

The Cost of Governing: Strategic Behavior in Brazil's Budgetary Process*

Section 1 – Introduction

It is a strong empirical regularity that countries ruled by coalitions composed of multiple political parties have frequently exhibited large public deficits. As a consequence many authors have posited that coalition governments are associated with larger costs than single-party government. Roubini and Sachs (1989), for example, state that:

“When power is dispersed, either across branches of the government (as in the US), or across many political parties through the alteration of political control over time, the likelihood of inefficient budgetary policy is heightened. Thus we find that the size and persistence of budget deficits in industrial countries in the past decade is greatest where there have been divided government (e.g. multi-party coalitions rather than majority-party government).”

Under the norm of universalism, understood in terms of reciprocity of distributive programs among legislators, expenditures grow as the number of legislator and political parties increases. In turn, the budget approved by a coalition is larger than the budget expected from a majority party in Congress (Weingast 1979; Shepsle and Weigast 1981). Inman and Fitts (1990) for instance, demonstrate that when one party holds a majority of seats in the Chamber, the instability of the legislative process is reduced. In multiparty legislatures as the effective number of party increases, coalitions become unstable and the size of the budget grows because the norm of universalism (Scartascine and Crain, 2001).¹

Proportional representation systems with large district magnitude tend to lead to multiparty political systems and coalition governments (Lijphart, 1994). Electoral systems with proportional representation combined with large districts are more likely to produce weaker governments than plurality rule systems, because with a larger number of parties it is harder to ensue control of Congress (Stein, Talvi, and Grisanti, 1998).

Several case studies related to Brazil follow these theoretical predictions. Barry Ames (2001), for instance, arguing about the origins of Brazil's institutional and governability problems states that they stem from the high number of veto players especially as a consequence of the electoral system and federalism. For him, “rarely can the president avoid paying a high price, in pork and patronage, for legislative support.” Thus, coalition governments in Brazil should be associated with larger deficits. The political use of public resources in the form of patronage, clientelism, and patrimonialism increases, according to Mainwaring (1999), the costs of addressing popular preferences and achieving collective solutions in Brazilian politics.

It is interesting that Brazil suffers from almost all institutional ‘pathologies’ that the literature has identified as increasing the cost of governing. It has a presidential system; federalism; its electoral rules combine open-list with proportional representation; it has a multiparty system with weak political parties in the electoral arena; and it has been governed by an ample coalition in Congress. One would expect all these elements together to generate, if not an ungovernable democracy, at least a very expensive one especially in terms of keeping the coalition united and disciplined. In actual fact, however, the cost of governing in terms of budget expenditures has been very low compared with other spending. We argue in this paper that it has been relatively cheap for the Executive to keep its coalition united in Congress.

The purpose of this paper is to analyze one of the most important mechanisms that the Executive uses to negotiate with its coalition in Congress: the appropriation of the congressmen's amendments to the annual budget. The Brazilian budgetary process is described and modeled to show how its institutional rules provide the Executive with the means to control that process so as to achieve an

effective low cost political ‘currency’ it can use to purchase support from its coalition.

In the next section we review the current literature and develop an alternative theory that combines two institutional dimensions, electoral rules and presidential powers, to explain the working of the Brazilian political system. In section 3 we describe the main institutional rules that regulate and constrain the key political actors, and in section 4 we develop a spatial model that shows how the budgetary rules affect the outcomes of the interaction between Congress and the Executive. Empirical evidence that the Executive has consistently used the appropriation of the annual budget as one of the most important tools to obtain support and governability from Congress is provided in section 5. In the last section we conclude emphasizing our most important findings.

Section 2 – Theory

Scholars who analyze the Brazilian political system tend to consider that it is expensive in terms of governability because they focus mainly on the incentives provided by the electoral and party systems (Mainwaring and Scully 1995; Mainwaring and Shugart 1997; Haggard 1995; Haggard and Kaufman 1992; Ames 1995a, 1995b, 2001). These scholars sustain that those rules create obstacles for the Executive to approve its agenda, increasing the cost of governing. First of all, the presence of an open-list and proportional representation allows the citizens to select candidates instead of parties. They can base their selections on candidates’ personal qualities, their activities, and personal records. This offers a strong incentive for candidates to develop direct links with his/her constituency groups rather than to mediate such relations through political parties. Thus, for those authors, the personification of the vote is highly influenced by the way that citizens elect their legislator.

The origin of this argument or at least its modern interpretation lies in the work of Downs (1957) and Mayhew (1974) who emphasize the importance of elections as the factor that shapes the behavior of politicians. In Mayhew’s term, it is a “two-arena” model in which incentives in the first (electoral) arena shape behavior in the second (legislative) arena. Political parties are thus seen as a consequence of the need to fight and win elections. Therefore, parties in the legislature develop largely as a consequence of the functional value of parties at election time. The direct inference of this argument is that if candidates develop more personalistic and individual relations with their electoral bases, rather than mediate these relations through political parties, this diminishes the importance of party labels in the legislative arena once these candidates are elected (Cain et al. 1987).

By contrast, a second group of authors studying Brazil (Figueiredo and Limongi 2000a, 2000b, 1999, 1997, 1995; Pereira and Mueller 2000; Meneguello 1998) has strongly questioned this consensus. Rather than stress the decentralized effect of electoral rules, they emphasize the institutional rules and structures that organize the legislative process itself and the power held by the Executive. In other words, focus is put on the set of rules and internal procedures that define the level of centralization in terms of prerogatives of initiating the decision-making process (agenda setting), which can be held by the deputies or the parties and/or the Executive. These authors attempt to explain how institutional variables internal to the decision making process (the distribution of power inside Congress) and the institutional legislative powers held by the president (decree and veto powers, right to introduce new legislation, permission to request urgency time-limit to certain bills, discretionary power on the budget appropriation, etc.) work as key determinants of legislator behavior.

Bowler (2000) refers to this second approach as a “one-arena” model because it considers the links between the legislative and electoral arenas as substantively weak. Indeed, the one-arena approach was a response to models that depict the legislature formed by entrepreneurial individuals that try to maximize electoral benefits without political parties able to constrain their behavior. Cox (1987) and Cox and McCubbins (1993) represent one of the earliest attempts to ‘bring the party back in’ to explain legislative behavior that is not motivated by benefits provided by the electoral connection, but by

incentives within the legislative arena itself. For this perspective, political parties solve potential collective action problems within the legislature by providing an institutional structure that establishes policy and ensures compliance of individual legislators.

Differently from these two main schools, we argue that the Brazilian political system can be characterized neither as a purely decentralized nor as a purely concentrated system. In fact, it combines elements of these two different and antagonistic forces. While some features such as electoral rules, a multiparty system, and federalism act towards decentralizing the political system, other features such as the internal rules of the decision-making process in Congress, the constitutional powers of the president, and his/her capacity to selectively distribute political and financial resources, act towards centralizing it. In fact, the electoral rules provide incentives for politicians to behave individually while the internal rules of the Congress, the president's power to legislate, and the centralization of benefits by the president, render legislator behavior extremely dependent on loyalty to the party and presidential preferences.

It is the result of the combination of electoral and presidential powers that will define the relative costs of the legislators' voting behavior. Therefore, the combination of these two institutional forces provides incentives for both personal and party votes. On the one hand, in terms of the legislator's selection, the deputy has incentives to behave personally. On the other, in terms of agenda-setting and presidential powers, the deputy has incentives to behave according to the party leader or, in the case of the Brazilian current majority coalition-based presidential system, according to the president's interests. In this case, the dynamic equilibrium that is reached can change from one issue to another. It depends on the capacity of the president and his/her party leaders in offering the appropriate incentives - political and economic benefits - that provide the best electoral returns to individual legislators. This interaction of institutional rules is key for understanding how it is possible for weak political parties in the electoral arena to coexist with strong political parties inside Congress. Therefore, we claim that there is no contradiction in simultaneous partisan and individual behavior in the Brazilian political system. In fact, understanding one of these sets of incentives is essential to understanding the other. In other words, the legislators behave according to the party leaders' indication so as to have access to benefits that will increase their individual chance of surviving politically.

In this paper we develop this theory by focusing specifically on the role of legislators' amendments to the budget, which is one of the important links between the centralizing internal rules of Congress and the decentralizing electoral incentives.² We will show that presidential powers over the budgetary process safeguard the Executive's interest from being rolled in Congress and additionally give the president high levels of discretion over whether to appropriate or not the legislators' amendments to the budget. This latter power is used strategically as a bargaining tool by the president to negotiate support within Congress. The legislators in the governmental coalition are content to play this game, amending the budget to benefit their constituencies and supporting the president so as to have those amendments appropriated. This benefits the legislators because, given the decentralized incentives provided by the electoral rules, the pork taken home by means of the appropriated amendments significantly increases their electoral chances (Pereira and Rennó, 2002). It also benefits the president because support in Congress is obtained at relatively low cost in terms of the budget. In order to substantiate these claims we next describe the Brazilian budgetary process (section 3), illustrate how those rules safeguard the Executive's interest and allow strategic behavior (section 4), and provide supporting empirical evidence (section 5).

Section 3 – The Brazilian Budgetary Process

In this section we briefly describe how the governmental budget is formulated in Brazil, focusing on how it constrains and shapes the relative power of Congress and the Executive.³ Historically the

budgetary process in Brazil has alternated cases where Congress has effectively participated and defined where and how public resources were allocated with others where it did not wield any direct influence. Currently, even when legislators have an effective role, it is mostly limited to amending the bill so as to target their main electoral strongholds with local policies.

For the purposes of this paper the main budgetary instrument is the Annual Budget Proposal (*Proposta de Lei Orçamentária – PLO*) where the Executive estimates the expected total revenue and fixes expenditures for the next fiscal year, detailing specific programs and activities that will be pursued. The President has to send the PLO by August 30 of the same year and the Congress has to amend and approve it by December 15. This is done first in the Joint Committee for Planning, Public Budgets and Monitoring (*Comissão Mista de Planos, Orçamentos Públicos e Fiscalização – CMPOF*) and then by Congress as a whole. The PLO is then sent back to the Executive to be enacted as law with or without vetoes.⁴

The Annual Budget Law (LOA) is made up of three different budgets: fiscal, social security, and investment. The fiscal budget embodies revenues that will be collected by taxation as well as expenditures for all public administration, including legislature, judiciary, executive and foundations maintained by the state. The social security budget corresponds to government action in three segments: health, pensions, and social aid. Finally, the investment budget is responsible for the total amount of (non-fiscal) capital revenues that will be invested by public agencies. As we will show this is an important component of the budget because most of the legislative involvement in the process occurs here through individual and collective amendments. The congressmen's participation therefore depends on the availability of total investment.

It is relevant to note that even before the budgetary proposal is sent to Congress, some legislators, especially the top ranking ones, take advantage of their political networks inside Ministries and public agencies to include their demands and projects in the Executive's proposal that will be sent to Congress. In other words, these legislators can avoid a significant step of negotiation in Congress, since their demands are already included in the proposal sent by the president. It is at this stage that the trickiest negotiations occur within the Executive branch itself, with each part trying to enlarge its own budget and the Treasury trying to hold back their demands.

The involvement of legislators in the budgetary cycle occurs predominantly in the Joint Committee for Planning, Public Budgets and Monitoring – CMPOF. Rocha (1997:108) compares the number of amendments approved by the CMPOF and by the Floor of Congress. He points out that Congress does not substantially modify the report approved by the committee. According to that author, the CMPOF is the main decision-making locus regarding the budget within Congress. It is the largest committee of the Brazilian Congress, with 84 effective members and 84 substitutes, 63 of which are deputies and 21 senators. The composition of the committee is based on the proportional number of seats that each political party holds in Congress. Therefore the larger parties have greater representation within the committee. According to the internal rules of Congress, party leaders are responsible for appointing committee members. In addition party leaders have considerable influence over the yearly choice of the president of the committee and its three vice-presidents. These hierarchical positions and that of *rapporteur* (who drafts the original proposals and subsequent revisions) are alternated each year between representatives of the Senate and of the Chamber of Deputies. Given the importance of these positions, the prerogatives of the party leaders in shaping the committee constitute an important means for them to control the budgetary process as well as to reward and punish their members.

The CMPOF is composed of thematic standing subcommittees with a maximum of seven legislators. Each subcommittee has a sectoral *rapporteur* whose responsibility is to compile a partial report with the amendments approved by its members. The CMPOF's general *rapporteur* then

consolidates these pieces. The position of sectoral and general *rapporteur* are highly influential and are appointed by the president of the committee subject to the restriction that the appointments must follow party proportionality.

When a bill reaches the CMPOF the general *rapporteur* submits a preliminary statement based on negotiation among party leaders. One of the most important aspects of this preliminary report is the definition of parameters and deadlines for legislators to submit collective and individual amendments. This is why there is such fierce competition among legislators to become members of this committee, and especially to be appointed to high hierarchical positions, such as *rapporteur* or sub- *rapporteur*. These positions allow the legislators to propose resource reallocation, since the process of approving amendments is centralized on the *rapporteur* positions. Furthermore, only committee members are allowed to headline legislators' amendments during the voting process in the committee floor.⁵

Although legislators have the right to amend bills that are exclusively introduced by the president, there are several restrictions. Congress may not authorize expenditures that exceeds the budgetary revenue and amendments must be compatible with a multi-annual plan proposed by the Executive. Also amendments must be proposed by standing committees, regional blocs, state blocs, or individual legislators. Collective amendments have a greater probability of being approved as they have the direct support of more than one legislator. However, the introduction of collective amendments does not mean that individual ones have faded out or lost importance. Agreements among local, state and national politicians to include individual amendments disguised as collective ones are not rare.

Until 1993, there was no limit regarding the number of amendments that each legislator could make to the PLO.⁶ After 1993 the number of amendments was restricted to fifty. This was an attempt to rationalize the process by giving priority to collective amendments thus reducing the large number of disputes among legislators to ensure approval of their amendments. In 1995, Resolution n° 2/95-CN further reduced the number of amendments to 20 and set a ceiling of R\$ 1.5 million as the total amount of amendments per legislator. Recently, legislators decided to increase the value of this quota to R\$ 2 millions.

Resolution n° 2/95-CN also established new rules for collective amendments: 5 per standing committees; 5 per regional bloc; and 10 per state bloc. However, even with a limited number and value of amendments, legislators do not have any guarantee that their amendments will be approved by the committee; thus, they still have to negotiate with reporters and party leaders as many amendments are simply put aside.

Another important institutional change introduced in 1995 was the decentralization of power within the CMPOF, giving more autonomy to subcommittee- *rapporteurs vis-à-vis* the general one that lost the prerogative to initiate the so-called *rapporteur's* amendment (*emenda de relator*) and the right to reissue rejected amendments. It is worth noting that the distribution of power inside the committee and the subcommittees is not even and depends on the amount of resources available. Thus, subcommittees responsible for the definition of resource allocation in education, health, and infrastructure are extremely disputed. Frequently legislators can count on the support of their Mayors and Governors to lobby for their demands within Congress.

The changes in the committee's rules toward decentralizing, empowering sub- *rapporteurs* and establishing limits on amendments had the purpose of reducing transaction costs and problems of collective action among legislators. The idea was to redistribute power in order to allow more equal access to resources, thus increasing the chances of mutual approval of amendments via logrolling.

Nevertheless, all these steps and the complex negotiations to approve amendments in Congress do not assure that a project once approved and not vetoed by the president will be in fact delivered. It is the Executive that is responsible for budget appropriation, including the legislators' demands. Although

legislators have the right to propose individual amendments to the annual budget, it is the Executive who is entitled to determine which amendment will be appropriated, making the budget contingent to the amount of resources in the national treasury.

The majority of legislators makes use of their prerogative to amend the budget to push through projects oriented to benefit their main electoral base of support. That is, the process is used to realize pork barrel politics and maximize their future electoral and political careers. Therefore, it is reasonable to expect that the Executive, who has huge discretion in executing the annual budget, will take advantage of this power to try to affect legislators' behavior.

It is the absence of synchronization between tax collection and expenditure that has allowed the Executive to act strategically by making the appropriation of amendments contingent on the availability of resources. As a result the Executive has had extreme flexibility and discretion when negotiating with legislators, and has not applied a homogeneous criterion when deciding which amendments to appropriate. We will show evidence that Brazilian Presidents reward those legislators that consistently vote for their interests by executing their individual amendments to the budget and, at the same time, punish those who oppose by not executing their amendments. In addition, it is argued elsewhere that, *ceteris paribus*, the greater the amount of individual legislator amendments appropriated by the president, the higher will be the probability of that legislator's re-election (Pereira and Rennó, 2002).

In other words, with this institutional design it is not surprising to observe legislators who consistently give support to the Executive's initiatives, aware of the effect this has on the probability of seeing their demands met by the president. On the other hand, legislators who do not frequently follow the Executive's preferences in Congress have less chances of delivering local policies to their constituents.

One puzzle that this paper helps to address is why legislators have been content with such a small role in the budgetary process? Why doesn't a legislative majority try to achieve a better equilibrium in terms of access and decision to public resources? The answer is that even this limited role provides high electoral payoffs, since the greater the amount of individual legislator amendments appropriated by the president, the higher will be the probability of legislator's re-election (Pereira 2002; Pereira and Rennó, 2002).

Section 4 – Executive and Legislative Interaction in the Budgetary Process

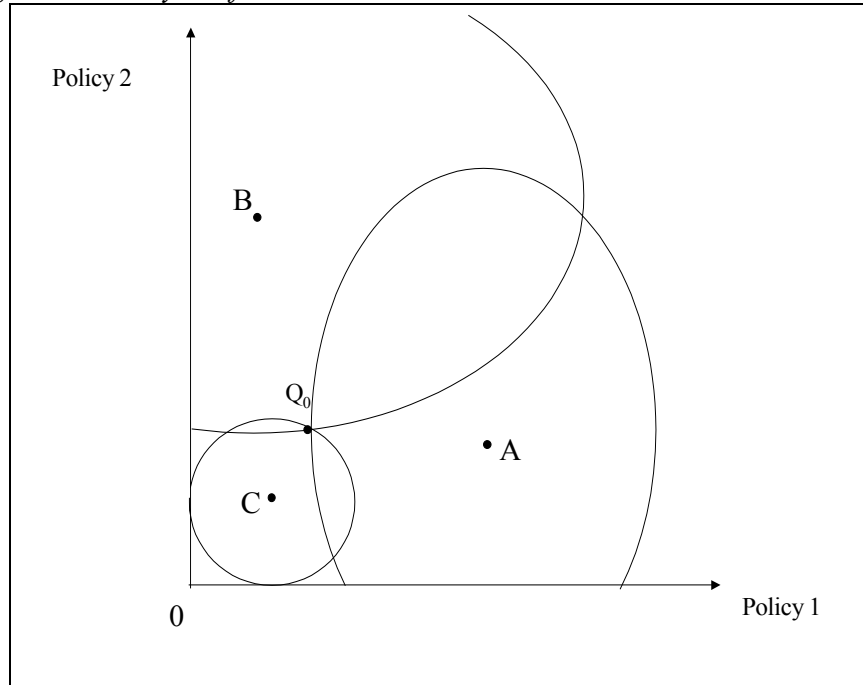
Having described the working of the budgetary process we can proceed to show how these rules allow for strategic action by the Executive. The theory of the Brazilian political system presented in section 2 posited that the internal rules of Congress, of which the budgetary procedures are a subset, centralize power in the hands of the Executive allowing the means to greatly influence congressmen's behavior. By using a simple spatial model, this section illustrates how those rules safeguard the Executive from having its initial proposal disfigured by Congress and at the same time allows just the right type and number of amendments to be approved so to allow the exchange of support for appropriations that are so important for producing governability for the president and pork for the coalition members. Whereas the model focuses on the effects of the internal rules of Congress on the final budget, including amendments, that emerges from Congress, the next section will provide evidence that those exchanges do in fact take place.

We start out with a very simplified scenario where the Executive has no power to prevent Congress from altering its budgetary proposal. Under these unrealistic conditions the Executive has no recourse to stop Congress from changing the budget from his preferred point to some other point preferred by a majority in Congress. Subsequently we give the Executive, step by step, a series of powers and examine how each of these allows him to safeguard his initial proposal from being altered by Congress. Each of these safeguards represents actual rules and features of the Brazilian budgetary

process, so that taken together they imply that the Executive runs little risk of having his proposal changed against his will.

To simplify assume that there are only two different policies for which the budget can be set, policy 1 and policy 2. Assume additionally that there are three congressmen, A, B and C, with preferred points as shown in figure 1. The figure has been drawn so that A prefers a higher level of policy 1, B a higher level of policy 2 and C a relatively low level of both. This would be the case, for example, if policy 1 yields benefits mostly to A's constituents and policy 2 to B's constituents, with C being a fiscal conservative. As described in the previous section the Executive has the prerogative to formulate the budget considering its estimates of total revenue and expenditures for the following fiscal year. Suppose that the result of this procedure was a budget as represented by point Q_0 in figure 1. In order to show the preference of each congressman, the locus of points for which they are indifferent to point Q_0 are shown. Points within each indifference curve are preferred to those in or beyond the curve. We have chosen to draw these curves as ellipses so as to allow A to care more about policy 1 and B about policy 2. The more elongated the ellipses, the more skewed are the preferences towards one of the policies.⁷

Figure 1 – Policy Preferences



Let us abstract momentarily from the role of the committee in the process of amending the Executive's budget proposal and assume that amendments are approved by a majority of Congress. In figure 2 the indifference curves are truncated to show only the three petals composed of the set of points that command a majority against point Q_0 , that is, the win-set of point Q_0 or $W(Q_0)$. Not all points in $W(Q_0)$ are feasible, however. The points in $W(Q_0)$ to which the budget can be amended depend on the rules of the budgetary process. Assume for now that the initial level of expenditures set by the Executive cannot be increased, only relocated. The line $P_0^1 - P_0^2$ is therefore a budget constraint that limits the points to which the initial budget can be amended. This line has a slope of -1 , indicating that to add one dollar to a given policy the same amount must be subtracted from the other policy. All points on or within the $OP_0^1P_0^2$ triangle are feasible.

Figure 2 – Constrained Budget Amendment Process

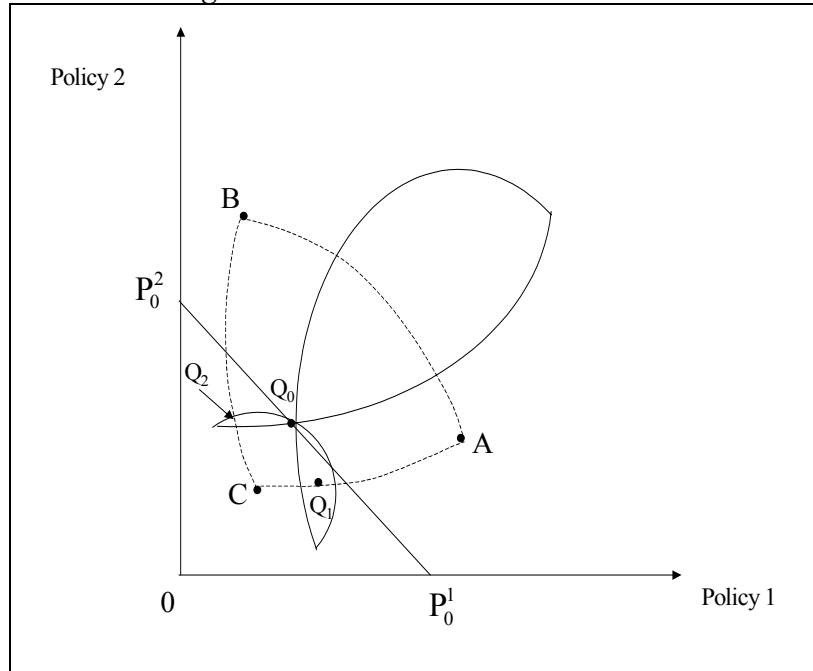


Figure 2 also depicts the contract curve between each pair of congressmen (dotted lines). These lines show the locus of Pareto optimal points for each pair, that is, the points where there are no changes that can improve at least one of the two without harming the other. If the indifference curves were perfect circles the contract curves would be straight lines. The rounded shape of these curves is due to the elliptical preferences. If any pair of congressmen formed a coalition to amend the budget, one would expect that they would chose a point within the petal formed by their indifference curves through Q_0 that is also on their contract curve.

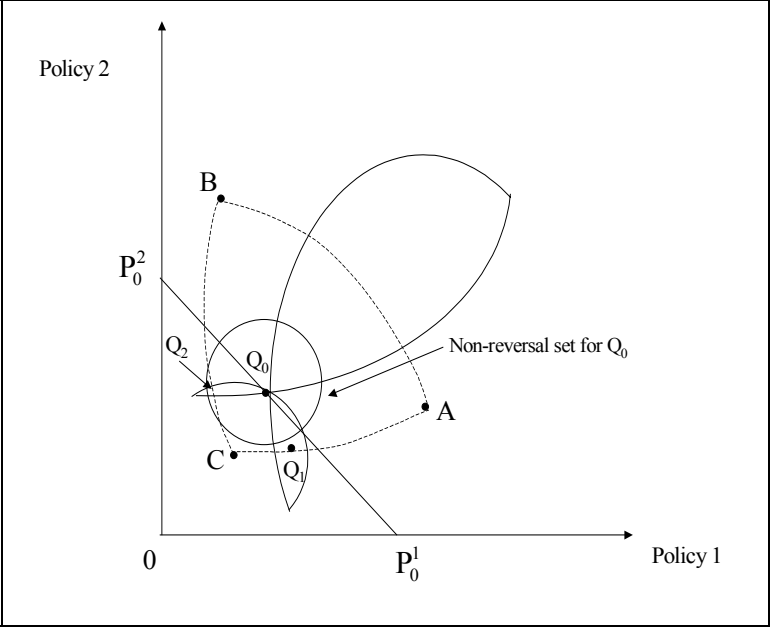
Given the configuration of preferences in figure 2, the Executive's initial budget at Q_0 , and a constraint on creating new expenses, which amendments would we expect to be approved by Congress? Without any further institutions restricting the sequence of moves or establishing veto gates, we cannot make a single prediction that will pinpoint where the amendments will take the budget. That is, under the current simplified setting there are not enough elements to guarantee a structure induced equilibrium to the budget amendment process (Shepsle and Weingast, 1981). Nevertheless we are able to make some predictions as to the set of points to where the budgeted can be amended. This set of points should be the intersection of the $OP_0^1P_0^2$ triangle, the petals formed by the indifference curves through Q_0 and the contract curves. We would expect, therefore, that a point such as Q_1 or Q_2 would result from Congress's amendment process.⁸

Note that the amended budget can turn out quite different than the one sent to Congress by the Executive. This means that under the setting that we are currently assuming, the Executive would risk being rolled by Congress in the budgetary proposal. This outcome however is not in line with observed outcomes in Brazil, nor with the level of Executive preponderance in its relationship with Congress. In what follows we introduce more realistic rules to the model for it to reflect more closely the actual budgetary process in the Brazilian Congress.

I – Presidential veto – In actual fact the president is allowed to veto the budget proposal amended by Congress. This veto can be for the entire proposal or only selected parts, which allows the president considerable control over the form of the final budget. If there were no cost for the president to applying

these vetoes, then the initial budget proposal from the Executive at Q_0 would be the expected outcome. Congress would not even go through the trouble of amending the budget in the knowledge that these amendments would be vetoed. The fact that budget is extensively amended without triggering vetoes suggests two possibilities. The first is that although the amendments move the budget away from the Executive's preferred point, the president may actually benefit from having the congressmen amend it, as the process of executing these amendments gives the Executive leverage to bargain with the congressmen. This possibility will be further elaborated below. The second reason that may restrain presidential vetoes is that there may be a cost for the president to veto the amendments. This may be, for example, a political cost in terms of opposition aroused by the striking down something that is desired by a particular group. Alternatively, in the case where a total veto is used it may be the costs that arise from having to start the budget procedure anew and risk starting the new fiscal year without a budget enacted. The vetoing cost can be incorporated into the analysis as shown in figure 3, where a non-reversal set has been drawn around point Q_0 . These are points where the Executive would want to veto the amendments but for which the cost of doing so are higher than the benefits of having the budget back at Q_0 . Note that the way this set was drawn in figure 3 the amendments that moved the budget from Q_0 to Q_1 would be vetoed but not those that moved it to Q_2 .

Figure 3 – The effect of veto costs.

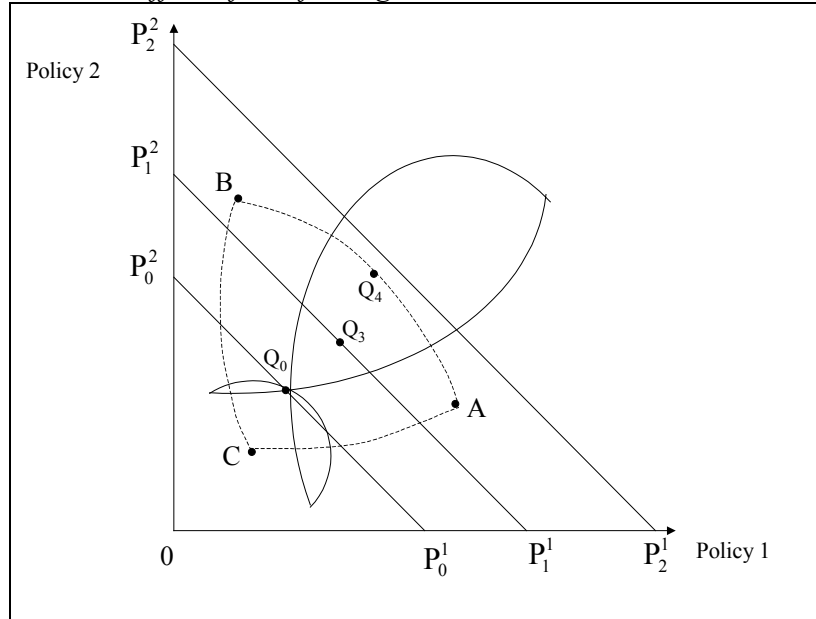


II – Soft constraints on budget amendments

One important difference between the simplified scenario described above and the actual budgetary process in Brazil is the fact that the congressmen are allowed to make amendments that add new expenditures to the budget. As was described in the previous section each congressman is allowed a certain number of amendments (currently 20) up to a specified total value (currently R\$ 2 million). Figure 4 show the effect this change would have on the expected outcomes from the budgetary process. Whereas previously the final policy would have to be within the triangle defined by the $P_0^1P_0^2$ line through the initial proposal by the Executive, the possibility of adding new expenditure relaxes that restriction to a line such as $P_1^1P_1^2$. This would enable A and B to collude around some point within the petal formed by their indifference curves through Q_0 to reach a point such as Q_3 . If the volume of new

expenditures were allowed to be sufficiently large, shifting the budget constraint to $P_2^1 P_2^2$, congressmen A and B could even reach a point on their contract curve such as Q_4 , although it remains the case that there is still no telling whether the final outcome will be a point close to Q_1 , Q_2 or Q_4 . In any case the possibility of adding new expenditures to the budget exacerbates the danger to the Executive of having the initial proposal disfigured by Congress.

Figure 4 – The effect of a soft budget constraint.



Casual observation indicates that Congress does impose several amendments to the budget each year, which suggests that points such as Q_3 and Q_4 may in fact be reached if in fact the Executive overestimates receipts. However, rather than accepting that the Executive is being rolled by Congress, a different explanation will be provided below. Once again, the fact that the Brazilian Executive has mechanisms to protect its interest in all other legislative proceedings leads us to expect that if points such as Q_3 and Q_4 are being reached then this outcome must be favorable to the Executive. In order to understand how this can be the case we need first to describe two ways through which the Executive is able to allow the budget to be amended by Congress while still maintaining close control over the process so as to prevent any unwanted outcomes.

III - Congressional budget committee (CMPOF)

As was noted in section 2 the CMPOF is the locus within Congress where decision-making power over the budget is concentrated. In particular some specific positions within the committee (president, vice-president, general *rappporteur* and sectoral *rappporteur*) are able to considerably influence outcomes in the budget amendment process. Because the appointments to these positions are made by the party leaders, in proportion to the size of each party in Congress, the control over the budgetary process in Congress is actually held by the leaders of the parties in the government's coalition, since they hold a comfortable majority of the seats. Under these conditions the result of the interaction between the congressmen to amend the budget will be subject to new restrictions. Assuming that the committee's powers allow it sufficient control over the process, we would not expect the amended budget to make the committee worse off than the Executive's original proposal. If we assume that congressman C in figure 4 holds the powers of the committee, then the amended budget would be expected to be closer to C's preferred point than Q_0 . That is, if A and B tried to amend the budget to a

point such as Q3 or Q4, the committee would be able to derail those proposals. The observation of outcomes that make the committee worse off than Q0 will only be observed if the committee willingly decided to allow this to happen, which it would only do if the losses in doing so were compensated by other means. Below we will argue that this is in fact the case.

IV – Restrictions over what policies can be amended by Congress -

In the current institutional setting that we are examining the Executive has several means to assure control over the budget amending process in Congress. Not only does the Executive have the exclusive right to establish the status quo by choosing Q₀, but it can also guide the process in association with the majority coalition that controls the budget committee. And if all else fails the Executive can veto the amendments in whole or in parts. Nevertheless there are still further safeguards in the budgetary process that prevent the Executive's proposal concerning the budget from being changed by Congress. As was noted in the previous section most of the expenditures in the budget proposal are not subject to Congressional amendments. These expenditures are set by the Executive and cannot be changed by Congress. The budgetary rules are such that Congress only has the possibility of influencing the resources in the investment category, which typically accounts for only 1 to 3 % of all budgeted expenses. This means that the congressmen actually have very little influence over the total budget. Not only is most of it beyond their reach to amend, but even that part which they can amend is closely controlled by the Executive.

V - Strategic use of budget amendment appropriation

Given that the budgetary rules allow the Executive such a high level of control over the process, it may seem odd that in actual fact a very high number of amendments are made to the budget by congressmen. Even though these amendments can only target a very limited set of expenditures, they still represent important resources that one would expect the Executive to rather use according to his own preferences. As we have been suggesting throughout this section, there are good reasons for the Executive to willingly allow the congressmen to amend the budget, even though this normally means having resources spend in a different way than the Executive would otherwise choose. The reason for this is that the approval of the amendments is not really the final step in the budgetary process. Even after the budget has been approved, including the amendments, the actual appropriation of the programs and projects in the budget is not guaranteed. It is the Executive that is in charge of paying out the resources for the expenditures specified in the budget. It so happens that in deciding when and how much of the resources will be paid, the Executive is allowed a very high degree of discretion. This allows it to strategically make the choice of which congressmen's amendments will actually be appropriated and which will be shelved despite having been approved. Therefore it gives the Executive a very important instrument to reward and punish the congressmen according to the level of support or opposition they give to the Executive throughout the year. Alston and Mueller (2000) modeled the interaction of the Brazilian Executive and its coalition in Congress and showed how the use of the power to strategically appropriate the congressmen's amendments is an important currency that allows these actors to cooperate. The appropriation of the amendments is one of the main ways through which the Executive is able to "purchase" support for its proposals. By trading support for patronage, one of the main components of which is the appropriation of amendments, the Executive and its coalition have been able to reap the gains to trade in the legislative "market." This has been crucial to enable the Executive to approve several important reforms in the 1990's. It is therefore clear that the Executive has very good reasons to allow the congressmen to amend the budget. The loss in terms of budgetary resources is more than compensated in terms of the support the Executive is able to obtain in exchange for the strategic appropriation of the amendments.

The model presented above illustrates how the internal rules of Congress centralize powers for defining the budget in the hands of the Executive. The theory presented in section 2 posited that while this was the case within the legislative arena, the congressmen's incentives in the electoral arena pushed them towards individualistic rather than party or coalition oriented behavior. These two sets of incentives in conjunction are key determinants of congressmen's actual behavior. We argue that for the members of the ruling coalition, these incentives often make it an optimal strategy to support the Executive within Congress so as to reap the electoral benefits that accrue from appropriated amendments. In the next section we provide evidence that these exchanges do in fact take place.

Section 5 – Strategic Use of Congressional Budget Amendments

In order to present evidence that the Executive does strategically use the appropriation of budget amendments, a first test is done by comparing roll call data for each member of the Chamber of Deputies with the number of individual amendments that were in fact appropriated as a proportion of those proposed by the congressman and approved by the Congress. The idea is to regress the proportion of appropriated amendments against a variable that measures how frequently the congressman voted as recommended by the Executive in the floor of the Chamber of Deputies.⁹ By controlling for other variables that may influence the Executive's decision to appropriate a given congressman's amendments, we can test whether voting behavior influences that choice. The estimation of this relationship through ordinary least squares would not yield consistent estimates since there are reasons to believe that the error of this regression is correlated to the voting variable. Note that not only would one expect voting to affect the appropriation of the amendments, but also that a congressman that has had more amendments appropriated would, *ceteris paribus*, tend to vote more favorably to the Executive. We therefore have two endogenous variables and consequently need to estimate a system of equations where both these variables are determined. The system, which we estimate using an instrumental variable estimator, is:

$$Appropriation_i = \beta_0 + \beta_1 Votes_i + \beta_2 Number\ Amendments_i + \beta_3 Seniority_i + \beta_4 Position_i + \varepsilon_i$$

$$Votes_i = \alpha_0 + \alpha_1 Appropriation_i + \alpha_2 Position_i + \alpha_3 Concentration_i + \alpha_4 Left_i + \alpha_4 Center_i + v_i$$

The variable *Appropriation_i* is the percentage of all amendments proposed by a legislator and approved in Congress that the Executive actually appropriated.¹⁰ Since a large number of the approved amendments are not appropriated, the Executive is rewarding those congressmen with a high rate of appropriation. The first right-hand side variable is *Votes_i*, which measures the percentage of all votes by a congressman that coincided with the position of the Executive and which we are treating as endogenous. It can be seen as a measure of loyalty or support to the Executive. A positive and significant coefficient for this variable would suggest that the Executive does in fact take into consideration the legislator's voting behavior when deciding which amendments to appropriate. The first control variable in this equation is the number of amendments proposed by the legislator, *Number Amendments_i*, given that those who present more amendments would have, *ceteris paribus*, higher chances of having some amendments appropriated. The variable *Seniority_i* is the number of previous terms a congressman has served in Congress. It is included in the first equation so as to control for the effect that experience and a reputation may have in helping to secure appropriation of one's amendments. The final variable in the first equation is *Position_i*, a dummy equal to one if congressman *i* was ever the president or vice-president of a permanent or a special committee. The purpose of this variable is to control for the fact that congressmen who have what it takes to hold special positions within the legislative hierarchy may also be better at getting their amendments appropriated.

The second equation has $Votes_i$ as the left-hand side variable and the key explanatory variable is $Appropriation_i$. If its coefficient is positive and significant we can conclude that the Executive can affect the voting behavior of the congressmen by strategically selecting which amendments to appropriate and which to shelve. In order to control for other determinants of voting behavior we included $Position_i$, explained above, and $Concentration_i$, which measures the percentage of votes received by legislator i in the 1994 election in the municipality where the legislator got the most votes.¹¹ This variable captures the effect of the direct influence the electoral constituencies have on the legislators' pattern of voting inside Congress. It is commonly held that the greater the electoral concentration of a legislator, the closer he/she will be to the constituency. Therefore, he/she will have a greater difficulty voting according to the president's interests, and a larger probability of voting in line with his/her constituency's preferences. Finally we also control for the congressman's party affiliation through dummy variables for parties in the left and in the center, with the right-wing parties being the left-out category.¹² These party dummies should control for a wide variety of legislator's characteristics for which we do not have specific data. We chose not to add the party variable to the first equation, because we view the congressman's party as affecting how he/she votes, and the voting behavior in turn affecting the number of amendments that are appropriated. Therefore, party membership does affect a legislator's amendments, but does so indirectly by determining how he/she votes. That is consistent with our argument: the president rewards congressmen based on their loyalty and not on party membership.¹³ The regression results are given in Table 1.

Table 1: Relationship between a Legislator's Support for the Executive and the Proportion of the Legislator's Amendments that are Appropriated (1995-1998)

| | Dep. Variable: Votes | Dep. Variable: Appropriation |
|----------------------|-------------------------|---------------------------------|
| Constant | 43.60*** (2.79) | 14.52*** (3.03) |
| Appropriation | 0.882*** (2.76) | |
| Votes | | 0.321*** (6.19) |
| Position | 1.54 (0.75) | -0.613 (-0.367) |
| Concentration | 0.179** (2.264) | |
| Left | -29.86*** (-6.32) | |
| Center | -1.74 (-0.864) | |
| Number of Amendments | | -0.163 (-0.700) |
| Seniority | | 0.038 (0.52) |
| R² | 0.28 | 0.10 |
| N | 401 | 401 |

Instrumental variables estimation

t-stat. In parentheses; significance 1% ***, 5%***, 10% *

Covariance matrix is White's robust, heteroscedasticity corrected matrix (White 1980).

In order to obtain consistent estimates, given the simultaneity between $Votes_i$ and $Appropriation_i$, the estimation was done through instrumental variables, where the instruments were variables that should be correlated with the endogenous right-hand variable in each equation but not correlated with

the error term.¹⁴ The key results in the regressions are the positive and significant coefficients for the voting behavior variable and the amendment appropriation variable in each other's equation. These coefficients show that even when controlling for other variables that may affect the Executive's decision whether to appropriate a congressman's amendments, an increase in the congressman's voting loyalty increases the probability that his/her amendments will be appropriated. In the same manner, the higher the proportion of amendments that a congressman has appropriated, the more he/she will vote with the Executive. Clearly the choice of amendment appropriation by the Executive and voting behavior by the congressmen is determined by more factors than those included in the regression, as shown by the relatively low R^2 s.¹⁵ Nevertheless the results are consistent with the argument in this paper that the individual budget amendments are used as an incentive mechanism by the Executive, who exchanges them for support for his proposals in Congress.

Concentration also presents a positive and statistically significant coefficient in the voting behavior equation. It indicates that legislators, who received a more concentrated vote distribution in the previous election, exhibited a higher probability of voting according to presidential preferences. In other words, contrary to what was expected, legislators with more concentrated constituencies tended to be more supportive of the Executive's position. This result suggests that these legislators are more dependent on providing pork than those that have a more dispersed electorate. As expected, the variable *Left* had a negative and significant coefficient, confirming that those legislators are more likely to vote against presidential preferences.

Another important indication of the president's influence over legislators' behavior was the Cardoso government's decision to centralize the Executive's assets through the creation of a special System of Legislative Performance, called SIAL (Decree N° 1.403, 21 February 1995). With this institutional change, the Cardoso government inaugurated a new and more efficient way of simultaneously controlling legislators' demands and voting performance. According to Eduardo Graeff, Executive Assistant of the Ministry of Political Issues

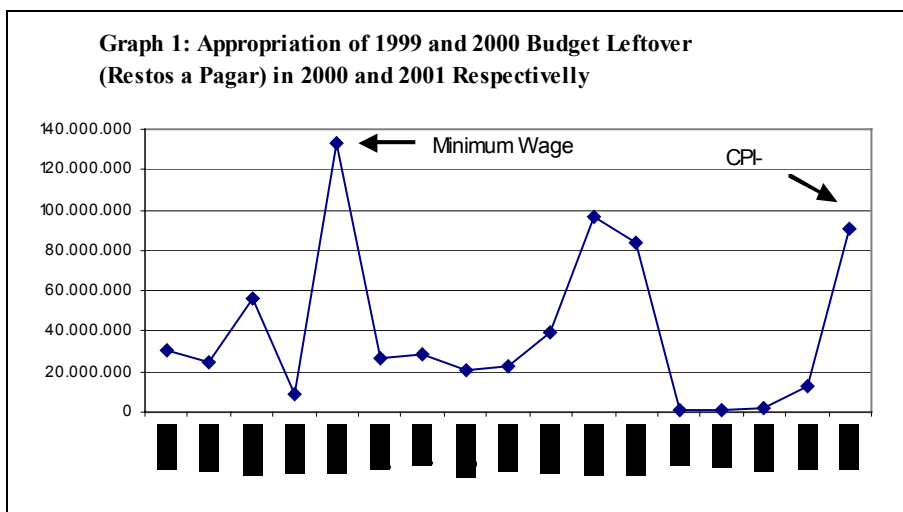
“...At the beginning of the government, we had noted the absence of an institutional mechanism capable of controlling legislators' demands. It was not unusual to see several legislators, many of them unfaithful to the government, requesting benefits from different government agencies and Ministries oriented to assist their electoral constituencies. We decided, thus, to take upon ourselves the control of this situation centralizing all legislators' demands at the SIAL. This centralized system allows us to have a perfect picture of what legislators have requested as well as to what extent the Executive has really answered their demands.”¹⁶

In other words, the SIAL works by balancing pressures between legislators' demands and their voting behavior in Congress. It helps to rationalize and control the Executive's budget expenditure, decreasing the costs of bribing legislators to support the Executive by allowing it to answer the demands of faithful legislators while avoiding wasting resources on unfaithful ones.

Therefore, legislators who usually worked through bureaucratic networks in different ministries to get access to public resources, now have to deal directly with the General Secretary of the Presidency who has complete information about what they want and about how they have behaved. This new configuration further weakened the legislators' ability to negotiate with the Executive, which strategically rewards faithful legislators especially in the last month of the fiscal year. For instance, in the last four fiscal years more than 2/3 (66.8% in 1999; 66.04% in 2000; 74.11% in 2001; and 69.9% in 2002) of the appropriation of total investments, were appropriated in December, most of them as a kind of left over (*restos-a-pagar*) that will actually delivered only in the next fiscal year. That is, the Executive's strategy is to wait until the last moment to appropriate budget investments, including both

individual and collective amendments, as a way of pressuring legislators to behave according to its preferences during the year. For other categories of the budget, which the legislators cannot amend, the government has a completely different pace of disbursement not concentrating them late in the year. Whereas the proportion of expenditures in the investment category that was concentrated in December was 43%, 67%, 66%, 74% and 70% in 1998, 1999, 2000, 2001 and 2002 respectively, the values for all categories aggregated was 12%, 26%, 11%, 13% and 15%.

Despite all the institutional devices for enforcing its preferences, the Executive occasionally has to appropriate the legislators' demands earlier in the year, either to deal with controversial roll calls or when it needs to block unwelcome opposition initiatives. A good example happened in May 2000 when Congress attempted to increase the minimum wage beyond the preferred level of the Executive. As we can see in the Graph 1, the peak of individual amendments appropriation (R\$ 133 million) took place exactly in the month when this key issue was voted.



Traditionally, it is on May 1st that the government announces the new minimum wage. On this occasion, however, this discussion was anticipated to March because the Special Committee of Minimum Wage in the Chamber of Deputies, which was dominated by the Workers' Party (PT), coalesced with the President of the Congress (and also the principal leader of the PFL, one of the main parties of the governing coalition), Senator Antônio Carlos Magalhães, to increase the minimum wage by 30%, to the equivalent of US\$ 100, whereas the Executive proposed a maximum increase of 11.3%. When the President realized that he would lose this discussion in Congress he decided to pass it by Provisional Decree (MP) on March 23rd, more than one month before the usual date.

This decision was highly unpopular, as the government was negotiating an increase of 43% in the ceiling for the salaries of top public officials and judges. To aggravate this situation 2000 was an electoral year for municipalities, which implied high electoral costs for those legislators planning to run for mayor, to support the presidential proposal on the minimum wage. (According to the *Estado de São Paulo* 11/05/2001, 144 legislators had already announced their pre-candidacies for mayor). As a MP has to be voted by Congress within 30 days (or to be reissued by the Executive) to become law, ACM and the opposition saw this as an excellent opportunity to override the MP in Congress.

Under the threat of facing defeat (about 90 legislators of the presidential coalition had already signaled that they would vote against the presidential position), the government postponed the roll call on this issue so as to reconstruct its parliamentary base of support. By maneuvering House rules and procedures, the government managed to reschedule this decision to May. In the meantime, to rebuild its congressional majority, the Executive had to satisfy legislators' demands by disbursing resources

through individual amendment appropriation. On May 10 2001, the Executive finally triumphed in approving the MP on the minimum wage at its preferred level with a supermajority of 305 Deputies and 48 Senators.

A remarkable example of blocking unwelcome legislation occurred in May 2001 when the opposition attempted to establish a Congressional Inquiry Committee (CPI) to investigate corruption within the government. Since the beginning of 2001, the government followed its gradual pace of disbursement of the 2000 left over (see Graph 1 again). In January, for instance, the level of appropriation was about R\$ 500 thousand; in February increased to R\$ 1.33 million; and in March reached approximately R\$ 1.97 million. In April, when the government realized there was a high risk of the CPI being established, it accelerated the speed of disbursement to about R\$ 13.2 million. However, during the second week of May, after the main opposition party announced that they had finally reached the required number of signatures (171 Deputies and 27 Senators) to install the CPI on corruption, the disbursements jumped to more than R\$ 90 million.

Although this may have presented some political cost, it was very effective: 20 legislators belonging to political parties of the government's coalition removed their signatures and the CPI was aborted. For instance, the day before withdrawing his name, Deputy Oliveira Filho (PL-PR) saw his individual amendment of R\$ 80.000 oriented to benefit his main electoral base, the city of Florai-PR, be fully appropriated. The same happened with Deputy Augusto Nardes' (PPB-RS) amendment, which appropriated R\$ 103.000 to his most important bailiwick; with Deputy Robério Araújo (PL-RR) who appropriated R\$ 389.000 of his amendments; Deputy Eujácio Simões (PF-BA) R\$ 82.000; Deputy Ursicino Queiroz (PFL-BA) with R\$ 69.000; Deputy Luiz Moreira (PFL-BA) with R\$ 260.000. However, the most effective legislator was the Deputy Luciano Bivar (PSL-PE) who conditioned the withdrawal of his name from the CPI to the appropriation of his budget amendment of R\$ 1 million oriented to his main electoral stronghold, Jabotão dos Guararapes (Folha de São Paulo, May 12, 2001).

At first sight it may seem that the amount of money spent by the government to keep its coalition disciplined in these two occasions was very large. However, comparing this to the total amount of resources that were allocated to investments it turns out that it is in fact only a very small fraction of that total. The amount of resources in the amendments that have in fact been appropriated from 1998 to 2002 make up less than 2% (in 2001 just above this level, 2.4%) of all government spending. The resources in the budget designated to pay and refinance debts, constitutional transfers to state and local municipalities, social security, and those related to operational costs of public agencies cannot be touched by Congress in the budgetary process. Thus, the amount leftover to be designated to individual and collective legislators' amendments is extremely low. In other words, the legislative actions regarding the budgetary sphere are basically restricted by and reactive to the Executive's initiatives. As noted in the previous section these restrictions act as safeguards that ensure that Congress will not alter the Executive's budgetary proposal in the most important issues.

Furthermore, not all resources designated to investment are subject to legislators' amendments. It is difficult to have a precise number on these amounts. One of the main reasons is that some legislative amendments to the original budget proposal sent by the Executive have their appropriation aggregated. For instance, if a legislator approves an amendment of R\$ 100 thousand in an original subproject of R\$ 15 million, its appropriation will appear aggregated as if the legislator had appropriated the total amount, not only the specific part that he/she in fact amended. Likewise, the government can also take advantage of a project (amendment) made by a single legislator to reallocate resources by additional credits, and as in the previous example, its appropriation will be aggregated.

In general terms, around 18 to 25% of the total allocated to investments are related to both collective and individual legislators' amendments. Since the adoption of the quota of R\$ 1.500.000 per

legislator, the total maximum of individual amendments is R\$ 890 million (581 legislators, including senators and deputies, times 1.5 million). According to the Committee of Finance and Control, the amount of resources allocated as collective amendments is about R\$ 3.5 billion per year, of which 70% is devoted to investments.

Further evidence of the strategic use of individual amendments is provided in by the pattern of appropriation of individual amendments by party during the second term of the Cardoso government (1999- 2002). The legislators that belonged to the five political parties that make up the presidential coalition in Congress (PFL, PSDB, PMDB, PPB, and PTB) received on average 83.19% of the total public resources that were appropriated as individual amendments, whereas they held only 73.68% of the seats in the House. In other words, the governing coalition appropriated resources more than proportionately to their size in the Chamber of Deputies, while the opposition was under-rewarded. A striking example is the difference of appropriation between members of the PTB and the PT (the main opposition party, Worker's Party). While the PT holds almost the double of seats (11.3%) than the PTB (6.0%) its legislators received less than those of the smaller party (5.8% versus 7.5%). This suggests that the Brazilian Executive takes into account both the size of the political parties in Congress and whether they belong to the presidential coalition.

Section 6: Conclusions

This paper has analyzed the budgetary process in Brazil and showed how it is under the close control of the Executive. The rules are such that the Executive does not risk seeing its budgetary proposal disfigured by Congress. Not only can the Executive veto any undesirable changes that Congress may inflict on its proposal, but also the Executive has a series of institutional instruments and informational advantages that allow it to safely guide the process through Congress. As if that weren't enough, the budgetary institutions further safeguard the Executive's preferences by putting the most important parts of the budget out of the congressman's reach, since they are only allowed to amend an astonishingly small part of the entire package.

Despite this high level of control Congress nevertheless systematically proposes and approves a large number of amendments to the annual budget. Even though the resources involved are few relative to the whole budget expenditure, it may seem surprising that the Executive, given the instruments at its disposal, would allow its proposal to be moved from its preferred position in such a manner. We argue that the Executive is willing to suffer this cost because it gives rise to the opportunity to use the appropriation of the proposed amendments as a means to obtain support from the members of the coalition in day-to-day voting in Congress. That is, the strategic use of amendment appropriations provide the Executive benefits in terms of support in Congress that more than compensate the loss of having its initial proposal altered. This explains why the Executive not only doesn't use its institutional and informational advantages to stop its proposal from being changed, but it even encourages the amendments by systematically overestimating the level of revenues that it expects to be available. The congressmen are not fooled by this strategy but are willing to go along with this game since it provides means through which the majority coalition is able to coordinate to secure its own political benefits. The parties and the individual members of the coalition benefit by receiving budgetary resources that though small relative to the entire budget, significantly increases their probability of electoral success and political survival.

Thus, rather than having the effect of leading to large public deficits the multi-party coalition based presidential government in Brazil provides an environment where the Executive achieves a high level of governability at a low cost. The series of institutional devices that allow the Executive to control the legislature and, in particular, the budgetary process, thus counterbalances the frailty of its electoral,

party and federal systems, that are so often discussed in the literature as responsible for weakness of the political system and the source of low governability.

Thus, despite the presence of a decentralized electoral system and a fragmented party system, the optimal legislative electoral strategy in Brazil has not been concentrated on personal votes, but rather on its opposite, the party vote. At first glance, this assertion seems paradoxical, given the premise that legislators are subject to electoral incentives to behave individually. Indeed, the majority of legislators vote according to their party leader's indication (presidential preferences) in order to accumulate greater benefits in the Congressional and governmental arena and thus to strengthen their chance of political survival in the local sphere.

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Endnotes

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¹ Alesina Hausmann, Hommes, and Stein (1999: 255) found similar results for OECD countries. However, for these authors what define the size of the deficit are budget procedures. “More specifically, procedures which include constraints on the deficit and are more ‘hierarchical’ and transparent lead to a lower primary deficits. Hierarchical procedures are those that, for instance, limit the role of the legislature in expanding the size of the budget and the deficit, and attribute a strong role to a single individual (typically the Treasure Minister) in the budget negotiations within the government, limiting the prerogatives of the spending ministers.

² Although our analysis here is focused on the budgetary process, other scholars demonstrate positive and significant correlations between legislature support to presidential preferences and selective distribution of political assets controlled by party leaders and by the Executive. Amorim (2002), for instance, demonstrates that the allocation of cabinet posts is highly associated with party discipline in Brazil. Pereira (2002) also shows that the distribution of hierarchical legislature posts (Standing and Special committees, Directorate Table, etc.) follows legislators’ cooperation with the Executive.

³ For a more detailed description of the Brazilian budgetary process see Sanches (1997), Serra (1994), and Bezerra (1999).

⁴ In Brazil the executive can veto the budget proposal approved by Congress in parts or as a whole.

⁵ The high level of competition among legislators to take part in the Joint Budget Committee has led to frequent increases in the number of seats in the CMPOF. In 1988 there were 60 effective members (45 deputies and 15 senators) and today there are 84 members (63 deputies and 21 senators). According to Serra (1994), the increase of the number of seats within of the CMPOF was the way party leaders found to cope with different legislators’ pressures, as the mere presence in the committee significantly boosts the chances of approving amendments.

⁶ In 1989, for instance, the number of individual amendments was 11.000; in 1990, 13.000; in 1991, 71.000; in 1992, 76.000; 1993, 13.000; 1994, 23.000 (Rocha, 1997).

⁷ If A cared only about policy one and B only for policy 2, their indifference curves would be vertical and horizontal lines respectively.

⁸ It may seem odd in the example that the constraint is not binding for the final predicted budget configurations. One would expect that all parties would agree to a different configuration where all could be made better off. This is due to the specific preferred points that were chosen for each of the three congressmen. In particular it is congressman C that causes the outcomes to be below the constraint. In most cases one would expect most of the congressmen to have preferred points well above the constraint so that in all solutions it would be binding.

⁹ In Brazil the Executive, via its leader in Congress, generally announces its position on a bill before it is voted on the floor.

¹⁰ All the variables are constructed with data from the Brazilian Congress for the years of 1995 to 1998.

¹¹ Note that in Brazil a deputy’s district is the entire state.

¹² Our data are for 1995 to 1998 and therefore cover the first Cardoso term. This president lied to the right of all parties in Congress, except perhaps PFL, and had preferences sufficiently close to the five coalition parties and sufficiently far from the opposition parties on the left that the division of the dummy categories into *Left*, *Center* and *Right* are expected to lead to negative, ambiguous and positive impacts on voting loyalty respectively.

¹³ In the same manner seniority enters the *Appropriation* but not the *Votes* equation, since it is a proxy for “knowing the ropes” in legislative proceedings and as such should increase the number of appropriated amendments but not systematically affect the pattern of votes. The concentration of votes (*Concentration*) on the other hand is included in the *Votes* but not the *Appropriation* equation. Whereas the electoral consequences of having a concentrated constituency is clear our argument provides no reason why the president would consider this fact when deciding on appropriations. Once again the effect is indirect: concentration affects votes, which in turn affect appropriations.

¹⁴ The following variables were used as instruments: a dummy variable equal to 1 if the deputy entered the governmental coalition during the period, a dummy variable equal to 1 if the deputy left the coalition, the number of times the deputy changed parties, a dummy equal to 1 if the deputy has held other elective office, a dummy equal to 1 if the deputy is of the same party as the governor of his state, and a dummy equal to 1 if the deputy is of the same coalition of the mayors from his/her main electoral stronghold. These two last variables try to capture the influence of regional and local political actors, who hold political resources such as public funds and jobs, on the legislators’ behavior.

¹⁵ A reviewer noted that popularity of the president could have an important effect on congressmen’s voting behaviour, as it is less costly to support a popular president than an unpopular one. Unfortunately our data do not have a time dimension so we can’t differentiate for periods of different popularity. It is noteworthy that towards the end of his second term F.H. Cardoso presented lower levels of popularity and encountered more resistance from Congress.

¹⁶ Interview realized at Eduardo Graeff’s office in Brasilia on September 1997.