balance unity and diversity within a single political framework. The following section will examine the Mexican model of federalism within this broader comparative perspective.

#### **IV. Mexican Federalism**

Since the formation of modern states in Europe and the Americas, federal structures have been contrasted with centralized power as alternative models of state organization. This ongoing debate has shaped discussions on the optimal governance model, particularly in Mexico, which, from its inception as an independent nation, adopted a federalist system. The country was largely inspired by the experience of the thirteen American colonies, which later formed the United States of America. However, nearly two centuries after independence, the debate over federalism persists, particularly regarding fiscal federalism.

##### **4.1 The Constitutional Evolution of Mexican Federalism**

The process of constitutional federalization in Mexico developed differently from other regions of the continent. In the United States, independent and dispersed entities voluntarily confederated in 1776, forming the Confederation of the United States of America. This model later evolved into a federal system in 1788, establishing the governance structure that remains today.

Conversely, in Mexico, federal integration occurred in reverse. It originated from an already centralized power that was subsequently divided into distinct geopolitical units with territorial jurisdictions. These newly recognized entities then opted to integrate into a federal system rather than forming a federation from pre-existing independent states.

A key perspective on Mexican federalism is provided by an expert in the field who led the Coordination Unit with Federative Entities at the Ministry of Finance and Public Credit (SHCP) between 2000 and 2006, a period marked by significant advancements in the promotion of federalism (Colmenares, 1999). According to this author, sovereignty in the Mexican federal system is shared with the ultimate goal of preserving national unity through the integration of local governments and regional entities. Federalism, he argues, is the most effective mechanism to decentralize an overly centralized system, promoting national cohesion while respecting the country's cultural, historical, geographical, and ethnic diversity.

Arriola (1999) provides additional insights into the structural organization of the Mexican federal model and its intergovernmental relationships. He asserts that a federal state consists of a set of autonomous political subdivisions, each responsible for its internal governance, yet collectively forming a supreme entity—the federation. This structure is tasked with managing national-level governance demands, ensuring the unity and functionality of the political system through public policies that address collective needs across geographical and political subdivisions.

##### **4.2 Mexican Federalism and Fiscal Decentralization**

Another approach to Mexican federalism is offered by economist Ayala Espino, a recipient of the National Award in Public Administration. Ayala (1997) asserts that the study of federalism falls within the field of political science, framing it as a spatial arrangement of political power among governments. He emphasizes that federalism focuses on the political organization of distinct governmental units within a unified system, ensuring that each unit maintains its political integrity while participating in a broader federal framework.

A particularly relevant aspect of Ayala's analysis is his linkage between federalism and fiscal federalism. He argues that fiscal federalism examines the rationale for adopting a federal governance structure, the allocation of federal resources among levels of government, and the establishment of optimal models to ensure an efficient and equitable federal system. In this framework, fiscal federalism reflects the costs and benefits of government decentralization, influencing public administration models, government oversight mechanisms, and decision-making processes across governmental levels.

Based on these premises, Ayala (2009) classifies federalism into three models. The first is competitive federalism, which emphasizes competition between different governmental levels and highlights economic and administrative autonomy. The second is functional federalism, which focuses on bureaucratic specialization and the division of labor among different levels of government. The third is independent federalism, centered on shared responsibilities and intergovernmental cooperation to achieve policy objectives. These classifications offer a structured perspective on the different ways federalism operates within Mexico's governance model.

#### **4.3 Fiscal Federalism and Public Finance in Mexico**

The decentralization process, because of the federal system, seeks to bridge the gap between the fiscal needs of local governments and the budgetary capacity of the federal government. The aim is to improve efficiency and equity in the allocation and distribution of fiscal resources. However, as Ayala and other scholars note, fiscal federalism is often analyzed through a reductionist lens, focusing primarily on tax collection and compliance oversight.

Under this limited interpretation, fiscal policy is the responsibility of the Ministry of Finance and Public Credit (SHCP), executed through the Tax Administration Service (SAT). However, fiscal federalism extends beyond tax collection and oversight. A more appropriate term would be "hacienda federalism," referring to the broader public finance system that encompasses institutions and functions responsible for revenue collection, budget planning, expenditure management, and public debt administration.

This comprehensive approach aligns with Deutsch's theory, which emphasizes institutional capacity, fiscal autonomy, intergovernmental relations, and equitable financial distribution among federated entities. Additionally, Boadway and Shah (2009) identify key instruments and services that the central government provides to support fiscal federalism. These include public spending on goods and services, direct monetary transfers to individuals and households, subsidies for essential economic activities, intergovernmental transfers between levels of government, development banking, regulation of economic sectors such as labor markets, competition policy, natural resource management, environmental protection, energy, and international trade, as well as the management of state-owned enterprises and public corporations. These factors demonstrate that the federal system extends far beyond taxation, expenditures, and public debt management in federated entities.

#### **4.4 Federalism as Public Policy and Governance**

A broader perspective on federalism, particularly relevant in this study, is provided by Luis Aguilar Villanueva, an emeritus researcher in governance and public administration. He argues that federalism should be understood as a public policy instrument with direct implications for governmental capacity and the effectiveness of governance in achieving social welfare and justice.

Aguilar (1996) highlights the democratic advantages of federalism, emphasizing its ability to increase and facilitate opportunities for citizen participation in defining public problems and determining appropriate policy responses. Federalism also expands opportunities for collaboration with government in policy development, public administration oversight, and performance evaluation.



This perspective is particularly relevant as it moves beyond economic and formalist approaches, situating federalism within the broader framework of public policy and governance. Ultimately, federalism in Mexico should be analyzed not only as an institutional arrangement but also as a dynamic governance model characterized by citizen participation, collaborative decision-making, and intergovernmental coordination. These dimensions highlight the significance of federalism in shaping democratic institutions, policy effectiveness, and state capacity within Mexico's political system.

## **V. The Mexican Federal Pact: Foundation of Federalism**

The formal antecedent of Mexico's legal-administrative federalist organization is the Acta Constitutiva, which laid the foundation for the Federal Pact by establishing fundamental principles and commitments among its members. This document explicitly defined the structure of the emerging nation, as seen in its provisions:

- Article 1: "The Mexican nation is composed of the provinces included within the territory of the former viceroyalty known as New Spain..."
- Article 3: "Sovereignty resides fundamentally and essentially in the nation, and therefore, it has the exclusive right to adopt and establish, through its representatives, the form of government and fundamental laws it deems most appropriate..."
- Article 5: "The nation adopts a representative, popular, and federal republic as its form of government."
- Article 6: "Its constituent parts are independent, free, and sovereign states in all matters related exclusively to their internal administration and governance, as detailed in this Act and in the general Constitution."
- Article 34: "The General Constitution and this Act guarantee the federated states the form of government adopted in this law; and each state is also committed to upholding the federal union at all costs."

These principles were later enshrined in the Constitutions of 1824, 1857, and 1917, which reaffirmed the federal form of government chosen by the Mexican Constituent Assembly. The current constitutional framework, as established in Articles 40 and 41 of the Mexican Constitution, defines the nation's political structure. Article 40 states: "It is the will of the Mexican people to constitute themselves as a representative, democratic, and federal Republic, composed of free and sovereign States in all matters concerning their internal governance, but united in a Federation established according to the principles of this fundamental law." Likewise, Article 41 stipulates: "The people exercise their sovereignty through the Powers of the Union in matters within their jurisdiction, and through the authorities of the States and Mexico City in matters concerning their internal regimes, in accordance with this Federal Constitution and the respective state constitutions, which may not, under any circumstances, contravene the provisions of the Federal Pact."

To complement this framework, the Constituent Assembly established the separation of powers within the federal government (Executive, Legislative, and Judicial), as well as its replication at the state level, as specified in Articles 49 and 116. Additionally, Article 133 establishes the supremacy of the Constitution over the entire national legal system, stating: "This Constitution, the laws enacted by Congress under its authority, and all treaties concluded by the President of the Republic with the approval of the Senate shall be the supreme law of the entire Union. The judges of each federative entity shall adhere to this Constitution, laws, and treaties, notwithstanding any contrary provisions in state constitutions or laws."

### **5.1 Institutional Evolution and the Fiscal Competence System**

The Mexican Federal Pact has structured the nation's governance framework, distributing competencies among different levels of government. However, institutional evolution has continuously adapted to economic, political, and social changes, shaping the current state of Mexican federalism, particularly in fiscal matters. The complexity of the fiscal competence system is well illustrated by the Supreme Court of Justice of

the Nation, as cited by De la Garza (2008, pp. 221-222), which identifies three fundamental premises of the Mexican fiscal model:

- Concurrent taxation authority of the federal and state governments over most revenue sources (Articles 73-VII and 124).
- Limitations on the states' taxing power due to specific tax-related competencies being reserved for the federal government (Articles 73-X and XXIX).
- Explicit restrictions on the states' fiscal authority, outlined in Articles 117-IV, V, VI, VII, and 118.

Applying Ayala's (2009, p. 297) typology of federalism, the Mexican system aligns most closely with the independent model in its cooperative form, which emphasizes solidarity and shared responsibility to achieve national and regional stability and development. This perspective is reinforced by the creation and evolution of the National Fiscal Coordination System (Sistema Nacional de Coordinación Fiscal, SNCF) from the late 20th century to the present.

The fiscal coordination system serves as a public policy mechanism aimed at improving intergovernmental collaboration between the federal and state governments, particularly in revenue collection and redistribution. Its primary objective is to promote fiscal federalism, meaning a more effective allocation of tax-collection responsibilities across different levels of government.

## **5.2 The Paradox of Mexican Fiscal Federalism**

The concept of federalism in Mexico presents a paradox due to its simultaneous use as both a political ideology and an institutional framework. Federalism is often equated with a federal system, referring to both a political philosophy and a constitutional governance model distinct from centralized state structures.

This paradox becomes evident in the challenges faced by Mexican fiscal federalism, a topic explored in recent studies, particularly in relation to the contradiction between tax concurrency and federalism (García, 2016, p. 60). This contradiction, along with the broader fiscal and administrative implications of the federal pact, will be analyzed in the following section.

### **VI. The Challenge of Centralized Federalism and the Declining Role of Oil Revenues in Fiscal Policy**

As previously explained, one of the defining features of a federal system is the political, financial, and administrative autonomy of its constituent members, allowing them to act independently and effectively in the management of public policies. A key element of this autonomy, particularly in the fiscal sphere, is the ability to generate sufficient financial resources to cover public expenditures. Ideally, members of the federal pact should enjoy the freedom and autonomy necessary for both the imposition of taxes and the allocation and management of public spending.

According to the constitutional framework, the rules and responsibilities of different authorities are established to determine the form, amount, and rates at which sources of wealth within the nation are taxed. This system aims to distribute tax burdens as equitably as possible while ensuring sufficient revenue to meet public needs through government expenditures. However, in the Mexican federal model, where tax collection is highly centralized at the federal level and subsequently distributed to subnational governments through participations and transfers, the federal system becomes distorted. This economic centralization inevitably leads to political centralization, undermining the autonomy and fiscal independence of federated entities.

A recent study on the distribution of fiscal responsibilities in Mexico (García, 2016, p. 67) concludes that this system needs urgent reform to enhance Mexico's federal model. The study states: "A systemic subordination of federated entities has been institutionalized in all areas, particularly in fiscal matters, but also politically and institutionally. This does not align with the nature of a federal regime and, in the worst case, discourages citizen participation, political accountability, and transparency at all levels of government."



This observation is particularly relevant because it impacts not only federalism itself but also the broader governance model by restricting citizen engagement, government accountability, and transparency, which are fundamental to democratic governance. García's conclusion is even more concerning: "Under current conditions, in the medium term, state governments will lack the financial capacity to meet their expenditure obligations, becoming entirely dependent on the federal government."

### **6.1 Quantitative Evidence of Fiscal Centralization**

To better understand this fiscal centralization and dependency, it is necessary to examine quantitative evidence that supports this hypothesis. Before doing so, key fiscal concepts should be clarified:

- **Participaciones (Revenue Sharing Transfers):** Financial resources allocated to local governments as a result of shared federal tax revenues.
- **Aportaciones (Federal Transfers):** Resources transferred from the federal government to states and municipalities to finance specific functions and projects, as established by Article 25 of the Fiscal Coordination Law. These transfers, originating from Budgetary Branch 33, are earmarked funds designated for education, health, public safety, and infrastructure.
- **Recaudación Federal Participable (RFP – Shared Federal Revenue):** The total revenue collected by the federal government from federal taxes, mining rights, and a portion of oil revenues. The RFP fluctuates based on national and international economic conditions, directly affecting the funds received by states and municipalities.

Given these definitions, an analysis of fiscal trends is necessary.

### **6.2 Declining Fiscal Autonomy of Subnational Governments**

One key indicator of the vulnerability of state financial autonomy is the evolution of participaciones as a percentage of state revenues from 1980 to 2019. Available data from the Instituto para el Desarrollo Técnico de las Haciendas Públicas (2021) shows that with the implementation of the National Fiscal Coordination System in 1980, states and municipalities relinquished their authority to collect certain taxes in exchange for a larger share of federal revenue.

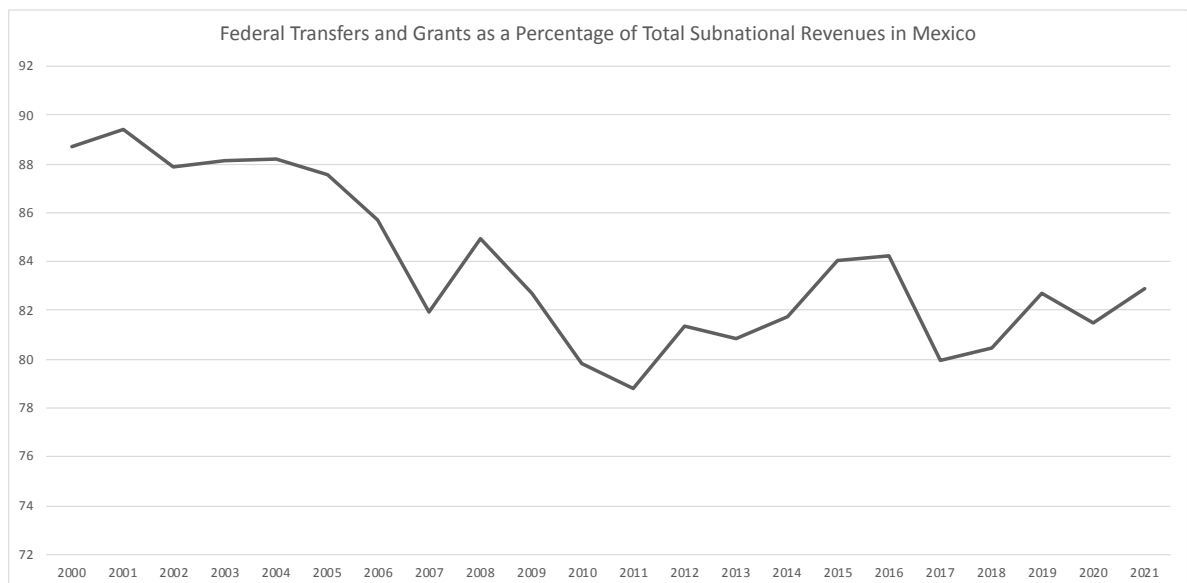
Over time, federal transfers (participaciones and aportaciones) have become the dominant component of state revenues, reaching 85% of total state revenues in 2019. The highest dependency was recorded in 2001, when these transfers accounted for 90% of state income. While this system strengthens state spending capacity, it also increases financial dependence on the federal government and external debt financing.

García (2016) previously identified the urgent need for a more equitable fiscal agreement. The data confirms this, showing that tax revenues at the state level have declined sharply. In 1979, taxes represented 35% of state revenues, whereas by 2019, they accounted for only 5%. Meanwhile, federal aportaciones and participaciones have grown significantly, reaching 49% and 39% of total state revenues, respectively, by the end of the period analyzed.

Furthermore, data on the percentage structure of state revenues indicates a decline in social security contributions and initial available funds, alongside a sharp increase in financing (debt issuance).

A more detailed analysis of participaciones and aportaciones between 2000 and 2021 (see Fig. 1) reveals that despite a modest percentage decline, these transfers still represent 83% of state revenues in 2021, underscoring the continued financial dependency of subnational governments.

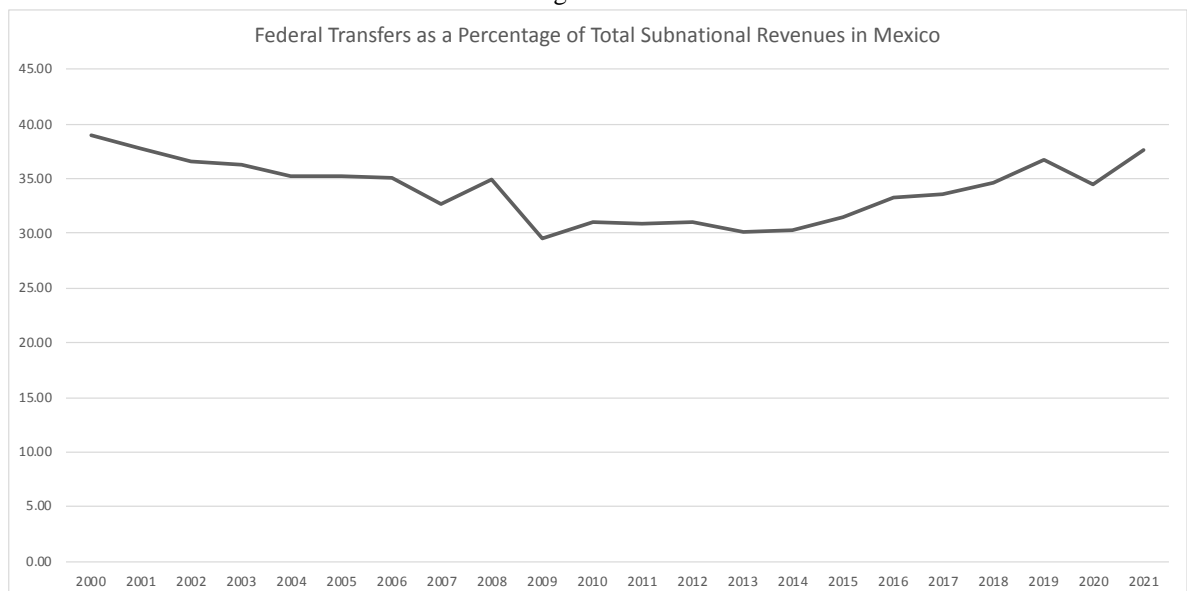
Fig. 1



Source: Own elaboration based on data from the National Institute of Statistics and Geography (INEGI)

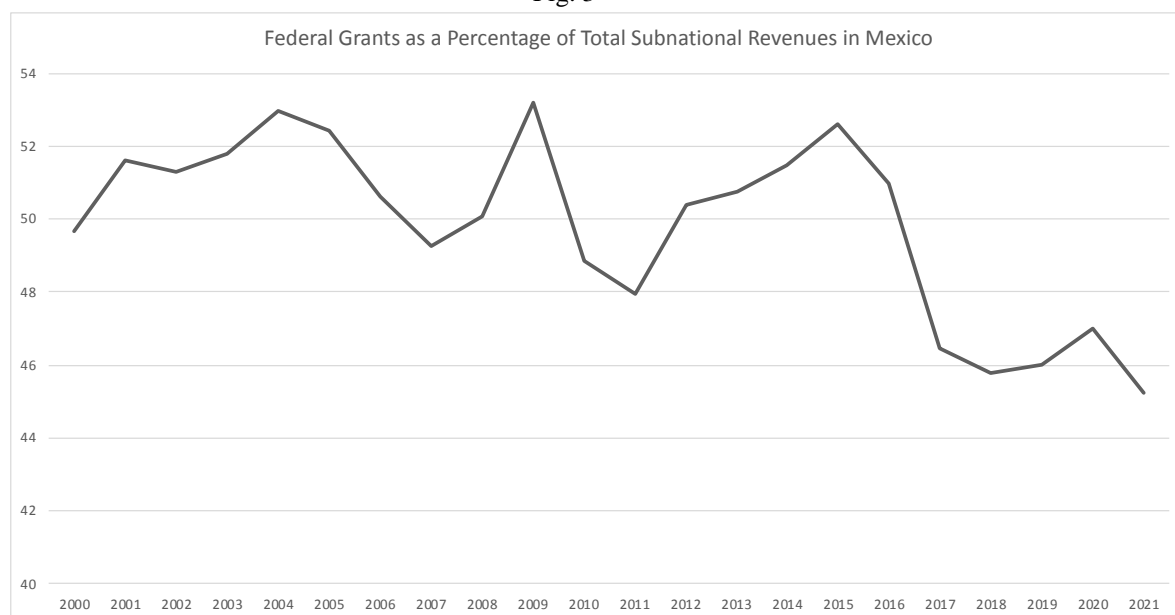
Comparing participaciones and aportaciones trends (see Fig 2 and 3), we observe a contrasting evolution. While participaciones peaked at 39% in 2000, recent trends indicate a renewed increase, rising from 30% in 2011 to 37% in 2021. In contrast, aportaciones declined from 53% in 2009 to 45% in 2021, exhibiting greater volatility.

Fig 2.



Source: Own elaboration based on data from the National Institute of Statistics and Geography (INEGI)

Fig. 3



Source: Own elaboration based on data from the National Institute of Statistics and Geography (INEGI)

A cross-country comparison (INDETEC, 2021) highlights Mexico's low subnational fiscal autonomy relative to other federal countries. Between 2003 and 2017, the share of own-source revenues in total subnational income averaged only 16.11% in Mexico, significantly lower than in Austria, Belgium, and Spain, where subnational governments maintain greater fiscal independence. The trend in Mexico has been declining since 2015, exacerbating the vulnerability of state finances.

### 6.3 The Impact of Oil Revenue Decline on Fiscal Federalism

In addition to fiscal centralization, the decline of oil revenues has significantly impacted public finances and state budgets. The Federal Revenue Sharing System has historically relied on oil-related income, making it highly susceptible to fluctuations in oil prices, production levels, and currency exchange rates.

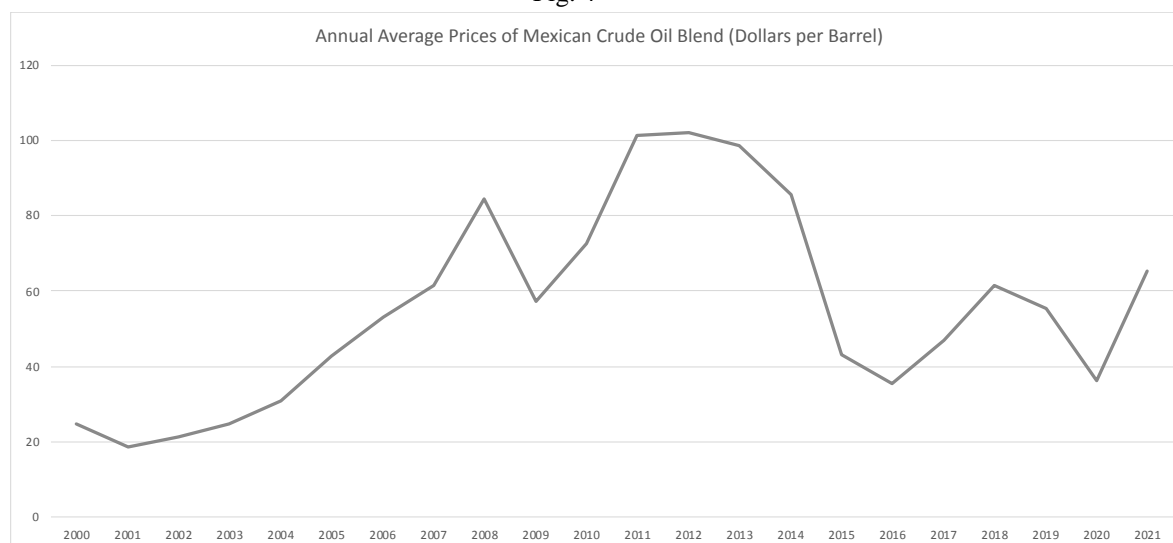
As noted earlier, Recaudación Federal Participable (RFP) consists of revenue from federal taxes, mining rights, and oil-related income, with oil revenues playing a crucial role in its composition. The declining oil market has reshaped the RFP structure, particularly after the collapse of oil prices in recent years.

In 2012, oil revenues accounted for approximately 30% of the RFP, but by 2015, this share had fallen to 13%. These revenues not only contribute to the General Revenue Sharing Fund, the Municipal Development Fund, and the Tax Monitoring and Collection Fund but also finance specific federal programs.

The most significant decline in oil rents as a percentage of GDP occurred between 1983 and 2020. In 1983, oil rents represented 11.1% of GDP, but by 2016, this figure had plummeted to 1.2%. Although there was a slight recovery to 2.3% in 2018, it fell again to 1.4% in 2020. This drop is directly linked to falling oil production and declining oil prices (World Bank, 2024).

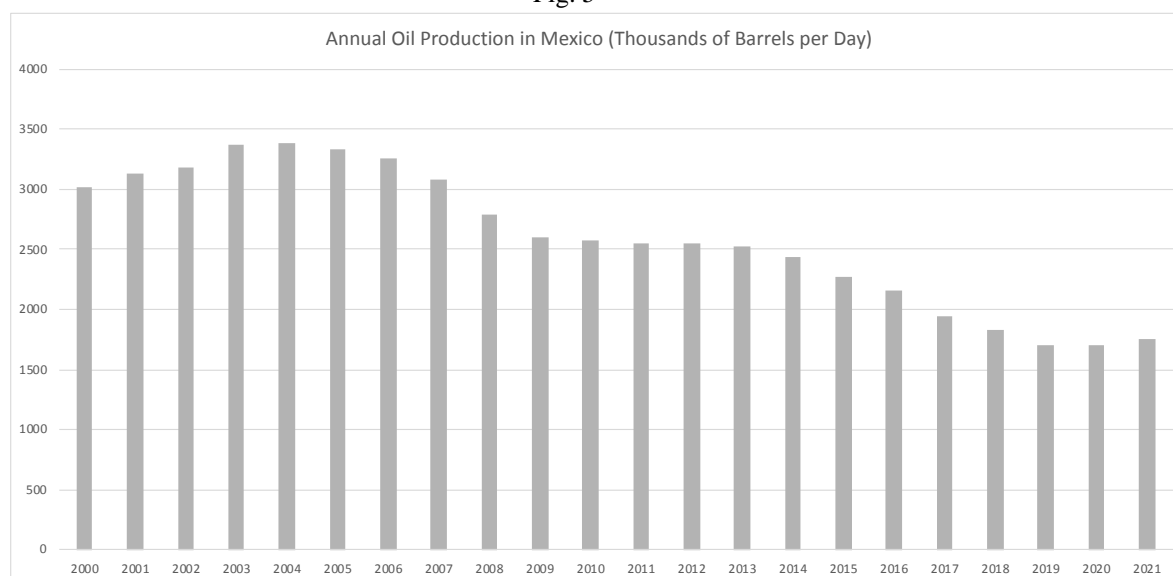
Between 2014 and 2016, the price of Mexican crude oil dropped by 50% (Fig.4), while Pemex's production declined by 14.61%, reaching 2.15 million barrels per day (mbd)—far below its 2004 peak of 3.38 mbd. In 2021, production stood at just 1.7 mbd (Fig.5). By 2016, oil revenues accounted for only 8.6% of total federal government revenue, a sharp decrease from 31.87% in 2013.

Fig. 4



Source: Own elaboration based on data from the Energy Information System of the Ministry of Energy

Fig. 5



Source: Own elaboration based on data from the Energy Information System of the Ministry of Energy

The economic impact of declining oil revenues does not favor the development of fiscal federalism in Mexico. The reduction in oil rents, lower oil exports, declining production, and currency fluctuations have directly affected federal revenue-sharing mechanisms, increasing the vulnerability of subnational governments.

As Deutsch emphasized, money is the ultimate test of federalism. Given these trends, it is imperative to assess the long-term viability of Mexico's fiscal federal model and explore alternative revenue-generating mechanisms to reduce financial dependency on the federal government.

## VII. Conclusions

This study has examined key elements of the federalism debate, beginning with the theoretical foundations of its conceptualization as a social doctrine, which later evolved into an institutional framework with a shared governance purpose. The analysis then focused on fiscal federalism as the central pillar of the

federal system, emphasizing that financial autonomy, independence, and sufficiency are the foundation upon which political and administrative autonomy in a federal system is built.

As demonstrated throughout this study, Mexican federalism has experienced both progress and setbacks. However, the empirical evidence presented in the previous section leaves no doubt that the current outlook is highly challenging. From the distribution of taxing powers, as accurately noted by García (2016), to the increasing fiscal dependence of federated entities on federal transfers, the prospects for strengthening federalism in Mexico remain bleak. Rather than moving toward a more balanced system, the trajectory points toward greater centralization, posing significant obstacles to the long-term viability of the federal model.

Recent reforms in federal public administration, particularly those introduced under the administration of President Andrés Manuel López Obrador, have further reinforced administrative and fiscal centralization. The consolidation of procurement and infrastructure projects under the Ministry of Finance (SHCP), the empowerment of federal social welfare delegations, which compete unequally with their state counterparts, and the extensive use of the armed forces and navy in civilian governance functions have further restricted the development of Mexican federalism rather than fostering its decentralization.

Strengthening Mexico's federal system requires a comprehensive reform effort led by key political actors and involving all levels of government. This process must aim to design a new federal pact through a broad, consensus-driven process, incorporating the perspectives of academics, experts, and social actors within a framework of democratic governance. While ongoing discussions and debates have helped identify the key challenges that must be addressed, achieving meaningful reform will ultimately depend on political will and a commitment to dialogue, respect, and justice in advancing the necessary institutional changes.

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