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The Political Economy of the Budgetary Process in Uruguay

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Introduction

Uruguay has been traditionally characterized as one of the most stable and representative democracies in Latin America. Part of this evaluation rest on the strength of its political institutions and the clear preferences of citizens and elites to conceive democracy as the best regime to solve political conflicts (Latinobarometro 2004). Furthermore, to a large extent, the dominant view of Uruguay as one of the strongest democracies in Latin America lies on the way in which the policy making process takes place and particularly the form in which institutions and actors interact in the making of most policy outputs. This interaction between a complex institutional design with a large number of actors (with divergent preferences), has made of Uruguay an outlier during the last ten years of economic and state reforms in the region (Lora 2001). In this context, the budgetary policy in Uruguay represents one of the best examples to illustrate the extent to which politics and institutions affect policy outputs.

This paper explores the extent to which Uruguayan institutions (as interbranch relations, electoral rules, budgetary rules, etc…) and political actors (parties, factions, interest groups and bureaucrats) involved in the budgetary process affect the fiscal performance of governments in terms of *sustainability*, *efficiency* and *representativeness*. Since the early nineties and the beginning of the structural adjustment and the economic reforms of the Washington Consensus, Uruguay has been strongly committed to implement a restrictive fiscal policy. However, unlike most Latin American countries, Uruguay has been able to sustain a relatively large public sector and particularly the largest welfare state in the region. To a large extent, this particular combination is the result of a democracy characterized by a large number of veto players, where the institutions and the policy preferences of the political actors are key explanatory factors. It is in this context that the budget law has become the most important piece of legislation for all incumbent governments and relevant political actors.

The paper is structured in six chapters. Chapter one describes the broad policy making process (PMP) and the set of actors and institutions characterizing the Uruguayan political system. Chapter two describes the budgetary policy making process (BP), in terms of its legal procedures and the actors involved in this process. Chapter three combines the features of the PMP and the BP concluding with a set of hypothesis dealing with the level of *Sustainability, Efficiency and Representativeness* of the fiscal policy. Chapter four develops those hypotheses with evidence on public expenditures, indicators of efficiency of the public sector and the process in which the budget bill is negotiated, involving institutions and actors. Chapter five discuses the main findings and concludes.

1. The Uruguayan Policy Making Process

1.1. *Political Institutions*

Political structures are basically composed by two sets of rules. On the one hand, governmental institutions are shaped by rules concerning the balance of power in inter-branch relationships. On the other hand, electoral systems are orthogonal to executive-legislative relations, since the political consequences yielded by those rules affect the number of actors in the policy making process (Cox and McCubbins 2001; Haggard and McCubbins 2001; Scartascini and M 2003). Additionally, two mechanisms of direct democracy complement the executive-legislative relations and the electoral rules as the whole set of political structures.

First, Uruguay is a presidential regime with several differences regarding the paradigmatic U.S case. The main feature of the Uruguayan political system deals with the influence exerted by the Executive branch over the whole policy making process. This is the consequence of an ample set of rules where presidents hold an asymmetric control over the legislative agenda. For instance, Presidents control institutional devices such as total or item vetoes, the ability to initiate bills in strategic areas (such as tax policy), the possibility to introduce emergency bills, and more importantly, the authority to initiate the budget bill. Likewise, Uruguayan presidents hold important non-legislative powers over cabinet appointments and other key bureaucratic posts (Buquet et al. 1998).

Second, Presidents are elected for a five-year term without reelection.[2] Until 1996, presidents were elected by plurality and Double Simultaneous Vote (DSV). This electoral device allowed parties to present multiple candidates for the presidential race, given that voters were able cast their ballots primarily for a party and then for a presidential candidate within the party. In this context, given that candidates (within parties) were able to sum up their votes (for the party) elected presidents were the most voted candidates within the winner party. A constitutional reform in 1996 changed this controversial electoral rule, setting the presidential election by majority runoff[3]. Additionally, it was constitutionally established that all parties have to perform primaries in order to select their single presidential candidates.

Uruguay has a bicameral Congress. Senators and Representatives are elected by proportional representation-closed lists system, under DSV[4] for a five-year term with unrestricted reelection. Until 1996 all elections were simultaneously. Currently, legislative elections take place with the first round of presidential elections. Citizens cast their votes for a list of candidates for the legislature (Senate and Representatives) and the presidency in the same ballot. The Senate has 30 members elected in a single national

[2] Until the 1966 constitutional reform presidents and legislators had four-year term mandates.
[3] The 1996 constitutional reform removed the DSV for the presidential elections without affecting legislative elections.
[4] The different factions within parties provide party lists for the senate and the lower chamber. In the same ballot, the voter cast vote for: a) a presidential candidate and his or her corresponding vice-president; b) a list of candidates for the senate, and; c) a list of candidates for the lower chamber (see:Buquet et al. 1998).

district plus the vice-president. The chamber of Representatives has 99 members elected in 19 multimember electoral districts.[5] In a first step, seats are allocated among parties applying the D´Hondt formula on a national basis. Secondly, the distribution takes place within parties (among factions), also under proportional representation and within districts with a minimum of two representatives for each district. In this way, proportional representation is preserved in a perfect fashion.

Complementing the aforementioned factors, the Uruguayan institutional design has mechanisms of direct democracy. Among them, there are two remarkable constitutional devices that have been used during the last twenty years of democracy. On the one hand, the constitution allows citizens to collect 25% of registered voters in order to implement a referendum to revoke or endorse the law.[6] However, it is important to note that this institutional device does not apply to those bills in which the Executive branch has exclusive power to introduce legislation, such as the budget bill. On the other hand, the Constitution allows the use of direct democracy to reform the own Constitution. In this case, reformers have to promote the amendment with the support of a 10% of registered citizens.[7] Although the technical nature of this institution is different to that of the referendum, both devices have worked as a reactive device against the reforms carried out by all governments since the democratic restoration in 1985.

1.2. *Parties and Party System*

Uruguay has one of the few institutionalized party systems in Latin America (Mainwaring 1999). First, to a large extent, this characterization deals with the fact that two out of three parties (*Partido Nacional* and *Partido Colorado*) are one the oldest in the world history. While *Nacionalistas (PN)* and *Colorados (PC)* have 168 years, the left

[5] The Uruguayan legislature has two large districts. The national Senate, which elects 30 members plus the vice-president and Montevideo for the lower chamber, which elects 44 out of 99 members. In addition to these large districts, there is one medium size district (Canelones), and seventeen small two and three-member districts (corresponding to the countryside departments).

[6] Promoters have been successful in two occasions: “Privatization of major public firms” in 1992 and the “Association of the state oil company with private firms” in 2003. They did not achieve their goal to revoke the “Amnesty to military involved in human rights violations during the authoritarian regime” in 1989. In three occasions the popular support failed in obtaining 25% of the electorate to make use the referendum: “Deregulation of transmission, transformation and distribution of electricity” in 1998; The “Reduction of the available period to workers to make claims against employers” in 1998, and; the “Improvement of Public and Private Services, Public Security and Promotion of Productive Activities” as an emergency law passed in 2001. Additionally, there is only one case in which the Parliament anticipated the citizenry. In this case, the Parliament revoked a Law in order to avoid the use of a referendum that was surely going to be revoked by the citizenry. This was the case for the “partial privatization of the mobile State-owned company”.

[7] Two popular initiatives have been successful: “Adjustment of pensions based on wage fluctuations (1989), and pension regulations via budgetary amendments” (1994). Pensioners and retirees promoted both plebiscites in 1988 and 1993 respectively. Two popular initiatives were unsuccessful: a constitutionally fixed budget amount for public education (1994), and financial independence of the Judiciary (1999). Both plebiscites were promoted by labor organizations associated with the public education system and the Judiciary, and in the latter case the Supreme Court supported the referendum. Currently, there is an initiative to be considered by a plebiscite during the next election of 2004, dealing with the state management of water resources and its contracts with private firms.

wing *Frente Amplio (FA)* was born in 1971 (34 years old). This longevity reveals a strong stability across time and there are no presages that the current party system will suffer a major transformation in the short run.

Until 1971, the Uruguayan party system was a robust bipartism (see Table 1). particularly since 1985 and the democratic restoration, the emergence of the left-wing party (FA) transformed this format into a multiparty system with tree parties and a half, if we considered the systematic presence of a small fourth actor.[8] In any case, the system reveals stability and party system change in a slow fashion, unlike non-institutionalized party systems.

Table 1: Effective Number of Parties (1962-2004)*

	1962	1966	1971	1984	1989	1994	1999	2004
Electoral	2.4	2.4	2.7	2.9	3.4	3.4	3.3	2.5
Senate	2.3	2.1	2.6	2.7	3.2	3.2	3.2	2.3
Deputies	2.4	2.3	2.7	2.9	3.3	3.2	3.3	2.4

* Source: Buquet et al. 1998 and Corte Electoral

A second relevant feature contributing with the level of institutionalization identifies Uruguayan parties as agents with deep roots in society. All parties have been the central mechanisms of representation and expression of political interests. Uruguayan voters have been identified for decades with *Nacionalistas* and *Colorados* and the same signs are becoming true for the growing electorate identified with *FA*. These deep roots in society have important political implications. Essentially, it leaves no room for the advent of populist leaders that have been characterizing many inchoate Latin American party systems. But more importantly, deep roots in society are associated to very low levels of electoral volatility, which decreases the chances of political instability (see Table 2).[9]

Table 2: Electoral Volatility and Vote Distribution (1962-2004)*

	1962	1966	1971	1984	1989	1994	1999	2004	Average
Total Electoral Volatility	7.6	7.6	8.9	5.2	13.3	11.6	10.0	21.9	10.8
Colorados and Blancos	91.1	89.7	81.2	76.2	69.2	63.5	55.1	45.7	71.5
Frente Amplio	-	-	18.3	21.3	21.2	30.6	39.8	50.4	30.3

* Source: Buquet et al. 1998 and Corte Electoral

A third factor deals with the recognition of elections and parties as the best mechanism to express popular demands. As we said at the outset, Uruguay has been consistently located among those countries in which the overwhelming population prefers democracy to any other type of political regime. However, it is also true that parties have lost part its

[8] The Unión Cívica until 1989, and the Nuevo Espacio between 1989 and 1999.

[9] Comparatively, these values are very low regarding other Latin American countries. According to Mainwaring and Scully (Mainwaring and Scully 1995), considering four elections held during 1970-1990, Costa Rican electoral volatility was of 18.2; measuring four elections for the Venezuelan case for 1973-1993, the index was of 17.7; Chile, for three elections during 1973-1993 showed an 18.4 percent of electoral volatility.

legitimacy in recent years, as a part of the economic crisis and also other more general trends of discredit that politicians have here and around the world. Despite those increasing levels of discredit, no outsider and new parties have been able to challenge the party system as has been observed in other institutionalized party systems like in Venezuela.

Fourth, Uruguayan parties are factionalized. This type of internal organization is the direct consequence of electoral rules that facilitate the existence of these agents within parties. These factions are institutionalized and stable groups within parties and generally lead by presidential candidates or national senators.[10] As can be seen in Table 3 the number of factions has remained stable over time, with the only exception of the 1966 case.

Table 3: Effective Number of Legislative Factions (Senate). 1946-2004*

	1962	1966	1971	1984	1989	1994	1999	2004	Average
Colorado Party	2.7	4.3	2.8	2.4	3.7	3.1	2.0	1.8	2.7
Nacional (Blanco) Party	2.5	4.6	3.8	1.8	2.9	4.1	1.7	2.5	2.6
Frente Amplio	-	-	-	2.5	3.3	3.4	4.7	4.9	3.8

* Using the same formula for the Effective Number of Parties, this calculus takes into account the number of lists for the senate as the best proxy to consider factions.
Source: Buquet et al. (1998) and Corte Electoral.

The existence of factions within parties does not imply that parties are weak. Parties are organized around factions, but they are still relevant agents in the political system, since there are rules and procedures to make joint decisions beyond factional divisions or the policy preferences of specific factions. In sum, it is important to note that Uruguayan parties cannot be considered as unitary actors, because factions are relevant and stable agents within and outside parties or the political system as a whole.

Given the electoral rules characterized by a PR-closed list system, faction leaders have a strong power to control the nomination process and by implication the party discipline in parliament. Since the nomination control rest to a large extent on the leader's discretion, individual legislators have strong incentives to follow his or her faction leader and his policy preferences. It follows from this type of nomination process that legislators follow the faction discipline. Since faction leaders have control over the nominations, undisciplined legislators will not be endorsed for reelection and their chances for gaining endorsement for other career paths are fairly low.

Finally, the party system has shown a centripetal mode of political competition. The fact that parties are oriented towards government enables the chances to achieve political agreements. Before the democratic breakdown in 1973, Uruguayan politics was characterized by high levels of ideological polarization affecting the whole policy making process and particularly the chances of regime break. However, after 1985 and the democratic restoration, the levels of ideological polarization have been characterized by

[10] There are no legal impediments to create new factions within parties. However, beyond the interest of politicians and voters, its relevance in the political system will depend on its ability to remain stable and gain parliamentary representation on a permanent basis.

moderate and low levels of polarization, facilitating the chances to make political agreements among parties.

1.3. *Characterizing the Uruguayan Policymaking Process (PMP)*

Thus far we have argued that the Uruguayan policy making process is influenced by three broad institutional features: a) the presidential regime that set terms for both executive and legislative powers; b) a president with strong legislative powers to control the ability of parties and legislators to influence the PMP; c) a multiparty system with factionalized parties. This section shows that the combination of these three features helps to create a PMP with a cyclical pattern composed by two discernible periods within each presidential term, characterized by cooperation and conflict.

In the context of a presidential regime with a multiparty system, most Uruguayan presidents since 1985 have been forced to form governmental coalitions to pass their policies. Thus, before each government takes power, most presidents have to negotiate the policies to be incorporated in the political agenda. This process implies an intense inter and intra-party negotiation process[11], based on an exchange of political support in a set of strategic bills (for the president) for cabinet portfolios demanded by those parties and factions that will be part of the governmental coalition. Given that transaction costs during the stage of coalition building will increase with the share legislative votes in the hands of presidents, some costs can be observed in the emergence of new ministries. In particular since 1990, some ministries have been created in order to satisfy the demands of certain opposition factions or whole parties, like the ministry of Housing during the Lacalle administration or Sports during the current government of president Batlle.

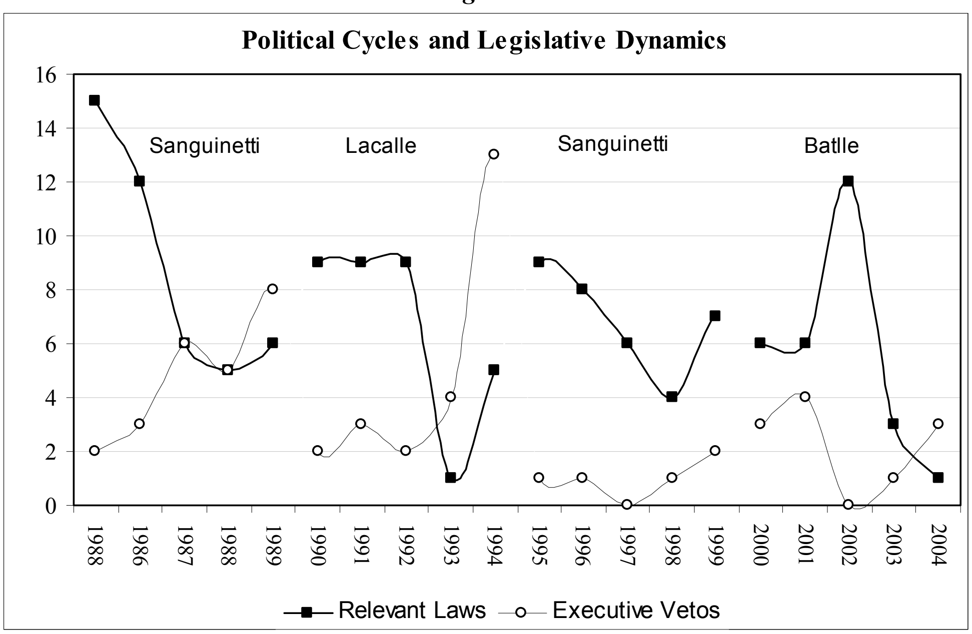
During the span of time that presidents are supported by the governmental coalition, they are willing to pass the agenda (or at least partially) and the policies negotiated at the coalition formation stage. However, as long as the presidential term progresses, the incentives for those who cooperate with the president decrease, given that the electoral calendar forces coalition members to compete. Indeed, the payoff structure of governmental coalitions under presidential systems determines that those who support successful governments will receive small benefits (votes), and for this reason coalition termination before the electoral campaign begins is a precondition to avoid such electoral inefficiencies. On the contrary, those who support unpopular or unsuccessful presidents have strong incentives for coalition termination. In both cases, the duration of governmental coalitions under presidential systems is limited by the electoral schedule. Given the process described above, as long as the term progresses the electoral competition leaves most presidents without legislative support to pass their policies. In sum, cooperation characterizes the first period of most Uruguayan administrations, while competition is the norm in a second stage.

[11] The intra-party negotiation is the result of the predominant model of parties. Given that parties are factionalized, presidents have to negotiate policies with other factions within their parties, in addition to the inter-party negotiation in order to form a governmental coalition.

While cooperation periods enable presidents to pass their agenda, competition periods are characterized by the presidential inability to buffer the policy preferences of the legislature and the opposition parties. In sum, cooperation periods yield policy formation under political agreements, while competition periods are more prone to policy stalemate or *status quo* (Buquet et al. 1998). This dynamics implies the ability to develop some political exchanges and get some cooperation in several areas, although that cooperation will be difficult to sustain until the end of presidential mandates.

The PMP evolves under the above political and institutional dynamics. The agenda setting process is determined by the cyclical pattern of government described above. As can be observed in Table 4, at the outset of each administration, presidents and coalition partners bargain on a set of policies that will prevail in the legislative arena. By implication, those policies will have political support in Congress. In addition to those contexts in which presidents are supported by governmental coalitions, some institutional features give them an important asymmetry in the congressional arena such as the authority to introduce the budget bill.

Figure 1



Source: ICP/UDELAR (see Appendix 1)

As can be observed in Chart 1, the political context within presidential and legislative terms changes as long they advance towards the end of each government. Indeed, most presidents systematically lose political support towards the end of their terms, which can be clearly observed with the number of important laws that the executive branch is able to pass in the legislature. Systematically, during the last years of each government the agenda tends to shift from the executive towards the policy preferences of the legislature and particularly in favor to those who are leaving the coalition or more specific agreements (Buquet et al. 1998). During the second part of the cycle, the policy agenda follows a more particularistic pattern, given the electoral proximity and the fact that during the first part of the cycle legislators were working with the policy preferences of the executive.[12] During this period, legislators are more prone to respond (via legislation or constituency service) to narrow constituencies and particularly some groups within the electorate. However, the most important consequence of this shift in the legislative agenda is that because legislators become more proactive by endorsing their own policy preferences, it makes more reasonable to observed increasing levels of interbranch conflict. As can be observed in Table 4, this makes reasonable to expect an increasing number of executive vetoes within presidential and legislative terms. (Magar 2002).

From the brief and preliminary description developed before, it must be noted that the number of veto gates and veto players with power over policy decisions is relatively large due to the set of institutions (presidential regime with bicameral legislature) and political agents operating within the system (fragmentation and party factionalization). Nevertheless, despite the presence of this different types of vetoes, the system has been relatively stable in maintaining a systematic path in the policy making process, patterned by a clear political cycle. In this context, the budget bill is passed during the first year of government.

2. The Budgetary Policy Making Process (BP)

Unlike most Latin American countries, the Uruguayan budget bill is a five-year program (*Presupuesto Quinquenal*) with yearly revision bills (*Rendición de Cuentas*), all of them proposed by the Executive branch and approved by the Legislature. This uncommon feature shows some important tradeoffs which will be developed in further sections of this paper. For now, it is important to note that the budgetary process is composed by four stages, such as; 1) Preparation; 2) Approval; 3) Execution, and; 4) Control. Each of these stages is regulated by constitutional provisions that determine the role of inter-branch relations in the budgetary process, as well as the role of other institutions and the bureaucracy (Moraes and Morgenstern 1998).

First, the preparation process starts at the beginning of each new administration. According to the Uruguayan Constitution (Art. 214), the Executive will project the bill with the assessment of the Office of Planning and Budget (OPP)[13] the five-year term national budget for the newly elected government (see *Table 4*). This draft will be submitted to the Legislative Power within the first six months after the new administration takes office.

[12] Interest groups have a limited influence as agenda setters. However, those groups have an important veto power. Generally, interest groups exert a direct pressure on the Executive in order to modify or reverse some policy decisions. When those pressures are ineffective, interest groups shift their efforts towards Congress and particularly to the committee structure.

[13] The Oficina de Planeamiento y Presupuesto (OPP) was created after the constitutional reform of 1967, and has ministerial status.

*Table 4: Budgetary Process of the Public Sector**

Stages	Preparation	Approval	Execution	Control	
				Internal	External
Executive branch (Art.214)	President + Ministers + OPP	Senate + Chamber of Reps. (General Assembly if discrepancies)	Each Program with budget allocations	Ministry of Finance (General Accounting Office) + OPP	Court of Fiscal Control
Legislative Branch (Art. 108)	Senate & Chamber of Reps.	Senate & Chamber of Reps.	Each Chamber	Each Chamber	Each Chamber
Judiciary & Decentralized Agencies (Art.220)	Each Institution + Executive branch	Senate + Chamber of Reps. (General Assembly if discrepancies)	Each Program with budget allocations	Ministry of Finance (General Accounting Office)	Court of Fiscal Control
Decentralized Organisms & Autonomous Agencies (Art.221)	Each Organism or Agency	Executive branch & OPP	Each Organism or Agency	Each Organism or Agency	Court of Fiscal Control & OPP

* Source: Moraes and Morgenstern (1998)

In order to elaborate a first draft of the budget bill, the OPP and the Ministry of Finance (MF) deliver to each of the twelve Ministries a set of directions or guides basically composed by the fiscal goals of the new government. These fiscal or spending constraints are the basis for each Ministry to elaborate its own budget. After this process, each Ministry delivers its budget to the OPP-MF to adjust the differences between the fiscal goals and each project sent by the twelve Ministries. Meanwhile, there is a dense process of political negotiation that confronts the preferences of each part. This is the core of the budget bill, oriented to provide the spending allocation for the central administration.

The Constitution (Art. 220) also regulates the budgetary process for another set of important institutions aside of the central administration. In this case, the Judiciary, the Court of Administrative Control and the Court of Fiscal Control, the Electoral Court and other Decentralized Organisms, among which it can be found the Public University and several Public Firms and agencies, will project their own five-year budget which will be sent to the Executive branch. The Executive will elaborate the budget bill incorporating each of these projects with its own amendments.

Aside from these two central parts of the budget bill, the Legislative Power (Art. 108) and the nineteen *Intendencias* (Subnational governments) are the only institutions allowed to make its own budget without the restrictions made by the Executive branch. However, as we will see below, both the *Intendencias* and the Legislative Power are subject to the external control of the Court of Fiscal Control (Filgueira 2002).

Second, the approval process is regulated by a set of constitutional devices involving Executive-Legislative relations (see *Table 4*). This process is characterized by six basic rules: a) the Executive branch has the exclusive authority to introduce all the legislation concerning budget bills; b) after the bill has been introduced into the Legislature, both chambers have up to four months to pass or reject the bill. If the bill is rejected, the previous five-year budget is automatically endorsed. Otherwise, the bill is subject to be passed or c) the executive is allowed to veto the bill, partially (item veto) or as a whole (total veto); d) the budget has to approved by an absolute majority of the members of each chamber; e) the Legislature cannot increase the amounts allocated to public spending without specifying the sources of those new expenditures; f) the executive branch is allowed to deliver two complementary budget bills with changes to the original bill.[14]

Within the Legislature, each chamber has the same authority to treat the budget bill, given that the constitution sets a symmetrical bicameralism. Each chamber has forty five days to make a decision and in those cases where discrepancies arise in the last chamber, the bill has to be submitted to the first one, with fifteen days to achieve an agreement. If there is no agreement, the bill has to be considered by the General Assembly, as the reunion of the two chambers with other fifteen days to decide. Once the bill has been introduced in one of the chambers (generally the Lower Chamber), it is automatically redirected to the budget committee. Eventually, this committee works in coordination with other committees (Health, Education, Transportation, etc.) in public hearings with the presence of bureaucrats and the Ministers who illustrate, clarify or support the budget bill.[15] Finally, the committee has to pass the bill by majority rule in order to be considered in a plenary session. Once the bill has been passed by the last chamber or the General Assembly, the Executive branch can automatically endorse the bill after ten days or introduce its veto power. In this case, a supermajority of three-fifths in each chamber is needed to override the Executive veto.[16]

Third, the execution process depends on the bureaucracy or State apparatus, given that each office executes the budget allocation that was determined by the budget law (see *Table 4*). However, the extent to which each office can execute its allocations depends on the ability and decisions of the Ministry of Finance to execute the spending. Since the Ministry is who makes the money transfers to each of the programs, cash availability becomes a determinant factor to execute all the programs specified in the budget law. The law and other administrative procedures also regulate the way in which each program has to execute the allocations. Although the law establishes a five-year term budget, the allocations are made on a yearly basis. This important constraint forces each program to execute the allocations during the year for which the spending was programmed. Otherwise, if the program does not execute the allocations, the remaining revenues are retained by the Ministry of Finances as a way of "punishing" those inefficient programs unable to execute its own budget.

Finally, there are two different types to controlling the budget execution (see *Table 4*). On the one hand, there is an internal control carried out by the Ministry of Finances

[14] These complementary bills have to be treated by the budget committee.
[15] The Executive branch has an important set of specialized agencies and experts that will be in most cases responsible for designing public policies, further delivered to the legislative arena, among which the budget bills is the most important one.
[16] Before 1996, overriding vetoes required three-thirds of the General Assembly instead of the same majority of each chamber. The difference after the constitutional reform is huge if we consider that in order to sustain the veto were needed 53 against 11 after 1996.

through the General Accounting Office (*Contaduría General de la Nación*, GAO) and the OPP for the case of the Central Administration (Constitution, Art. 214). In the case of the Judiciary and other autonomous institutions mentioned before (Art. 220), only the General Accounting Office is in charge of the internal control. However, for the case of the Legislative Power and the Decentralized institutions, such as the Public University and different public firms, the internal control is performed by each GAO (Art. 108 & 221). While the GAO focuses its monitoring on the legal and administrative aspects (supervising the execution of every budget unit and performing the internal control of the operations), the OPP should evaluate the budget operations and analyze the results according to the programmed goals.

On other hand, there is an external control for all the public administration carried out by the Court of Fiscal Control (*Tribunal de Cuentas de la República*).[17] This external control or oversight means that the institution monitors the administrative procedures (legality) followed by each program and the way the budget execution is performed by those programs. When the Court of Fiscal Control vetoes the way a program is executing its budget allocations, the program can accept the veto by reverting its actions. Otherwise, the Court submits the veto to the General Assembly who has the final decision.[18]

It is important to note that the aforementioned rules are designed to perform a technical control over the whole process of controlling the budget execution. Nevertheless, the role of the Legislature is determinant to understanding the extent to which there is also a political control in the way the administration is executing the budget. In this case, legislators and particularly opposition parties are allowed to request information and the attendance of Ministers and public servants to legislative committees (Art. 119). With the only exception of cabinet Ministers, this way of accountability does not imply that legislators have the authority to overthrown those responsible for the budget execution or public servants. Overall, the Legislature is weak in terms of controlling the budget execution, due to the lack of institutional resources to do so.

Additionally, the Internal Auditing Office (*Auditoría Interna de la Nación*) depends on the Ministry of Finance and controls the financial management through *ex ante* and *ex post* monitoring, with unrestrictive access to all financial registries. This entity also advises the executive on issues such as the efficient use of public resources and spending cuts. Although the process has been relatively successful in terms of control of regularity, the use of the technique of budget by programs did not encourage a reasonable application of proper management systems. The actual changes in the budget structure were scarce, since there was not a deep analysis of potential goals to be achieved and actions to be taken, but merely a validation of a structure of entities which functioned within the traditional budget logic. This did not contribute in terms of rationalizing the whole system. During the *de facto* regime (particularly in the early eighties), the budget

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[17] The only exception to this rule is that the external control for the decentralized and autonomous institutions, the control is made by the Court of Fiscal Control and the OPP.
[18] The monitoring activities of the GAO are carried out by "Central Accountants" at every unit level. Sometimes, they are also appointed as "Auditing Delegates" of the *Tribunal de Cuentas*, creating a confussion of roles of internal and external auditors and blurring the respective responsibilities.

readopted the spirit of the traditional techniques, although under the budget-by-program framework and denominations.

The actual alternatives for the budget execution that the financial administration of the State provides are essentially constrained by the fiscal targets set by each government. As we said before, most agents are subject to a bargaining process with the Ministry of Finance and the Office of Planning and Budget. The *de facto* budget procedures allows the government in office to keep the fiscal discipline, in terms of setting caps for the public expenditure and aligning the spending with the priorities submitted in the macroeconomic program. Since the action in this process is traditional, iterative and ritualistic, these procedures do not guarantee or even encourage coherence and efficiency.

3. The PMP and the Budgetary Process

The Uruguayan policy making process over-determines the whole budgetary process. This means that despite the set of rules governing all the stages of the budgetary process, systemic factors dealing with inter-branch relations (Executive-Legislative) and the party system (number and organizational structure of parties), are more important to understand the budgetary process and its outcomes. Notice that we do not reject the influence exerted by some specific rules dealing with the president's agenda setting powers during the budget proposition and approval as well as during the implementation process. Rather, we argue that macro-political and institutional dynamics are more powerful explanatory factors to understand the budgetary process in Uruguay.

The reason for this over-determination of the policy-making process is twofold. On the one hand, the institutional dynamics dealing with the presidential regime constrain the ability and desires of presidents to think in long term strategies and regulations for the whole public administration beyond their terms. Presidents are elected for a five-year term and the Uruguayan budget law is conceived as a medium-term development plan for each president. In turn, most presidents have attempted to pass their most important policy reforms within this law, which can be easily overturned during the next budget law. In this way, budgets have become typical omnibus bills, easily to be reverted by future budgets. Since this kind of laws regulate the structure and allocations of public spending within the administration, new budget bills may revert some reforms or regulations approved in previous laws. For instance, the education reform approved in 1995 by the Sanguinetti administration has been largely debated by different sectors of the current incumbent party (FA) who believes that the reform was inappropriate in several respects and deserves to be changed again. In recent years, the government announced that part of that reform is going to be reverted.[19]

On the other hand, and more importantly, since the early nineties Uruguayan presidents have been forced to build post-electoral coalitions as a consequence of their political weakness within and outside their parties (Chasquetti 1999).These political constraints have been far more powerful at the time of preparing and endorsing budgets than the set

[19] El Observador, 7/5/2005.

of rules of the budgetary process by which presidents have a clear asymmetrical power *vis-à-vis* the legislature. Thus, institutional and political determinants dealing with the political system are largely more important than the specific set of regulations governing the budgetary process.

This section presents a set of interactions between the broad PMP described before (with its actors and institutions) and the specific actors and rules involved in the BP. These interactions take place within each step of the budgetary process. The chapter concludes with a set of hypothesis emerging from this process of interactions.

3.1. Preparation

First, the preparation process starts at the beginning of each new administration. According to the Uruguayan Constitution (Art. 214), the Executive branch will project with the assessment of the Office of Planning and Budget (OPP)[20] the five-year term national budget for the newly elected government. This project or bill will be submitted to the Legislative Power within the next six months after the new administration takes office.

In order to elaborate a first draft of the budget bill, the OPP and the Ministry of Finance (MF) deliver to each of the twelve Ministries a set of directions or guides basically composed by the fiscal goals of the new government. These fiscal or spending constraints are the basis for each Ministry to elaborate its own budget. After this process, each Ministry delivers its budget to the OPP-MF to adjust the differences between the fiscal goals and each project sent by the twelve Ministries. Meanwhile, there is a dense process of political negotiation that confronts the preferences of each part. This is the core of the budget bill, oriented to provide the spending allocation for the central administration. Within those expenditures, at least two factors introduce an important level of rigidity at the time of preparing the new budget bill: Pensions and public wages.

Table 5: Structure of Non-Financial Public Sector expenditures: 1989-2002

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Wages	28%	26%	24%	22%	22%	21%	21%	22%	23%	23%	22%	23%	23%	22%
Social Security and Transfers	42%	43%	45%	48%	48%	48%	50%	50%	49%	49%	49%	49%	47%	47%
Goods and Services	10%	11%	11%	12%	12%	11%	11%	11%	11%	11%	12%	12%	13%	12%
Interest Payments	7%	6%	6%	5%	5%	4%	5%	4%	5%	4%	5%	6%	7%	12%
Operating Expenditures	86%	86%	86%	87%	85%	83%	87%	88%	88%	87%	88%	89%	89%	92%
Capital Expenditures	14%	14%	14%	13%	15%	17%	13%	12%	12%	13%	12%	11%	11%	8%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Instituto Nacional de Estadística & CINVE (see also Appendix 1)

[20] The Oficina de Planeamiento y Presupuesto (OPP) was created after the constitutional reform of 1967, and has ministerial status.

As can be observed in Table 5, the number of public servants and the basic beneficiaries of the social security system (pensioners and retirees) is large and stable enough to introduce an important constrain at the time of programming budgetary allocations for a five-year term. These two basic public expenditures have been a systematic source of fiscal pressure during the last three administrations, given the fact that public servants are irremovable and that the demographic pyramid of the Uruguayan population (3.3 million inhabitants) has achieved reproductive patterns identical to those observed in industrialized democracies.

Overall, the Uruguayan public sector has a set of rigid administrative costs that forces planners and politicians to focus on public investment as an adjustment variable. However, beyond these fiscal constraints that all governments had to face since 1985 and particularly since 1990, the budgetary policy has served as a strategic instrument of policy reform (Filgueira and Moraes 1999). In other words, although governments have been restraint to implement incremental changes to their budget allocations, they have used the budget bill as the most important programmatic instrument.

Since the Uruguayan budget is a five-year term law, it has served as a medium-term development plan. In this context, governments not only promote their fiscal plans and allocations but also several policy reforms. The inclusion of these reforms has been part of the preparation stage, since governments will not include policy changes in the budget bill unless they previously count on majorities in parliament. Because of the "law of anticipated reactions" (Cox and Morgenstern 2001), elected presidents negotiate within their parties and coalitions every single piece of legislation before they get into both branches of parliament.[21] Essentially, during the preparation stage the budget bill becomes a set of windows (Kingdon 1984) of policy negotiations between and within parties and factions. More specifically, the budget bill is mostly negotiated at the elite level between party or faction leaders outside the legislature.

Several important reforms have been passed during the last twenty years and others have failed in their attempt to be endorsed in budget bills. To a large extent, the probability of a certain policy to be passed within the budget bill depends on its level of negotiation previous incorporation into the budget. Thus, presidents and ministers who fail to link their policy preferences to the governmental coalition or majorities in congress usually fail if they attempt to pass policy reforms in the budget bill. For instance, an important part of the fiscal adjustment and several state and market-oriented reforms proposed by President Lacalle during the early nineties were disarticulated before getting into parliament. Further, those reforms were delivered as independent bills to congress, where some of them were endorsed and others rejected. Originally, Lacalle was planning an omnibus bill with several reforms that were vetoed by some factions of his own party and his coalition partners (Colorado Party).

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[21] Of course, some projects "born dead" or are sent without any chance of being approved. However, those projects serve as a position taking strategy, both for presidents, parties and individual legislators (Magar 2002).

More recently, Sanguinetti's government (1995-2000) was able to pass important policy reforms in education and public administration (among other policy areas), but he failed to pass an important heath care reform because at the time of getting into congress the reform was not negotiated within the coalition and a the interest groups and corporations affected by the reform plan (Filgueira and Moraes 1999). While examples abound, a simple comparison across budgetary negotiations indicate that those presidents willing to negotiate their differences with their coalition partners will pass their policy preferences. The cost, of course will vary depending on the level of political weakness of the president. The higher the level of political support in the hands of presidents (within an outside their parties) the smaller the number of policy concessions to their partners (Aboal and Moraes 2003).

In addition to these institutional and political features governing the preparation stage, the Constitution (Art. 220) also regulates the budgetary process for another set of important institutions aside of the central administration. In this case, the Judiciary, the Court of Administrative Control, the Court of Fiscal Control and several Public Firms and agencies will project their own five-year budget which will be sent to the Executive branch. The Executive will elaborate the budget bill incorporating each of these projects with its own amendments.

The problem faced by the institutions mentioned before is that although they are entitled to make their own budget bills, the fact that the Executive can deliver its own bill to the assembly limit their ability to achieve their policy preferences. To a large extent, the balance between the two bills will be the product of the political strength of the president in the assembly, but particularly the Senate. After both bills are submitted to the assembly, the Senate is generally in charge for the political negotiation with the executive and during the approval stage the process goes back to the preparation stage because the president is entitled to deliver up to two Complementary Bills (Mensajes Complementarios) within the two months after the budget bill has been submitted to the assembly.

In general terms, the preparation process is highly politicized in the sense that parties and factions compete for the better slice of the cake (as in most budgetary processes). The process can be opaque in that high transaction costs created by intense political negotiations can lead to concrete benefits with diffuse costs. However, the Uruguayan budgetary process is relatively transparent in that the competition between and within parties (among factions) usually compel these agents to "go public" with their policy preferences. Thus the dark or invisible side of politics is relatively buffered by the fact that the party system has been tremendously competitive in the long run and particularly since 1971 with the emergence of the Frente Amplio.

3.2. Approval

Second, the approval process is regulated by a set of constitutional devices involving Executive-Legislative relations. This process is characterized by six basic rules: a) the Executive branch has the exclusive authority to introduce all the legislation concerning budget bills; b) after the bill has been introduced into the Legislature, both chambers have up to four months to pass or reject the bill. If the bill is rejected, the previous five-year budget is automatically endorsed. Otherwise, the bill is subject to be passed or c) the executive is allowed to veto the bill, partially (item veto) or as a whole (total veto); d) the budget has to approved by an absolute majority of the members of each chamber; e) the Legislature cannot increase the amounts allocated to public spending without specifying the sources of those new expenditures; f) the executive branch is allowed to deliver two complementary budget bills with changes to the original bill.[22]

Within the Legislature, each chamber has the same authority to treat the budget bill, given that the constitution sets a symmetrical bicameralism. Each chamber has forty-five days to make a decision and in those cases where discrepancies arise in the last chamber, the bill has to be submitted to the first one, with fifteen days to achieve an agreement. If there is no agreement, the bill has to be considered by the General Assembly, as the reunion of the two chambers with other fifteen days to decide. Once the bill has been introduced in one of the chambers (generally the Lower Chamber), it is automatically redirected to the budget committee. Occasionally, this committee works in coordination with other committees (Health, Education, Transportation, etc.) in public hearings with the presence of bureaucrats and the Ministers, who illustrate, clarify or support the budget bill.[23] Finally, the budget committee has to pass the bill by majority rule in order to be considered in a plenary session.

Once the bill has been passed in the last chamber or the General Assembly, the President can use its veto power or can facilitate an automatic endorsement after ten days of legislative approval. In case of veto, a supermajority of three-thirds in each chamber is needed to override the veto.[24] These two stages in the approval process are markedly different. On the one hand, achieving legislative majorities to pass budget bills has not been necessarily difficult during the last three governments (Lacalle 1990, Sanguinetti 1995, Batlle 2000). The fact that all presidents have been able to build governmental coalitions since the democratic restoration in 1985 has guarantied enough political support in parliament to endorse the presidential or coalitional agenda. Indeed, this political support can be observed in the way budget laws have been passed in plenary sessions during the last twenty years, where the party discipline has been perfect for those within the coalition and the presidential party (Moraes and Morgenstern 1998; Koolhas 2002).

Additionally, the five-year term budget law in Uruguay is always approved during the "honeymoon" between presidents and citizens with high levels of party discipline in parliament (see Figures 2 & 3). The budget bill is negotiated and passed no latter than January of the second year of government. With this deadline, coalition members are still

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[22] These complementary bills have to be treated by the budget committee.

[23] The Executive branch has an important set of specialized agencies and experts that will be in most cases responsible for designing public policies, further delivered to the legislative arena, among which the budget bills is the most important own.

[24] Before 1996, overriding vetoes required three-thirds of the General Assembly instead of the same majority of each chamber. The difference after the constitutional reform is huge if we consider that in order to sustain the veto were needed 53 against 11 after 1996.

able to negotiate their differences and are far enough from elections to avoid electoral costs if the policy agenda turns out to be unpopular in those cases where fiscal adjustments have been part of the budget bill. Nonetheless, all bills serve as position taking instruments for those who promote and oppose a certain policy. Indeed, legislators frequently achieve agreements that they know are going to be vetoed by the president. Thus, most budget laws are also subject to a game of position taking in which individual legislators, factions and parties promote policies without any chance of being passed.

Figures 2

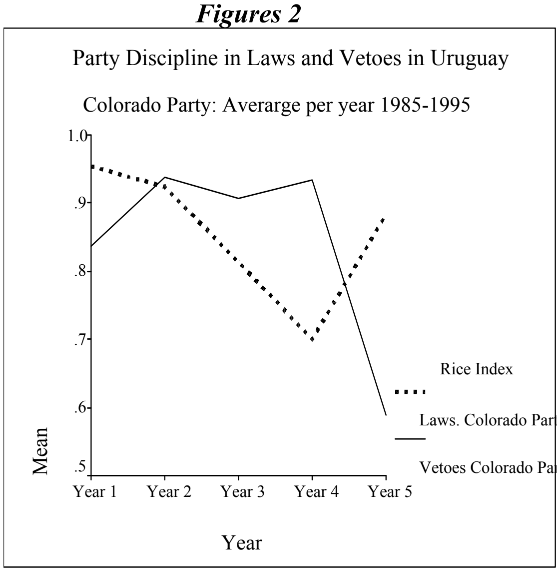
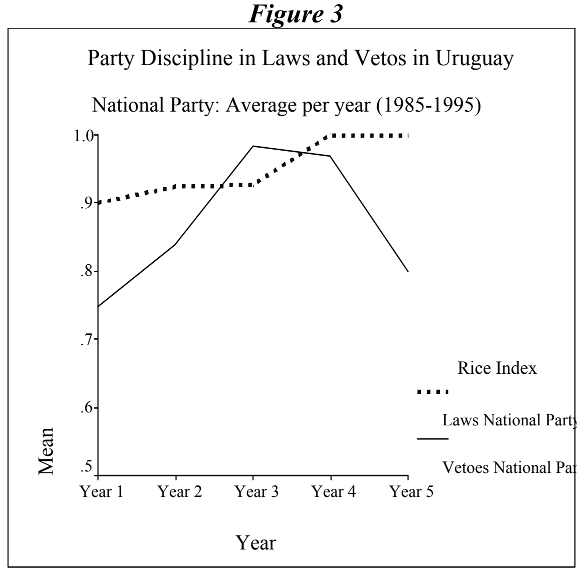


Figure 3



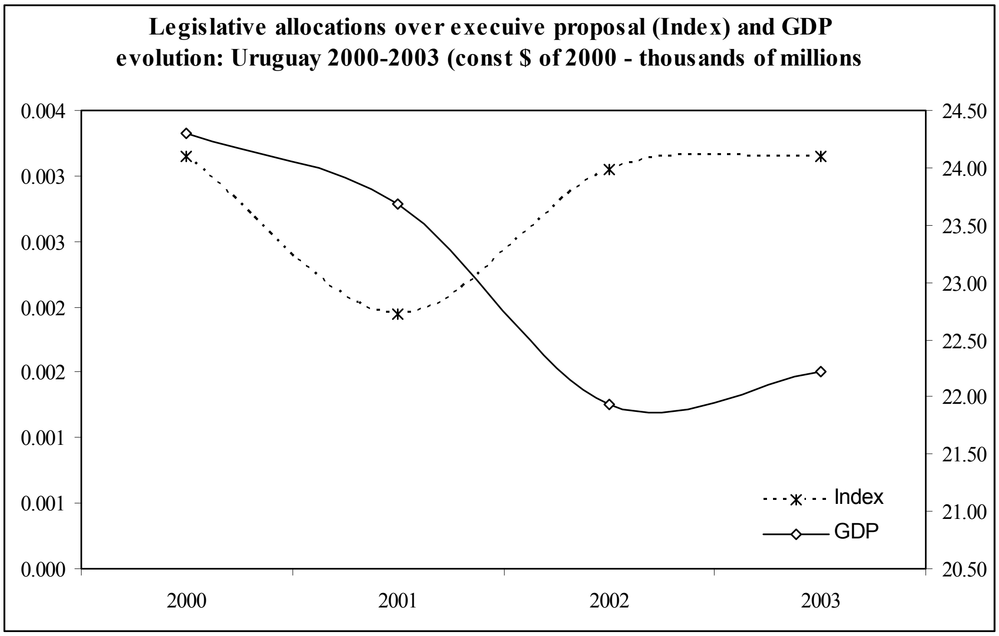
After approval in both chambers of parliament, presidents usually veto some parts of the legislation with which they disagree. However, at this point of the term presidents are strong enough to sustain most of their policy preferences. Overriding executive vetoes is less frequent during the fist-half of presidential mandates than during the second half, when presidents generally loose their political support, coalitions fall apart and parties and factions are inclined towards the electoral competition. Overall, budgets are passed without important contingencies in parliament within the first year of each government. However, to a large extent this "smooth" process is explained by the fact that presidents have to negotiate and anticipate contingencies that can potentially mean political defeats in parliament.

Within this context, since the Lacalle administration (1990-1994), presidents have been able to "impose" that beyond the five-year term budget law (see Appendix 3), each yearly revision will not modify the spending allocations and the provisions set at the original budget law. This strategy has been followed in order to avoid negotiations every single year, with the potential cost of political defeats for presidents after the second or third year of government. With only few exceptions, since 1993 presidents have endorsed yearly revisions (*Rendiciones de Cuentas*) with a "single-article no-expenditures" (SANE). More particularly, all yearly revisions after 1993 were delivered to the legislature with SANE with the exception of 1997 when only six articles were included to increase the allocations in public schools, and 2000 when three more articles increased the allocations to the military and the police. In 2002, the economic debacle forced the executive to make a tremendous fiscal adjustment that was obviously processed trough the yearly revision for that year. In this case, the executive delivered a bill with 163 articles (see Appendix 3, Table 3.2).

A variant of this scenario has been a reversion point by which no budget bill can be passed due to the lack of votes in parliament, in which case the president gets what he or she wants: the original budget allocations made in the original five-year term budget law. A good example of this is exemplified by the last two yearly revisions made by the Batlle administration (see Appendix 3, Table 3.2). In this case, the Senate was unable to achieve enough votes to pass the bill approved by the lower chamber and the president won his battle to sustain the original bill with SANE or what is the same, the original allocations made at the quinquennial budget bill. The strategy followed in recent years by the executive branch after the five-year budget law is approved has forced parties and factions to negotiate their differences during this process instead of each annual revision.

Why do parties and particularly factions endorse yearly revisions with SANE, even when executives are under minority condition in parliament? A tentative explanation is that the policy preferences of both traditional parties (Blancos and Colorados) have converged in their policy preferences over fiscal policy during the last decade. This point allows us to explain why Lacalle was able to pass a yearly revision in 1994 with SANE when he was a minority within his party and had no coalition partners to support his policies. An alternative explanation is that this policy convergence is endogenous to the scope of political competition. More particularly, since the Frente Amplio was an increasing electoral threat for Blancos and Colorados, fiscal discipline was presented by these parties as a good policy on which both had responsibility. Further, the second Sanguinetti administration (1995-2000) had the same features in terms of convergence over fiscal policy. In this case, the Blanco party was a coalition partner of the Colorado, supporting almost all policy reforms and bills delivered by the executive to the parliament. Notice that the Frente Amplio increased its share of votes in about 10 percent per election between 1989 and 2004.

Figure 4



Source: ICP/UDELAR 2003 & CINVE

Figure 4 illustrates the way in which the legislature changed the original budget allocations for each year proposed by the Executive branch during the former Batlle administration (2000-2005). A more detail description of this index with the data used for the calculations can be found in Appendix 2. The index captures the absolute change between the original proposal and the amounts allocated by the legislature for each program or agency and by extension the whole budget bill. The figure shows at least two tentative conclusions. On the one hand, that the legislature certainly changes the allocations made by the executive branch in the five-year budget bill. However, this changes are relatively marginal in terms of the overall budget expenditures and as a proportion of the GDP (see Appendix 2). On the other hand and more importantly, both branches of government elaborate and pass a quinquennial budget bill without having a clear notion of what is going on with the overall macroeconomic performance for the years to come. As can also be observed in Figure 4, the Uruguayan GDP plummeted in 2001 although the allocation of expenditures made at the outset where supposed to remain stable for 2002 and 2003. In this context, the yearly revisions are supposed to serve as a mechanism to adjust the availability of resources to finance programmed expenditures. Since 1993 the executive never used the annual revisions to cut or introduce new expenditures, but with the economic downturn of 2001 the executive had to introduce a fiscal adjustment modifying the expenditures allocated for 2002 and 2003.

3.3. Execution and Monitoring

The execution and monitoring of the budget bill depends to a large extent on the executive branch. First, the execution takes place on each office where budget allocations have been made. However, unlike other cases in Latin America (Baldez and Carey 1999), the way in which the budget bill is legally structured does not allow for discretion in the hands of bureaucrats or public servants, because each program has very specified budget allocations in all the items on which public expenditures are structured (wages, investments, administrative costs, etc…). In turn, the execution in the hands of the executive branch depends to a large extent on its own level of cash (or credit) availability.

Although, bureaucrats or public servants do not have almost any kind of discretion over budget expenditures or the ability to decide over certain unspecified funds, the fact that the executive can "declare" the lack of funds to finance certain allocations specified in the budget bill creates a *de facto* mechanism to shirk the law. Particularly during the Batlle administration and the economic crisis that has sealed this government since the year 2000, the executive branch has systematically shirked its obligations with several institutions of the public sector because of the lack of funds. This lack of resources is based on a consistent policy to avoid printing money to finance programmed activities if public revenues are not enough. In sum, the executive branch executes budget allocations depending on its level of cash (or credit) availability. If economic shocks appear and the government does not have the sources to cover the expenditures set at the budget bill, it usually affects the investments planned in the budget law. Thus, losers are always those affected by purchases of the state (i.e. private sector) or clients of the state (citizens), because public wages have been always paid, even under the worse economic conditions.

This kind of discretion over the execution has been the source of important political conflicts in two different arenas. On the one hand, it has caused struggles within the public sector between the executive branch and particularly the ministry of finance with labor unions for the lack of resources to finance budget allocations. Given that the Uruguayan public sector employs around 20% of the economically active population, conflicts within the public sector have been frequent and tremendously expensive for the public sector. On the other hand, these conflicts have had political consequences, in the sense that government and opposition have been systematically confronted for the way in which the administration creates a *de facto* mechanism to automatically adjust public expenditures when it does not have the resources to finance the budget bill. In this way, under the fiscal constraints observed in recent years, inflation is more likely to be controlled but at the cost of violating important legal obligations setup in the budget bill. Notice that political conflict here is endogenous to the level of fiscal constraint.

Second, the process of monitoring is also influenced by political developments and particularly the dynamics of party politics and governmental coalitions. One of the most evident cases during recent years has been that the same parties or coalition of parties (Nacionalistas and Colorados) controlling the executive branch have been the majority in those institutions responsible for controlling and monitoring the budget execution. This has been a relatively important source of inefficiency in the public sector with some consequences for the level of transparency. Furthermore, in those cases where the Tribunal de Cuentas de la Nacion (TCN) has identified illegal expenditures, the executive had to rely on the final resolution of the legislature who is in charge to judge in those cases where discrepancies arise. However, given that the legislature has been controlled by the same coalition of parties joining the executive cabinet, the legislature has been reluctant to make sentences against the executive branch and particularly the subnational governments under the political control of the same parties (Nacional and Colorado).

3.4. Drawing Hypothesis

From the previous two sections it is possible to observe that some political institutions and actors are tremendously important over the whole process of negotiation and decision making over budgetary policy, and particularly the type of interbranch relations and the number of agents or veto players involved. In other words, the influence of interbranch relations, the type of government (coalitions, single parties and minority governments) and the number of parties and factions with legislative representation are tremendously powerful factors influencing the level of *sustainability* and *representativeness* of the public expenditures. However, the same is not necessarily true for the level of efficiency. In this case, more specific rules governing the budget execution and monitoring are more powerful explanatory factors of the level of *efficiency*. In this case, the institutional capacity of public agencies, the amount and quality of the information, the human resources and the legal instruments with which the public sector has to deal with the execution and monitoring are more powerful explanations for the level of *efficiency* in public expenditures.

Within that context, we propose eight hypotheses to be developed in the next section. Hypotheses 1 to 5 have to do with the level of sustainability of public expenditures, where we link political institutions and actors to fiscal performance. Hypotheses 6 to 8 are focused on the level of efficiency in public expenditures and Hypothesis 9 deals with the level of representativeness of public expenditures.

> *Hypothesis 1. Public expenditures fluctuate with the electoral or presidential cycle. A primary consequence of this trend is that during the last decades electoral years show a clear tendency towards fiscal imbalances. This leads only to short term sustainability problems in public expenditures, because most second years of each term show fiscal adjustments to counterbalance the previous electoral cycle.*

> *Hypothesis 2. Uruguayan constitutional rules have changed dramatically since the early twenties; however, constitutionally powerful presidents (unlike collegial governments 1952-1966) do not have lower fiscal deficits.*

> *Hypothesis 3. Given that transaction costs are expected to increase with the number of political agents negotiating the budget bill: The larger the number of veto players (Hyp.3a=parties, Hyp.3b= factions) the larger the level fiscal imbalance.*

> *Hypothesis 4. Given that elections affect the behavior of incumbents and their propensity to increase public expenditures during electoral years, higher levels of electoral threat will create higher fiscal imbalances.*

Hypothesis 5. Presidents who have to negotiate governmental coalitions with opposition parties have larger fiscal imbalances.

Hypothesis 6. Efficiency problems arise because the budget bill has been used as an instrument for fiscal control. The execution stage is frequently affected by the level of cash availability and the fiscal program set by the ministry of finance, generally oriented to restrain public expenditures when external shocks occur.

Hypothesis 7. Efficiency problems during the execution stage are partly due to the fact that there is no legislative influence over this process. Legislators and the legislature as a whole have almost no influence after the budget has been approved.

Hypothesis 8. Interest groups and labor unions are relevant actors only at the approval stage of the budget bill, where they can exert public pressure over parties, factions and the executive branch. This pressure is oriented to change the original bill proposed by the executive.

4. Explaining Sustainability, Efficiency and Representativeness

4.1. Recent trends in Fiscal Outcomes.

During the late eighties, the economy recovered from the 1982 crisis but high levels of inflation persisted, and the average deficit for the decade was 5.5% of GDP. This was connected to an improvement in the situation of the region as a whole, a fall in oil prices, a rise in internal demand and a fall in interest rates. Income increased thanks to economic expansion, and because of a reduction in the weight of debt interest payments which resulted from the first re-negotiation of the debt and a fall in interest rates. Nevertheless, the fiscal balance was still in deficit. The possibilities of financing it were limited given the high level of accumulated debt and the high inflation rates. Additionally, there was a constitutional reform in 1989 which index-linked social security expenditures to past inflation rates, and this severely compromised the fiscal balance for the future.

In 1990 a new stabilization plan came into operation and a considerable fiscal adjustment took place, basically aimed at increasing income from taxation. Expenditure did not decrease very much because allocations to the social security system were particularly rigid. However, expenditure on interest payments fell as a consequence of Uruguay joining the Brady Plan. As a result of the fiscal adjustment, the primary surplus was 3.1% of GDP, while the conventional deficit fell from 6.9% to 3.1% of GDP. Another adjustment took place in 1992, including a partial reform in the social security arena. In 1995, with the increase in expenditure on social security, there was a new fiscal adjustment which involved a new increase in income from taxation, and restraint in expenditure. Also in 1995, a reform of the social security system was passed (this is described in more detail in the appropriate section) which ended the upward trend in expenditure on social security that had been making fiscal policy untenable. In 1996, a plan to reduce the number of public employees, which was aimed at reducing costs in this area, began to come into operation.

The primary deficit was always above what was necessary to stabilize the debt/product ratio of the previous year, and there was always the possibility of financing the deficit with external resources given that there was access to these funds (Borchardt, 1998, Rial, 2002). Additionally, the predominant view within the private sector was that the State would continue to be solvent, so fiscal policy seemed to be sustainable and solvent in the period (Rial, 2002). In spite of this, fiscal policy appeared to be potentially vulnerable in the face of big fluctuations in one of its fundamental determinants, the gap between devaluation and inflation. Vulnerability to the other relevant factors, interest rates and product, does not seem to have been significant (Rial, 2002). Towards 1999, problems began to emerge, making visible the vulnerability of the situation. A general deterioration in the regional situation took place, Brazil devalued its currency in 1999 and Argentina was hit by devaluation and recession in 2001.

In the face of these shocks there was no big adjustment in the Uruguayan economy, and in particular there was no serious devaluation, but there was a primary deficit of 1% after a decade of positive results. The deficit stood at around 4% of GDP. Since there was no problem about access to credit the deficit was financed in that way, and the gross debt rose from 40% to 55% of GDP while the net debt increased from 27% to 36% of GDP. In this context, solvency indicators fell rapidly. Hence, for example, the primary surplus necessary to maintain the same level of debt as the previous year rose to 8.5% of GDP, while the increase in income needed for this same purpose came to 5% of GDP. These figures were difficult to reach given that fiscal pressure after the successive fiscal adjustments was 31% of GDP, the highest in South America. Given that fiscal adjustment on the side of expenditure was not possible either, due to rigidity problems already mentioned, there did not seem to be any real solutions on the fiscal policy side to maintain exchange rate policy.

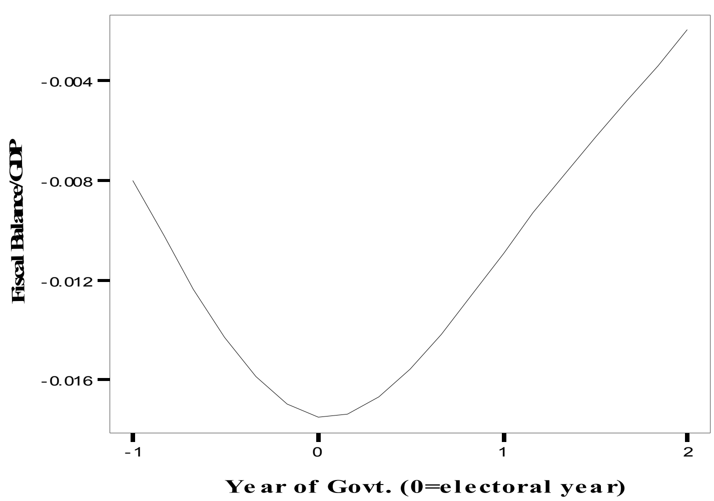
In 2002 exchange rate policy was abandoned and the exchange rate was allowed to float freely. The fiscal deficit was maintained at 4% of GDP and there was a considerable increase in debt, which was no more than the manifestation of the latent risk mentioned above (Rial, 2002). The immediate consequence was that the country lost the investment grade status, and there was a big rise in the cost of financing. Besides, the banking crisis led to the execution of contingent liabilities (the implicit deposit insurance) amounting to the equivalent of 15% of GDP, which was covered by increased indebtedness to multilateral organizations.

Overall, almost all of the items on the spending side of the budget are essentially rigid and non-discretionary. Broadly speaking, half of public expenditures go to social security and one fourth goes to wages. Interests and debt repayment are also outside the government control. Therefore, the "adjustment variable" of spending to the evolution of fiscal income (which is very pro-cyclical) is the public sector investment. The volatility in this item is the result of the absence of anti-cyclical mechanisms in the remaining items of public spending, in a context in which tax burden had reached a point where it is difficult to impose any new increase.

4.2. Sustainability in Public Expenditures: looking at Politics and Institutions.

This section tests the effects of political institutions and party politics on the level of sustainability in public expenditures in Uruguay. First, we test the extent to which fiscal imbalances are more likely during electoral years (*Hypothesis 1*). The rationale behind this hypothesis is that politicians tend to be opportunistic and electoral years give them an excellent opportunity to deliver public goods (both on a universal and particularistic fashion) in order to advance their political careers. While this hypothesis has found evidence in cross-country studies for Latin America and Western democracies (Alesina 1996; Alesina et al. 1997) there is less evidence within cases or across time for particular cases. Furthermore, a test of this particular hypothesis in the Uruguayan case is particularly interesting, because of its democratic tradition and the strength of its political parties in the long run.

Figure 5: Electoral Cycles and Fiscal Performance (1942-2000)



As can be observed in *Figure 5*, there is a remarkable electoral cycle in Uruguay. Data on fiscal performance was gathered for the 1924-1999 period, and electoral years are simply codified as 0, -1 for pre-electoral years, and values of 1 and 2 are subsequent pos-electoral years (Aboal and Moraes 2003). The evidence shows that during electoral years (year =0), governments are more likely to perform fiscal imbalances, while post-electoral years are systematically used to perform fiscal adjustments to counterbalance electoral years. In other words, in the long run Uruguayan governments have used public spending in an opportunistic fashion, in order to gain reelection or buffering electoral losses. In terms of sustainability of public expenditures, this behavior is mostly associated to short terms problems, given that in the long run this imbalances are compensated. That is, short term imbalances in electoral years are compensated by surpluses in post-electoral years.

Second, we test the extent to which more hierarchical institutions have better fiscal results (*Hypothesis 2*). The overall consensus in the literature is that vertical instead of horizontal interactions among agents within governments are more likely to generate fiscal constraints (Alesina 1996; Alesina et al. 1997). Thus, it is expected that presidents with strong agenda setting powers in the form of legislative powers (budget initiation, partial veto, etc.) will have better fiscal results compared with those who do not have such institutional devices. The Uruguayan case shows an important variation across time in terms of presidential powers but the 1967 constitutional reform shows a major step towards the creation a strong institutional president with several legislative and non legislative powers to set the governmental agenda (Shugart and Carey 1992). Presidents elected before 1967 were relatively weak to the extent that they lack the constitutional powers to control the legislative process and other institutions within government.

Figure 6: Presidential Power and Fiscal Performance

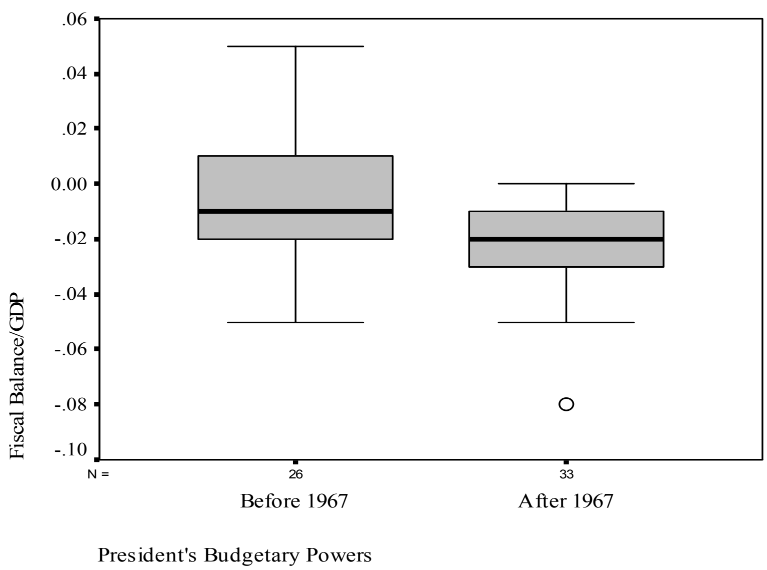
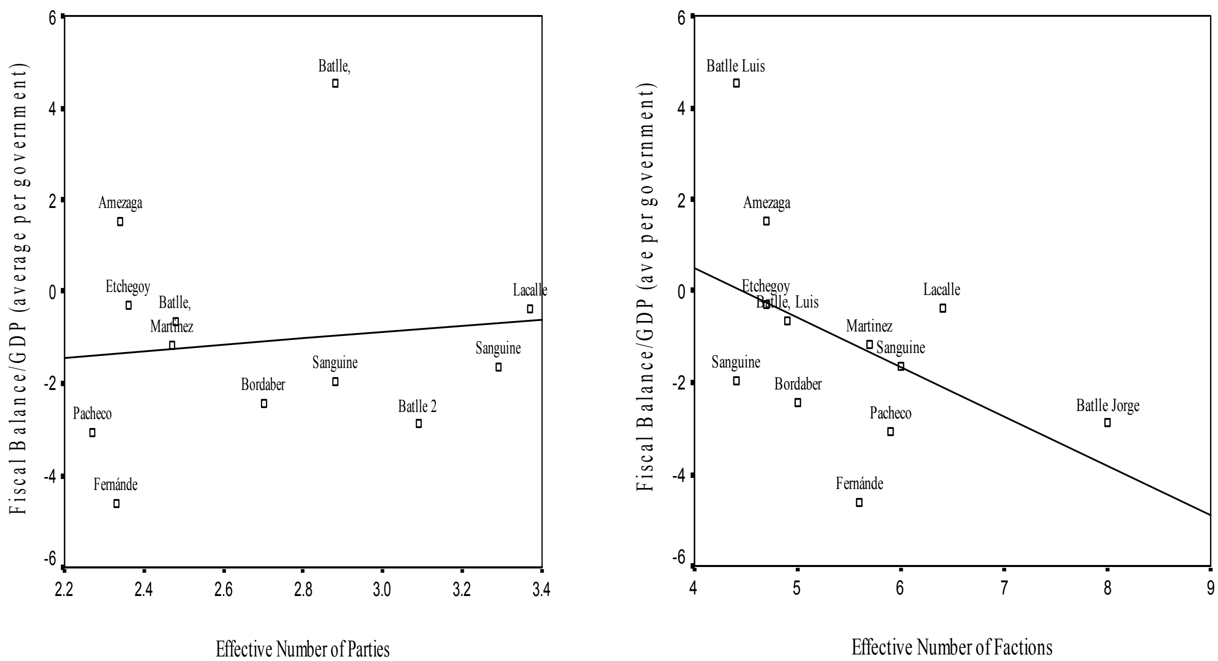


Figure 6 uses a dummy variable to codify the pre (0) and post (1) 1967 constitution. The figure reveals that constitutionally powerful presidents do not have (on average) better fiscal performances compared to weak presidents or more collegial governments (between 1952 and 1967). All the cases (N=33) clustered "after 1967" are characterized for being constitutionally strong presidents elected under the 1967 constitution and the constitutional amendment endorsed in 1996. In general terms, presidentialism or more hierarchical institutions do not necessarily leads to better fiscal results. Rather, institutionally weak executives have better fiscal results on average. Part of the explanation for these preliminary results rests on the fact that most presidents after 1971 and particularly since 1984 have had to face a politically weak condition in parliament. In some cases the presidents' party has hold a minority of seats in parliament but in others presidents have also been a minority within their own parties. Overall, most presidents since the democratic restoration have been constitutionally strong but politically weak. Thus, problems of sustainability (if any) have to be explained by political rather than institutional determinants dealing with the set of formal powers in the hands of presidents.

This evidence appears to contradict a certain consensus that strong presidential institutions are more conducive for better fiscal results. According to comparative studies on budget institutions and fiscal performance, certain cases in the region and abroad indicate that strong presidents tend to have better fiscal performances compared with those who are not entitled to set the agenda and particularly the budget bill (See among others; Baldez and Carey 1999). However, in cases like Chile or Brazil (among others) it remains unclear if the main cause of changes in fiscal performance during recent years come from constitutional changes or a shift in the policy preferences of political parties. For instance, in the case of Chile, it is not clear if it is the constitutional change during the authoritarian period what explains the current fiscal behavior of the Concertación government or the fact that the parties within the coalition have radically different policy preferences from that they hold before 1973. Arguably, we are attributing to institutional changes the main cause of recent fiscal trends what can be attributed to changes in the policy preferences. Moreover and going back to the Uruguayan case, the same institutions have shown completely different fiscal results between 1985 and 2005.

Third, we also test the extent to which the number of veto players in the party system affects transaction costs (*Hypothesis 3a & b*) and by extension the fiscal performance. In this case, we use the Effective Number of Parties (Laakso and Taagepera 1979) and the Effective Number of Factions, which is an application of Laakso and Tagapera's formula using the number of lists to the Uruguayan senate as the best proxy of a faction in this case (Buquet et al. 1998). As we observed in tables 1 and 3, the number of parties and factions has increased, particularly since the emergence of the Frente Amplio in 1971.

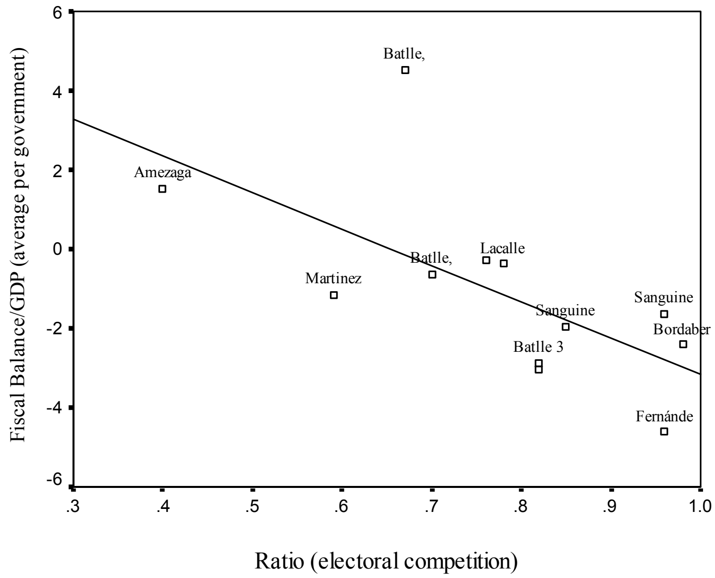
Figures 7& 8
Effective Number of Parties and Factions and Fiscal Performance



The evidence in Figures 7 and 8 sheds light into our previous data and particularly Figure 5, where institutionally strong presidents have comparatively bad fiscal results. In this case, a larger number of parties do not affect the fiscal performance. Moreover, the transition from bipartism to multipartism has a relatively positive effect on fiscal behavior. Nevertheless, the number of factions has an inverse effect. In this case, the total number of factions in the party system appears to have a negative effect on fiscal performance. In essence, the number of parties and factions are intertwined in the sense that a larger number of parties (as it has been the case in recent decades) yield a larger number of factions. However, the effects of each of these factors are substantially different.

Fourth, we test the extent to which the electoral calendar constitutes a major incentive to increase public expenditures for incumbent governments who have major electoral threats (*Hypothesis 4*). This hypothesis "controls" the expectations produced by *Hypothesis 1,* since large deficits in electoral years can be better explained by the level of electoral competition rather than strictly institutional factors dealing with presidential term. In this case, electoral competition is measured as the ratio between the vote share received by the second and first party in the previous national election.

Figure 9: Electoral Competition and Fiscal Performance

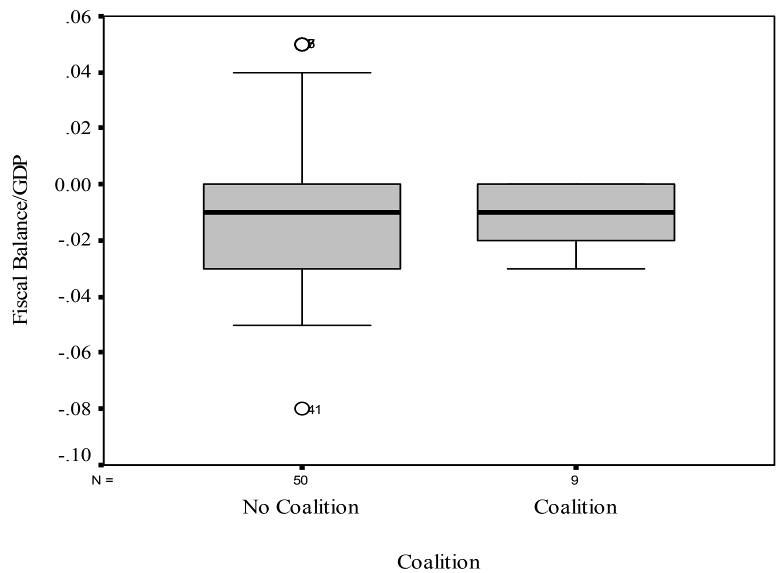


As can be observed in Figure 9 the level of electoral competition goes in the same direction of the electoral cycle in Hypothesis 1. Smaller electoral margins induce presidents to spend more and *vice versa*. However, notice that most presidents with narrow electoral victories were elected after 1971. The emergence of the Frente Amplio appears to be an important threat for incumbent governments of Blancos and Colorados since the preautoritarian process and particularly since the democratic restoration in 1985.

Finally, we test the extent to which coalition governments have larger fiscal imbalances (*Hypothesis 5*).[25] Notice that coalition governments do not necessarily have a majority status in parliament (Strom 1990), but we codified coalitions as a simple dummy variable for those cases where the president holds a majority coalition in parliament. As we argued before, Uruguayan presidents have had to negotiate governmental coalitions, generally between Nacionalistas and Colorados. The singularity of the Uruguayan case is that in order to build these coalition it is necessary the coordination of all factions within each party to join the government.

[25] There are competing arguments dealing with the effects of coalition governments over fiscal performance. The evidence for most European countries shows that coalition governments have been fiscally restrictive in recent decades. However, coalitions in most Latin American cases show mixed results. Chile has shown a very restrictive fiscal behavior since the democratic restoration, but in the case of Brazil only in recent years (during the Cardozo administration) the governmental coalition achieved major fiscal improvements. In the Uruguayan case, coalitions have had mixed results. Lacalle's coalition (1990-1992) was able to implement two important fiscal adjustments (1990 & 1992) plus a restrictive budget bill. However, President Batlle, who has been the weakest political president in Uruguayan history, was unable to control the demands within his coalition, where his faction was a clear minority (see Chart X).

Figure 10: Governmental Coalitions and Fiscal Performance



As can be observed in Figure 10, the evidence is not conclusive whatsoever. On average, there is no difference between coalition governments and other types of political arrangements (minority party, minority coalitions or majority party). Theoretically, it is reasonable to think that coalition governments will be more likely to show more agents or veto players compared to other political configurations whose potential divergent policy preferences can be observed in our data. Indeed, during the Batlle coalition (2000-2002) the Blanco ministers spent (on average) more than Colorado ministers (see Appendix 2, Table 4). However, according to Figure 10, there seems to be no clear distinction between coalition governments and other political configurations, although the variance within coalition governments is much smaller. A possible explanation for this evidence is that almost all coalition governments are temporally located during and after the nineties, and this is the period in which Blancos and Colorados agreed to implement a restrictive fiscal policy. Further, regression analysis may help to capture the effect of coalition governments on fiscal policy.

4.3. *Combining effects*.

Given our expectations for Hypotheses 1-5, we test a regression model (OLS) including all the political and institutional factors mentioned before, where the endogenous variable is the fiscal balance over the GDP for 1942-2000. The model goes as follows:

$FB/GDP = \beta_0 + \beta_1 Eyear + \beta_2 Presp + \beta_3 ENP + \beta_4 ENF + \beta_5 Comp + \beta_6 Coal + \beta_7 Anom59 + \beta_8 Anom69 + \beta_9 Anom83 + \beta_{10} Anom94 + \varepsilon$

Where:

Eyear = Electoral Year (1= electoral year, 0=other)
Presp = Presidential Power (1= after 1967, 0=other)
ENP = Effective Number of Parties
ENF = Effective Number of Factions
Comp = Ratio of electoral competition
Coal = Coalition Government (1=coalition, 0=other)
Anom= Anomalous years (for 1959, 1969, 1983, 1994)

Table 6
Political and Institutional determinants of Fiscal Performance
Uruguay 1942-2000. (Dependent Variable = Fiscal Balance/GDP)

Fiscal Balance	Beta Coef.	Std. Err.	P>t
Electoral Year	-1.01	0.57	0.082
Presidential Power	-2.40	0.61	0.000
Effective # Parties	4.80	0.62	0.000
Effective # Factions	-1.32	0.30	0.000
Electoral Competition	-7.90	1.51	0.000
Coalition	1.04	0.88	0.242
anomal59	1.42	1.66	0.396
Congela69	2.80	1.11	0.015
anomal83	-1.52	1.70	0.374
anomal94	1.58	1.76	0.374
_cons	0.23	0.77	0.761
N	59		
Prob > F	0.000		
R-squared	0.641		
Adj R-squared	0.566		

As can be observed, the regression in Table 7 allows us to disentangle the effects produced by of each of the hypothesis mentioned before. First, the most interesting finding deals with the level of significance of Electoral Year (Hypothesis 1). Descriptively, this factor appeared to have a clear trend where electoral years showed larger fiscal imbalances compared to any other year during term mandates. However, Hypothesis 4 (as a competing hypothesis) dealing with the level of electoral competition shows a clearer effect on fiscal balances. That is, the level of electoral competition is more relevant to explain the fiscal performance. In any case, both variables have the expected sign.

Second, as we argued before, presidents elected with strong constitutional powers (or agenda setting powers) after 1967 have (on average) a worse fiscal performance compared with presidents elected under the 1942 and 1952 (collegial) constitutions. Third, the Effective Number of Parties and Factions have an inverse effect on fiscal balance, being both statistically significant. The number of parties appears to have a positive effect, tending to ameliorate the fiscal performance. The increase in the number of parties for the period (1971-2000) coincides –*prima facie*- with a more restrictive fiscal policy implemented during the nineties. However, the number of factions has an inverse relationship with fiscal behavior. Part of the explanation for this result comes from the fact that during the sixties, as one of the worse economic and particularly fiscally problematic decades in Uruguayan history, the number of factions was particularly high (even under a bipartisan context). Fourthly, coalitions have a positive effect on fiscal balance. However, the coefficient for this variable is not statistically significant and it is not possible to draw any finalistic conclusion on its effects. In any case, the sign of the coefficient tends to coincide with those arguments by which governmental coalitions have a relatively positive effect on fiscal behavior.

4.4. *Efficiency: Looking at the Budget execution and monitoring*

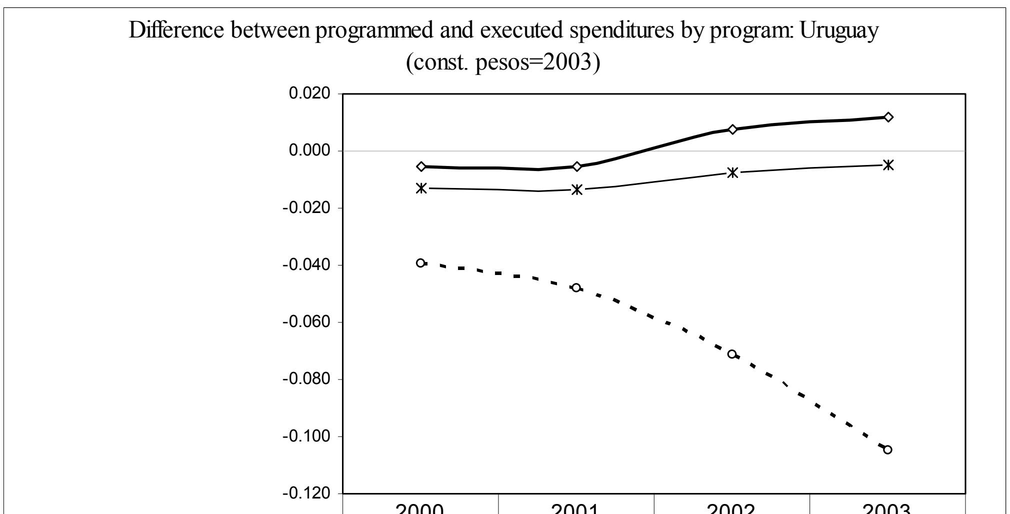
Hipothesis 6 argues that "*efficiency problems arise because the budget bill has been used as an instrument for fiscal control"*. The basis of our demonstration rest on the extent to which the executive branch actually executes the provisions made in the original bill endorsed by the parliament. The budget execution is regulated by Constitutional and legal provisions, where the Ordered Text of Financial Accounting and Administration plays a central role (*Texto Ordenado de Contabilidad y Administración Financiera*, TOCAF heretofore). There have been a large number of changes during the last years that led to a relatively complex legal framework with a generally obscure process. Within the framework of an intended global administrative reform of the State, a new regime of financial control was set in 1996.

More recently, under the new and still under transition Integrated System of Financial Information (*Sistema Integrado de Información Financiera*, SIIF heretofore), every administrative unit (*Inciso*) is responsible for all the execution phases: authorized budget credits and their modifications, commitments, obligations and payments. Before the implementation of the SIIF, the Uruguayan public administration was featured by several drawbacks. Since the General Budget covered a five-year period, the units operated with estimated credits. This system led the *Rendición de Cuentas* (or annual budget revisions) to become actual new budgets on a yearly basis, since the Constitution allowed to change global amounts, reallocate investment expenditures and wages, and to create, eliminate or modify programs with an explicit and justified cause.

More importantly, the system of estimated credits has driven agents responsible for the execution to perform higher and/or smaller amounts than those set by the parliament. This feature influenced the following process leading to an excessively centralized procedure which did not guaranteed that the execution out passed the legal previsions. The process of monitoring is generally based on the information on bank account movements for each office to which a certain budget allocation has been made. This requires that the item discrimination of the expenditures had to be done separately by complex checking procedures. In general, there are no mechanisms to coordinate the pace of the budget programming and control. Indeed, the cash flow administration does not allow to systematically monitor the generation of payment obligations *vis-à-vis* the budget authorized credits.

The SIIF intends to develop and evaluate the budget execution, conceiving it as a legal financial plan, considering the estimated resources and the allocations stipulated for all governmental programs.[26] The System uses an Annual Cash Program, which seeks to make payments consistent on cash availability, setting maximum amounts to spend by unit and by expenditure item. Every unit should elaborate its own annual plan, which has to be negotiated with the Treasury. In order to centralize the operations, a unique account of the National Treasury is used. Every unit registers the transactions, but they have to be validated by the General Accounting Office of the Ministry of Finance. As a general rule, it is not possible to make any transaction into the System without the validation of the corresponding budget credit. The key point, however, is that the cash availability depends on the overall macroeconomic performance. Given the economic crisis that Uruguay faced since the year 2000, the gap between the amounts allocated by the budget bill and the cash availability have reduced the efficacy and the efficiency of most governmental programs due to the lack of resources to execute their budgets (see Appendix 2).

Figure 11



	2000	2001	2002	2003
Central Administration	-0.005	-0.006	0.008	0.012
Descentralized Agencies	-0.013	-0.013	-0.007	-0.005
Debt services	-0.039	-0.048	-0.072	-0.105

Source: MEF/ICP (see Appendix 2)

[26] The SIIF is composed by for sub-systems: Budget Information, Treasury Information, Accounting Information, and Budget Evaluation. The second one includes the Resources Information System and the Spending Execution System. The latter uses an Annual Cash Program, which seeks to make payments consistent with cash availability, setting maximum amounts to spend by unit and by expenditure item. Every unit should elaborate its own annual plan, which has to be negotiated with the Treasury. In order to centralize the operations, a unique account of the National Treasury is used. Every unit registers

Figure 11 shows the gap between the allocation of expenditures made in the original budget law and the overall execution for the Central Administration (13 ministries plus the Presidency), the decentralized organisms (see Appendix 2) and the debt services for 2000-2004. As can be observed, the 2002 economic downturn had an impressive impact over the levels of budget execution or the extent to which the Executive power actually allocated the funds stipulated in the budget bill. Furthermore, since 2002, the executive imposed a tremendous adjustment in the central administration that was relatively followed by the set of decentralized agencies. More importantly, Figure 11 shows that in 2002 and particularly 2003, the vast majority of the amounts not allocated by the executive branch were redirected to pay debt services.

The evidence depicted in Figure 11 reveals the coordination problems caused by the type of execution recently performed by the executive branch. The executive's decision to avoid executing programmed expenditures creates a coordination problem between spending programs and the Treasury office, which is in charge for authorizing credits. The latter is actually performed by the Ministry of Finance based tax revenues and public debt, making the budget execution depending on the evolution of the macroeconomic financial program. Therefore, due to these persistent problems during the execution stage in recent years, the budget has not been properly used as an effective instrument to manage governmental agencies and expenditures. This problem also makes extremely difficult a reasonable evaluation of the level of efficacy and efficiency in the use of public resources. Moreover, the clear "fiscal dominance" that is imposed on the budget execution and the absence of a programmatic logic leads to evaluate the process mainly though the lenses of those who control the fiscal performance. In this sense, most of the time the budget can bee seen as a mere list of financial credits instead of being a powerful tool for an effective planning.

An important piece of evidence dealing with problems of efficiency during the execution process is that the Uruguayan state is systematically challenged in courts and has to pay significant amounts of money every year because of formal or substantial errors and inadequate actions. However, it is very rare to see judicial cases against civil servants or official authorities in which the State repeats against the actual responsible for budget execution decisions when misconducts or inappropriate situations emerge. This weak enforcement framework can she some light in terms of explaining why the processes of execution and control are essentially simultaneous, at least at the Central Administration level; it is very complicated to pay without the proper *ex ante* control and validation of the budget credit for the specific expenditure

Additionally, the lack of specialised staff or specific courts has not been compensated with resources that could allow the subcontracting of these activities (Bergara, 2003). Proceedings at the *Tribunal de lo Contencioso Administrativo* (*TCA*) are usually very costly and the administrative staff has essentially the typical features of the Uruguayan bureaucracy. Sentences from the *TCA* tend to take years, particularly when some political and economic complexity is involved (Bergara *et al.*, 2004). Therefore, the ability of the Judiciary to punish budget execution decisions exists, but it could be of little material impact in most of the cases. Furthermore, in those cases in which civil servants are involved in illicit activities, they are extremely difficult to sanction and remove, most of them because of their irremovable condition and others due to implicit incentives of managers and unions in the public sector.[27]

In terms of control, the new SIIF lacks the ability to develop proper auditing activities. The "Delegated Auditors" of the *Tribunal de Cuentas* monitor the units operations, but they cannot ban the expenditure to be done, particularly in the case of subnational governments (Filgueira 2002). Periodically, the *Tribunal de Cuentas* reports to the Congress about their formal and substantial observations, but in fact this information is rarely used by legislators.

4.5. *The Political Control of the Execution: legislative oversight?*

As we argued in *Hypothesis 7*, the legislature has a very limited influence over the budget execution producing efficiency problems during this stage of the budgetary process. In general terms, Uruguayan legislators and the legislature as a whole have no mechanisms to control the execution process. Indeed, the legislature relies on the information and human resources provided by the executive branch and the institutions in charge of that process. Tables 8 and 9 show data coming from an elite survey (n=146) conducted in 2004 by the Instituto de Ciencia Politica (UDELAR, 2003). The data shows that with the only exception of the executive branch almost all the actors involved in the budgetary process consider that the legislature has a weak level of control over the budget execution.

Table 7: Legislative Influence in Executive Control (percentages)

	Occupation				
	Legislator	Executive Official	Business Groups	Labor Unions	Total
NA	-	2.6	2.6	-	0.9
Not influencing	1.6	-	12.8	7.9	4.6
Somewhat influencing	44.3	36.8	56.4	60.5	54.2
Very influencing	41.0	52.6	28.2	23.7	33.8
Extremely influencing	13.1	7.9	-	7.9	6.5
Total	100	100	100	100	100

Source: Buquet 2004, Encuesta Uruguaya de Elites. ICP-UDELAR

[27] Under the Uruguayan, only the legislature is entitled to remove public servants who commit severe violations to public laws and statutes.

Table 8: Legislative Influence over Budget Control (percentages)

	Occupation				
	Legislator	Executive Official	Business Groups	Labor Unions	Total
Not influencing	4.9	5.3	20.5	21.1	11.1
Somewhat influencing	52.5	55.3	56.4	34.2	56.0
Very influencing	36.1	31.6	17.9	23.7	25.0
Extremely influencing	6.6	7.9	5.1	21.1	7.9
Total	100	100	100	100	100

Source: Buquet 2004, Encuesta Uruguaya de Elites. ICP-UDELAR

Table 8 reports that the legislature has some important level of control over the executive branch. Overall, both executive officials and legislators consider that the legislature controls the executive in general terms. However, this dominant opinion among politicians is in sharp contrast with the evidence provided in Table 9, where the same elites are asked about the budget execution. In this case, there is an overwhelming and consistent perception across elites that the legislature does not control the executive branch during the execution process. [28] The explanation for this perception comes from the fact that legislators do not have institutional resources to perform and adequate oversight. On the one hand, legislators do not have staff or human resources qualified to design public policies and control the budget execution. In all cases, the information to analyze the budget execution comes from the Executive branch. On the other hand, the legislature as such does not have the institutional capacity to oversight the executive branch and particularly the budget execution, because it does not have offices and professional staff to perform this function and provide independent information. Thus, the legislature depends on the information and human resources provided by the executive branch to control the budget execution.

The question here is if a legislative oversight would improve the overall level of efficiency of the budget execution. In other words, why it would be better if legislators had the opportunity to control or monitor the budget execution with independent information and institutional resources internal to the parliament? So far, the evidence for the U.S. case suggests that when public servants are monitored by legislators the level of

[28] The Uruguayan parliament has a very small budget compared to the executive branch and other legislatures in Latin America. Individual legislators can count on small funds to finance and solve their particular needs in terms of staff, information (press and magazines) and logistic or administrative resources. The internal institutions oriented to fulfill the legislator's needs are scarce and weak in terms of human resources and technical knowledge on public policies. In 1997, the IADB financed a large research project to evaluate the viability to introduce a permanent technical staff to support legislators' work in different policy areas. However, Uruguayan legislators and particularly the administrative staff frustrated the reform. Uruguayan politicians have been reluctant to accept think tanks and individual researchers in specialized policy areas of strategic importance, such as telecommunications, energy and also institutional or political reforms. The legislature and individual legislators have followed two types of bypasses to solve the lack of technical knowledge. On the one hand, since the legislature delegates a large part of the policy design into the executive branch, all committees ask for information and the opinion of ministers and public firms directors in order to have more informed decisions. On the other hand, legislators are allowed to request the transfer of public servants to work in their particular staff, but this mechanism does not guaranties any technical expertise and has also been use as a clientelistic practice.

accountability of public servants increases and it is expected that their survival or the level of spending allocated to a certain program in the future will depend on their efficiency to perform their functions (Mccubbins and Schwartz 1984). If legislators or the legislature as a whole does not have the information on how the state or government is executing the budget allocations made by parliament, public agencies will not have strong incentives to fulfil their goals, because there is no threat on their survival. Overall, the lack of political control or legislative oversight on the budget execution can create efficiency problems.

4.6. *Representativeness.*

As stated in *Hypothesis 8*, interest groups and labor unions are relevant actors only at the approval stage of the budget bill, where they can exert public pressure over parties, factions and the executive branch. Overall, the approval process in parliament takes place within a relatively participatory frame, where the budget and finance committee work together receiving interest groups and labor unions interested in the new budget bill. Given that the legislature works with the executive proposal, the committee stage is systematically informed by members of the cabinet and the bureaucracy who provide information and the prospects for the new budget for each program. Thus, numerous sessions are joined by committee members and members from other committees affected by some particular decisions under discussion, cabinet members and interest groups (generally in the form of corporate business or labor union representatives).

This dynamic is not essentially different to the one observed at the approval stage during the discussion of other important bills. Essentially, the budget is not an outlier in the legislature, in terms of the form by which the institution involves other institutions and groups within the electorate. However, since the budget bill is the most important law to be endorsed by parliament, the process acquires a particular dynamic of intense debate during the first six moths of each elected government, after the executive sets its priorities of public spending and the elimination/creation of new programs or policies.

Interest groups and labor unions are important only during the approval stage. This is largely because during the elaboration process the executive sets the agenda according to its macroeconomic expectations and the policy preferences of the governing party or coalition of parties. Once the priorities of the executive branch are set, interest groups and other organizations within civil society begin their mobilization to advance their policy preferences or veto the executive's plan.

During recent years governmental coalitions have lead the process of negotiation and design of the budget bill. As we have said before, this process takes place at the elite level among party leaders. These political agents are faction leaders with legislative representation and most of them are Senators that, given the features of the Uruguayan electoral system, are able to discipline members of the lower chamber.[29] Overall, negotiations to set the basic features of the budget bill take place outside the legislature.

Table 9: Legislative Influence over Budget Design (percentages)

	Occupation				
	Legislator	Executive Official	Business Sector	Labor Unions	Total
NA	-	-	2.6	-	0.5
Not influencing	6.6	-	2.6	13.2	6.0
Somewhat influencing	44.3	42.1	20.5	39.5	37.5
Very influencing	32.8	39.5	28.2	28.9	32.9
Extremely influencing	16.4	18.4	46.2	18.4	23.1
Total	100	100	100	100	100

Source: Buquet 2004, Encuesta Uruguaya de Elites. ICP-UDELAR

As can be observed in Table 9, the fact that the legislature has been weak in setting the budgetary agenda is revealed by the own opinion of Uruguayan legislators. About 50% of surveyed legislators have a rather weak perception of their influence over budget policy. Even legislators who had a relatively positive opinion on their own jobs in terms of fiscalizing the executive branch (see Table 7 above) they have a predominantly negative perception on their ability to capture the agenda setting process during the budget proposal. A very similar perception is observed among labor union members, where about 53% tend to observe a weak influence of legislators during the budget design. This particular group has been the most critical of the overall economic policy implemented since the early nineties, where the budget policy has been a fundamental piece of most fiscal adjustments and the state or administrative reform. Inversely, members of the executive branch and the business sector have a rather positive perception on the extent to which the legislature shapes the budget bill. These two sectors and particularly the business corporations have been very critical of the workings of the legislature in budgetary issues and the legislature in general.

4.7. *Budgets, Representation and Public Policy Reforms.*

The extent to which interest groups and the civil society is involved in the budgetary process depends to a large extent on the contents of the budget bill delivered by the executive branch to parliament. Since budget bills have been frequently used to introduce important policy reforms, it has been an important source of political conflict and particularly a source to activate the veto power of some interest groups with an important electoral connection.

Particularly, since the democratic restoration in 1985, budget bills have become more and more omnicomprehensive in the kind of regulations incorporated in the norm (Filgueira

[29] Notice that some important faction leaders like former presidents Lacalle and Sanguinetti are not senators, but are faction leaders anyway.

and Moraes 1999). On the one hand, part of the explanation for this tendency comes from the fact that parties and factions know in advance that cooperation periods are short, particularly when presidents are politically weak within and outside their parties. In this case, the budget bill becomes an important window of negotiations for those who are not in government but have votes to support the coalition or the president's party. On the other hand, it is arguable that more policies and reforms are included in the budget bill because there are more agents within government pushing to pass their policy preferences. This process has opened the doors for a more strident interaction between the government and the set of groups and interests affected by the budget bill and sometimes the yearly revisions (*Rendiciones de Cuenta*), which have been also sporadically used to introduce reforms in public services and welfare benefits[30].

Since the budgetary process within parliament is relatively participatory, the fact that budgets have become mostly omnibus-bills has opened the channels to activate the demands of interest groups to either block or promote their policy preferences in a more visible fashion. The extent to which the government will be more likely to pass its policy reforms depends on how presidents' link different political resources to block the pressure of some powerful interest groups with strong electoral ties. In particular, there are four important policy areas in which interest groups and the civil society in general have displayed their ability to influence the budgetary policy process.

First, one of the most striking policy reforms during the last decades was introduced in 1992, within a budget revision. Since Lacalle took office in 1990, he had to face the a social security reform passed in a plebiscite in 1989. This reform had constitutional status and basically implied that all social security payments would be adjusted every four months based on past inflation rates. In this context, Lacalle attempted several times to reform the social security system in order to reduce the relative size of this sector in the overall budget and the economy in general. Lacalle failed to reform the system in consecutive bills delivered to congress in 1990 and 1991. However, in 1992, Lacalle introduced a pension system reform in the yearly revision. The reform was not structural but entailed an important adjustment in the retirement age and the amounts to be paid according to different income thresholds. The reform quickly activated (again) the Association of Pensioners and Retirees which was able to organize and pass the constitutional reform –via plebiscite- that Lacalle was already paying for. Once again, the corporation was able to collect the required number of signatures and the reform was finally revoked in 1994 with the support of all parties competing in the national elections, with the additional prohibition to introduce social security reforms in budget bills and yearly revisions.

Second, the education reform passed within the 1995 budget bill is an example of successful linkage of political resources made by the president to obstruct the movement of unionized teachers (Filgueira and Moraes 1999). The president was able to hold tightly

[30] For instance, within the 1992 Rendicion de Cuentas the Lacalle administration introduced a social security reform that that automatically activated the veto of the association of pensioners and retirees. The reform was finally derogated in a plebiscite that banned the ability of the executive branch to introduce social security reforms within budgets or yearly revisions (Filgueira and Moraes 1999).

all coalition members and convincing some legislators from opposition parties that the reform was technically and politically convenient. The only potential and to some extent natural political support for the teacher's unions was the left wing Frente Amplio which was relatively divided in their support to this particular reform. The new policy was strongly promoted by its own creator, former chair of ECLAC in Uruguay German Rama, and had very diffuse costs and benefits. This was a facilitating condition in order to defend the proposal within the electorate, given that the reform introduced an extension in public services at the primary, secondary and technical education. The reform was finally passed after a strong technical and political battle by all coalition members, isolating the labor movement of teachers without a consistent technical and political support. Indeed, the reform was endorsed by a majority of legislators from the opposition party, in addition to all coalition members.

Third, within the same paradigmatic budget bill of 1995, the same government put forward a health care reform in public services. The reform was also strongly promoted by its own creator, minister of Heath, Ricardo Solari (Filgueira and Moraes 1999). However, unlike the education reform mentioned before, this case had clear concentrated costs with diffused benefits. Who was supposed to endorse the project? The minister was unable to use the political resources provided by the coalition. Furthermore, instead of negotiating within the coalition he "went public" without a clear argument determining who was supposed to win with his reform plan. Solari's reform attempted to create a set of legal instruments to improve the efficiency in budget transfers to the private sector. Essentially, the reform was intended to curtail public subsidies to the private health care system, where the sub-sector located in the interior of the country was perceived as the most (potentially) affected by the new reform.

The Uruguayan medical corporation is powerful. But the strategy used by the medical corporation of the interior of the country was tremendously efficient in order to block the reform. Essentially, the lobby was focused on deputies from the interior of the country. Given that 11 out of 19 districts elect their deputies in binominal districts, exerting pressure over this set of representatives was not a difficult task and it was enough to achieve the *status quo*. The reform was finally blocked by deputies from the interior of the country. The committee started to work with the reform delivered by the executive and the number of changes to the executive proposal was large enough to be afraid of a potential executive veto, unlikely to be withdrawn. Thus, modifying the original proposal had an implicit veto threat, but withdrawing the key articles including the reform did not, because there is no subject of veto. This is what the health committee basically did in order block an ambitious health care reform, where a powerful corporation won the battle.

Finally, the current quinquennial budget bill approved in 2000 has also a relevant example of policy reform. In this case, the executive branch delivered a bill with an ambitious reform in the telecommunications sector. This policy area is almost entirely a monopoly controlled by the state. After Lacalle's attempt to privatize ANTEL in 1992, there were no serious attempts to discuss privatizations in Uruguay. Lacalle attempted to privatize public firms and particularly the telecommunications sector but lost his battle in a plebiscite with an 82% of the population against his plan. In the year 2000, President Batlle attempted again to reform part of this sector via the budget bill. In this case, Batlle introduced a reform plan to sell part of the company dedicated to cellular telephony (ANCEL) under control of ANTEL. However, the labor movement (PIT-CNT) again activated its veto power by collecting signatures to call for a new plebiscite in case the norm would be approved by parliament. The initiative was immediately supported by the Frente Amplio as the major opposition party, with a clear chance to win the 2004 elections. Anticipating a clear defeat at the polls, the coalition of Blancos and Colorados withdrew the articles privatizing part of ANCEL and the plebiscite did not took place.[31]

Overall, interest groups exert pressure at the approval stage in parliament. Using four cases of policy reform, this section attempted to show that interest groups remain important only at this stage of the BP. Interest groups are not essentially powerful within the whole political system. Indeed, Uruguayan elites generally perceive that organized groups are not very powerful actors in determining policy outputs. Their strength and veto power over public policies and the budget bill in particular depends on the policy area under consideration, the party or parties in office and how groups are able to link their interest to a brother set of interests with a clear electoral connection.

5. *Concluding remarks*

This paper argues that the budgetary process in Uruguay determines the *sustainability*, *efficiency* and *representativeness* of public expenditures. In order to understand why the budget process has such a powerful influence, we argued that not only institutional but also political factors are determinant in order to understand public expenditures.

In terms of *sustainability* of public expenditures, we argue that institutional factors are relevant but not determinant to understand fiscal outcomes. Institutional factors like presidential terms or fixed mandates, which have been argued to be one of the main causes of an opportunistic behaviour of incumbent governments, are not a powerful predictor of fiscal outcomes. Moreover, the constitutional powers entitled to the executive branch after the 1967 constitution reveals that the fiscal performance of elected after the reform have not had better or more sustainable fiscal outcomes compared to presidents or executives constitutionally weak. Rather, the paper argues that political factors dealing with the number of actors and the scope of political or electoral competition is a much more powerful predictor of fiscal results. The level of electoral threat (or chances or gaining reelection) for those parties in government and the number of actors (particularly factions) in the party system appears to be important factors influencing the level of fiscal *sustainability* in the short run.

In terms of *efficiency*, the paper shows that the execution process of the budget bill is the key stage to understand the way in which public expenditures are actually allocated. In

[31] The same project created a regulatory Agency of Communication Services (URSEC). This important agency was part Batlle's plan but did not entail any threat for those activating the veto against the privatization of ANCEL.

particular, we argued that during the execution process, the executive branch has low levels of internal and external control and monitoring. Since the budget bill is generally used as an instrument of the fiscal program, the extent to which the executive executes the budget bill depends on public resources or cash availability. However, given that the executive branch has given priority to fiscal outcomes regardless of the budget allocations made by parliament, most programs within the public administration have shown problems to perform their functions, producing obvious problems of efficiency. This performance was aggravated by the recent economic crisis, where the executive branch avoided the execution of most programmed expenditures to perform a sever adjustment oriented to pay debt services. In this context, the oversight performed by parliament is poor, not only because it does not have the institutional power and resources to perform such the control but because coalition governments with majorities in parliament have facilitated the fiscal orientation of elected presidents.

In terms of *representativeness* in the budgetary process, the paper showed that the legislature has a weak influence during the design process. This process is in the hands of the executive branch and particularly the coalition members during the last three governments. Once the bill gets into parliament, the new budget proposal generally activates the demands of different interest groups and organization of the civil society. The power of these groups to veto the executive proposal regarding some programs or policies will depend on the ability of presidents to hold a tight legislative majority in congress to support the bill. However, the extent to which those groups link their preferences to a broader political or electoral context is also a determining factor to explain the influence exerted by those groups during the approval process. Overall, most interest groups and the civil society in general intervene during the approval process, given that the executive is in charge for designing or setting the spending priorities and policy reforms.

Is there any trade off between sustainability, efficiency and representativeness? To a certain extent it is reasonable to speculate that increases in representativeness can affect both sustainability and efficiency. The Uruguayan case appears to be an interesting case to observe this trade off, since some institutional devices like referendums and plebiscites have been widely used to veto executive proposals or advance the demands of specific groups within the electorate. In some cases, plebiscites and referendums have implied an increase in public expenditures such as the constitutional reform promoted by pensioners and retirees in 1989. In order to pay for the reform, the Lacalle administration had to implement an important fiscal adjustment with severe costs for some state programs. Thus it is arguable that variations in the level of representativeness can affect how sustainable or efficient is the overall public spending.

Similarly, efficiency is not costless. In other words, in most cases the Uruguayan state cannot afford certain enforcement technologies that can improve the overall level of efficiency. Part of this problem can be observed in the amount of lawsuits that the state faces every year for inefficiency problems. Thus, there can be a trade off between the sustainability of public expenditures and the level of efficiency of those expenditures.

Finally, the newly elected government deserves a separate comment. In October of 2004, the Uruguayan electorate voted for the first time in history for a non-traditional party (Blanco or Colorado) to occupy the executive branch. Since March 1st of 2005, the Frente Amplio will have to design a new budget bill under a completely different political context to that observed during the last decades. On the one hand, unlike all presidents since 1966, the Frente Amplio will hold a majority of seats in parliament. This political support will facilitate a negotiation only within the party, instead of the traditional within-and-outside negotiations performed after the democratic restoration. On the other hand, although the Frente Amplio is the most factionalized party in the system, the elected president Tabaré Vázquez appointed all faction leaders to cabinet posts to ensure party discipline in parliament. These two factors are expected to be determinant during the negotiation process of the new budget bill during the next six months and are seen as positive indicators.

Beyond this political configuration, the Frente Amplio takes office under an auspicious macroeconomic context both at the national and regional level. The new budget bill will be passed by parliament under high GDP growth rates, moderate inflation and decreasing levels of unemployment. Regarding our three dimensions under study, party leaders of the of the new administration have declared their intention to (a) continue with a policy of fiscal contention of public expenditures (without limiting social spending), (b) open the doors for a more participatory budgetary process, thus improving the level of representativeness during the design process instead of the approval stage, and (b) increasing the level of efficiency in the public administration with an adequate state reform. If this is the case, the new government does not observe major trade-offs between our three dimensions, but the country faces important challenges in the short and medium run dealing with debt payments that will inevitably constrain an optimal strategy of improving in a simultaneous fashion the *sustainability*, *efficiency* and *representativeness* of public expenditures.

Policy or Political Recommendations?

In the context of our concluding remarks, this paper suggests three broad recommendations. First and more importantly, several parts of this paper show that problems of efficiency and sustainability are due to the fact that the budgetary policy is used as an instrument to control the overall fiscal performance of governments. Since the execution stage is usually affected by problems of cash availability, public investment is frequently manipulated creating dysfunctions in specific private markets and the economy of individual citizens. The origin of this problem rest in that the budget is not conceived as a part of a broad macroeconomic program for each government. The most important recommendation of this paper is that the budget bill has to be inscribed at the core of such a broad macroeconomic planning, where the annual revisions have to be used as a mechanism to correct or adjust the actual macroeconomic performance with the original plan.

Second, in terms of sustainability the budget bill has to be conceived as a set of intertemporal agreements, beyond the party or coalition of parties in government. Since the budget bill regulates the public sector even beyond the span of time of a particular government (one year beyond the presidential mandate), future governments do not necessarily have to agree with the policy preferences of past administrations and may overturn important regulations. Moreover, since the last three governments have used the budget bill as an instrument to pass important reforms in areas like education, social security, health or civil service, these reforms can be easily reverted by future administrations. Thus, budgets have not to be used as omnibus bills to pass such reforms unless they are passed with special majorities ensuring that future majorities will not overturn passed reforms.

Finally, in terms of representation and accountability one of the chronic problems when the legislature treats the budget bill and the annual revisions is its inability to handle budgetary problems. The legislative branch is institutionally weak vis-à-vis the executive because it has not the power to introduce the budget, but it has the ability to modify the bill. On the one hand, legislators taken individually do not have appropriate personnel to advice in budgetary and fiscal issues, which causes legal and technical problems during the execution. Legislators are allowed to have a maximum of five advisors coming from the public administration, but in most cases these advisors work in administrative tasks rather than policy design or research. On the other, the legislature as such does not have a specialized office in charge for the design of the budget bill, the legal problems it arises and the macro and microeconomic consequences of its approval. For instance, the budget committee (among others) does not have any office to advice in budgetary matters or perform any kind of contracting out service to work with the budget bill. Furthermore, all informational resources come from the executive and the parliament depends on those resources and advice from different offices of the administration to make specific decisions.

Appendix 1

Table 1. Political Cycles and Legislative Dynamichs *

Year	Relevant Laws	Executive Vetos	President
1988	15	2	Sanguinetti
1986	12	3	
1987	6	6	
1988	5	5	
1989	6	8	
1990	9	2	Lacalle
1991	9	3	
1992	9	2	
1993	1	4	
1994	5	13	
1995	9	1	Sanguinetti
1996	8	1	
1997	6	0	
1998	4	1	
1999	7	2	
2000	6	3	Batlle
2001	6	4	
2002	12	0	
2003	3	1	
2004	1	3	

* Source: ICP/UDELAR

Table 2. Number of Public Servants and Pensioners/Retirees: Uruguay 1997-2003*

	1997	1998	1999	2000	2001	2002	2003
Public Servants	248.792	246.899	240.451	236.908	235.296	234.265	230.418
Pensions/Retirees	725.5	730.884	727.995	722.999	717.572	716.55	715.258
Total	974.292	977.783	968.446	959.907	952.868	950.815	945.676

*** Source**: Cepre 2003

Table 3. Distribution of Public Employees. 1985-2002*

	1985	**1993**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Local Governments	13%	14%	15%	15%	15%	16%	16%	16%	16%	15%
State-Owned Enterprises	21%	16%	15%	17%	16%	16%	16%	16%	16%	15%
Central Administration	41%	39%	40%	39%	39%	38%	39%	39%	40%	40%
Other	25%	32%	30%	29%	30%	30%	29%	29%	29%	30%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

*** Source**: Cepre 2003

Appendix 2

Table 1.
Legislative allocations over budget proposals
(values = absolute value of executive proposal – legislative allocation)*

Program – Agency	**2000**	**2001**	**2002**	**20003**	**2004**
Presidency	12260	38156	37099	37254	37616
Ministery of Defense	73141	73602	73602	73602	73602
Ministery of Interior	206368	78016	78016	78016	78016
Ministery Finance	1408	14792	14792	14792	14792
Ministery of Foreing Affairs	0	4648	4648	4648	4648
Ministery of Agriculture and..	4070	90882	90882	90882	90882
Ministery of Industry	0	0	0	0	2324
Ministery of Turism	0	0	0	0	0
Ministery of Transportation	462	462	462	462	462
Ministery of Education	144625	8584	8584	8584	8584
Ministery of Health	0	36238	37238	38238	40238
Ministery of Labor and Social Sequrity	0	13944	19094	19094	13944
Ministery of Housing and Envirnoment	0	0	0	0	0
Ministery of Youth and Sports	0	1046	1046	1046	1046
Total Central Administration	-	-	-	-	-
Desembolsos financieros del Estado	12629	0	0	0	0
Subsidies and subventions	1701	15815	15815	15815	15815
Transferences to Social Sequrity system	0	116200	0	0	0
Partidas a replicar	0	0	0	0	0
Other credits	11286	213799	328823	334930	443653
Judiciary	0	36678	50629	63139	77471
Accounting Tribunal	0	0	0	0	0
Electoral Court	0	31214	31281	24142	17512
Administrative Court	0	0	0	0	0
National Administration of Public Education	0	378600	494800	611000	727200
Universidad de la Republica	0	0	0	0	0
Institute for the Childhood.	0	0	0	0	0
Total Descentralized Agencies (Art.220)					
INDEX	**233975**	**576338**	**643405.5**	**707822**	**823903**
Index/GDP	0.001	0.002	0.003	0.003	
Total Budget (const.$= 2000)	60490850	61474838	62615027	62702232	62608460
Total Budget/GDP (const.$= 2000)	0.25	0.26	0.29	0.28	-
GDP (const.$= 2000)	243027071	236871455	219406261	222158541	

* Note: Legislative branch excluded. Source: MEF, ICP (UDELAR).

Table 2.
Differences between Legislative allocations and Executive execution of the budget bill *

Program – Agency	2000	2001	2002	2003
Presidency	-31679	83342	131336	239944
Ministery of Defense	-674523	-418781	195313	656167
Ministery of Interior	-193342	36299	433924	737213
Ministery Finance	164477	269393	355367	480511
Ministery of Foreing Affairs	-189459	-211444	-435510	-526970
Ministery of Agriculture and..	5337	15265	188535	254582
Ministery of Industry	121109	108559	117032	128161
Ministery of Turism	38217	31535	37800	60432
Ministery of Transportation	601819	-132540	884345	302169
Ministery of Education	-8784	134956	225048	322390
Ministery of Health	-1582748	-873650	-296118	-148267
Ministery of Labor and Social Sequrity	65817	98214	-204077	-276885
Ministery of Housing and Envirnoment	-121855	-443033	68359	324724
Ministery of Youth and Sports	169267	-17236	11900	30379
Total Central Administration	**-1636348**	**-1319122**	1713256	2584550
Desembolsos financieros del Estado	-3463891	-4169299	-9186765	-18716088
Subsidies and subventions	-581378	-683473	-231558	254436
Transferences to Social Sequrity system	-7077813	-8082847	-7397801	-4281818
Partidas a replicar	-3935936	-4298485	-5283164	-7230459
Other credits	5512345	5900795	6388026	6721544
Sub-total	**-9546673**	**-11333310**	-15711262	-23252385
Total Executive Branch	**-11183021**	**-12652431**	-13998006	-20667835
Judiciary	-279970	-300385	-177720	91144
Accounting Tribunal	-1423	-21633	-12878	-1015
Electoral Court	-90087	-118260	-56131	59250
Administrative Court	-9027	-13447	-9988	4901
National Administration of Public Education	-1799313	-1655870	-984969	613486
Universidad de la Republica	-503375	-586079	-87615	132764
Institute for the Childhood.	-433957	-446261	-304941	189003
Total Descentralized Agencies (Art.220)	**-3117151**	**-3141935**	-1634243	-1089533
Total	**-14300172**	**-15794366**	**-15632249**	-21757368

* Source: MEF, ICP (UDELAR).

Table 3

Index of Legislative allocations over executive proposals *

	2000	2001	2002	2003
GDP	24.3	23.7	21.9	22.2
Index	0.0	0.1	0.1	0.1

* Note: 2004 excluded for lack of data on budget execution

Table 4.

Public Expenditures and Type of Government (coalition =2000-2001)*

	2000	2001	2002	Average
Average PN Ministers	89,6	93,5	106,9	96.7
Average PC Ministers	105,4	97,6	109,4	104.1

*** Note**: Blanco ministers = Housing, Sports, Labor, Education, Industry and Agriculture. Colorado ministers = Defense, interior, finances, foreign affairs, transportation, tourism and health. This table shows the average spending of Colorado (incumbent) and Blanco ministers, regarding allocated expenditures. The Batlle's administration had 7 Colorado and 6 Blanco ministers. Table 4 shows that on average, Blanco ministers spent more during the years in which this party was within the coalition.

Budget Laws 1985-2004

N°Law	Year	Send (Executive)	Chamber	Approval	2nd Chamber	Introduction	Approval	3rd Chamber	Introduction	Approval	Gral. Assembly	Veto	Veto Deliverations	Override	Approval	# Articles
15809	1985-90	31-08-85	SENATE	22-10-85	HOUSE	05-11-85	20-12-85	SENATE	21-12-85	10-01-86	27-01-86	Yes	07-03-86	No	08-04-86	690
16170	1990-95	04-09-90	HOUSE	19-10-90	SENATE	22-10-90	06-12-90	HOUSE	11-12-90	19-12-90	26-12-90	Yes	27-12-90	No	28-12-90	720
16736	1995-00	05-09-95	HOUSE	19-10-95	SENATE	23-10-95	07-12-95	HOUSE	12-12-95	20-12-95	27-12-95	Yes	02-01-96	Yes *	05-01-96	772
17296	2000-05	05-09-00	HOUSE	20-10-00	SENATE	24-10-00	09-12-00	HOUSE	11-02-00	21-12-00	11-01-01	Yes	14-02-01	Yes *	21-02-01	650

* Partial override

1.1 Annual Revision 1985-2004

N°Law	Year	Send (Executive)	Chamber	Approval	2nd Chamber	Introduction	Approval	3rd Chamber	Introduction	Approval	Gral. Assembly	Veto	Veto Deliverations	Override	Approval	# Articles
15767	1984	26-06-85	SENATE	08-08-85	HOUSE	13-08-85	11-09-85	No	No	No	No	No	No	No	13-09-85	72
Rejected	1985	01-07-86	SENATE	15-08-86	HOUSE	26-08-86	09-10-86	SENATE	13-10-86	29-10-86	30-10-86 *	No	No	No	No	
15851 **	1985	28-11-86	SENATE	10-12-86	HOUSE	01-11-86	16-12-86	No	No	No	No	Yes	17-12-86	No	24-12-86	231
15903	1986	17-06-87	HOUSE	01-08-87	SENATE	03-08-86	18-09-87	HOUSE	19-09-86	01-10-87	15-10-87	No	No	No	10-11-87	638
16002	1987	05-07-88	HOUSE	18-08-88	SENATE	23-08-88	07-10-88	HOUSE	18-10-88	01-11-88	11-11-88	Yes	17-11-88	No	25-11-88	165
16105	1988	10-07-89	HOUSE	22-08-89	SENATE	23-08-89	11-10-89	HOUSE	11-10-89	11-10-89	26-10-89	No	No	No	23-01-90	10
16134	1989	03-07-89	HOUSE	13-08-90	SENATE	15-08-90	20-09-90	No	No	No	No	No	No	No	24-09-90	111
16226	1990	02-07-91	HOUSE	16-08-91	SENATE	19-08-91	04-10-91	HOUSE	05-10-91	22-10-91	15-10-91	No	No	No	29-10-91	501
16320	1991	01-07-92	HOUSE	15-08-92	SENATE	18-08-92	02-10-92	HOUSE	04-10-92	16-10-92	18-10-92	No	No	No	01-11-92	512
16462	1992	29-06-93	HOUSE	13-08-93	SENATE	18-08-93	02-10-93	HOUSE	04-10-93	14-10-93	27-10-93	Yes	22-12-93	Yes	11-01-94	276
16591	1993	05-07-94	HOUSE	17-08-94	SENATE	19-08-94	05-10-94	No	No	No	No	No	No	No	13-10-94	1
16723	1994	04-07-95	HOUSE	15-08-95	SENATE	17-08-95	05-10-95	HOUSE	09-10-95	18-10-95	No	No	No	No	01-11-95	1
16769	1995	03-07-96	HOUSE	16-08-96	SENATE	20-08-96	12-09-96	No	No	No	No	No	No	No	23-09-96	1
16878	1996	02-07-97	HOUSE	13-08-97	SENATE	18-08-97	30-09-97	No	No	No	No	No	No	No	14-10-97	1
16996	1997	28-07-98	HOUSE	10-08-98	SENATE	12-08-98	28-08-98	No	No	No	No	No	No	No	01-09-98	6
17214	1998	13-07-99	HOUSE	17-08-99	SENATE	18-08-99	15-09-99	No	No	No	No	No	No	No	24-09-99	1
17269	1999	04-07-00	HOUSE	10-08-00	SENATE	15-08-00	20-09-00	No	No	No	No	No	No	No	28-09-00	3
17403	2000	03-07-01	HOUSE	14-08-01	SENATE	17-08-01	03-10-01	No	No	No	No	No	No	No	16-10-01	1
17556	2001	02-07-02	HOUSE	15-08-02	SENATE	12-09-02	12-09-02	No	No	No	No	No	No	No	18-09-02	163
Rejected	2992	01-07-03	HOUSE	15-08-03 ***	No	No	No	No	No	No	No	No	No	No	No	No
Rejected	2003	07-07-04	HOUSE	19-08-04 ***	No	No	No	No	No	No	No	No	No	No	No	No

* General Assembly rejected the bill

** Substitutive bill

*** House rejects the bill

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