



MASTER'S THESIS

**THE RULES OF THE GAME:**

**AN ASSESSMENT OF THE BUDGET DECISION PROCESS IN URUGUAY**

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*Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses.*

Lionel Robbins (1932)

*Die Politik ist die Lehre vom Möglichen.*

Otto von Bismarck (1876)

## EXECUTIVE SUMMARY

This thesis analyzes the budgeting process in Uruguay from a public choice theory perspective. When different actors interact to allocate public money, the common-pool problem affects the quality of expenditure in at least three dimensions: sustainability, efficiency and representativeness.

The main contribution of this thesis is to present a comprehensive framework of the interactions between actors in the budget process, starting from the available literature on the topic, and to further indagate in the process of budget approval and the interactions between the Executive and Legislative Branches.

The process of approving the budget is analyzed through the hearing transcriptions from the specialized Committee in the lower chamber during the discussion of the budget 2015-2019, and from the minutes of the plenary sessions.

It is concluded that the Parliamentary discussion over the budget is not an enabling environment for driving improvements to the quality of expenditure policy. Time constraint and technical capacities seem to impose substantial transaction costs, that limit negotiations and impact on the discussion being focused largely on the new expenditures.

Considering the evaluation of the current budget game, possible changes in the players and rules are proposed to boost outcomes in the overlapping stages of preparation, approval, execution and control of the public budget. The proposed innovations seek to help the players to interiorize the impact of their decisions on the collective.

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# 1. INTRODUCTION

The arena of budgeting lies at the crossroads of economics and politics (Quiggin, 2009, 529), which makes the analysis of the budget process frustrating and fascinating at once.

How much should Uruguay spend? In which areas? Should it collect enough taxes to cover expenditures, or should it issue debt, to be dealt with in the future? As in any collective choice problem, these questions do not have an only solution that can maximize social welfare through a democratic process. In fact, different outcomes could be reached through different processes.

Considering this framework, understanding the budget process requires identifying, for each of the actors, their incentives in each stage of the process and the institutional context that rules their interactions (Scartascini 2009, Hallerberg et al, 2009; Bárcena & Serra, 2012).

It can be shown that because of the common-pool problem, public expenditure will be intrinsically susceptible to bias and suboptimalities. Building on the work of Moraes et al (2009), three dimensions that represent challenges for fiscal policy are considered: sustainability, efficiency and representativeness. By doing so, this work intends to shed some light on how the institutional framework affects the quality of fiscal policy in Uruguay, contributing to the growing public debate on the subject.

In this thesis, a special focus is given to a stage of the process that has largely been treated as a black box: the deliberative process that occurs inside the Parliament. This work is a contribution to better understanding of the dynamics of the parliamentary discussion of the budget, and how the challenges of fiscal policy are considered by the law-makers.

The structure of the thesis is the following. In the first section, the collective nature of the budget process is underlined, based on public choice theory. The above-mentioned challenges of sustainability, efficiency and representativeness of public expenditure are described. Then, the main findings in the literature regarding the effect of institutional design on fiscal outcomes are summarized.

The second part of the thesis analyzes fiscal governance in Uruguay. First, a brief historical characterization of fiscal policy in the country is presented, together with a description of the actors and rules that shape the budget process. Second, the attention is focused in the Budget 2015-2019: its characteristics and its approval process in the Parliament.

The analysis is based on the hearing transcriptions from the specialized Committee in the lower chamber of the Parliament and from the plenary meetings. The main interactions between actors, the incentives and constraints they face and how they influence the outcomes are presented. Finally, I propose some recommendations on how fiscal governance could be improved to be more effective in attaining its objectives of efficiency, sustainability and representativeness in the case of Uruguay.

**PART I:**  
**THE CHALLENGES OF BUDGETING**



## 2. PUBLIC BUDGETING

### 2.1. A COLLECTIVE CHOICE PROCESS

#### *Public choice theory: the end of the social planner utopia*

The issue of the conflicting interests between those who take decisions and the voters, is not new. In Europe, it can be traced to the work of outstanding thinkers such as Machiavelli, Hume, Adam Smith, Condorcet, or Wicksell (Hardin, 1997).

However, among the academics of the **neoclassical school**, the field of public sector economics was dominated by the model of the social planner. This paradigm underlies in the work of Edgeworth, Ramsey, Pigou and Samuelson, among others (Winer & Hettich, 2008).

In the second half of the century, a whole body of literature challenged this view, focusing again on the collective nature of the decisions in fiscal policy. An important question became: how can decisions be made so that they reflect the preferences of the voters? In 1950, Arrow published his famous impossibility theorem, which states that it is not possible to set a no-dictatorial social decision rule that can convert individual preferences into a consistent aggregate function. This finding questioned the core of mainstream public-sector economics, giving way to the rise of **public choice theory**.

Buchanan & Wagner (1977) were the first authors to endogenize the role of government in macroeconomics, applying the basic principles of public choice analysis to macroeconomic theory and policy. They incorporate the idea that policy makers are self-interested and are rational maximizers that act within a time frame (limited by the government term). They conclude that, within the institutions of political democracy, the incentives of decision makers could lead to time-inconsistency of the policy. In public decisions, and especially in budget decisions, the people who benefit are not the same as those who bear the costs.

Agreement on what constitutes 'public interest' is plainly impossible. Actors in the political arena have incentives and preferences that not necessarily reflect the preferences of the voters: political parties want to be elected; elected politicians want to get their preferred policies through; civil servants want to have more disposable resources; lobbyists engage in rent-seeking activities. Thus, collective decision-making mechanisms will shield policy outcomes that cannot be said to represent the public interest or maximize social welfare in the way that neoclassical theory would suggest.

In the last decades, a new body of literature has explored the effect of **political institutions** on the outcomes of public policy. This stream relies on the **transaction cost theory**, that stresses that economic and political transactions are characterized by costly information, and imperfect enforcement of agreements. Under this framework, institutions are instruments that reduce such costs, increasing efficiency (Williamson, 1999).

In fiscal policy, by definition preferences are not clear and values are conflicting. This constrains the scope for applying a rational approach to budgeting. Lindblom (1959) argues that the successive limited comparisons that is often applied in budgeting, is a science (“the art of sub-optimizing”, p. 80). As a result, the outcome is a package in which values are combined so that the final choice does not represent the will of any group, but is still a valid compromise.

## **2.2. THE CHALLENGES OF PUBLIC BUDGETING**

Public finances are characterized by two traits that distinguish them from private resource allocation: the principal-agent relationship that exists at many levels, and the common-pool problem (Von Hagen, 2008).

The **principal-agent** relationship characterizes the relationship between voters and elected politicians (in the executive and in the legislative). The actions of the agent (the politicians) affect the welfare of the principal (the voters), but their interests are sometimes conflicting and information is asymmetric because the voters cannot fully control the politicians. The complexity of involved issues makes it impossible to write complete contracts, which generates a divergence between voters’ preferences and policies.

The same considerations apply for the relationship between politicians and bureaucrats. In this case, politicians define policies but their success is ultimately determined by the bureaucrats that apply them.

Second, there is a **common-pool problem**, because there is no direct link between taxes paid and benefits received by each individual, so that the beneficiaries of public spending ignore the externality that they impose on all other taxpayers. In such circumstances, politicians can be tempted to favor individual groups at the expense of the general tax payer.

In sum, while initial macroeconomic models assume that fiscal policy is aseptic, this theoretical framework opens the question to the quality of fiscal policy. As the outcome of a collective decision process, fiscal policy is not always optimal. In this paper, following Schick (1998,

2013) and Moraes et al (2009), I analyze fiscal policy around three main characteristics: sustainability, efficiency and representativeness. Arguably, these three challenges of fiscal policy can be seen as a consequence of the common pool problem.

- Sustainability

This dimension involves the time consistency of the policy. Can current debt levels be serviced with the current tax and expenditure structure? By definition, the long-run balance cannot be avoided. Higher spending or lower taxes today must be financed via lower spending or higher taxes in the future.

There is a **fiscal policy impossible trinity** between increasing public expenditure, reducing taxation and improving the budget balance. Paradoxically, public surveys show that the three objectives tend to be supported by a majority of voters. This means that politicians have incentives to support all three objectives, even when they are inconsistent (Quiggin, 2009).

***Procyclicality harms the effectivity of fiscal policy to enhance macro-stability***

A bias that affects sustainability is pro-cyclicality. It hinders the effectivity of fiscal policy and affects long term growth (Tanzi & Zee 1997), and is usually associated with deficit bias, because many expenditures are rigid, leading to asymmetrical pro-cyclicality (stronger during the booms and neutral during recessions).

Pro-cyclicality has found to be especially pervasive in developing countries (Talvi & Vegh, 2005). The literature has offered two main explanations for this. First, the **market failure** approach, under which developing countries lack access to international credits during recessions (sudden stops).

Second, the **political failure** approach, which stresses the presence of conflicts of interest that are not correctly tackled by the institutional design, leading to wasteful spending and corruption. Because voters expect politicians to extract rents, when they observe a boom, they optimally demand a fiscal expansion (Alesina et al, 2008). Panizza et al (2009) analyze a group of 32 countries and conclude that this effect dominates over the first one.

- Efficiency

Allocative efficiency refers to the ability of fiscal policy to address its objectives. One possible obstacle for achieving that is **incrementalism** in budget allocation.

The first theories of the budgetary process were dominated by incrementalism, a self-reinforcing path dependency that can be observed both at a procedural and at an outcome level (Jones et al, 2014: 563). The previous budget is used as a base for the new one, so that attention is focused on a small number of incremental changes (Wildavsky, 1965, in Wehner, 2015). Lindblom (1959) noted that given the complexity of budgets, such changes are often the most rational way to approach budgeting.

Another relevant dimension of efficiency is the **technical aspect** of it: are public purchases correctly performed, with transparent processes, are the prices paid by the public sector in line with the market, etc.

- Representativeness

Public expenditure is the financial expression of democratically elected governments. Budgets reflect priorities and mediate between individuals and groups with different interests, reflecting the social consensus about what services should be provided and how. Like Rubin (2000, 2) notes, public budgeting is always a political phenomenon.

Public budgeting is politically relevant because it influences the distribution of power and resources. The way that groups with different interests organize themselves has an impact on the policy outcomes.

### 3. THE ROLE OF INSTITUTIONS IN THE BUDGET PROCESS

In democracies, budgets are always defined through some kind of collective decision process. The design of this process affects the quality of the policy and other important political outcomes such as the distribution of power between actors, and the winners and losers of the policy (Rubin, 2000, 5; 73).

The budget process can be seen as a contracting moment, where it is possible to identify four (often overlapping) stages: formulation of the draft, approval, implementation and control. Different institutions interact in these stages, determining the final outcomes.

#### *A centralized budget process has been found to foster fiscal discipline*

There is extensive evidence that budget procedures and institutions have significant impact on fiscal outcomes<sup>1</sup>. The available literature often focuses on the sustainability dimension of fiscal policy, using fiscal results as a proxy for policy quality.

Since many challenges of fiscal policy emerge from the common-pool problem, institutional designs that favor the internalization of the aggregate results and facilitate coordination have been found to achieve better results in terms of sustainability.

Broadly, it can be said that cooperation problems are better solved under **less-fragmented** decision bodies. Research has found that better fiscal outcomes are associated with presidential executives, smaller cabinets, and majoritarian electoral systems (Hallerberg & von Hagen, 1997; Cox & McCubbins, 2000).

#### *Parliamentary approval incarnates the tension between sustainability, representativeness and efficiency*

In democracies, budgets are decided jointly by the executive and legislative branches. (Wyplosz, 2012) Usually, the executive proposes the budget and Parliaments are formally responsible for approving it.

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<sup>1</sup> For example, Hallerberg & von Hager (1997) for the European Union, Alesina et al (1999) for Latin American countries, Poterba (1994) for the United States.

From a sustainability perspective, it is easy to see that a more limited role of Parliament should lead to more contractive fiscal policy (Olson, 1965, in Von Hagen & Harden, 1995, 775). However, other considerations must be made with respect to representativeness issues. Because preparation of the budget in the executive tends to be hostile to publicity, public debate is often relegated to the legislative stage, where businesses, unions, think tanks, academics and other civil society groups can enter the discussion. Effective involvement of a broad spectrum of participants can help to ensure that the constraints that shape the budget will be more widely appreciated, enhancing commitment (Wehner, 2004, 4).

Legislatures have different degrees of influence over the budget. Wehner (2004) notes that this depends on structural aspects of the political system such as the relationship between government branches; the amending power that the Parliament formally has on the budget; party politics; and the technical capacity of the legislative.

### ***The Committees: engines of the Parliament<sup>2</sup>***

Cox (2008) argues that the need to regulate finite plenary time leads to the creation of agenda-setting offices, of which the committees are an example.

Several factors make for strong committees. The literature has found that where discussion takes place mainly on the floor of the house the budgetary influence of the legislature tends to be weak (Wehner, 2010). It is in the Committees that in-depth and technical debate can take place, away from the political grandiloquence that often characterizes plenary discussions in the chamber.

### ***The role of control institutions***

Following budget execution, independent audit institutions produce reports that inform the legislature whether the budget it approved was properly implemented. If legislators effectively use *ex-post* control by auditing offices during the consideration of future budgets, legislative engagement is likely to be more balanced between the different objectives of public financial management (Wehner 2004, 8)

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<sup>2</sup> Committees are the ‘engine room’ of the legislature (Calland 1996, in Krafchik & Wehner 1998, 6).

**PART II:**  
**FISCAL GOVERNANCE IN URUGUAY**

## 4. FISCAL POLICY IN URUGUAY

### 4.1. HISTORICAL CHARACTERIZATION

#### *Early pioneer, lagged in the long-run.*

Uruguay stands out in Latin-America for its level of development and its pioneer social protection system. Since the beginning of the 20<sup>th</sup> century, the State assumed an active role in the economy, nationalizing banks and strategic enterprises and setting progressive social regulations (Barrán & Nahúm, 1984). Azar & Fleitas (2012, 131) note that in the beginning of the century, public expenditure was 16% of GDP, way above the level in other comparable economies. However, public spending showed a low elasticity to GDP in the long-run. Social spending showed a procyclical pattern and was often used as an adjustment variable to curb budget deficits (especially health and education services). These elements ultimately lead to the relative lagging of the country in comparison with reference countries.

#### *A small economy, prone to recurring crises.*

Uruguay defaulted four times during its history: in 1875; 1891, 1914 and 1932, always triggered by external shocks, sometimes amplified by domestic policies (Bertino & Bertoni, 2004).

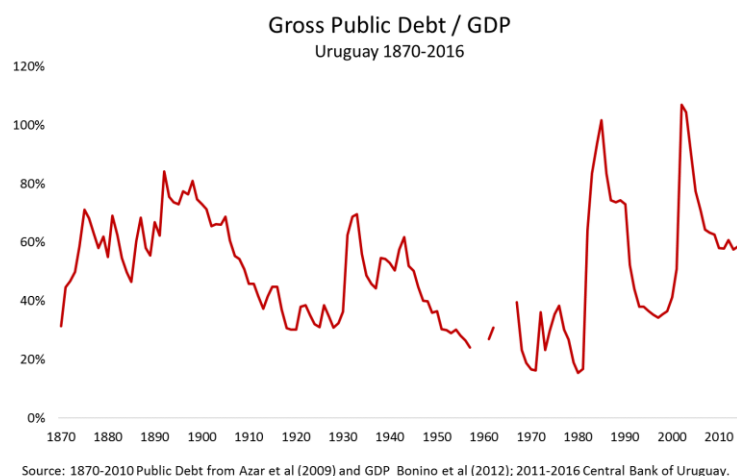


Figure 1. Gross Public Debt/GDP 1870-2016

Since the 80s, with the opening of the economy and a growing integration to financial markets, the ratio debt/GDP shows increased volatility. In such context, the debt had to be rescheduled in three occasions with private international banks (1983, 1986 and 1988), and the country finally joined the Brady Deal in 1991.



In 2002-2003, the country experienced a severe sovereign debt crisis. Amid a devaluation of more than 100%, a systemic banking crisis and a reduction of GDP of more than 10% in 2002, Uruguay experienced a sudden-stop in the financial markets that lead the country to the verge of default. The cease of payments was avoided through a debt restructure that was settled in May 2013. The agreement affected debt for more than 3,000 USD million (25% of the GDP at the time) with a rather small haircut of around 13% and a rate of participation of 93% (de Brun & Licandro, 2007; Panizza et al, 2009; Enderlein et al, 2012).

***A universalist model, with particularist traits.***

Social protection expenditures in health, education, social security and housing were developed early with a universalist approach in most cases (Figueira & Hernández, 2012). However, Buquet & Piñeiro (2016) note that until the 1960s assignment of resources in the public sector was ruled by particularism rather than universal norms, with discretionary treatment being significant in many areas (from state services to access to public-sector jobs and pensions). According to these authors, since then a movement to programmatic competition between parties was observed, which lead to better governance.

***A fiscal policy that exacerbates product volatility.***

The fiscal policy has showed a procyclical stance which has been documented by various authors, as summarized in Table 1.

Table 1. Literature review: pro-cyclicality of fiscal policy in Uruguay

Period	Authors	Methodology	Conclusions
1976-1996	Borchardt et al (1997)	Correlation between cyclical components of GDP and public expenditure and income (HP filter)	Procyclical
1975-1994	Kamil & Lorenzo (1998)	Trend-cycle components estimated from reduced-form univariate models (HP filter)	Procyclical revenues and low-volatility expenditure
1955-1998	Mailhos & Sosa (2000)	Correlation between cyclical components of GDP and public expenditure, public investment and tax revenue (HP filter)	Procyclical
1925-2000	Aboal et al (2002)	Time series MSE models	Political cycles: fiscal result deteriorates in election year and improves the second year of government
1975-2001	Badagian & Arce (2006)	HP filter and models of unobservable components	Procyclical expenditures
1989-2006	Ganón & Tiscordio (2007)	Trimestral data deseasoned with X-12 ARIMA, Filter HP for cyclical adjustment	Procyclical
1976-2006	Rial & Vicente (2008)	Volatility analysis of components	Procyclical policy because of volatile income and rigid expenditure
1905-2000	Azar & Fleitas (2012)	HP filter	Procyclical stance of total expenditure, more accentuated for social expenditure
1970-2009	Santos & Stolovas (2012)	Correlation between cyclical components of GDP and public expenditure and income (HP filter)	Discretionary fiscal policy has been procyclical during “good times”, but acyclical in economics downturns
2008-2014	Celasun et al (2015)	Comparison of interannual variations of expenditure and output gap	Non conclusive in 2007-2009, procyclicity in 2010-2014
1960-2016	Vegh et al (2017)	Correlation between cyclical components	Procyclical both in 1960-2000 and in 2001-2016

### ***Weak fiscal rules.***

Avoiding pro-cyclicality of the policy has not been at the core of the institutional framework. Since 2006, a net-debt (i.e. deducing international reserves) increase limit is in force. The law from 2006 enabled the Parliament to increase the limits in 50% if “extraordinary circumstances” arise and this prerogative was increased to 100% in 2011<sup>3</sup>. In five of the past eight years, this escape clause has been invoked.

<sup>3</sup> Laws 17.947/2006 and 18.834/2011.

However flawed, this rule meant an improvement from the previous framework. Until 1991, different laws established limits in local currency to central government debt issuing. In 1991, after the debt restructuring, the criteria changed and a limit was established to the stock of Treasury bonds and bills.

In 1994 and 1997, new limits to the total debt were established, this time in dollars and with an automatic adjustment according to the evolution of GDP<sup>4</sup>. This framework was an attempt to ensure sustainability, but its design was imperfect. First, this scheme amplified the procyclical bias of the fiscal policy, because the limit to public debt stock grew during economic expansions. Second, the referred caps affected only the part of the debt corresponding to bonds and bills, so the total debt could grow nevertheless<sup>5</sup>. Third, the framework enabled little room for active fiscal policy in the case of a recession, because it required that until GDP recovered its previous level, the debt stock was fixed. Finally, defining the cap in a foreign currency was not an adequate incentive for the needed de-dollarization of the public debt.

These failures meant that during the crisis of 2002-2003 the cap was not surpassed, despite the sharp increase of the debt, because debt with international organizations was not included in the legal limits.

The new legislation approved in 2006 intended to overcome these shortcomings. The new limit comprehends all instruments and all public institutions, with the exceptions of local governments. It focuses on net debt arguing that this gives more room to the executive to take financing when conditions are more convenient, and it prevents the government to finance expenditure with reserves. The limits were established for each year, in amounts that were consistent with the financial program. In 2011, the limits were defined in inflation-indexed units instead of

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<sup>4</sup> This limit was established in local currency in Law 10.054/1941; Law 11.818/1952; Law 12.691/1959 and Law 13.135/1963. In 1967, art. 460 of Law 13.640 sets a limit for Treasury Bills issuing of 25% of the Budget. Law 16.225/1991 established a limit to the stock. This limit was established for the first time in U.S. dollars. The first law with automatic adjustment is 16.484/1994, and 16.812/1997 is similar. In the Budget Bill 2000-2004 (Law 17.296/2001) a stock limit for those two instruments can be found in arts. 602-610.

<sup>5</sup> The debt issued to finance pension related transferences had a limit of its own (established in salary indexed units, UR, Law 16.884/1997), as well as a Zero-Coupon Bond for USD 500 million (Law 17.167/1999). Monetary financing was limited by the Organic Bill of the Central Bank (Law 16.696/1995).

dollars. It includes all instruments, including the monetary base. The debt variation of each year is published each year by the Central Bank.

## **4.2. THE ACTORS AND RULES OF THE BUDGET PROCESS**

### ***A strong economy with many veto players.***

Uruguay is a strong democracy with a presidential regime where many veto players can influence policies (González 1991; Chasquetti & Buquet 2004).

Parliament's members are elected through a proportional representation closed list system, with unlimited reelection possibilities, unlike the president that cannot be elected in two consecutive periods. This electoral rule has generated strong discipline, with legislators following the preferences of fraction leaders (Moraes et al, 2009, 229). The Parliament is bicameral, with a lower House (Chamber of Deputies) of 99 members (also called representatives), and an upper House (Chamber of Senators) of 30 members.

Direct democracy mechanisms have been used extensively, which has been reported to have the indirect effect of deterring politicians from presenting potentially unpopular bills<sup>6</sup> (Altman, 2016). From the perspective of the quality of fiscal policy, some of these initiatives have exerted pressure on sustainability, like in the iconic case of the Plebiscite of 1989, which incorporated into the constitution a backward-looking criterion for pension adjustment, which rigidized public expenditure.

### ***The budget: a complex piece of legislation***

By constitutional mandate, the budget must be elaborated within the first six months of the government, and cover the five years of government. In each of the following years, a revision is made (*Rendición de Cuentas*).

The budget law follows a clear marginal approach, which can be seen in that the law consists of two parts: 'the articles' and 'the grids'. The grids establish all the authorized budgetary credits for each organism, for each concept (remunerations, operating costs, investments), for each

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<sup>6</sup> For example, in 1992, the privatization of telecommunication services was rejected by 82% of the voters, while 62% of voters rejected the association of the state-owned oil company in 2003, and in 2004 a constitutional amendment outlawing water and sewerage privatizations was approved with 64% of voters (Moraes et al, 2009; Moreira 2004).

of the five years of the government period. Meanwhile, the articles set the marginal increases or reduction in comparison with the previous situation.

***The political interactions dominate the budget process.***

Moraes et al (2009, 230) argue that in Uruguay the relations between the executive and the legislative and the party system are more important than the budgetary rules to explain the budgetary process.

Figure 2 summarizes the actors that participate in the different stages of the budget process. The Ministry of Finance (MEF) and the Office for Planning and Budget (OPP, an independent office that depends directly on the President<sup>7</sup>) participate in the process of preparation and in the approving and execution. During the approval stage, they interact with the Parliament, and during the execution, they interact with the executive organizations (the Ministries and the decentralized organizations).

In turn, during the control stage, the main actors are the Court of Auditors (*Tribunal de Cuentas, TC*), the Parliament and specific units within the Ministry of Finances (CGN and AIN, specialized in Public Accounting and Auditing respectively), who control the execution of the budget by the Executive.

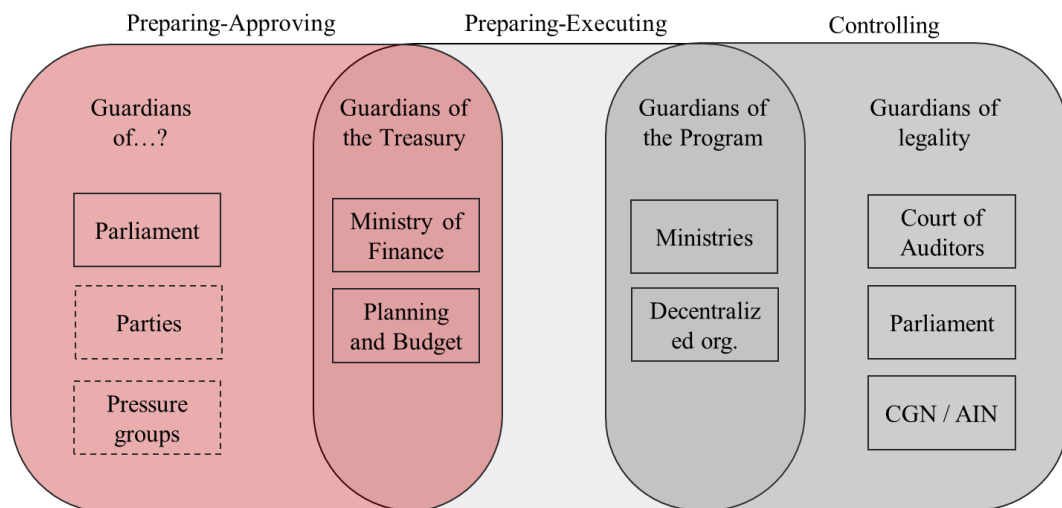


Figure 2: Actors and stages of the Budgetary Process in Uruguay

<sup>7</sup> It has the same rank as the Ministries but it fulfills no executive functions. It advises the drafting of the budget and is also in charge of evaluating the execution of programs. The focus of OPP is in long term issues such as investment and SOEs (Berretta, 2006, 9-10).

Understanding the budget outcomes requires knowing what interests and incentives each actor face and represent. Berretta (2006, 3) holds that the MEF and OPP are the *guardians of treasury*, while the executive organisms act as *guardians of the program*. This is in line with the concept of bureaucracy summarized for example in Wintrobe (1997, 433).

Meanwhile, the organisms that oversee the execution of the budget were labeled as the *guardians of legality* following Moraes et al (2009, 238). In fact, their main interest appears to be that expenditures comply with legal and technical regulations.

Finally, no label was presented at this point for the Parliament during the process of approval. This responds to the fact that there is a vacuum in the literature about the processes that occur at this stage, and the interests that are pushed forward at the Parliamentary level. This will be addressed in the next session.

#### ***A top-down approach to budget preparation.***

The legal framework gives the Executive a high degree of discretion about how to elaborate the budget proposal. In practice, the President delegates that responsibility to the Ministry of Economy and Finances (MEF), who acts as a *primus inter pares* in the cabinet during the discussion. The elaboration of the budget follows a top-down procedure in which the MEF sets the fiscal goals and in accordance, it sets an expenditure ceiling for the line ministries (Moraes et al, 2008).

#### ***A time-constrained approval.***

Each chamber of the Parliament has 45 days to study the project, make modifications and approve it. If it fails to do so, the project is rejected and the previous budget is applied

The legislative branch can only pronounce itself regarding global amounts for each department and program, but it cannot propose more expenditures than those incorporated in the original project presented by the executive.

Like it has been noted by Moraes et al (2009, 232), the budget bill is usually negotiated by the president with its own party or coalition before sending it to Parliament. Because of the functioning of the political system and because there is party discipline, negotiation usually takes place at the elite level, among party leaders.

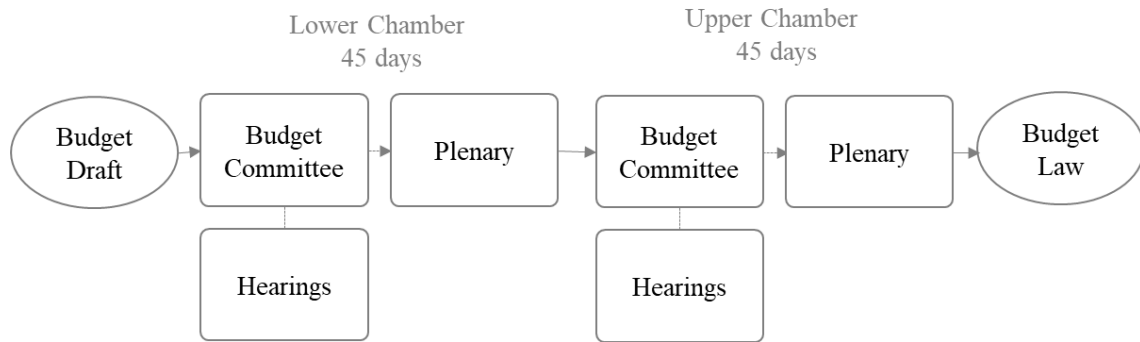


Figure 3: Approval Stage of the Budget Bill

The process within the Parliament to approve the Budget can be pictured in Figure 3. The draft is introduced to the Legislative generally through the Chamber of Deputies, and is automatically redirected to a specialized Committee<sup>8</sup>.

The Committee conducts hearings with ministers and bureaucrats who explain the articles that affect their institution. The members of the Committee study the project and can present modifications, that must be approved by the Committee (by majority rule) before it is discussed in a plenary session. In the chamber, it is voted first *in general* and then *in particular* (article by article). If it is approved in the plenary, it passes to the other chamber, where it receives a similar treatment<sup>9</sup>. After the bill is approved by both chambers, it becomes binding after ten days, unless the president exercises his veto power.

Like Moraes et al (2009, 234) note, this process is often smooth, because at the beginning of the government period coalitions are strong and presidents can sustain their policy preferences through alliances and party discipline.

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<sup>8</sup> With members of the Budget and Finances Committee, *Comisión de Presupuesto Integrada con Hacienda*.

<sup>9</sup> In case the second chamber makes changes to the project, the draft goes back to the first chamber, which has 15 days to approve it. If it fails to do so, the project is submitted to the General Assembly (i.e. the meeting of both chambers), for it to decide within 15 days.

### ***A technically constrained execution.***

The budget bill is legally structured so that it does not allow for discretion in the hands of bureaucrats or public servants. Each program has specified allocations on which public expenditures are structured (wages, investments, current expenditures).

All public accounting and administration bills and regulations are compiled in one organized body that operates as a reference for the execution of the Budget<sup>10</sup>. Like Moraes et al (2008) note, the specificity of the rules that are established there, contrasts with the vagueness of the rules for the elaboration of the budget within the Executive Branch.

### ***A decentralized execution.***

The basic organizational unit of the budget are the entities (incisos). Three kinds of entities can be identified in the budget:

- (i) Central Government: Presidency of the Republic and thirteen Ministries (entities 02-15).
- (ii) Autonomous Organisms defined in the Article 220 of the Constitution: the Judicial Branch and the recently created Public Prosecution (*Fiscalía General de la Nación*); the control organisms: Court of Auditors, Electoral Court, the Administrative Court (*Tribunal de lo Contencioso Administrativo, TCA*) and the Board of Transparency (*Junta de Etica y Transparencia Públicas, JUTEP*); and six autonomous institutions that are responsible for Public Education (Public Education Administration and two public Universities), Health, Childhood Programs and Meteorology (entities 16-19 and 25-34). These organisms elaborate their own budgets, that can be modified by the Executive.
- (iii) Entities 20-24. These lines include interest payments; subsidies; social security transfers; and other credits.

There is another layer of public institutions that are not included in the Budget: the SOEs and the local governments, that elaborate their own budgets and inform them to the Legislative. While in the central government and decentralized organizations the Budget implies an upper

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<sup>10</sup> *Texto Ordenado de Contabilidad y Administración Financiera (TOCAF) 2012* [Organized Text of Accounting and Financial Administration].



limit to expenditure, in the SOEs the approbation means conformity with the policies, but it does not constrain expenditures (Berretta, 2006).

Although all budget proposals should in theory respond to the guidelines that MEF and OPP propose, this structure means that much of the public expenditure is indeed outside the centralized budget preparation that was described above.

***Legal-focused control of the execution.***

The Constitution gives the responsibility of controlling the budget execution to the Court of Auditors, an independent state agency dedicated to controlling the legality of budget allocations and execution. This agency is directed by six members, nominated by the executive branch but endorsed by a two-thirds majority of the Senate. In cases in which it identifies irregular expenditures, it observes them and the legislature is the final judge.

Moraes et al (2009) hold that enforcement technologies in the form of information and human resources to deal with complex processes during execution and monitoring are far more important than political factors in explaining efficiency.

However, because of the way execution and monitoring are implemented, the resources that are dedicated to such tasks and the way the result from this work is considered for policy formulation, are inherently political, and therefore reflect the political interactions as much as the other stages of the process.

## 5. THE APPROVAL OF THE BUDGET 2015-2019

### 5.1. STRUCTURE OF THE BUDGET

The Budget 2015-2019 was prepared and approved in 2015<sup>11</sup>. The approved Budget of 2015 was equivalent to 23.6% of the GDP. The budget distribution can be summarized as follows. It can be seen that only a quarter of the expenditures correspond to the Central Government (Ministries and Presidency).

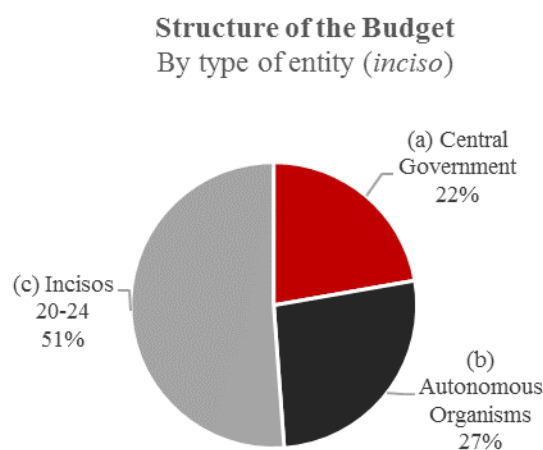


Figure 4: Structure of the budget 2015

Comparing the draft with the final law for 2015-2019, only very minor reallocation between organisms was undertaken. As shown in Table 2, the main changes involved giving the education organisms more resources, at the expense of some of the ministries, and especially of the recently proposed care system (social development ministry and public health administration). Note that also some minor institutions (meteorology and public procurement services) were affected in small magnitudes that represent nevertheless a more significant proportion of their budget.

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<sup>11</sup> The first year of each government, the budget of the last year of the previous government is repeated.

Table 2: Budget 2016. Final Law vs. Draft

<b>Budget 2016. Final Law vs. Draft</b>		
Entity	UYU millions	% of draft
Presidency	40	1%
Education and Culture	32	1%
Interior	-57	0%
Economy and Finances	-60	-1%
Foreign Affairs	-20	-1%
Livestock, Agriculture and Fishery	-22	-1%
Public Health	-8	-1%
Social development	-200	-3%
<b>Total ministries</b>	<b>-295</b>	<b>0%</b>
Subsidies	31	0%
Other credits	-45	0%
<b>Total <i>incisos</i> 20-24</b>	<b>-14</b>	<b>0%</b>
Public Education Administration	275	1%
University of the Republic	100	1%
Public Health Administration	-78	0%
Metereology Institute	-12	-6%
Public Prosecution Body	-40	-5%
<b>Total autonomous organisms</b>	<b>245</b>	<b>0%</b>
<b>Total</b>	<b>-64</b>	<b>0%</b>

Source: own calculations from information of CGN

The complete allocation change can be seen in the Annex.

The draft that entered the Committee had 708 articles. After leaving the lower chamber, 30% of the original articles were modified and 2% were suppressed. In turn, 46 new articles were added to the original project. However, as shown in Table 3, most modifications were minor technical improvements (wording, references to regulations, or very minor changes for internal coherence).

Table 3: Modifications to budget in the lower chamber

Type of modification	Number of articles
Technical improvements	162
Non-budget provisions	30
Less budget	29
More budget	19
Suppressed articles	15
Other	9
Reallocations	8
More control of the Executive	6
Total	278

Source: Own figures based on Cámara de Senadores (2015).

The articles considered under each category can be seen in the Annex.

## 5.2. THE RESEARCH QUESTIONS

How is the previously outlined process undertaken? What kind of discussions take place within the Committee and in the plenary sessions? What rationality do legislators follow? This part of the paper analyses the process within the lower chamber during the approval stage of the Budget 2015-2019. The option of focusing on the lower chamber is based on the consideration that this is where the draft is first considered, and tends to set the general mood of the discussion.

Using the concepts of the institutional theory, this section looks at how the challenges of fiscal policy are expressed in the words of the legislators, and how the process is conducted. The objective is to look inside the black box of parliamentary discussion of the budget, casting light on the processes that were outlined in the figure of page 18.

Considering the theoretical framework presented before, the analysis focused on three dimensions. The first focus is on **the interaction between actors** in the budget discussion. How is the process perceived by the MPs? What is the rationality behind the steps of the process, how they perceive their interaction with the Executive and with the control institutions? What are the interests and incentives and what is the role of commitment?

Afterwards, the focus is shifted to the perception of the **challenges of fiscal policy**. As seen above, the literature stresses that Parliaments tend to underestimate the fiscal constraint, is this the case? Is the approach consistent with incrementalism, or do they make broader considerations? What values do the parliamentarians guard?

Finally, the third issue is the **role of rules and other institutions** in the discussion.

### 5.3. DATA

The input for the analysis is:

- (i) The transcriptions of the 15 hearings of the Budget Committee during September 2015<sup>12</sup>. Table 4 summarizes the main characteristics of the analyzed hearings.
- (ii) The transcription of the three sessions of discussion in the plenary of the Deputies Chamber of the Parliament in October 2015, where the budget draft was discussed and approved.
- (iii) The budget draft and budget laws and their comparison<sup>13</sup>.

Although it could be argued that real decision-making takes place in other informal instances, the hearings provide valuable information, even if it is only at the speech level.

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<sup>12</sup> Available at <https://parlamento.gub.uy/camarasycomisiones/representantes/comisiones/documentos/versiones-taquigraficas>, except for the last four meetings (24.09; 29.09; 30.09 and 01.10), which were asked via email to the Legislative Information Service of the Chamber of Deputies ([ilcr@parlamento.gub.uy](mailto:ilcr@parlamento.gub.uy)).

<sup>13</sup> Published by the Accounting Office (CGN) <https://www.cgn.gub.uy/innovaportal/v/75192/4/innova.front/pre-supuesto-nacional-2015---2019.html>

**Table 4: Summary of the analyzed hearings**

Date	Actor	Topic	Duration *	Words	Representatives				Interventions	
					Attended* *	% Non- committe	Active*** (2)	% active (1)/(2)	Total	% Opposition
2-Sep	Only Committee	Definition of work regime	0:47	4.397	20	10%	5	25%	13	77%
8-Sep	MEF and OPP	Presentation of Budget	5:19	32.619	50	58%	8	16%	24	92%
9-Sep	Only Committee	Definition of work regime	0:21	2.488	30	37%	4	13%	17	94%
9-Sep	ONSC	Civil service	3:07	21.243	30	37%	9	30%	41	80%
9-Sep	MINTUR	Tourism Ministry	1:18	8.952	30	37%	3	10%	8	88%
10-Sep	MTSS	Labour and Social Security Ministry	1:56	10.638	29	31%	5	17%	20	85%
10-Sep	INAU-SIRPA	Childhood Institution	5:09	28.137	29	31%	7	24%	39	95%
10-Sep	JUTEP	First Budget of the Public Transparency Bc	0:22	2.039	29	31%	2	7%	2	50%
10-Sep	Clemente Estable	Basic research institue	1:19	7.243	29	31%	4	14%	7	86%
15-Sep	MI	Interior Ministry	8:47	57.032	44	57%	17	39%	116	87%
16-Sep	MDN	Defence Ministry	4:39	25.184	57	65%	7	12%	25	88%
16-Sep	Udelar	Main Public University	3:14	17.533	57	65%	2	4%	4	75%
16-Sep	MTOP	Transport and Infrastructure Ministry	8:54	48.067	57	65%	10	18%	58	97%
17-Sep	Presidency	Presidency	7:33	46.194	42	50%	13	31%	98	90%
17-Sep	Corte Electoral	Electoral Court	2:04	12.663	42	50%	8	19%	12	58%
17-Sep	MVOTMA	Housing and Environment Ministry	2:52	17.568	42	50%	9	21%	27	93%
21-Sep	MSP	Public Health Ministry	3:56	23.519	31	42%	12	39%	46	85%
21-Sep	MIDES	Social Development Ministry	3:34	21.283	31	42%	4	13%	13	92%

Date	Actor	Topic	Duration *	Words	Representatives				Interventions	
					Attended* *	% Non- committe	Active*** (2)	% active (1)/(2)	Total	% Opposition
23-Sep	MRREE	Foreign Affairs Ministry	3:30	20.284	32	44%	9	28%	26	81%
23-Sep	MIEM	Industry, Energy and Mining Ministry	2:03	11.951	32	44%	4	13%	23	87%
23-Sep	FGN	First Budget of the Public Prosecuting Bod	3:30	20.295	32	44%	6	19%	15	93%
24-Sep	MGAP	Livestock, Agriculture and Fishery Ministry	5:50	33.005	n/a	n/a	10	.-	26	85%
24-Sep	INUMET	First Budget of the Meteorology Institute	1:47	10.076	n/a	n/a	2	.-	13	100%
24-Sep	Congreso de Intende	Local governments funds and transferences	2:32	14.331	n/a	n/a	4	.-	10	30%
24-Sep	UTEC	Budget of recently created technic universit	1:19	7.467	n/a	n/a	4	.-	7	100%
29-Sep	MEF	Economy and Finances Ministry	7:52	51.052	n/a	n/a	13	.-	101	88%
30-Sep	MEC	Education and Culture Ministry	6:29	39.143	n/a	n/a	16	.-	72	85%
30-Sep	TC	Audit Court	1:39	9.960	n/a	n/a	5	.-	6	83%
30-Sep	OPP	Transferences to local governments	2:32	15.319	n/a	n/a	3	.-	11	64%
30-Sep	Agrupación Universi	Scholarship Fund	0:19	1.929	n/a	n/a	0	.-	0	.-
30-Sep	Presidencia	Cannabis Regulation Institute, e-gov Agency	1:50	11.092	n/a	n/a	3	.-	12	100%
1-Oct	ANEP	Public Education Autonomous Institution	4:50	29.441	n/a	n/a	9	.-	42	83%
1-Oct	ASSE	Public Health Autonomous Institution	5:05	30.993	n/a	n/a	15	.-	69	91%

\*When more than one delegation was received in one instance, the duration of each meeting was estimated by the amount of words in the transcription.

\*\* Information is taken from the minutes. It is not possible to know if all attendants remained in the room all the time.

\*\*\* All interventions (regardless of length) are considered. Does not include the president of the committee.

Source: Uruguayan Parliament. For meetings 02-Sep to 23-Sep, Webpage. For meetings of 24-Sep to 01-Oct, Legislative Information Service.

## 5.4. LOOKING INSIDE THE BLACK BOX

In the following, these findings are developed around the issues of the interaction between actors, the perceived quality of fiscal policy and the institutional arrangements<sup>14</sup>.

### 5.4.1. THE ROLES OF THE ACTORS

- Importance of the budget

The budget is presented as a fundamental bill by the MPs and by many of the other actors that participated in the meetings. It was referred to as “the mother regulation of the Government”; “the most important law in every government”; “the financial expression of the government plan that was promised to the citizens in the elections”; and that “presenting it is the most important task that a leader of the public sector must do” (meetings of the 11.09; 10.09 and 2.09 respectively) <sup>i</sup>.

These considerations were transversal to the discussion and are also reflected by the number of congressmen that attended the meetings of the committee. In fact, on average twenty MPs that were non-members of the Committee, attended the meetings.

- The budget as an Omnibus-bill

Although formally only norms that establish budget provisions or help to their execution and interpretation should be included in the budget, this is often not the case. In fact, non-budgetary provisions are often included in the budget. Like Moraes et al (2009, 230) note, budgets generally become typical omnibus bills, easily reversed by future budgets.

In the discussions for the budget 2015-2019, this was signaled as an obstacle by some congressmen of the opposition. This argument was used for example, in the discussion of the articles related with the newly created National Prosecution Authority (*FGN*).

“I think this is not a good occasion to discuss an issue that is important and technically complex. It is obvious that this is not a budgetary matter (...) To measure the proposal we must act with the required counselling (...) We cannot dismiss this with the summary proceedings that these

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<sup>14</sup> When quotations are presented, this is done in English with my own translation. The phrases in original language can be found in all cases at the end of the thesis, identified with roman numbers.



issues receive when the budget draft is being discussed” Congressman of the opposition, 23.09.2015<sup>ii</sup>.

The inclusion of this kind of issues in the budget probably reflects a strategy to accelerate the approval of issues that would otherwise take more time, but could be an obstacle for a more in-depth analysis of budget and non-budget issues in the parliamentary stage.

- Time constraint and other transaction costs

Wehner suggests that according to international experience, at least three to four months are needed for meaningful analysis and scrutiny of the budget by the legislative (2004, 13). Although the Uruguayan case is in line with this benchmark (90 days), in practice, the timeframe for discussion appears to be pressing.

The time constraint was a constant throughout the discussion within the Committee. It was said that “with the incorporation of new organisms, it seems outdated to discuss the budget in forty-five days”, and that

“the Chamber always has the same amount of time to handle the budget, but it has more work in each occasion because (...) new organisms have been created, many of them under the article 220 of the Constitution, which means they are decentralized, with their own budget”<sup>iii</sup>.

Although the issue of time management was discussed several times, the allocation of time sometimes appears to depart from efficiency considerations, with exhausting meetings starting in the afternoon and finishing after midnight. In the last minutes of the voting in the Plenary of the lower Chamber, hilarity followed this remark by a member of the opposition:

“I propose to vote these (four additional) articles together, considering the (lack of) spirit in the Chamber to support them and the spirit to finish the session. We are all in good spirit, especially by seeing the people from the Press who are arriving; we have seen them in one clothing many hours ago, now they are wearing a different one and we are still here<sup>iv</sup>”

(Plenary session 13.10.2015, Cámara de Representantes, 2015c, 630).

According to the available transcriptions, nine days were used for meetings with the entities, with sessions averaging nine hours. The correlation between the time dedicated to each entity and its importance in the budget is very weak ( $R^2=0,15$ ). Instead, the duration of the meetings is better explained by the number of articles included in the draft related to each institution

( $R^2=0,60$ ), as shown in Figure 5. This follows from the fact that the usual structure of the meetings with the executive entities was to have first, a presentation of the strategy of the institution and its main results, and then, a discussion of the proposed articles for the budget.

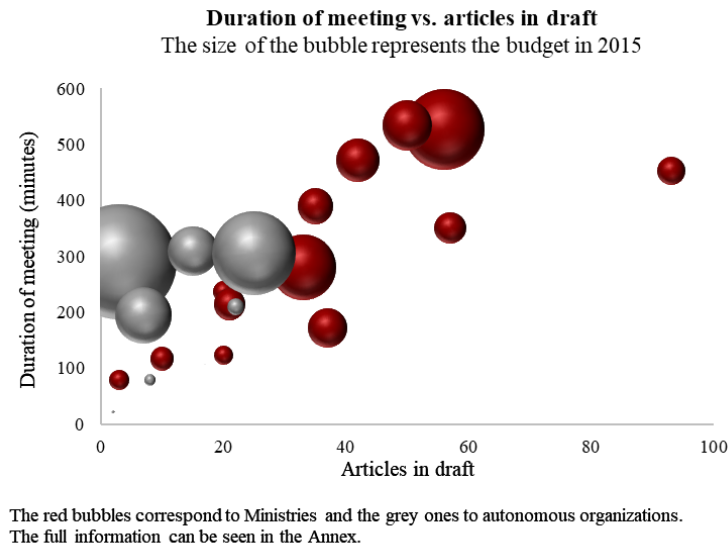


Figure 5: Duration of Meetings and number of articles

The issue of the time constraint was used by the opposition as an argument to oppose certain articles. For instance, while discussing a disposition regarding the financing of high-cost drugs within the national health system, a member of the opposition argued that it should be removed from the budget and discussed in another instance: “we will all agree that the good intention to work on this topic cannot be implemented in twenty-four days<sup>v</sup>” (21.09.2015).

Finally, it is worth mentioning that the committee established a working group in charge of receiving delegations that asked for audience. Apparently, any institution could ask for audience: “this Committee has always honored the commitment to receive them all<sup>vi</sup>”. These included some unions and associations affected by the budget and associations with beneficiaries of subsidies and transferences from the national budget (under *inciso* 24).

According to the available transcriptions, thirty-nine delegations were received by the congressmen. At the end, the Committee spent fourteen hours receiving delegations that account for 0.005% of the Budget.

- Technical capacity

Recently, one of the most active congressmen in the Budget Committee tweeted a [photo](#) of himself next to the draft of the yearly revision of the budget (a seven-volume stack): “Don’t

think I have read all that, (...) The secret is to know how to search and to have a team to find” (jorgegandini, 2017).

Wohner (2004) notes that although sufficient time is needed for a thorough analysis of the budget in the Parliament, adequate technical resources and party dynamics are also relevant.

The issue of technical capacity was mentioned during the discussions, as a source of constraint for timely analysis, like referenced before.

The approach to technical constraints was sometimes a source of disagreement. For example, a proposal was made by a member of the opposition to invite economists from the private sector to assess the projections that support the budget, but this “innovation” (as the President of the Committee labeled it) was rejected by the government party<sup>15</sup>. The same happened with a request to allow one advisor for each party to attend the Committee audiences<sup>16</sup>.

- Roles of the parties in the Committee

Like the literature suggests, comparing the speeches in the committee with the speeches in the plenary, the first represents a working group where political speeches are present but to a lesser extent. In their interventions in the plenary, most members of the budget committee stressed as a good trait the good ambiance that prevailed in the committee.

Despite this, the roles of the members of the parties were clearly differentiated. The members of the opposition tended to take a more active role in the meetings, asking questions to the delegations of the entities or making political considerations. Meanwhile, the members of the government party’s contributions were focused in practical considerations or political comments defending the government’s policies. In fact, roughly 10% of the interventions in the meetings corresponded to the government party (excepting the President of the Committee)<sup>17</sup>. This evidence is in line with Moraes et al (2009, 232): negotiations between the Executive and the members of the Legislative of the same party take place at an elite level, before the budget is presented.

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<sup>15</sup> Meetings of September the 2<sup>nd</sup>, 9<sup>th</sup> and 23<sup>rd</sup>.

<sup>16</sup> Meetings of September the 2<sup>nd</sup> and 17<sup>th</sup>.

<sup>17</sup> The details can be seen in the Annex.

A relevant trait in this regard is party discipline, which in a context of a majoritarian Parliament leads to a situation where the draft of the Executive is dominant. As one congressman of the governing party put it:

“I am here because of a political party. When I agree, I support; when I don’t, I support stronger, because I am loyal to my party (...) I believe this article is not good for public management (...) however, I repeat that I am part of a parliamentary group<sup>vii</sup> (Plenary Session, 12.10.2015, Cámara de Representantes, 2015b, 20).

However, party discipline does not mean that anything that the Executive proposes will be approved in the Legislative, as illustrated with the discussion around the issue of the Transit and Road Police. The draft proposed the unification of the Road Police with the Republican Guard, an elite police body that is specialized in repressive operations. One representative of the ruling party said during the audience with the Minister of the Interior:

“I share the concerns that the legislators of the Colorado and National Parties have raised, I must be honest with myself. I don’t understand this unification of procedures (...) I would like to receive some convincing information<sup>18</sup>”

The initiative of the Executive was finally rejected in the Plenary session, with forty-seven in ninety-nine votes (Cámara de Representantes, 2015b, 228).

During the Committee sessions, within each party, there are also differences in the amount and type of questions and interventions that each congressman made. In each party one or two leaders can be identified, who were active in most sessions and acted as coordinators of their party.

Beyond the instances of the Committee, each party group of congresspersons evaluates the project and often elaborates proposals of modifications that are considered in the plenary discussion.

In the plenary discussion, 85 proposals were presented by groups of legislators. Most of the proposals were presented by groups of legislators of the same party (94%), but there were some proposals that came from multi-party groups. 23 of the proposals were alternative to the articles

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<sup>18</sup> Obviamente que muchas valoraciones no las comparto, pero las inquietudes que han planteado legisladores del Partido Colorado y del Partido Nacional las acompaño, tengo que ser honesto conmigo mismo. Realmente, no entiendo esta unificación de procedimientos (..) Sería de mucho agrado recibir alguna información que me convenza. (congressman of the Broad Front (FA), 15.09.2015)

that had already been approved in the Committee, and they were rejected. In another case, an agreement was reached in the plenary discussion (article 367). The rest of the proposals were additions to articles that had already been approved in the Committee. Only five of the 61 proposals were approved in the plenary. In one case, law-makers of the government party said they would impulse the proposals in the upper chamber (Cámara de Representantes 2015c, 545). Only one proposal of modification was presented by congressmen of the government party, which suggests that the congressmen were already supportive of the project when it entered the Parliament and that the desired modifications had been fostered within the Committee.

To sum up, the modifications that take place in the Parliament are influenced to a great extent by party dynamics.

- The relation with the Executive

The tension between the entities and the Ministry of Finances was made explicit in some occasions. For example, the University of the Republic claimed that the draft the Executive sent only accounted for 30% of the incremental resources they had asked for (16.09.15); the Clemente Estable Institute<sup>19</sup> complaint they had not received any additional resources despite they had been told they would (10.09.15); an opposition congressman proposed an increase of budget for building a Military Secondary School in the north of the country, an initiative from the Ministry of Defense that had been “inexplicably removed by the Ministry of Economy and Finances” (Plenary Session of 12.10.15, Cámara de Representantes 2015b, 186).

In fact, the resources for Education were at the center of the debate, even showing a disagreement between the Executive and the Legislative of the same party. At the end, most of the changes that were made in the approval stage were related to that area. An emblematic example of this tension is the last article of the final Budget 2015-2019 Bill:

For the purposes of achieving an allocation of a volume of resources equivalent to 6% of the Gross Domestic Product to Public Education at the end of the Budget Period, the Executive Power is mandated to make its best efforts in the allocation of budget credits to reach the abovementioned figure (art. 742, Law 19.355/15).

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<sup>19</sup> A basic science research institute that is financed through an executive line within the Ministry of Education and Culture.

- Incrementalism

The budget follows an incremental logic. As one Minister stated:

“The Budget bill is incremental in its proposition. The entity (*inciso*) proposes the articles with or without cost that it proposes to increase, modify or reduce, but it does not speak about all the other things it does” (24.09.2015)<sup>viii</sup>.

The Parliament can only reallocate resources among entities, it cannot increase the total amount of expenditures. Like one of the congressmen expressed it:

“the Parliament must find the resources, and it is always a hard task, because one gets the pen in one hand and the scissors in the other one: each time one says yes to someone, is saying no to someone else” (17.09.2015)<sup>ix</sup>.

## 5.4.2. THE CHALLENGES OF FISCAL POLICY

- Efficiency

The issue of the quality of expenditure was mentioned during the audiences, often as a vindication of the role of the Parliament in resource allocation.

“The Parliament doesn’t raise its hand just for amounts of money. Here, resources are requested with an objective (...) and the organisms must respond, not only for how resources that the Parliament approved were spent in terms of legality and attachment to accounting rules: they must also be accountable for the results they get with the resources that the Parliament gave them through the public budget<sup>x</sup>” (10.09.2015).

However, discussions were dominated by the articles of the budget, and there was no room for in-depth discussions about the quality of expenditure. The nature of the discussions can be summarized by the plenary treatment of the articles related to the Defense Ministry (Cámara de Representantes 2015b, 150-158;160-186). In that context, amid political speeches about the impact of specific measures on the Armed Forces, an opposition representative stated:

“the topic cannot be addressed by (...) adjusting the budget and reducing expenditures and investments (...). I think the core of the issue is to know which Armed Forces the country needs, what we want them for, and therefore, how big they should be<sup>xi</sup>” (Cámara de Representantes, 160).

As this quote suggests, although political considerations were present along the discussions (particularly in the plenary session), the sphere of the budget discussion is not conducive for

exhaustive discussions about the resource allocation. In the words of a member of Parliament before the voting of the project in general:

It is always said that the Budget Bill is the financial expression of the government program (...) Actually, this is a partial truth. There is a kind of mythic appreciation that in this instance the Parliament resolves the allocation of the expenditure. In fact, in these instances it is the new public expenditure that is discussed. But about the substantial part of the public expenditure, which constitutes the national budget, with the multiple lines that are included in the grid, there is no discussion. This part remains hidden like an iceberg<sup>xii</sup>. (Cámara de Representantes 2015a, 565).

- Representativeness

The ninety-nine representatives of the Chamber of Deputies are elected in nineteen electoral districts under proportional representation rules. Therefore, each Deputy represents a zone of the country (*departamento*). Like the literature on the topic outlines, congresspersons tend to favor their constituencies in the budget process, which is one source of deficit bias.

Although an interest for the common good was generally invoked, occasionally the local nature of the deputies' mandate was clear, sometimes dominating the discussions. This was the case for example in the abovementioned plenary discussion about the Defense Ministry. One article established a salary increase for low range officials that would be financed by not filling half of the newly generated vacancies. This article was finally rejected by the Representatives House, most argumentations revolving around concrete rural villages that would be affected by the measure.

“because of the situation that our towns live, when four or five people lose their jobs, a big problem arises. As we all know, in each military post eight or ten vacancies are generated every year, and if we reduce them by 50%, four or five people won't be able to enter the force. Without doubt, I worry even if it is one of these people, but I think we must worry for one, four, five or a hundred” (opposition representative 12.10.15, Cámara de Representantes 2015b, 173).

“a while ago, they were texting me from Santa Clara de Olimar<sup>20</sup>, telling me that tomorrow all the population will meet in the central square, because they are desperate, as the military

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<sup>20</sup> A 2,300 people village.

authorities of the place told them that they would lose their jobs. (...) therefore (my sector) will vote against this article. There will be time later to continue discussing and to see if we were wrong<sup>xiii</sup>” (government representative 12.10.15, *ibid.*, 180).

It is clear that the legislators have a natural interest in pursuing results to their constituencies. However, occasionally this could hinder the overall representativeness of the decisions, especially when decisions would generate a very identifiable group of losers and only disseminated gains.

Similarly, there is a case where winners are very concentrated but losers are almost imperceptible. This is the case of beneficiaries of subsidies under entity 21 and of beneficiaries of tax exemptions. In the first case, as seen before, the committee dedicates a disproportionate amount of time to receiving the organizations that receive or want to receive the transferences.

### **5.4.3. THE INSTITUTIONS AND RULES**

- Fiscal rule

As explained before, the country’s main instrument to promote fiscal sustainability is the financial program and the indebtment cape, that acts as a fiscal rule on the deficit level.

During the plenary discussion, three new articles that would represent an innovation towards a fiscal rule were proposed by minority congressmen. Two of these articles were extracted from the budget draft that the Executive presented in 2005 for the period 2005-2009, which had been rejected by the Parliament in that occasion.<sup>21</sup>

The first article stated that the annual increase of primary current expenditure (i.e. without investments) of the Central Government should not exceed 3% in real terms. The change it incorporated in comparison to the 2005 version was that it excluded the increases for education and health entities<sup>22</sup>. It also added that if this limit was broken, the article stated that the Executive branch should inform the Parliament of the reasons and the corrective actions to fulfill the requirement in twelve months.

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<sup>21</sup> It was the first budget of a Frente Amplio government. The President and Minister of Economy and Finance were the same then as in 2015.

<sup>22</sup> Entities 25, 26, 27, 29 and 31 of the National Budget



The second proposal, was to allow the Executive Power to adjust the execution of operating costs (including transferences) if the revenues were lower than expected in the budget. The arguments for this article was to give the executive branch a tool in case its projections proved to be too optimistic.

The fact that these two norms had been originally proposed by the same economic policy-makers was the main argument for the proposals, together with the fact that the economic context was more uncertain in this occasion (Cámara de Representantes 2015b, 32; 34).

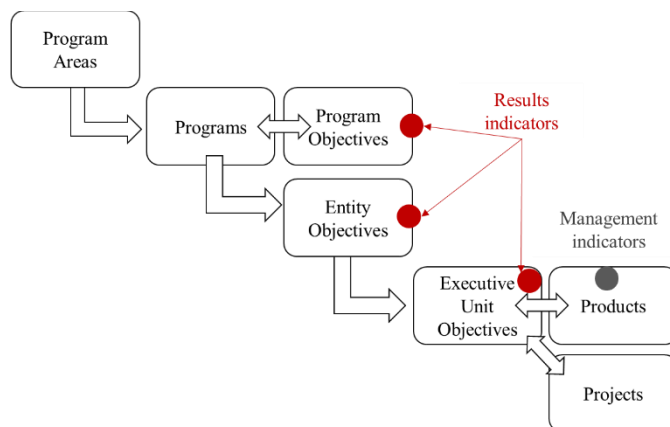
There was no argumentation against the proposals, only a request for discussing it together with the indebtment cap that was at the end of the draft. Finally, both articles were rejected, after obtaining forty-eight votes in ninety-nine and forty-four in ninety-six respectively.

The third article that was proposed was that the execution of the budget by the Executive must be adjusted to the terms approved by the Parliament. In particular, the fiscal deficit could not exceed the one approved by the Parliament in more than 20%. If such circumstances arise, the Executive should ask for a new authorization. The argumentation in favor of this article included that this measure would help the Executive to say *no* to some demands during its term (Cámara de Representantes 2015b, 33-34). There was no argumentation against the proposal, but it was rejected, obtaining forty-five in ninety-seven votes.

The budget draft in 2015 contained a modification of the net debt increase maximum. Interestingly enough, during the plenary discussion of the project, there was no argumentation for or against it and it was approved exactly as it came from the Executive Power. The article was not an especially controversial one: it received fifty-three votes in ninety, which means that it received some votes from members of the opposition and that not all the representatives were in the room in the moment of the voting (Cámara de Representantes 2015c, 615).

- Performance management

In the volume II of the grids, the budget is presented around programmatic areas which reflect the aim of the expenditure. Each program is presented with its objectives, the period it covers and the entities (*incisos*) that participate. Then, for each entity, all the programs in which it participates are summarized, and the objectives of the entity and each of its executive units are presented. The objectives are measured through result indicators, with a baseline and an objective for each of the years of the budget period. The information that is included in this version of the budget is summarized in the following chart.



Source: Translation of chart in page III, CGN (2015b)

Figure 6: Methodology of Programmatic Areas and Indicators

This is presented as a first step towards results budgeting and it is said that this presentation helps the government to concentrate its efforts towards socially valuable objectives, and allows the Parliament and the public opinion to analyze and evaluate the budget under a new perspective (CGN, 2015, IV).

However, in all the meetings with the entities, there was no mention of any of the programmatic areas or the indicators. Some tangential references were made to the need to advance in this direction. This dialogue between a member of the opposition and the Ministry of Interior is eloquent.

“The Ministry comes to defend its budget, telling us what it wants it for, what are its objectives. This allows us, in the mid-term, to evaluate not if it spent all the budget, (...) but if it achieved what it wanted with that budget. It is what we call performance budget, which we are far from, but at least from a subjective perspective, I think it is good that we consider that angle”

“You can agree or not on the diagnosis, or in the policies that are undertaken to modify a situation, but the budget is thought on the basis of a certain diagnosis. (...) Now we make a more rational and scientific use of the human and material resources that the Police has, in order to be efficient in the places were crimes are committed”. (15.09.2015<sup>xiv</sup>).

- The control of the budget execution

As seen before, the main institution in charge of controlling the execution of the budget is the Court of Auditors. In the appearance of its delegates before the Committee, they were critical of the fact that none of the norms they had proposed to the Executive had been considered in its draft.

During the meeting, the tensions between the traditional role of the Court as the guardian of legality and an eventual extended role in contributing to better quality of expenditure was present.

For example, in one of his statements, the president of the Court of Auditors said that the work of the Court “guarantees an adequate use of public resources, that are not created by the State, but come from the tax-payers, who have a right to know if the expenditures are *legally* correct”. (30.09.2015, emphasis added). In the same sense, one of the Deputies said that the constitutional hierarchy of the Court of Auditors is in line with its “delicate mission regarding *the juridical correctness* of the State’s functioning in relation to public expenditure<sup>xv</sup>”.

The good reputation of the Court was highlighted both by the representatives and by the President of the Court. Nevertheless, regarding its relationship with the Parliament, one of the deputies said that, its remarks are not always considered, because “thousands of observations pass through (the Parliament), and we don’t always have the possibility to study them: this is something that we will have to revise someday<sup>xvi</sup>”

The intension to expand the tasks of the Court towards auditing the quality of the expenditure was present in some of the statements.

Our country cannot ignore that if the task of controlling public expenditure is correctly performed, the use of public money is optimized; it cannot disregard that an efficient Court of Auditors means an essential barrier to corruption acts. *We cannot afford not to intervene in new processes* -such as results auditing, first, to later move towards management auditing- *that guarantee not only the legality, but the efficiency of public expenditure*<sup>xvii</sup>.

Minister of the Court of Auditors, 30.09.2015, emphasis added.

Despite this intension, as it follows from the discussion, the Court is under-staffed even to perform its core tasks. Staffed by lawyers and accountants,<sup>23</sup> the Court is arguably limited in its capacity to expand its tasks.

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<sup>23</sup> As declared by one of the Ministers in the meeting.

After the parliamentary discussion, no budget increase was granted. Only one article was added, allowing the Court to permanently contract some staff members that had a temporary contract.

Beyond some critics of the opposition to the lack of new resources for the Court of Auditors (together with other enforcement agencies: the judiciary, the newly created State Prosecution, the Administrative courts and the Electoral Court), its role in the budget process was only marginally discussed.

Two main innovations regarding the role of the Court of Auditors were mentioned during the discussions. First, the control of the results of the performance agreements with the executive units (*compromisos de gestión*), currently controlled by the Planning and Budgeting Office. “I think that this agency is capable -most probably with a budget increase- of evaluating the performance agreements<sup>xviii</sup>” (08.09.2015).

It was argued by members of the executive, that a previous accountability law had created a Committee for the evaluation of such agreements, formed by the Budget Office, the Ministry of Economy and the Civil Service Office, and that both the Court of Auditors and the National Auditing Agency received the information and had the authority to control and audit the agreements and the indicators.

The main argument was that “management control is not easy, because no-one wants to be controlled” and controlling such agreements requires knowledge of the public bodies, mastering administrative, legal and managing aspects<sup>xix</sup>.

Second, a more in-depth institutional reform regarding the Court of Auditors, was mentioned during the plenary discussion. While claiming that the results of the programs were not properly controlled neither by the Executive nor by the Legislative, a representative argued in favor of transferring the Court to the Parliament (*Cámara de Representantes 2015a, 565<sup>xx</sup>*). This was the case until 1935.

The audits that the Internal Audit Office perform were only used marginally, to argue about one of the articles of the budget<sup>24</sup>.

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<sup>24</sup> Regarding an exception to the purchasing requirements for the livestock production in the presidential residence of Anchorena.

- Reforms in public expenditure

The issue of Public Administration reform underlies in some of the discussions, but not always with uniform criteria. For example, part of the opposition seems to associate reform with reducing the size of the state (Cámara de Representantes 2015a, 562<sup>xxi</sup>).

One aspect of public reform that was present in some of the discussions is the creation of new public institutions that work under the private law. One member of the government party stated “...we boast about the State, but we end up creating parallel companies because we are not able to manage the public system” (Cámara de Representantes 2015b, 19)<sup>xxii</sup>.

This tendency responds to a need for increased flexibility. Like one opposition representative noted, the National Innovation Agency (ANII) was a success “because it was a non-state public body (*persona pública no estatal*), which gave it more flexibility and mobility to impulse its programs<sup>xxiii</sup>” (17.09.2015).

The risk that this tendency poses in terms of possibility to control was also noted. In the words of one representative of the opposition:

Each time there is a bigger part of public expenditure that is administrated without the Parliament having anything to do. The autonomous agencies, the SOEs, (...) also the trusts (...) trusts that are nothing by private organizations that administer public money with results we ignore<sup>xxiv</sup>.

## 5.5. MAIN FINDINGS: THE UNWRITTEN RULES OF THE GAME

The analysis of the discussion of the budget draft within the Chamber of Deputies can be summarized in the main points.

***Time constraint and technical capacity seem to impose substantial transaction costs, that limit negotiations.*** The way working groups are organized does not come across as efficient. While few representatives are active and informed, most discussions revolve around political discussions that do not significantly affect fiscal outcomes.

***There is no evidence of ongoing in-depth discussions regarding fiscal issues within the Parliament in other spaces besides the budget discussion.*** The information from the control institutions is mostly overlooked, and almost no discussions evidenced knowledge of alternative institutional arrangements that could help improve the quality of public expenditures.

*The discussion is focused on the proposed articles, while the grid (that represents the actual expenditure ceilings) is largely ignored.* This means discussions are focused on the margin, with no room for structural analysis.

*Legislators are prone to be captivated by interest groups*, which is exacerbated by the working dynamics.

The presented framework and the analysis, allow for an identification of some core sources of challenges in the budget process.

All in all, the most pressing challenge at the Parliamentary level is to do better use of information, which would lead to a more efficient use of time, would improve the quality of analysis, leading to more rational reallocation decisions and strengthening the capacity of the Parliament to represent the voters in the expenditure discussion.

In the budget preparation stage, the most compelling challenges are related to overcoming the marginal approach, making better use of information, and to advance in reducing the pro-cyclical stance that has been characteristic.

In the executive stage, a better expenditure policy would require making conscious efforts to pull out of incrementalistic planning, thinking services in a more performance-oriented manner.

Finally, in the control field, adequately managing and communicating growing amounts of information is a challenge, as well as making the new emergent institutional arrangements accountable.

## **5.6. A PROPOSAL FOR IMPROVEMENT**

*“...unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests” (Olson, 1965, 2).*

‘The mother of all reforms’ is the ambitious name that has been used in Uruguay for the reform of the State, a rather vague concept that is used to name a heterogeneous set of changes in governance.

Like presented in Williamson (1999), governance comprises the mechanisms to manage conflicting interests, realize mutual gains and generate order. Improving it requires an understanding of the budget process, to which this work intends to be a contribution.

***The current rules of the game cannot be ignored***

As seen before, natural tensions arise in the process of allocating public money through collective choice. The way the game is played reflects the current equilibrium if the perceived costs and benefits of the different actors.

Table 5: Main challenges and possible improvements

	Main challenges	Possible Improvements	
		New actors	New rules
Planning	Incrementalism Pro-cyclical bias	Center for Fiscal Studies	Improve fiscal rule
Approval	Capture by interest groups Poor use of information	Strengthen technical capacities Permanent space for expenditure control and evaluation	Improve exchanges with Executive before budget process starts Change procedure for subsidies
Execution	Path-dependence Technical efficiency	Delivery Unit	More autonomy + Performance Agreements
Control	Governance of new institutional forms Use of information technologies	Modernize Court of Auditors	Strengthen communication capacity

***New institutions and rules: no magic formula***

The international experience shows that although some general principles can be applied for improving governance, standardized recipes usually fail. As any institutional change, improvements should build on the strengths, and it will require political will and the construction of a compelling vision that acts as a driving force for change (see Cameron & Green, 2014).

*The Fiscal Studies Center (Centro de Estudios Fiscales, CEF) could play a more relevant role*

Although some think tanks and Universities study fiscal affairs, one structural weakness for the development of better quality fiscal policy is the lack of actors that can actively advocate for it.

The CEF started its activities in 2012. It is a public institution that is ruled by the private law. Its relationship with the Executive Branch is performed through the Ministry of Economy and Finances, but it has technical independence. It is a small institution whose main role has been to finance studies on fiscal issues.

Many fiscal councils (watchdogs of fiscal discipline), have been created in the world, especially since the financial crisis. The rationale behind such institutions is that an unelected agent who is not exposed to pressure by interest groups could help deficit bias (Beetsma and Debrun, 2016). In a similar sense, the CEF could act supporting actions that enhance the quality of fiscal policy, not only its sustainability but also its efficiency.

*A more strict fiscal rule could help to avoid pro-cyclicality, but it requires a good design and building consensus*

Ex ante rules are attractive because they are deemed as a simple and transparent way to address the common pool problem, constraining the actions of those who decide on the budget, empowering the institution that steers fiscal policy. However, the application of these rules has not been flawless, and the discussion about fiscal rules should learn from the many countries that have implemented more exigent fiscal rules<sup>25</sup>.

First, the rules have not been effective to reduce the deficit bias, despite the good conditions in the years previous to the crisis (Schick 2013). For example, the European stability pact was breached 36% of the time<sup>26</sup>. Because of their construction, the limits were in practice regarded as acceptable or normal figures instead of being ceilings: they acted as anchors. Second, flat targets tend to generate a pro-cyclic bias, although there appears to be mixed evidence on this point (von Hagen, 2008). Cyclically adjusted rules or multi-year rules could be a contribution

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<sup>25</sup> Von Hagen (2008) is followed in this argumentation.

<sup>26</sup> Data from Calmfords & Wren-Lewis (2011), considering the period 1999-2009. Each EU member state was an observation in each year.



in this sense. The intertemporal balance requires that over the course of the economic cycle, the net worth of the public sector as a proportion of GDP must remain constant (Quiggin, 2006). However, this is not easy to implement because the duration of cycles is not fixed and the output gap is not easy to compute, especially in the face of ground-breaking changes. Third, an excessive focus on short-term rules could limit the capacity of the governments to smooth fiscal costs, preventing them from undertaking long term fiscal reforms (such as pension system modifications). Fourth, rules are incomplete contracts by definition, because it is impossible to anticipate all the states of nature. The usual solution for this problem is to include escape clauses into the rule. However, there is necessarily a trade-off between flexibility (the ability to adapt to different circumstances) and the complexity of the rules. If a rule gets too complicated, it loses its power to guide behavior of the agents. Fifth, rules can be circumvented, and loopholes proliferate, which limits their effectiveness (von Hagen, 2008). This may induce nontransparent behavior, creative accounting practices and other forms of opaque application of the rules (Kopits, 2001). Because laws can be amended and modified, once adopted, the challenge is that they remain in place when they become binding (Wyplosz, 2012). Finally, enforcement of fiscal rules is difficult. A main and unavoidable problem is that fiscal rules must be forward looking, based on the assumptions for the next fiscal year. This can be corrected by ex post evaluations, but the consequences of such evaluations will always be late, if ever applied. Rules only work if non-compliance is sanctioned, but this is hard and fiscal discipline seldom ranks high on voters' utility functions.

*A development of new spaces within the Parliament to discuss fiscal policy more structurally.*

The current timing of the process and the incentives of the legislators lead to the current situation, where incrementalism is the most rational approach.

Unless some institutional changes are performed, analysis in the parliamentary stage will continue to be on the margin, with a deficit bias and some representativeness issues that arise from the influence of the constituencies and other lobby groups.

It is beyond the scope of this work to explore which legislative working spaces would be more suitable for more deep analysis of the structure of public expenditure, but in any case, such analysis would require strengthening technical capacities in the Parliament.

*There is room for increased efficiency in the discussion process.*

More productive meetings with the executive entities could be performed simply by making a better distribution of the hearings throughout the period of analysis, maybe with better defined working groups within each topic.

For instance, the Pension system authorities are not received during the hearings, although Social Security transferences represent more than 20% of the budget.

Another issue is that as seen before, the special Committee that analyzes the budget dedicates a somehow disproportionate amount of time to receive the various delegations that represent all kinds of particular interests. In particular, the instances where potential and current beneficiaries of subsidies are received represent a hazard to representativeness. For the sake of efficiency and better control, these funds should be transferred to the domain of the corresponding ministries. However, it is unfortunately not likely that such decision would be taken by the Parliament itself.

*Changes could be implemented at the executive level to boost the efficiency of expenditure*

Currently, centralized efforts for increasing the efficiency of expenditure (and ultimately, the quality of public services), are taken by the specialized bureaucrats of the Budget Unit of the Ministry of Finance.

If the quality of public services is to be boosted, a case could be made for the convenience of moving these tasks away from the same actors that are in charge of *guarding the Treasury*. As the former Head of the Delivery Unit in the UK put it: “just as Inuit people have many ways of saying ‘snow’, so Treasury people have many ways of saying ‘no’” (Barber, 2007, 58). This characterization is useful to underline that it could be a good idea to separate the roles of budget negotiation and quality driving.

If innovation in the public sector wants to be promoted, increased autonomy for the executive institutions is required. Such autonomy must be complemented by increased accountability of the management.

In any case, like the international experience (for example, in the UK and in Chile), changes in this regard should can only be successful if they go together with decided political backing.

*Change in (at least) the communication approach of the Court of Auditors*

The current way of functioning of the Court of Auditors, and the incentives of both the parliamentarians and the Court are such that it is only rational that its reports play a minor role in budget discussion.

In practice, the Court acts as only partial Guardians of procedural accuracy. The enormous amount of information generated by the organism is largely overlooked, and it is hard for Parliamentarians and for citizens to discriminate severe departures from legal norms from formal non-compliances.

In this regard, with the availability of new techniques for data management and new communication tools, the Court of Auditors should strengthen its capacities to better analyze the information it generates and to communicate it better both to Parliament and to the broader public. However, the implementation of such a modification should not succumb to the temptation of incrementalism itself. If the Court of Auditors is to be more influential in the budget process, helping to improve control and therefore quality of expenditures, it has to undergo a strategic transformation.

Some Courts of Auditors have developed a role not only in procedural control, but also scrutinize the quality of public funds allocation<sup>27</sup>. However, the current composition of the Court of Auditors makes it unrealistic to plan a conversion to such a role, at least in the short run.

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<sup>27</sup> See for example the case of the British National Audit Office (National Audit Office, 2017).

## 6. CONCLUSION

The current budget process reflects an equilibrium in the interaction between actors, considering the current rules and the interests of the players. If the quality of public expenditure is to be improved, these interactions must be considered.

Any serious attempt to improve fiscal governance requires avoiding the fallacy of magical technical solutions. Like Ostrom (1990, 13) points out, there is no single solution to common pool problems, and improving governance is an eminently political, time-consuming, and conflict-invoking process. Public management is not a technical, neutral process, but an activity that lies at the core of politics, law and civil society, and both values and ideology influence it.

A special challenge that Uruguay faces is the inertia of expenditure, not only in terms of levels, but especially in terms of structure. While it would not be reasonable to change the expenditure structure every period, it does not make sense to drag the same expenditure structure year after year, especially in a changing world.

Discussions in Uruguay tend to present the problems as if they were unique, like we were playing a game that only we know. However, most of the challenges that the country faces are well documented throughout the literature. The tensions that emerge from the common-pool problem are well known and there are no magic solutions. If the country is to make improvements in the way it decides its budget, executes it and controls it, broad political consensus is needed, and decisive action needs to be taken. This is hard when costs are concentrated and benefits are diffuse, but it is the way to move forward.

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## 8. ANNEX

### Annex 1: Structure of the approved budget 2015-2019

Section	Structure of the Budget					
	2015	2016	2017	2018	2019	Avg
Presidency ( <i>inciso 02</i> )	1%	1%	1%	1%	1%	1%
Defense ( <i>inciso 03</i> )	4%	4%	4%	4%	4%	4%
Interior ( <i>inciso 04</i> )	6%	6%	6%	6%	6%	6%
Economy and Finances ( <i>inciso 05</i> )	2%	2%	2%	2%	2%	2%
Foreign Affairs ( <i>inciso 06</i> )	1%	1%	1%	1%	1%	1%
Livestock, Agriculture and Fishery ( <i>inciso 07</i> )	1%	1%	1%	1%	1%	1%
Industry, Energy and Mining ( <i>inciso 08</i> )	0%	0%	0%	0%	0%	0%
Tourism ( <i>inciso 09</i> )	0%	0%	0%	0%	0%	0%
Transport and Infrastructure ( <i>inciso 10</i> )	2%	2%	2%	2%	2%	2%
Education and Culture ( <i>inciso 11</i> )	1%	1%	1%	1%	1%	1%
Public Health ( <i>inciso 12</i> )	0%	0%	0%	0%	0%	0%
Work and Social Security ( <i>inciso 13</i> )	1%	0%	0%	0%	0%	0%
Housing and Environment ( <i>inciso 14</i> )	1%	2%	2%	2%	2%	2%
Social development ( <i>inciso 15</i> )	1%	2%	2%	2%	2%	2%
<b>Total incisos 02-15</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>
Interest payment ( <i>inciso 20</i> )	9%	9%	9%	9%	9%	9%
Subsidies ( <i>inciso 21</i> )	3%	3,0%	3%	3%	3%	3%
Social security transferences ( <i>inciso 22</i> )	21%	19%	19%	19%	19%	20%
Partidas a reaplicar ( <i>inciso 23</i> )	4%	4%	4%	4%	4%	4%
Other credits ( <i>inciso 24</i> )	14%	16%	16%	16%	16%	15%
<b>Total incisos 20-24</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>
Judicial branch ( <i>inciso 16</i> )	1%	1%	1%	1%	1%	1%
Accounting Court ( <i>inciso 17</i> )	0%	0%	0%	0%	0%	0%
Electoral Court ( <i>inciso 18</i> )	0%	0%	0%	0%	0%	0%
Administrative Court ( <i>inciso 19</i> )	0%	0%	0%	0%	0%	0%
ANEP ( <i>inciso 25</i> )	13%	12%	12%	12%	12%	12%
UDELAR ( <i>inciso 26</i> )	3%	3%	3%	3%	3%	3%
INAU ( <i>inciso 27</i> )	2%	3%	3%	3%	3%	3%
ASSE ( <i>inciso 29</i> )	7%	7%	7%	7%	7%	7%
UTEC ( <i>inciso 31</i> )	0%	0%	0%	0%	0%	0%
INUMET ( <i>inciso 32</i> )	0%	0%	0%	0%	0%	0%
FGN ( <i>inciso 33</i> )	0%	0%	0%	0%	0%	0%
JUTEP ( <i>inciso 34</i> )	0%	0%	0%	0%	0%	0%
<b>Total autonomous organisms</b>	<b>27%</b>	<b>26%</b>	<b>27%</b>	<b>27%</b>	<b>27%</b>	<b>27%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Annex 2: Modifications to original draft during approval process

### Budget 2015-2019. Draft of the Executive Power vs. Final Law

Entity	UYU millions					%				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Presidency ( <i>inciso 02</i> )	0	40	40	40	40	0%	1%	1%	1%	1%
Defense ( <i>inciso 03</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Interior ( <i>inciso 04</i> )	0	-57	-57	-57	-57	0%	0%	0%	0%	0%
Economy and Finances ( <i>inciso 05</i> )	0	-60	-60	-60	-60	0%	-1%	-1%	-1%	-1%
Foreign Affairs ( <i>inciso 06</i> )	0	-20	-20	-20	-20	0%	-1%	-1%	-1%	-1%
Livestock, Agriculture and Fishery ( <i>inciso 07</i> )	0	-22	-22	-22	-22	0%	-1%	-1%	-1%	-1%
Industry, Energy and Mining ( <i>inciso 08</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Tourism ( <i>inciso 09</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Transport and Infrastructure ( <i>inciso 10</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Education and Culture ( <i>inciso 11</i> )	0	32	32	32	32	0%	1%	1%	1%	1%
Public Health ( <i>inciso 12</i> )	0	-8	-8	-8	-8	0%	-1%	-1%	-1%	-1%
Work and Social Security ( <i>inciso 13</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Housing and Environment ( <i>inciso 14</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Social development ( <i>inciso 15</i> )	0	-200	-400	-400	-400	0%	-3%	-6%	-6%	-6%
<b>Total incisos 02-15</b>	<b>0</b>	<b>-295</b>	<b>-495</b>	<b>-495</b>	<b>-495</b>	<b>0%</b>	<b>0%</b>	<b>-1%</b>	<b>-1%</b>	<b>-1%</b>
Interest payment ( <i>inciso 20</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Subsidies ( <i>inciso 21</i> )	0	31	31	31	31	0%	0%	0%	0%	0%
Social security transferences ( <i>inciso 22</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Partidas a reaplicar ( <i>inciso 23</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Other credits ( <i>inciso 24</i> )	0	-45	-45	-45	-45	0%	0%	0%	0%	0%
<b>Total incisos 20-24</b>	<b>0</b>	<b>-14</b>	<b>-14</b>	<b>-14</b>	<b>-14</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
Judicial branch ( <i>inciso 16</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Accounting Court ( <i>inciso 17</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Electoral Court ( <i>inciso 18</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
Administrative Court ( <i>inciso 19</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
ANEP ( <i>inciso 25</i> )	0	275	475	475	475	0%	1%	1%	1%	1%
UDELAR ( <i>inciso 26</i> )	0	100	100	100	100	0%	1%	1%	1%	1%
INAU ( <i>inciso 27</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
ASSE ( <i>inciso 29</i> )	0	-78	-178	-178	-178	0%	0%	-1%	-1%	-1%
UTEC ( <i>inciso 31</i> )	0	0	0	0	0	0%	0%	0%	0%	0%
INUMET ( <i>inciso 32</i> )	0	-12	-12	-12	-12	0%	-6%	-5%	-5%	-5%
FGN ( <i>inciso 33</i> )	0	-40	-40	55	55	--	-5%	-4%	7%	7%
JUTEP ( <i>inciso 34</i> )	0	0	0	0	0	--	0%	0%	0%	0%
<b>Total autonomous organisms</b>	<b>0</b>	<b>245</b>	<b>345</b>	<b>439</b>	<b>439</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
<b>Total</b>	<b>0</b>	<b>-64</b>	<b>-164</b>	<b>-70</b>	<b>-70</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Source: own calculations from information of CGN

### Annex 3: Articles that were modified in the Chamber of Deputies

Type of modification	Articles
Technical improvement	8; 10; 14; 15; 18; 35; 36; 37; 38; 39; 41; 43; 44; 58; 65; 66; 75; 80; 82; 91; 106; 113; 117; 120; 123; 126; 127; 129; 133; 146; 149; 151; 154; 155; 156; 164; 175; 186; 199; 204; 212; 217; 226; 228; 229; 232; 237; 242; 243; 247; 250; 255; 256; 261; 263; 264; 270; 271; 273; 276; 277; 278; 279; 280; 283; 285; 286; 288; 289; 293; 297; 298; 300; 301; 302; 305; 308; 313; 324; 325; 327; 328; 333; 337; 338; 340; 341; 342; 343; 348; 350; 357; 362; 371; 373; 375; 377; 386; 388; 389; 392; 404; 410; 414; 417; 418; 419; 425; 426; 430; 438; 439; 443; 444; 446; 449; 451; 456; 459; 460; 463; 467; 492; 493; 503; 526; 529; 530; 534; 553; 556; 561; 562; 562; 563; 566 ; 568; 569; 570; 575; 581; 603; 605; 607; 609; 621; 623; 625; 630; 639; 641; 649; 659; 660; 667; 671; 673; 675; 685; 690; 692; 699
Non-budget provision	153; 157; 169; 230; 233; 274; 358; 365; 366; 370; 496; 199*; 221*; 362*; 389*; 437*; 438*; 527*; 528*; 529*; 530*; 531*; 532*; 533*; 534*; 539*; 540*; 541*; 664*; 723*
Less budget	11; 81; 87; 92; 101; 142; 162; 181; 201; 203; 252; 253; 260; 268; 312; 395; 399; 497; 571; 574; 589; 590; 600; 633; 635; 23*; 198*; 207*; 258*
More budget	119; 262; 322; 323; 615; 619; 110*; 111*; 173*; 260*; 377*; 409*; 412*; 413*; 538*; 549*; 642*; 649*; 677*
Suppressed article	19; 140; 166; 172; 173; 174; 254; 380; 394; 510; 572; 573; 601; 602; 706
Other	128; 143; 152; 244; 481; 557; 558; 742; 151*
Reallocation	616; 410*; 411*; 439*; 440*; 633*; 634*; 640*
More control of the Executive	501; 502; 559; 693; 396*; 400*

Source: Own figures based on Cámara de Senadores (2015).

Numbers represent original numbering, except for those marked with \*, which are new articles.

#### Annex 4: Articles in draft, duration of meetings and budget 2015

Section of draft	Date	Duration (minutes)	Articles in draft	Number of articles*	Budget 2015**
Public servants	9-Sep	187	6-11	6	--
Presidency ( <i>inciso 02</i> )	17-Sep	453	15-107	93	2.468
Defense ( <i>inciso 03</i> )	16-Sep	280	108-140	33	14.035
Interior ( <i>inciso 04</i> )	15-Sep	527	141-196	56	21.850
Economy and Finances ( <i>inciso 05</i> )	29-Sep	472	197-238	42	6.103
Foreign Affairs ( <i>inciso 06</i> )	23-Sep	210	239-259	21	2.350
Livestock, Agriculture and Fishery ( <i>inciso 07</i> )	24-Sep	351	260-316	57	3.151
Industry, Energy and Mining ( <i>inciso 08</i> )	23-Sep	124	317-336	20	1.072
Tourism ( <i>inciso 09</i> )	9-Sep	79	337-339	3	1.288
Transport and Infrastructure ( <i>inciso 10</i> )	16-Sep	534	340-389	50	8.025
Education and Culture ( <i>inciso 11</i> )	30-Sep	390	390-424	35	4.092
Public Health ( <i>inciso 12</i> )	21-Sep	237	425-444	20	1.426
Work and Social Security ( <i>inciso 13</i> )	10-Sep	117	445-454	10	1.803
Housing and Environment ( <i>inciso 14</i> )	17-Sep	172	455-491	37	5.037
Social development ( <i>inciso 15</i> )	21-Sep	214	492-512	21	3.148
ANEP ( <i>inciso 25</i> )	1-Oct	290	513-515	3	44.278
UDELAR ( <i>inciso 26</i> )	16-Sep	195	516-522	7	10.229
INAU ( <i>inciso 27</i> )	10-Sep	309	523-537	15	8.143
ASSE ( <i>inciso 29</i> )	1-Oct	306	538-562	25	23.519
UTECH ( <i>inciso 31</i> )	24-Sep	79	563-570	8	385
INUMET ( <i>inciso 32</i> )	24-Sep	107	571-587	17	2
FGN ( <i>inciso 33</i> )	23-Sep	210	588-609	22	859
JUTECH ( <i>inciso 34</i> )	10-Sep	22	--	2	18
Subsidies ( <i>inciso 21</i> )	11/18-Sep	856	610-618	9	11.410
Partidas a reaplicar ( <i>inciso 23</i> )	--	--	619-619	1	12.180
Creditos diversos ( <i>inciso 24</i> )***	--	--	620-644	25	46.543
Recursos	--	--	645-675	31	--
Disposiciones diversas	--	--	676-709	34	--

\*No articles for JUTECH in the draft, ended with two articles in the final bill.

\*\*Budget 2016 for entities 32-34 (created in 2015).

\*\*\*Articles 620-631 of *other credits* were analyzed in the meeting with OPP of 30-Sep.

## Annex 5: Original quotes in Spanish

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<sup>i</sup> Mayor of a small city “(el) Presupuesto Nacional (...) considerada la norma madre del Gobierno nacional” (11.09.2015).

General Director of the Ministry of Labor and Social Security “Es un gusto estar aquí (...) dando algunos fundamentos del articulado de lo que es tal vez la ley más importante que tenga cualquier gobierno una vez que asume, y que realmente pauta la proyección y el funcionamiento del país en torno al presupuesto Nacional” (10.09.2015).

Minister of Finance “un presupuesto es la expresión fiscal y financiera de un plan de gobierno (...) y su horizonte fundamental (...) es ayudar a cumplir los objetivos del plan de gobierno que se comprometió ante la ciudadanía en las últimas elecciones” (08.09.2015);

Congressman of the opposition “pienso que la presentación del presupuesto nacional es la tarea más importante que debe realizar un jerarca del Estado” (02.09.2015).

<sup>ii</sup> “Entiendo que esta no es la ocasión para tratar el tema, que es importante y de una manifiesta complejidad técnica. Es obvio que esta no es materia presupuestal (...) Para aquilatar exactamente lo que se propone (...) tenemos que actuar con los asesoramientos necesarios. (...) No podemos despachar esto con el trámite sumario que estas cosas tienen cuando lo que se analiza y discute es el proyecto de ley de presupuesto”.

<sup>iii</sup> “Con la incorporación de nuevos organismos, hasta empieza a resultar anacrónico que se pueda discutir el presupuesto en cuarenta y cinco días” (congressman of the government party 09.09.2015).

“La Comisión siempre cuenta con el mismo tiempo para tratar el presupuesto, pero cada vez tiene más trabajo porque (...) han aparecido una cantidad de organismos nuevos. Varios de ellos son nuevos organismos del artículo 220 de la Constitución, por lo cual son descentralizados y tienen su propio presupuesto” (congressman of the opposition, 02.09.2015);

<sup>iv</sup> “Propongo votar estos artículos en bloque, visto el ánimo de la Cámara con respecto a apoyarlos y el ánimo con respecto a irse. Estamos todos animados, sobre todo nos anima mucho la gente que va llegando de la prensa; uno los vio con una ropa hace unas horas, ahora vienen con otra y nosotros seguimos acá”

<sup>v</sup> “Todos entenderemos que la buena intención para trabajar sobre esto no se puede concretar en veinticuatro días”

<sup>vi</sup> “Deberíamos recibir a veinte delegaciones cada viernes, porque esta Comisión siempre ha honrado el compromiso de atenderlas a todas” (09.09.2015).

<sup>vii</sup> “Señor presidente: yo estoy aquí por una fuerza política. Cuando comparto, apoyo; cuando no comparto, apoyo más, porque soy leal a mi fuerza. (Murmulló) (...) Por lo tanto, creo que este artículo no hace bien a la gestión pública. No obstante, reitero que yo formo parte de una bancada” (Plenary Session 12.10.2015, Cámara de Representantes 2015b, 20).

<sup>viii</sup> “La Ley de Presupuesto tiene una forma de planteamiento que es incremental. El Inciso plantea todos los artículos con o sin costo que propone incrementar, modificar o reducir, pero no habla de todo lo otro que hace”.

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ix “...queda de cargo del Parlamento encontrar dichos recursos, y siempre es tarea difícil porque cuando se encomienda esto uno pone la lapicera en una mano y la tijera en la otra: cada vez que se le dice a alguien que sí, se le está diciendo a alguien que no”.

x “El Parlamento no solo levanta la mano por montos. Acá se nos vienen a pedir recursos con un objetivo. (...) Y los organismos tienen que responder, no por la rendición de cuentas de cómo gastaron los recursos que el Parlamento les aprobó en cuanto a la legalidad del gasto y al apego a las normas contables, sino que, además, deben rendir cuentas sobre los resultados obtenidos con los recursos que el Parlamento destinó desde el presupuesto público”.

xi “...el tema no puede ser tratado (...) haciendo ajustes en el presupuesto y bajando gastos e inversiones en el Inciso 03 "Ministerio de Defensa Nacional". Creo que el quid de la cuestión es saber qué Fuerzas Armadas necesita este país, para qué las queremos y, por lo tanto, cómo deben estar dimensionadas”.

xii “Siempre se dice que la ley de Presupuesto es la expresión financiera del programa de Gobierno. (...) En realidad, eso es una verdad parcial. Hay una suerte de apreciación mítica en cuanto a que en esta instancia el Parlamento de la República resuelve sobre la asignación del gasto. En los hechos, en lo que se habla en estas instancias es del nuevo gasto público. Pero sobre la parte sustancial del gasto público, la que constituye el presupuesto nacional con las diversas y múltiples partidas que están incluidas en la planilla, no hay discusión. Esta parte permanece oculta como un iceberg”.

xiii “...debido a la situación que viven nuestros pueblos, cuando cuatro o cinco personas se quedan sin trabajo, lamentablemente, se produce un gran problema. Como todos sabemos, en cada destacamento se están generando ocho o diez vacantes por año, y si las reducimos al 50 %, cuatro o cinco personas no podrán ingresar. Sin duda, yo me preocupo, aunque sea por una sola de estas personas, pero creo que debemos preocuparnos por una, cuatro, cinco o cien”.

“Hace un rato me estaban enviando mensajes desde Santa Clara de Olimar diciéndome que mañana se reúne la población en una pueblada, en la plaza, porque están desesperados debido a que las autoridades militares del lugar les dijeron que se quedarían sin laburo. (...) la Liga Federal va a votar en contra este artículo. Ya habrá tiempo de seguir discutiendo y saber si nos equivocamos”.

xiv “El Ministerio viene a defender su presupuesto, diciéndonos para qué lo quiere, cuáles son sus objetivos. Eso nos permite, en un mediano plazo, evaluar no si gastó todo, no si lo gastó bien, sino si logró lo que quería con ese presupuesto. Es lo que llamamos presupuesto por resultados, de lo cual estamos lejos, pero por lo menos desde el ámbito subjetivo me parece bien que consideremos este ángulo”.

“Se puede coincidir o no con el diagnóstico, se puede coincidir o no con las políticas que se llevan adelante para modificar una situación, pero el Presupuesto está pensado en esos términos: sobre la base de un diagnóstico. (...) ...ahora hay un uso más racional y científico de los recursos humanos y materiales que tiene la Policía para ser eficientes en aquellos lugares en los que realmente se cometen los delitos”.

xv “Desde el punto de vista institucional, el Tribunal de Cuentas no tiene ni más ni menos jerarquía que el Poder Legislativo o que el Poder Ejecutivo, y esto no es por capricho del constituyente o por accidente, sino a los efectos de jerarquizar la delicada misión que tiene reservada desde el punto de vista de la regularidad jurídica en cuanto al funcionamiento del Estado con relación a la hacienda pública y a los gastos, pero no quiero profundizar en eso”.

xvi “Además, goza de muy buena reputación, tanto el actual como los anteriores Tribunales; es una institución muy respetada en el país. Su palabra, que no siempre es seguida, escuchada, ni siquiera atendida, porque por acá pasan miles de observaciones que no tenemos la posibilidad de ver -eso es algo que algún día deberemos revisar-, es muy respetada”.

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<sup>xvii</sup> “Nuestro país no puede ignorar que una tarea de control de gasto público bien realizada significa ni más ni menos que la optimización del uso del dinero de todos; no puede desconocer que un Tribunal de Cuentas eficiente significa una barrera imprescindible para eventuales actos de corrupción. No podemos darnos el lujo de no intervenir en procesos nuevos -tales como la auditoría de resultados, primero, para después incursionar en la auditoría de gestión- que garantizan no solo la legalidad sino la eficiencia del gasto público”.

<sup>xviii</sup> “En mi opinión, este organismo está en condiciones -seguramente con alguna mejora presupuestal- de realizar esa evaluación de los compromisos de gestión que marca el Poder Ejecutivo”.

<sup>xix</sup> “Esto también es legal, porque en los artículos 57 a 60 de la Ley de Rendición de Cuentas N° 19.149 se crea una Comisión de Compromisos de Gestión que preside la OPP en coordinación con el Ministerio de Economía y Finanzas y la Oficina Nacional del Servicio Civil. También participan -en función de lo que planteaba el diputado Olivera- el Tribunal de Cuentas y la Auditoría Interna de la Nación, que cuentan con la información y siempre pueden opinar o auditar la información de los indicadores definidos.

Resulta que los compromisos de gestión tienen que ver con la segunda de las palabras, que es temática de gestión. Por lo tanto, el conocimiento que debe tener cada uno de los organismos y sus perfiles tiene que ver con analizar aspectos que pueden ser administrativos, legales o que tengan relación con la gestión. Precisamente, controlar la gestión no es un tema sencillo, porque nadie quiere que lo controlen y es muy importante que exista, por ejemplo, este acuerdo y este artículo. (Hearing of 08.09.2015, with the Ministry of Finances and the Planning and Budget Office”.

<sup>xx</sup> “No se analiza el gasto aplicado a los distintos programas ni sus resultados, que de hecho se dan por buenos: no lo analiza el Poder Ejecutivo ni el Parlamento que, por cierto, desde el punto de vista de los recursos humanos y materiales estaría imposibilitado de hacerlo. (...) Hace ya un tiempo que venimos insistiendo en la necesidad de que se realice un cambio institucional, de forma tal que el Tribunal de Cuentas (...) pase a formar parte del Poder Legislativo”.

<sup>xxi</sup> “...otro aspecto tan anunciado de las campañas del Frente Amplio es la reforma del Estado. Esta sigue brillando por su ausencia. Por el contrario, se generan nuevas responsabilidades al Estado”

<sup>xxii</sup> “Luchamos para mejorar el Estado y uno de los problemas centrales que tenemos es la política de selección de los funcionarios públicos. La prueba está en que cuando queremos gestionar nos llenamos la boca con el Estado, pero debemos crear empresas paralelas porque no podemos gestionar en el sistema público”.

<sup>xxiii</sup> “...todos los partidos coincidimos con la creación de la Agencia Nacional de Investigación e Innovación. Más allá de las imperfecciones que puedan señalarse, creo que fue un éxito, entre otras cosas, porque implicaba la creación de un organismo de naturaleza de persona pública no estatal, algo que le daba mayor flexibilidad y movilidad a la hora de impulsar los distintos programas”.

<sup>xxiv</sup> “el presupuesto es cada vez más largo, lleva cada vez más trabajo; (...) cada vez pasa más por el Parlamento y, paradójicamente, cada vez pasa menos por el Parlamento. (...) cada vez hay un componente más grande del gasto público que se administra sin que el Parlamento tenga nada que ver. Los entes autónomos, las empresas públicas, (...) también están los fideicomisos (...) Fideicomisos, que no son otra cosa que organizaciones privadas que manejan fondos públicos cuyos resultados no conocemos”.