Parliaments and Budgeting: Understanding the politics of the budget

Carlos Santiso *
United Kingdom Department for International Development &
Johns Hopkins School of Advanced International Studies

* Carlos Santiso is a public finance and governance adviser to the United Kingdom Department for International Development (DFID) in Glasgow, United Kingdom, and a political economist at the Johns Hopkins School of Advanced International Studies (SAIS) in Washington, DC, United States. This study was presented at the XVII Regional Seminar on Fiscal Policy of the United Nations Economic Commission for Latin America (ECLAC) in Santiago, Chile, on 24-27 January 2005 and at the Third Annual Meeting Euro-Latino-American Governance for Development Network of the Inter-American Development Bank (IDB) in Hamburg, Germany, on 12-13 December 2005. It is based on a World Bank working paper entitled *Budget Institutions and Fiscal Responsibility: Parliaments and the Political Economy of the Budget Process in Latin America* (World Bank Institute Working Paper 37253, 2005). The views and interpretation of this paper are those of the author and should not be attributed to the aforementioned institutions. The author gratefully acknowledges the suggestions and comments from Anne Mondoloni, Anja Linder, Barry Anderson, Vinod Sahgal, Mariana Llanos, Sonia Fleury, Edmundo Jarquin, Xavier Comas, Joachim Wehner, Joaquín Vial, Alejandro Foxley, Jesús Rodríguez, Oscar Lamberto, Gerardo Uña, Ernesto Stein, Ivo Hernandéz, Warren Krafchik, Tomas Bril, Sebastian Saeigh, Roberto Martinere, Beatriz Boza, and Edgardo Boeninger.

Summary

Can parliaments make an effective contribution to the budget process while preserving fiscal discipline? Increasing budget transparency and anchoring fiscal responsibility are critical tasks for emerging economies seeking to enhance fiscal governance and curb corruption. Largely neglected in the first stage of economic reform, legislative budget institutions are being re-discovered as part of a second wave of reform in governmental financial administration, in particular as it pertains to their role in overseeing public finances and enforcing government accountability. Nevertheless, parliaments' role in the governance of the budget is often subdued and dysfunctional, partly as a result of executive predominance, but also because of their own deficiencies. While they possess a wide range of formal budgetary powers, they often fail to exercise them effectively or responsibly, lacking the necessary institutional capacities and individual incentives.

This article explores the contribution of parliaments to the budget process in presidential systems of government with highly centralized budgetary systems. It offers a political economy perspective on the budget process in Latin America to assess the constraints to and conditions for enhancing the role of parliaments in public budgeting. It underscores the risks of excessive executive discretion and potential benefits of increased external scrutiny and legislative oversight. It argues that a greater role for parliaments in the budget could improve transparency and accountability in public finances. Ultimately, the governance of the budget reflects a delicate balance between executive prerogatives and legislative oversight. The key challenge of legislative budgeting in Latin American is how to retain the advantages of strong executive authority required to ensure fiscal discipline while providing the institutional checks and balances that guarantee effective accountability.

Introduction: Budget institutions and fiscal responsibility

> 'La liberté politique ne se trouve que dans les gouvernements modérés [...] Pour qu'on ne puisse abuser du pouvoir, il faut que, par la disposition des choses, le pouvoir arrête le pouvoir.'
> Montesquieu, *L'Esprit des Lois* (1748.)

Can parliaments make an effective contribution to the budget process while preserving fiscal discipline? Increasing budget transparency and anchoring fiscal responsibility are critical tasks for emerging economies seeking to enhance fiscal governance and curb corruption. Recent experience demonstrates the risks to public budgeting of excessive executive discretion, when the latter is not adequately balanced with effective mechanisms of internal restraint and external accountability. In the late 1990s, the Asian financial crisis highlighted the risks of opaque and unaccountable management of public finances. The realisation that, when left unchecked, executive discretion tends to create opportunities for corruption is encouraging policymakers to reconsider the contribution of parliaments to the system of checks and balances in fiscal policy.

In democratic systems of government, parliaments perform key accountability functions embedded in their representative, legislative and oversight responsibilities. There is heightened awareness of the weaknesses of the mechanisms of oversight and accountability in presidential systems and the consequent need to enhance the institutions of 'horizontal accountability' (O'Donnell 1998, 1999, 2003; Mainwaring and Welna 2003).[1] Indeed, a central thrust of current efforts at reforming the state focuses on the building of robust institutional checks and balances within the state (Schedler 1999). Consequently, the role of parliaments and the contribution of auxiliary institutions such as general audit offices, ombudsman offices and anticorruption offices to public budgeting are being re-evaluated.[2] Legislative oversight of the budget by capable parliaments and external scrutiny of public accounts by credible general audit offices constitute key mechanisms of financial accountability.

The role of parliaments in the budget process is thus being reassessed in the broader context of the strengthening of fiscal governance and public finances. Largely neglected in the first stage of economic reform, legislative budget institutions are being re-discovered as part of a second wave of reform in budget institutions and governmental financial administration. Upgrading the contribution of parliaments in the budget process could, in theory, improve the management of public finances by enhancing external scrutiny and enforcing government accountability. Effective and responsible parliaments can help mitigate the risks of excessive executive budgetary discretion by reinforcing the countervailing mechanisms of government accountability and external scrutiny. For instance, recent research on political budget cycles by Alejandro Saporiti and Jorge Streb (2003:3) demonstrates that 'effective checks and balances in the budgetary process curb political budget cycles.'[3]

1 'Horizontal accountability' is defined as: 'The existence of state agencies that are legally enabled and empowered, and factually willing and able, to take actions that span from routine oversight to criminal sanctions or impeachment in relation to actions or omissions by other agents or agencies of the state that may be qualified as unlawful' (O'Donnell 1999:38; 1998, 2003; Mainwaring and Welna 2003).
2 See, in particular: Santiso 2005, 2004c, 2004d; Stapenhurst et al. 2005; Stapenhurst 2004; Schick 2002, 1998; Wehner 2003, 2001; OECD 2001, 1998; Manning and Stapenhurst 2002; Krafchik and Wehner 1998; Petrei 1998.
3 According to these authors, 'institutional features of the executive-legislature bargaining game, namely, the actual agenda-setting authority, the status quo location and the degree of legislative oversight and control of the implementation of the budgetary law, play critical roles for the existence and magnitude of electoral cycles in fiscal policy' (ibid).

Nevertheless, parliaments' role in the governance of the budget is often subdued and dysfunctional, partly as a result of executive predominance, but also because of their own deficiencies. A core paradox of legislative budgeting in Latin America is that, while parliaments possess a wide range of formal budgetary powers, they often fail to exercise them effectively or responsibly. What explains this disjuncture between formal powers and actual role? Institutional arrangements and political economy considerations help understanding why parliaments have not exploited the full scope of their budgetary powers in a purposeful manner. Parliaments' oversight of the budget is hampered by both technical and political factors, as they often lack the necessary institutional capacities and the individual incentives. The legacy of parliamentary indiscipline in budgetary matters has convinced policymakers, including parliamentarians themselves, that centralizing the budget process within the executive and limiting the prerogatives of parliaments tend to improve economic governance and fiscal discipline. The challenge is, therefore, both to reform and to strengthen parliaments' role in the budget process, promoting budget transparency while furthering fiscal responsibility.

There exists considerable controversy as to the proper role of parliaments in the budget process. The debate is marked by pendulum logic, oscillating between concerns over how much budgetary power is too much and how much is too much (Schick 2002). The consensual view holds that fiscal discipline and budget responsibility are best achieved and preserved by centralizing the budget authority in the executive and, within it, under the tight steering of the finance ministry. Centralization can be attained either *de jure* by reforming the organic laws governing governmental financial administration, or *de facto* by delegating legislative budget powers to the executive. Economic reformers have come to appreciate the benefits of centralization for attaining and maintaining fiscal discipline. Indeed, in the past few decades, economic reform processes have adopted insular strategies isolating key institutions of economic governance from undue political influence, such as central banks, tax agencies and finance ministries.

Against this backdrop, the purpose of this article is to underscore the benefits that can be derived from a more balanced relationship between the executive and the legislature in budgetary matters. It is increasingly acknowledged that sound public finance management requires improving external scrutiny and legislative oversight of the budget (Santiso 2005; Stapenhurst et al. 2005). A more effective contribution of parliaments to the oversight of the budget might help emerging democracies strengthen transparency and accountability in public finances.

More fundamentally, the key challenge of the governance of the budget in emerging economies is how to retain the advantages of strong executive authority required to ensure fiscal discipline while providing the institutional checks and balances that guarantee effective accountability. Finding the adequate balance between executive prerogatives and legislative oversight in the budget process represents an intricate dilemma for consolidating democracies seeking to strengthen political accountability while furthering fiscal responsibility (Wehner 2004, 2001). Strengthening legislative budget oversight is particularly critical in regimes characterized by presidential systems of government and centralized budgetary systems where the distribution of budgetary powers overwhelmingly favors the executive. The case of Latin America is symptomatic of the challenges of legislative budgeting in political systems characterized by executive discretion and weak accountability. A re-equilibration of budgetary powers, in turn, requires parliaments to assume a more responsible role in public budgeting.

The article reviews the role of parliaments in the budget process and suggests ways in which their contribution could be improved. It explores the case of Latin American countries characterized by presidential systems of government with highly centralized budgetary systems. It assesses the conditions for and constraints to legislative budgeting and underscores the risks of excessive executive discretion and potential benefits of increased legislative oversight. It argues that a greater budgetary role for parliaments could improve transparency and accountability in public finances, provided that parliaments assume their budget powers in a responsible and consistent manner. It also evaluates the manner in which parliaments exercise their responsibilities to assess the extent to which they adequately fulfill their prescribed roles. Ultimately, the governance of the budget reflects a delicate balance between executive and legislative prerogatives. Achieving and maintaining such a balance is a challenging task. It requires understanding the political economy of executive-legislative relations in the different phases of the budget process, as well as the institutional arrangements shaping those interactions.[4] The key challenge of legislative budgeting in Latin American is how to retain the advantages of strong executive authority required to ensure fiscal discipline while providing the institutional checks and balances that guarantee effective accountability.

The article is structured in four main sections. After the introductory chapter, the second section inquires into the role of parliaments in the governance of the budget and the delicate balance between fiscal responsibility and political accountability in the context of the reforms being introduced in financial management systems. It draws on the debate on budget institutions and fiscal discipline and underscores both the advantages and the risks of centralized budgetary systems. The third section analyses the scope of legislative budgetary authority in Latin America, reviewing the formal powers, institutional capacities and political incentives shaping parliaments' engagement in the budget process. The fourth and concluding section offers four key policy implications of the politics of public budgeting.

Parliaments and fiscal governance

Reforming budgetary institutions is a critical task for emerging economies seeking to strengthen economic governance, enhance government accountability and curb corruption. Nevertheless, despite significant progress in recent years, we continue to lack a robust theory of the budget process in emerging economies.

Parliaments and budget governance

Adequately understanding the political economy of the budget process is critical to grasp the institutional determinants of fiscal performance and the political incentives of fiscal policy.[5] As Carlos Scartascini and Ernesto Stein underscore, 'understanding the budget process and the incentives of the multiple agents that participate in this process is a key ingredient for any fiscal reform seeking lasting results in terms of improvements in fiscal discipline and efficiency in the use of public resources' (2004:2). Understanding the politics of the budget is also essential to design politically feasible fiscal reforms seeking sustainable impact (Cox and McCubbins 2001; OECD 2003; Santiso 2004b). Sustainable fiscal policies are the result of blending competent technical solutions with political feasibility.

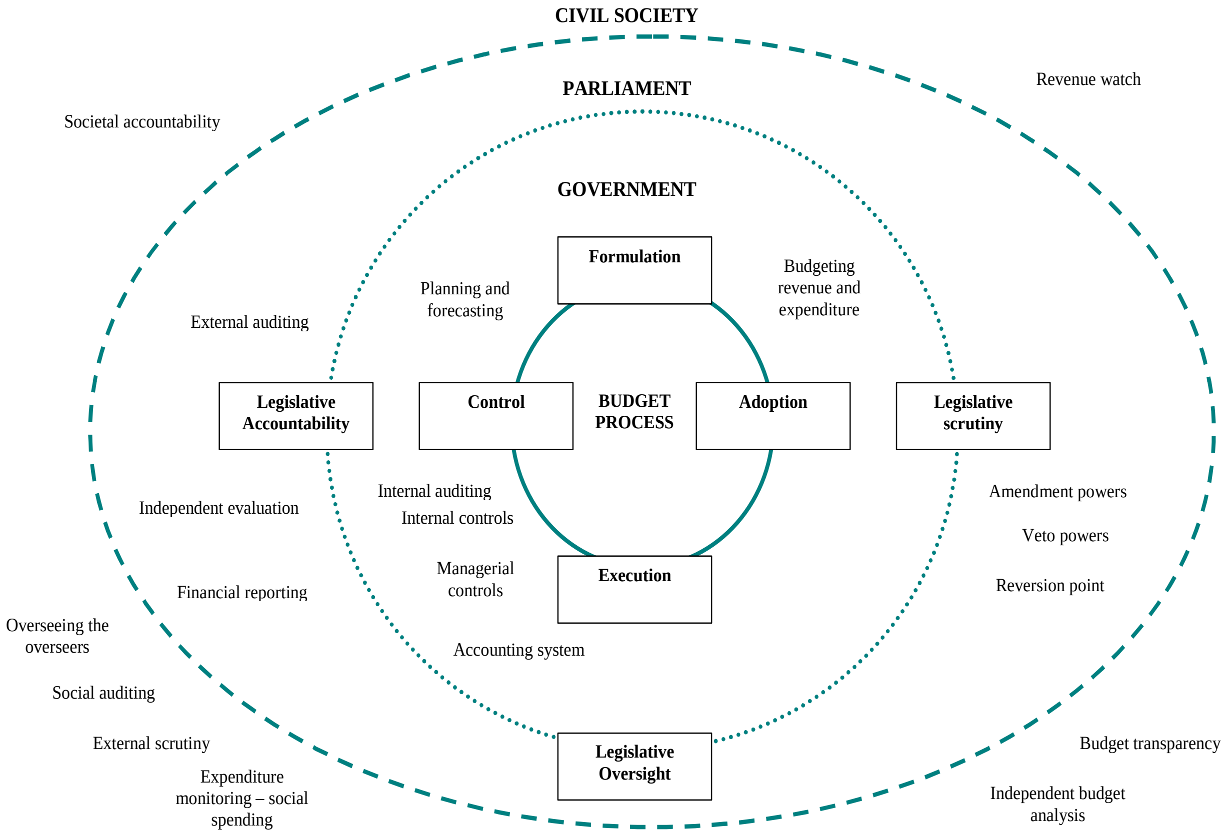
The governance of the budget can be defined as encompassing the interests and incentives of individuals and institutions governing the formulation, approval, execution and oversight of

[4] The institutional and governance incentives shaping budgetary performance include, in particular, electoral rules, party systems, parliamentary structures, and the distribution of budgetary power. Adequately understanding the governance of the budget requires identifying the actors involved in the making of budgetary decisions, gauging their interests and incentives and deciphering the formal and informal institutions that shape their interaction.

[5] See, in particular the seminal work by Aaron Wildavisky (Wildavisky 1964, 1992; Wildavsky and Caiden 2000) and Allen Schick (1995, 2002) on the politics of the budget in developed countries.

the budget. This broader political economy perspective on the budget process is captured in Figure 2. Table 1 provides an overview of the main public sector agencies participating in the governance of the budget in Latin American countries, in particular legislative budget institutions.

Figure 1: Processes and Actors in the Budget Process



While our knowledge of the dynamics of public budgeting *within* the executive has considerably improved in recent years, the interaction of budgetary institutions *beyond* the executive has been the subject of little systematic scrutiny. In most Latin American countries, the executive dominates the budgetary process and legislatures have largely been perceived as mere 'rubber-stamps.' Latin American parliaments are typically characterized by operational, administrative, and resource problems that limit the fulfillment of their legislative, representative, and oversight responsibilities. These structural weaknesses impact on their ability to effectively engage with the budget process in a purposeful manner. Capacity constraints are compounded by political dysfunctions, which severely affect the public credibility of parliaments in the region.

Table 1: Institutional Framework of Fiscal Governance in Latin America

	Central budget office of the ministry of finance	Integrated system of financial management	Accounting office	Internal audit agency	External audit agency
Argentina	Oficina Nacional de Presupuesto (ONP), Subsecretaría de Presupuesto, Secretaría de Hacienda, Ministerio de Economía	SIDIF 1992	Contaduría General de la Nación (CGN), Subsecretaría de Presupuesto, Secretaría de Hacienda, Ministerio de Economía	Sindicatura General de la Nación (SIGEN), 1992	Auditoria General de la Nación (AGN), 1992
Bolivia	Viceministerio de Presupuesto y Contaduría (VMPC), Ministerio de Hacienda	SAFCO-SIIF 1986	Contaduría General del Estado (CGE), Secretaría Nacional de Hacienda, Ministerio de Finanzas		Contraloría General de la República (CGR), 1990
Brazil	Secretaria de Orcamento Federal (SOF), Ministerio do Planejamento, Orçamento e Gestão	SIAFI 1986	Secretária do Tesouro Nacional (STN), Órgão Central de Contabilidade	Secretaria Federal de Controle (SFC), Ministério da Fazenda, 1998; Secretaria Federal de Controle Interno (SFCI), Corregedoria-Geral da União, Presidência da República, 2001	Tribunal de Contas da União (TCU), 1992
Chile	Direccion de Presupuesto (DIPRES), Ministerio de Hacienda	SIGFE 2000	Contraloría General de la República (CGR)	Consejo de Auditoria Interna General del Gobierno (CAIGG), Presidencia de la República, 1997	Contraloría General de la República (CGR), 1964
Colombia	Dirección General del Presupuesto (DGP), Ministerio de Hacienda y Crédito Público	SIIF 2004	Contaduría General de la Nación (CGN), Ministerio de Hacienda y Crédito Público	Consejo Asesor del Gobierno Nacional en materia de Control Interno, Presidencia de la República, 1998	Contraloría General de la República (CGR), 1993
Costa Rica	Direccion General de Presupuesto Nacional (DGPN), Ministerio de Hacienda	SIGAF 1996	Contabilidad Nacional (CN), Ministerio de Hacienda		Contraloría General de la República (CGR), 1994
Dominican Republic	Oficina Nacional de Presupuesto (ONP), Secretaría de Estado de Finanzas (SEF)	SIGEF 1998	Contraloría General de la República (CGR), Secretaría de Estado de Finanzas		Cámara de Cuentas de la República (CC)
Ecuador	Subsecretaría de Presupuestos (SP), Ministerio de Economía y Finanzas	SIGEF	Dirección de Contabilidad (DC), Ministerio de Finanzas y Crédito Público		Contraloría General del Estado (CGE), 2002
El Salvador	Dirección General de Presupuesto (DGN), Ministerio de Hacienda	SAFI 1993	Dirección General de Contabilidad Gubernamental (DGCN), Ministerio de Hacienda		Corte de Cuentas de la República (CCR), 1995
Guatemala	Dirección Técnica del Presupuesto (DTP), Ministerio de Finanzas	SIAF-SAG 1998	Dirección de Contabilidad del Estado (DCE), Ministerio de Finanzas Públicas		Contraloría General de Cuentas (CGC), 2002
Honduras	Dirección General de Presupuesto (DGP), Secretaría de Finanzas		Contaduría General de la República (CGR), Secretaría de Finanzas		Tribunal Superior de Cuentas (TSC), 2002

Mexico	Subsecretaría de Egresos (SSE), Secretaría de Hacienda y Crédito Público	SICGP 1985	Unidad de Contabilidad Gubernamental e Informes sobre la Gestión Pública, Subsecretaría de Egresos (SSE), Secretaría de Hacienda y Crédito Público	Subsecretaría de Control y Auditoria de la Gestión Pública, Secretaria de Contraloría y Desarrollo Administrativo (SECODAM), Secretaría de la Función Pública (SFI)	Auditoría Superior de la Federación (ASF), 2000
Nicaragua	Dirección General de Presupuesto (DGP), Ministerio de Hacienda y Crédito Público	SIGFA 1993	Dirección General de Contabilidad Gubernamental (DGCG), Ministerio de Hacienda y Crédito Público		Contraloría General de la República (CGR), 1979, 2001
Panama	Dirección de Presupuestos de la Nación (DIPRES), Ministerio de Economía y Finanzas	SIAFPA 1992	Direccion Nacional de Contabilidad (DNC), Ministerio de Economía y Finanzas; and Contraloría General de la República (CGR)		Contraloría General de la República (CGR), 1984
Paraguay	Dirección General de Presupuestos (DGP), Subsecretaría de Estado de Administración Financiera, Ministerio de Hacienda		Dirección General de Contabilidad Pública (DGCP), Ministerio de Hacienda	Auditoría General del Poder Ejecutivo, Presidencia de la República, 1999	Contraloría General de la República (CGR), 1994
Peru	Dirección Nacional de Presupuesto Público (DNPP), Viceministerio de Hacienda, Ministerio de Economía y Finanzas	SIAF-SP 1994	Contaduría Publica de la Nación (CGN), Ministerio de Economía y Finanzas		Contraloría General de la República (CGR), 2002
Uruguay	Oficina de Planeamiento y Presupuesto (OPP), Presidencia de la República	SIIF (1996)	Contaduría General de la Nación (CGN), Ministerio de Economía	Auditoría Interna de la Nación (AIN), Ministerio de Economía y Finanzas, 1996	Tribunal de Cuentas de la República (TCR), 1997
Venezuela	Oficina Nacional de Presupuesto (ONAPRE), Ministerio de Finanzas	SIGECOF (1995)	Oficina Nacional de Contabilidad Pública (ONCP), Ministerio de Finanzas	Superintendencia Nacional de Auditoría Interna (SNAI), Ministerio de Finanzas	Contraloría General de la República (CGR), 2001

Table 1: Institutional Framework of Fiscal Governance in Latin America (continued)

	Parliamentary structure	Parliamentary budget committee (lower and upper chamber, where applicable) *	Parliamentary public accounts committee*	Parliamentary budget office
Argentina	Bicameral	FC: Comisión de Presupuesto y Hacienda (House); Comisión de Presupuesto y Hacienda (Senate)	FC; JC: Comisión de Parlamentaria Mixta Revisora De Cuentas de la Administración	no **
Bolivia	Bicameral	SC: Comisión de Hacienda (House); Comisión de Hacienda, Política Económica y Crediticia (Senate)	SC: Comisión de Hacienda, Comite de Presupuesto, Política Tributaria y Contraloría (House)	no ** (Oficina Técnica Económica de Presupuesto, OTEP, House)
Brazil	Bicameral	FC; JC: Comissão Mista de Planos, Orçamentos Públicos e Fiscalização (CMPOF)	SC; JC: Comissão Mista de Planos, Orçamentos Públicos e Fiscalização (CMPOF)	yes *** (Consultoria de Orçamento e Fiscalização Financeira, House; Consultoria de Orçamentos, Fiscalização e Controle, Senate)
Chile	Bicameral	FC; JC: Comisión Especial Mixta de Presupuestos; Comisión de Hacienda (House); Comisión de Hacienda (Senate)	FC: Comisión de Hacienda (House); Comisión Revisora de Cuentas (Senate)	yes (Unidad de Asesoría Presupuestaria del Congreso Nacional, Senate)
Colombia	Bicameral	SC: Comisión Cuarta (House); Comisión Cuarta (Senate)	FC: Comisión Legal de Cuentas (House)	no *** (Oficina de Asistencia Técnica Legislativa, OATL)
Costa Rica	Unicameral	FC: Comisión Hacendario (National Assembly)	FC: Control del Ingreso y el Gasto Público (National Assembly)	no
Dominican Republic	Bicameral	SC: Comisión de Finanzas (House); FC: Comisión de Presupuesto (Senate)	SC: Comisión de Finanzas (House); Comisión de Finanzas (Senate);	no
Ecuador	Unicameral	SC: Comisión Especializada Permanente de lo Tributario, Fiscal, Bancario y Presupuestario (National Congress)	FC: Comisión Especializada Permanente de Fiscalizacióon y Control Politico (National Congress)	no
El Salvador	Unicameral	SC: Comisión de Hacienda y Especial del Presupuesto (Legislative Assembly)	SC: Comisión de Hacienda y Especial del Presupuesto (Legislative Assembly)	no
Guatemala	Unicameral	SC: Comisión Finanzas Públicas y Moneda (Congreso de la República)	SC: Comisión Finanzas Públicas y Moneda (Congreso de la República)	no
Honduras	Unicameral	FC: Comisión Ordinaria de Presupuesto (National Congress)	SC: Comisión Ordinaria de Presupuesto (National Congress)	no

Mexico	Bicameral	SC: Comisión de Presupuesto y Cuenta Pública (House)	SC: Comisión de Presupuesto y Cuenta Pública (House); SC: Comisión de Vigilancia of the ASF (House)	yes (Centro de Estudios en Finanzas Públicas, CEFP)
Nicaragua	Unicameral	SC: Comisión de Asuntos Económicos, Finanzas y Presupuesto (National Assembly)	SC: Comisión de Asuntos Económicos, Finanzas y Presupuesto (National Assembly)	no
Panama	Unicameral	FC: Comisión de Presupuesto (Legislative Assembly)	FC: Comisión de Presupuesto (Legislative Assembly)	no
Paraguay	Bicameral	FC; JC: Comisión Bicameral de Presupuesto; Comisión de Presupuesto (House);	FC: Comisión de Cuentas y Control de Ejecución Presupuestaria (House)	no
Peru	Unicameral	FC: Comisión de Presupuesto y Cuenta General (Congress)	FC: Comisión de Presupuesto y Cuenta General; and Comisión de Fiscalización y Contraloría (Congress)	no *** (Centro de Investigacion Parlamentaria)
Uruguay	Bicameral	FC: Comisión de Presupuestos (House); Comisión de Presupuesto (Senate)	SC: Comisión de Presupuestos (House); Comisión de Presupuesto (Senate)	no
Venezuela	Unicameral	SC: Subcomisión de Presupuesto, Comisión Permanente de Finanzas (National Assembly)	FC: Comisión Permanente de Contraloría	yes (Oficina de Asesoría Económica y Financiera de la Asamblea Nacional, OAEF)

Source: Author compilation, as of December 2004. Notes: *: FC: full committee; SC: sub-committee of finance and economic committee; JC: special joint committee of both chambers of parliament; **: Under consideration; ***: Legislative advisory capacity not exclusively assigned to budgetary matters.

Nevertheless, parliaments are critical actors in the governance of the budget: they adopt it, approve its appropriations and control its execution. Yet, inquiry into the determinants of their effectiveness remains under-developed, especially in emerging economies. Moreover, comparative analyses of parliaments' budgetary powers and executive-legislative budget relations tend to focus on the earlier phases of the budget process, in particular its adoption. They rely on game-theory models, emphasizing the parliaments' budgetary powers, their amendment prerogatives, the location of the reversion point,[6] or the presidents' agenda setting and veto powers (Saporiti and Streb 2003). Less attention has been paid to the contribution of parliaments to the latter phases of the budget process, in particular the oversight of budget execution, the scrutiny of budget re-allocations, and the ex-post control of budget performance.

At this stage, it is important to underscore three structural features of public budgeting in Latin America. Firstly, the balance of budgetary power between the executive and the legislative varies along the different phases of the budgetary process. Henceforth, the contribution of parliaments should be assessed along the four main phases of the budget cycle: its formulation, adoption, execution and control. It occurs *ex ante* in the formulation and adoption stages, through the scrutiny of the executive's proposal, the discussion of proposed amendments and the adoption of the budget law. It also occurs *concurrently* during the execution stage, as well as *ex post* in the control and auditing stages. Paradoxically, while the role of parliaments in the budget is often severely restricted, people tend to believe it is essentially adequate, probably reflecting a general distrust in the ability of parliaments to act responsibly. A recent survey reveals that Latin Americans consider the budget powers of parliaments to be generally adequate, that they have enough time to review the executive's budget proposal and that there is sufficient debate between the executive and parliament over budget appropriations (Lavielle 2003).

Secondly, the evaluation of the role of parliaments in budgeting must be put in the broader context of parliaments that are institutionally weak and largely unconsolidated, not only in budgetary matters. Stein et al. (2005:27-60) have constructed an index of legislative capabilities, reproduced in Table 2, reflecting the generally weak institutional capacity of parliaments in the region, except in a few countries such as Brazil, Chile, Colombia or Uruguay. Moreover, parliaments are part of broader systems of fiscal control, whose other components such as internal control systems, external audit arrangements and judicial prosecution, might be weak or even weaker. Their effectiveness is therefore conditioned by the overall quality of the system of fiscal control. However, there are important caveats to the general institutional weakness of parliaments in the region. Parliaments do not necessarily lack resources, but the manner in which they used them is often ineffectual or irresponsible. In Brazil, for example, parliamentary staffs have the most generous conditions in the civil service and are recruited through competitive examination. Parliamentarians' pay in the region compares favorably with those of more developed countries.

6 The reversion point refers to the levels of spending and revenues that would occur in the absence of an agreement over the budget, in other words it describes what happens if parliament does not approve the budget on time.

Table 2: Index of Legislative Capabilities in Latin America

Country	Congress Capabilities Index
Argentina	Low
Bolivia	Medium
Brazil	High
Chile	High
Colombia	High
Costa Rica	Medium
Dominican Republic	Low
Ecuador	Medium
El Salvador	Medium
Guatemala	Low
Honduras	Low
Mexico	Medium
Nicaragua	Medium
Panama	Medium
Paraguay	Medium
Peru	Low
Uruguay	High
Venezuela	Medium

Source: Stein et al. (2005:55). The Congress Capabilities Index is constructed from eight sub-indices measuring various features of parliaments' institutional capacity and political incentives, including the experience and specialization of parliamentarian, the strength of committees or the degree of technical and advisory expertise.

Thirdly, and more fundamentally, a number of structural factors constrain the role of parliaments in the budget process. The rigidity and inertia of the budget itself limits the scope for exercising legislative budget powers. In Brazil, 90 percent of the budget is considered rigid, as a result of constitutionally mandated expenditures, earmarking of tax revenues and mandatory expenditures. Hence, the type of public spending on which parliament could potentially have the greatest influence, capital expenditure, represents only a small fraction of public expenditures, albeit of strategic importance for building ad hoc political coalitions (OECD 2003). Furthermore, the gap between the approved and executed budgets further hinders legislative oversight. Optimistic assumptions on revenues, weak execution capacity of sector ministries and ad hoc changes in appropriations partly explain this gap. The resulting instability of budgetary institutions and fiscal rules hampers the consolidation of credible budget processes with predictable procedures and enduring structures.

Moreover, the adoption of fiscal rules and hard budget constrains the margins for legislative discretion and political bargaining. As Table 3 show, in the past few years, Argentina, Brazil, Chile, Colombia, Ecuador, Panama and Peru have adopted fiscal responsibility laws in the past few years establishing numerical and procedural budget constraints. These have nevertheless not always been rigorously adhered to. Interestingly, through the introduction of fiscal responsibility legislation, parliaments do tie their own hands inasmuch as they tie the governments.' The scope for legislative budgeting is further reduced by broader restrictions placed on government finances by international financial institutions and investors, in terms of debt repayments or policy conditionality.

Parliaments and financial reform

Legislative budget institutions have largely been neglected in the first stage of economic reform and financial administration modernization, largely ignored in public expenditure management manuals (World Bank 1998) and standards and codes for fiscal transparency (IMF 2001b). In the early 1990s, first-generation economic reforms have focused on improving transparency and efficiency in governmental financial administration *within* the executive branch, targeting finance ministries, tax authorities and central banks. In the course of the 1990s, Latin American countries have upgraded their financial information, management and accounting systems (Dorotinsky and Matsuda 2002; Asselin 1995; Wesberry 1992). The international financial institutions and donor governments, in particular the United States, have actively supported these efforts as part of structural reforms (Santiso 2006a, 2006b, 2004c).[7] Table 3 hereafter provides an overview of recent changes in the legal framework regulating budgetary systems in the region.

Table 3: Legal Framework of Budgetary Systems in Latin America

Country	Fiscal governance	Fiscal Transparency			Fiscal Responsibility	Fiscal Accountability
	Organic budget law; Organic financial administration law **	Access to public information law	Habeas Data	Law on fiscal transparency	Law on fiscal responsibility **	Law on fiscal control
Argentina	1992, 1997	* (2002)	1994	1999	1999, 2001, 2004	LAFCSP Law 24156 (1992)
Bolivia	1990 (1997)	(2004) 2005		2004		SAFCO Law 1178 (1999; 1997)
Brazil	2001		1988	2000	2000	Law 10180 (2001)
Chile	1975				***	LOAFE Decree 1263 1975
Colombia	2004	1985	1997	2003	2003	Laws 43 (1993) and 2145 (1999)
Costa Rica	2001	*				LAFPP Law 8131 (2001)
Dominican Republic	1969	2004				LOPSP (1969)
Ecuador	1977	2004	1996	2002	2002	Decree 1429 (1977, 1990)
El Salvador	1995					LOAFE Decree 516 (1995)
Guatemala	1997		1995			LOP Decree 101-97 (1997)
Honduras	1976, 2004	* (2003)			2004	LOP Decree 407-76 (1976)
Mexico	1976	2002	2002			LFSF Law (2000)
Nicaragua	1988 (1991)		1995			LOCGRSCAP Decree 625 (1981, 1984, 2000)
Panama		2002	2002	2002	2002	
Paraguay	1999	2004	1992		2004	LAFE Law 1535 (1999)
Peru	2004	2002	1993	1999, 2003	1999, 2003	LOSNCCGR Law 27785 (2002)
Uruguay	1999					TOCAF Decree 95 (1991, 1999)
Venezuela	2000, 2003		1999			LOAF SP (2000) and Decrees 2621 and 2268 (2003)

Source: Author compilation, as of December 2004. Notes: *: Under consideration; **: Joint World Bank-IMF Country Budget Law Database, complemented by web-based research of the countries' ministries of economy and finance; ***: Chile introduced fiscal numerical rules in 2001 not enshrined in legislation but as part of a political agreement.

The fiscal crisis of the state forced Latin American governments to re-order their public finances and reform their budgetary systems. For example, Argentina re-ordered its public finance management system in 1992, with the adoption of the *Public Sector Financial and Control Systems Act*. Until then, the budget was essentially not relevant as a strategic policy document (Rodríguez and Bonvecchi 2004). In 2001, Chile, with support from the World Bank, introduced an integrated system for government financial administration. Largely led from

[7] Already in the 1920s and 1930s, the United States government, through the missions of Princeton Professor Edwin Kemmerer, promoted the reform of banking and budgeting systems throughout the region, with significant impact on the reform of financial management systems in the Andean region (Drake 1989). The Kemmerer missions led to the strengthening of key institutions of economic governance, such as central banks, finance ministries, central budget offices, or general audit offices.

the executive, these efforts are contributing to transform the budget into a credible tool of macroeconomic management, increasing the reliability of aggregate financial information and budget management systems.

In recent years, however, greater attention has been directed at strengthening the institutions of public finance management *beyond* the executive to improve transparency, oversight and accountability in budget management. In this second stage of reform, the contribution of legislative budget institutions, such as parliamentary budget committees, legislative budget offices or general audit offices, is being re-evaluated.

Benefits of centralized budget systems

Institutional arrangements for public budgeting do matter. Recent findings on the political economy of public finance underscore that political institutions and institutional arrangements have a decisive influence on fiscal performance. In their seminal study on *Budget Deficits and Budget Institutions*, Alberto Alesina and Roberto Perotti (1996:i) demonstrate that 'budget procedures and budget institutions do influence budget outcomes.'

Building on earlier research in the European context by Jürgen von Hagen (1992; Poterba and von Hagen 1999), Alesina and Perotti (1995, 1996), Ernesto Stein et al. (1998) and Alberto Alesina et al. (1999) show that budget institutions help explaining cross-country variance in fiscal performance in Latin America.[8] Similarly, country-specific research by Lisa Baldez and John Carey (1999) demonstrate that budgetary restraint and fiscal discipline in Chile is largely attributable to the institutional arrangements of budget policymaking. David Samuels (2002) and Jeffrey Weldon (2002) underscore the negative impact legislative politics has on the dysfunctional fiscal policy and budgetary processes in Brazil and Mexico, respectively.

Budget institutionalists posit that greater centralization of budgetary powers and procedures in the executive leads to greater fiscal discipline and lower budget deficits. They convincingly argue that that 'hierarchical' budget systems that 'concentrate power in the finance minister, vis-à-vis other ministers, and in the executive vis-à-vis congress' (Stein et al. 1998:3) provide stronger procedural incentives for achieving and maintaining fiscal prudence. Hierarchical budget institutions are those procedural and organizational arrangements that 'limit the role of the legislature in expanding the size of the budget and the deficit, and attribute a strong role to a single individual, typically the treasury minister, in the budget negotiations within the government, limiting the prerogatives of the spending ministries' (Alesina et al. 1999:255).

Greater concentration of budgetary powers within the executive, it is argued, is 'more likely to enforce fiscal restraint, avoid large and persistent deficits and implement fiscal adjustments more promptly' (Alesina and Perotti 1996:7). Alesina et al. (1999:256-257) identify three main institutional arrangements conducive to fiscal discipline: (i) laws which establish ex ante constraints on deficits; (ii) top-bottom or hierarchical procedural rules; and (iii) transparent procedures.

The main argument resides in the 'common pool' dilemma of public budgeting: politicians and policymakers all have incentives to increase public spending as the costs of extra spending are borne by all while the benefits are usually concentrated (Weingast et al. 1981). The 'tragedy of commons' can be minimized by assigning control over the budget to agents with incentives to internalize the costs of government programs. This function is usually assigned to the finance ministry and, within it, the central budget office (Schick 2001). Under those institutional

[8] Nevertheless, empirical studies and cross-country statistical analyses of budgetary institutions tend to focus on the formal rules shaping the interaction of the different actors. However, as we show, budgetary practices differ substantially from formal budgetary rules.

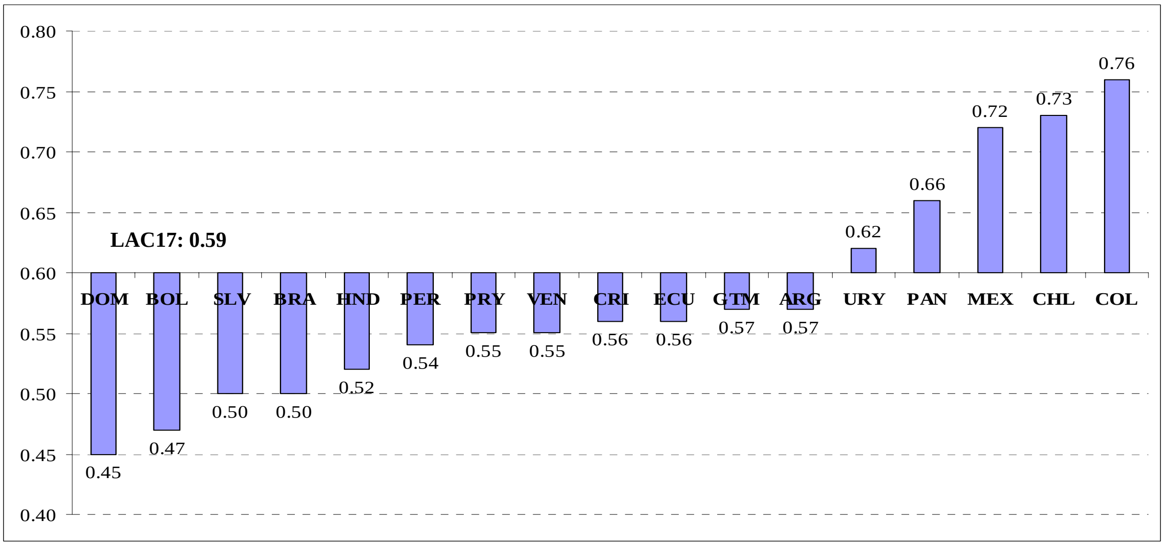
arrangements, typically enshrined in the countries' constitutions or organic budget law, the central budget office of the finance ministry becomes the guardian of budgetary rectitude and fiscal discipline.

The prevailing consensus thus warns against the dysfunctional fiscal effects of unrestrained legislative budgetary powers and favors the insulation of economic policymaking within the executive branch. It posits that excessive legislative prerogatives in public budgeting tend to lead to fiscal disequilibria, greater budget deficits and public debt, as a result of overspending and under-taxation. Centralized budgetary systems limit the powers and capacity of parliaments to influence the budget through, inter alia, restrictions on legislative amendment powers or executive veto powers.

Moreover, parliaments often voluntarily relinquish portions of their budgetary powers, delegating important prerogatives to the executive in the management of public finance, for instance to reform taxation regimes or reallocate expenditures during the execution of the budget. As Allen Schick notes (2002:16), 'the legislature voluntarily yielded budgetary power to the executive because it accepted the view that parliamentarians cannot constrain their political inclination to tax less and spend more. Legislatures entrusted budgetary authority to the government because they could not trust themselves to make responsible financial decisions.'

The index of budgetary institutions in developed by Stein et al. (1998) reproduced in Figure 2 captures the hierarchical nature of institutional arrangements for public budgeting in Latin America.

Figure 2: Index of Budgetary Institutions in Latin America (1990-95)
(Average figures for 1990-1995 on a scale from 0 to 1, from the least to the most centralised)



Source: Stein et al. (1998), based on Alesina et al. (1996). Note: Budgetary institutions include numerical constraints on budget deficits, procedural rules governing the budget making process, and the transparency of budgetary and fiscal information.

These views have influenced the reform of budgetary systems in the region. As mentioned previously, in the course of the 1990s, many countries have rationalized their public finance management systems. They have upgraded finance ministries, increased the independence of central banks and strengthened the autonomy of tax agencies. The move towards more hierarchical budgetary institutions was particularly swift in Argentina under Carlos Menem (1989-1999) and in Peru under Alberto Fujimori (1990-2000) (Stein 1999). In Argentina, for example, changes in the budget process were formalized in the 1992 *Law of Financial Administration*. They involved the adoption of quantitative spending limits for different ministries at the beginning of the process and the restriction of parliament to propose amendments that would increase budget deficits (Uña 2005; Uña et al. 2005).

The case of Chile, which has one of the most centralized budgetary systems in the region, is instructive of the tensions and trade-offs between executive discretion and legislative prerogatives in public budgeting. Chile has a long legacy of a centralized budgeting system pre-dating the wave of reforms in the 1990s (OECD 2004; Marcel and Tokeman 2002; Vial 2001). Its budgetary system is the result of a long historical process marked by recurrent conflicts between the government and parliament over the budget. Executive-legislative conflict over the budget became particularly intense during the liberal republic (1861-1891) and the parliamentary regime (1891-1925). The Revolution of 1891 originated in a deadlock over the budget. In January 1891, parliament refused to approve the budget proposed by the government. President José Manuel Balmaceda decreed that the previous year's budget would remain in effect, violating constitutional provisions. Parliament proceeded to impeach him and the revolution broke out. Those allied with the parliament emerged victorious but executive-legislative tensions continued during the parliamentary period. The role of parliament diminished steadily thereafter and the Constitution of 1925 opted for strengthening the budgetary powers of the president. These institutional arrangements were ratified in the 1975 *Organic Law of Financial Administration of the State* and the 1980 Constitution.

Risks of centralized budgetary systems

There are nonetheless important risks associated with hierarchical budgetary arrangements. Four key risks can be underscored. First, hierarchical budget arrangements tend to allow for excessive executive discretion in public budgeting, especially in presidential systems, and thus impede the consolidation of the mechanisms of accountability in governmental financial management. Such trends make public finances particularly vulnerable to corruption and capture and tend to replicate authoritarian features of budget management in democratic settings. In fact, restoring the powers of parliaments in public budgeting was considered an integral part of the restoration of democracy in the late 1980s in countries such as Brazil (OECD 2003).

Second, unconstrained and unchecked executive discretion in public budgeting tends to undermine the credibility of the budget as an instrument of strategic planning. It hampers the consolidation of predictable budgetary processes with clear procedures and capable structures. The combination of presidents' constitutional powers, the executive's use and abuse of decree authority, the delegation of legislative budgetary powers to the executive and the political configuration of parliaments all contribute to reinforce executive dominance over the budget process. Parliamentary involvement in the budget process helps strengthening the legitimacy of the budget and ensuring that budget priorities adequately reflect policy priorities.

Third, centralized budgetary systems tend to be less transparent (Alesina 1999), which makes fiscal discipline and expenditure control harder to achieve.[9] This is particularly acute problem considering the quasi-monopoly of the executive on public financial information. The introduction of integrated financial information systems partly addresses the need for greater transparency and more effective management of financial information (Dorotinsky and Matsuda 2002; Asselin 1995).

[9] Proponents of hierarchical budget institutions acknowledge the value of transparent processes to ensure fiscal prudence, although they do not necessarily link it to a strengthening of legislative oversight.

Four, hierarchical budget institutions tend to over-emphasize aggregate fiscal discipline over other goals of public budgeting. As described by Schick (1998), the three main objectives against which the performance of public finance management systems are to be evaluated are: (i) aggregate fiscal discipline, (ii) allocative efficiency or strategic prioritization; and (iii) operational efficiency, as shown in Table 4.

Table 4: Objectives of public expenditure management

Fiscal discipline	Budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium-term and beyond.
Strategic efficiency	Expenditure allocations should be based on strategic priorities and on effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs.
Operational efficiency	Agencies should produce goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices. This should lead to a more efficient and effective use of resources in the implementation of strategic priorities.

Source: Adapted from Schick, 1998 and Dorotinsky and Matsuda 2002:3.

Budget transparency and accountability

Parliamentary oversight helps enforce political accountability. Nevertheless, effective and responsible legislative budgeting is inherently difficult to achieve and maintain (Wildavsky and Caiden 2000; Schick 1990). By providing a check on executive discretion, legislative budget oversight should, in principle, enhance the transparency of public accounts and the integrity of public finances. Together with other external oversight agencies such as general audit offices, parliaments help ensure that the government is held to account for the manner in which it administers public finances (Pelizzo and Stapenhurst 2004; Dye and Stapenhurst 1998). By increasing the scrutiny of the budget, legislative oversight help redress the information asymmetries between the state and society, opening up the budget to public debate and social control. Indeed, civil society inter-action with the budget is most effective during the review and adoption of the budget in parliament. Legislative scrutiny of the budget tends to allow for greater debate on the facts, analysis of underlying policy choices and discussion of budgetary allocations.

A strand of comparative research challenges the prevailing view of executive-legislative relations in Latin America, which has traditionally emphasized the reactive role of parliaments and the proactive role of presidents (Cox and Morgenstern 2002; Morgenstern and Nacif 2002; Mainwaring and Welna 2003). It shows that, even in symptomatic cases of 'delegative democracy' (O'Donnell 1994), parliaments do influence economic policy and public budgeting, often more than originally thought. In Brazil, for example, parliament has traditionally been the privileged arena for pork-barrel politics over budget appropriations and amendments (Samuels 2002). Even in Argentina, a country characterized by relatively disciplined parties, public budgeting has been the subject of more conflict and bargaining than previously thought, in fiscal policy (Jones 2001) as well as taxation reform (Eaton 2002), through both informal channels and formal process (Rodríguez and Bonvecchi 2004; Morgenstern and Manzetti 2003).

There exists an important gap between formal rules and informal practices, between the quality of the legal framework for public budgeting and adherence to it (IBP 2003). According to the survey data reproduced in Tables 5 and 6, while the quality of the legal framework in Argentina, Brazil, Chile, Mexico and Peru is generally sound, perceptions of budget transparency are poor. This research reveals, in particular, that legislative oversight and external auditing are perceived as particularly deficient. These are precisely the phases of the budget in which the parliament ought to be most assertive.[10]

Table 5: Budget Transparency in Latin America (aggregate index)

Country	Assessment of Legal Framework	Perceptions Index	Aggregate Index (un-weighted)
Argentina	7.0	5.1	6.1
Brazil	6.4	5.1	5.8
Chile	7.3	5.9	6.6
Mexico	5.1	5.0	5.1
Peru	6.0	3.7	4.9

Source: IBP 2003:5. Note: The index of perceptions is an average on a scale of 1 to 10, of not transparent to transparent.

Table 6: Budget Transparency in Latin America (disaggregate index)

Phases of the budget (scale 1-5)					
	Most transparent				Least transparent
Formulation	Chile	Mexico	Argentina	Peru	Brazil
Average	3.36	2.67	2.57	2.47	2.47
Approval	Chile	Argentina	Brazil	Mexico	Peru
Average	2.80	2.79	2.63	2.44	2.39
Execution	Chile	Argentina	Brazil	Peru	Mexico
Average	3.16	2.71	2.40	2.38	2.36
Oversight and auditing	Chile	Brazil	Mexico	Argentina	Peru
Average	3.07	2.31	2.27	2.19	1.89
Economic Information	Chile	Argentina	Brazil	Mexico	Peru
Average	3.53	3.15	3.15	2.75	2.66

Source: Based on IBP 2003:3.

Parliaments and public budgeting

In Latin America, as elsewhere, there exists an important gap between the *formal powers* and *actual role* of parliaments in public budgeting. Budgetary processes are indeed governed both by formal institutions and informal processes interacting in different ways along the different phases of the budget process. Parliaments' role in the budget remains inhibited by structural factors related both to the internal organization of parliamentary work and the broader governance context of executive-legislative budget relations. Three sets of factors are critical: (i) the extent of parliaments' formal budgetary powers; (ii) the adequacy of their institutional capacities in terms of internal resources, structures and procedures, and (iii) the

[10] Table 6 also underscores that, in general, the quality of fiscal information is believed to be sufficient, an indication that seems to suggest that it is action on existing information by budget oversight institutions that is lagging. Fiscal information is therefore available, but not necessarily acted upon.

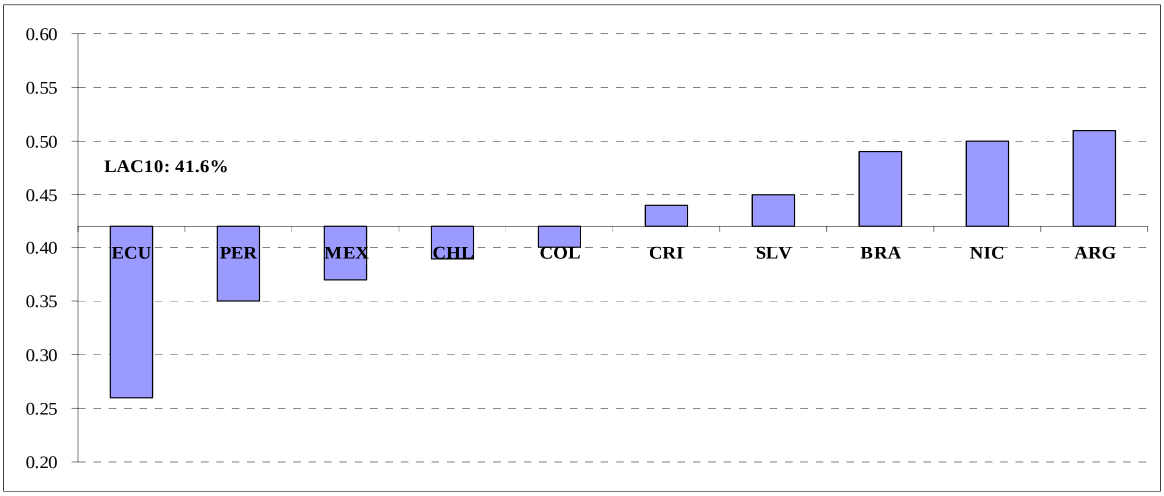
conduciveness of individual political incentives, including the balance of partisan forces, the extent of political competition, the nature of the political system and the specificities of electoral rules.

Formal powers

The role of parliaments in public budgeting varies along the four main phases of the budget cycle. The four main phases of the budget process are (i) its formulation, (ii) its adoption, (iii) its execution, and (iv) its control. Four sets of variables condition the budget powers of parliaments: (i) whether they are legally empowered to intervene in the budget process; (ii) whether they are endowed with the required institutional and technical capacities, (iii) whether their members possess the necessary individual and political incentives, and (iv) whether the broader governance environment is favorable, in particular the nature of political competition and the balance of political power.[11]

In Latin America, legislative budgetary powers are severely limited by the prerogatives of the executive in the budget process. Constitutional provisions endow presidents with uncommon powers, both in absolute and relative terms, although important variations exist between countries. Assessing the budgetary powers of the executive in 23 presidential systems, Mathew Shugart and Stephan Haggard (2001) find that in seven of them presidents enjoy exclusive power over spending legislation and legislatures confront severe constraints on amending presidential proposals. Table 4 captures the main constitutional restrictions on the budgetary powers of seventeen Latin America countries and Figure 3 provides a measure of legislative budget authority in ten countries in the region. Interestingly, the Index of Legislative Budgeting reproduced in Figure 3, reveals that countries with greater legislative powers in public budgeting often exhibit poor fiscal performance.

Figure 3: Index of Legislative Budgeting in Latin America (2003)



Source: Lavielle et al 2003:14-16. This perceptions index measures on a scale from 0 to 1 the degree of legislative budget authority. It is made up of three components: (i) the extent of legislative powers to amend the executive's budget proposal; (ii) the time allowed for legislative budget review and (iii) the intensity of legislative debate. It is a sub-index of the Latin America Index of Budget Transparency based on a survey of fiscal transparency practices and procedures.

[11] Roy Meyers (2000) identifies five key institutional features determining the effectiveness of legislative involvement in budgeting: the extent of legislative involvement in fiscal planning; the timing and duration of the budget adoption process; the extent of legislative direction in the budget and the means of legislative oversight of budget implementation; the expansion of budgetary expertise within the parliament; and the internal coordination of legislative budgeting between committee.

Table 7: Executive Legislative Budget Relations in Latin America

	President initiative	Legislative amendment powers		Executive veto	Legislative over-ride	Reversion point				Budget reallocation authority		
		Unrestricted	Restricted (cannot increase deficit or spending)			Budget of previous year	Executive budget proposal	New proposal has to be presented	Deadlock (no expenditure can be incurred)	Executive with legislative approval	Executive without legislative approval	Legislature
Argentina	✓	✓ (3)	✓ (4)	✓	✓	✓				✓		
Bolivia	✓	✓		✓	✓		✓					✓
Brazil	✓		✓	✓	✓			✓			✓ .	
Chile	✓		✓	✓	✓	(9)	✓			✓		
Colombia	✓		✓	✓	✓		✓			✓		
Costa Rica	✓	✓		(2)	(2)		✓			✓		
Ecuador	✓		✓	(1)	(1)		✓			✓		
Guatemala	✓	✓		✓	✓	✓						✓
Honduras	✓	✓		(2)	(2)			✓		✓		
Mexico	✓		✓ (4)	✓	✓				✓ (8)		✓ .	
Panama	✓		✓	✓	✓	✓				✓		
Paraguay	✓	✓		✓	✓		✓				✓	
Peru	✓	✓ (5)	✓ (6)	✓	✓		✓				✓	
Dominican Republic	✓		✓	✓	✓	✓				✓		
El Salvador	✓		✓	✓	✓			✓		✓		
Uruguay	✓		✓	✓	✓	✓				✓		
Venezuela	✓		✓ (7)	✓	✓	✓				✓		

Source: Alesina et al 1999; World Bank 2001; Casar Pérez 2001; Payne et al 2003; Rodríguez and Bonvecchi 2004.
Notes: (1): The president has no veto power; (2): Veto powers do not apply to the budget; (3): Until 1992; (4): Since 1992; (5): Until 1991; (6): since 1993; (7): Cannot increase spending; (8): The location of the reversion point in Mexico is subject to controversy; (9): The budget of the previous year would apply only if the executive did not present its proposal on time, otherwise the executive's proposal would apply.

Budget formulation The executive has a predominant role in the formulation of the budget and the drafting of the budget bill presented to parliament for review and adoption. In all seventeen countries under review in Table 7, it has the exclusive right to initiate the budget process and draft the budget bill. It is also the only branch of government that possesses the required technical capacity and information base for doing so. The central budget offices of the finance ministries are responsible for coordinating the budget drafting process within the executive and overseeing its execution by spending agencies. Access to and control over governmental financial information gives them an undisputed advantage both over the legislature and the other ministries and executing agencies within government.

Budget approval Once agreed within the cabinet, the draft budget bill is submitted to parliament for consideration, review and approval. The executive's proposal must be approved by parliament to become law. Five key institutional variables frame executive-legislative relations in the budget approval stage: (i) the amendment powers of parliament, (ii) the veto powers of the president (package and line item veto powers), (iii) the over-ride powers of parliament; (iv) the location of the reversion point, and (v) legislative process and structures, which include internal rules and legislative capacities, and especially the timing and sequencing of the budgetary process.

Table 8: Time for Budget Review in Latin America

Country	Parliamentary structure	Days allowed for reviewing budget proposal
Argentina	Bicameral	75
Bolivia	Bicameral	60
Brazil	Bicameral	100
Colombia	Bicameral	90
Chile	Bicameral	60
Paraguay	Bicameral	90
Dominican Republic	Bicameral	90
Uruguay	Bicameral	45
Venezuela	Bicameral	n.a.
Mexico	Bicameral	30
Costa Rica	Unicameral	90
Ecuador	Unicameral	90
El Salvador	Unicameral	90
Guatemala	Unicameral	120
Honduras	Unicameral	105-120
Nicaragua	Unicameral	60
Panama	Unicameral	90
Peru	Unicameral	90

Source: Based on Gutiérrez 2001: Chapter III; World Bank 2004 for Nicaragua; and 1992 organic budget law for Argentina.

The time allocated for budget review greatly varies across countries. On average, Latin American parliaments dispose of 90 days to review and approve the budget. As Table 8 shows, the time allocated to debate in the budget committee and plenary varies between 30 days in Mexico to 120 days in Honduras.[12] The situation in Latin American is in line with that of the majority of countries, including those of the Organisation for Economic Cooperation and Development (OECD). According to the OECD World Bank Budget Database, a survey of budget practices and procedures,[13] the executive presents its budget proposal to the legislature between two to four months before the beginning of fiscal in 56.4 percent of the cases reviewed.[14]

The ability of parliament to modify the executive's budget proposal is another determinant of the scope of parliamentary budget powers. Few parliaments have unrestricted powers to amend the budget and most countries, including Argentina (since 1992), Brazil, Chile, Colombia, Mexico, Peru (since 1993), Uruguay and Venezuela, place restrictions on amendment powers. Parliaments cannot propose amendments that would increase the deficit or spending, except as it pertains to their own budget. For example, since 1992, the Argentinean parliament can increase spending only if it also increased revenues.

Legislative amendment powers are further limited by the executive ability to veto them, fully or partially. The executive has package and line item veto powers in a majority of the Latin American countries. Only in Ecuador the executive does not possess veto powers, while these do not apply to the budget in Costa Rica and Honduras. Where executive veto powers do exist, the legislature has nevertheless the possibility to insist in its amendment and override the executive's veto, if it can muster the necessary qualified majority. In Argentina, the president has the power to veto, partially or totally, the amendments introduced by parliament, which can nevertheless insist. Between 1993 and 2003, the president has vetoed one annual budget law but has amply vetoed specific provisions of most budget laws approved by parliament.

The budgetary powers of Latin American parliaments are more limited than those of OECD parliaments, where a majority (55.5 percent) has no restriction to modify the executive's budget proposal. Most countries, however, put some form of restriction to amendment powers (56.0 percent).[15] These restrictions are usually contained in constitutional provisions (52.1 percent of the cases, including Chile, Colombia or Uruguay), organic budget legislation (21.7 percent, including Argentina or Mexico) or, less commonly, internal parliamentary rules.[16]

The rules and procedures governing the amendment process constitute another set of determining factors. Within parliament, the budget and finance committee plays a key role in the legislative budget process. It is the main forum in which the budget bill and its amendments are discussed, negotiated and agreed. The capacity of parliament to effectively engage with the budget thus often depends on the internal organization, technical capacities and political incentives of the budget and finance committee.

An important aspect of executive-legislative budget relations concerns the information asymmetries and, more broadly, the strategic use of fiscal information and macroeconomic

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[12] In Peru, for example, the executive must submit the draft budget bill by 30 August and parliament must approve it by 30 November, while in Mexico the federal government must submit its proposal by 15 November and parliament has until 31 December to approve the final budget. In Argentina, the executive must submit the budget proposal by 15 September and parliament has until its recess on 30 November to approve it before the beginning of the fiscal year. Bicameral systems, where both chamber need to approve the budget, are not necessarily given more time to consider the budget.

13 The results of the first OECD budget survey were completed in 2003 cover forty-four countries, including six Latin American countries (Argentina, Bolivia, Chile, Colombia, Mexico, and Uruguay). See: http://ocde.dyndns.org.

14 OECD World Bank Budget Database (2003), Question 2.7.b.

15 Ibid, Questions 2.7.d and 2.7.e.

16 Ibid, Question 2.7.f.

projections. One example is the estimation of fiscal revenues. In Argentina, the executive has tended to over- or under-estimate the projected change in the gross domestic product in order to retain greater control on the budget during its execution, as supplementary credits or reduction in spending are at the discretion of the executive (Uña et al. 2005). A related trend has been the tendency to take spending off the budget completely. For example, special trust funds have tended to multiply in recent years, partly to avoid what are already limited constraints and restraints to public budgeting in Argentina. Conversely, parliament also uses information asymmetries to its own advantages. In Bolivia, for example, parliament can only increase the budget if it identifies sources of additional finance. It simply invents them, augmenting revenue projections by changing the forecasted income of revenue collection agencies (Scartascini et al. 2005). These trends tend to further undermine the integrity and reliability of fiscal information, key aspects of sound financial management.

Lastly, the outcome of the budget game is conditioned by the location of the reversion point, or what happens if the budget is not approved on time by the legislature. There exist four alternative scenarios: (i) the budget of the previous fiscal year remains in effect, which is the case of Argentina, Uruguay or Venezuela; (ii) the executive must present a new budget proposal, as in the case in Brazil; (iii) the executive's proposal automatically becomes law, such as in Bolivia, Chile, Colombia, Costa Rica, Panama, or Peru; or (iv) there is a deadlock and government cannot incur any expenditure, such as in the case of Mexico (although there exists controversy in that respect). The situation of Latin America diverges from that of the rest of the world, especially in OECD countries where interim arrangements take effect in 65.1% of the cases until the budget deadlock is resolved.[17]

In Latin America, clauses relating to the location of the reversion point give the executive extraordinary leverage over the legislature, as legislative inaction does not preclude the executive proposal from being adopted. They *de facto* neutralize legislative obstruction and significantly diminish the leverage of legislatures in the budget bargaining process, as legislatures have no veto power over the executive's budget proposal. Only in Brazil and in Mexico can the inability of the executive and the legislature to reach agreement over the budget lead to deadlock.[18] While they help avoid deadlock over the budget, these provisions create a set of incentives that is not conducive to effective scrutiny and oversight.

Budget oversight Constitutions and organic budget laws usually give parliaments an important role in the oversight of the execution of the budget, the scrutiny of budget re-allocations, and the ex post review of public accounts. In practice, however, legislative oversight of budget execution is largely dysfunctional. Legislatures exercise only a limited monitoring of the government's compliance with formal budget rules and procedures as set in the budget law. They are even more ill-equipped to monitor the performance of public spending and enforce results-based budgeting.

In Latin American presidential systems, the combination of an extensive use of executive decrees to reallocate budget appropriations and the delegation of legislative budget authority has allowed the executive to *de facto* expand its legal prerogatives. In Argentina, for example, since 1994, parliament has delegated important budgetary powers to the executive, which is able to change the budget during its execution almost at will using emergency decrees (Uña et al. 2005; Rodríguez and Bonvecchi 2004). In theory these decrees are subject to parliamentary revision. However, the bi-cameral committee tasked with overseeing and empowered to overrule such decrees has yet to be established. Furthermore, while article 37

17 Ibid, Question 2.7.c.

[18] See, on Brazil: Samuel (2002) and Figueiredo (2003); and on Mexico: and in Mexico Guerrero Amparán and López Ortega (2001) and Sour et al. (2003, 2004).

of the 1992 law on financial administration stipulates that the only parliament can introduce important changes in the total amount of the budget, except in extraordinary circumstances, since 1997 parliament has itself relieved the government from these restraints. In fact, the Argentine legal system does not establish a hierarchy of legal norms. Therefore the organic budget and the financial administration laws are routinely amended by annual budget laws. According to Gerardo Uña et al. (2005), it is the combination of legislative delegation and executive discretion that allows the executive to modify the budget largely unchecked.

In Brazil, the budget is permissive, rather than mandatory, and the executive makes adjustments during the execution of the budget through decrees to ensure that the fiscal responsibility law's targets are met. In particular, the execution of capital expenditure appropriations and legislative amendments requires another authoritative decision by the executive (Pereira and Muller 2002, 2004). These within year adjustments explain the differences between budget allocations and budget execution. While increasing the 'costs of governing', this arrangement has nevertheless allowed the Brazilian federal government to muster coalitions of support for specific legislation at a relatively cost-effective price.

Parliaments possess a potentially powerful instrument to control budget execution and enforce *ex post* accountability: the review of public accounts. However, it seldom uses this tool effectively. A specialized legislative committee (the public accounts committee) or a sub-committee of the budget and finance committee play a critical role in the certification of public accounts. Based on the audit of public accounts by the general audit office, it emits an opinion to the plenary, which decides whether or not to discharge government. In practice, public accounts committees have seldom refused to discharge governments. Furthermore, the likely consequences of doing so are often unclear. In Argentina, this uncertainty has led to a paralysis of the certification process in the joint public accounts committee (CPMRC), with the review of public accounts since 1994 were still pending in 2004 (Lamberto 2005; Uña et al. 2005). In Peru, a constitutional provision stipulates that if parliament fails to act on the public accounts reports within the imparted time, the opinion of the public accounts committee is transmitted to the executive for adoption by legislative decree.

These practices, partially sanctioned by law, neutralize the oversight prerogatives of parliaments in the certification of public accounts and the discharge of government. They are compounded by the significant delays in examining public accounts, which makes difficult to ascertain who is to be to account. Furthermore, relations between parliaments' public accounts committees and general audit offices are often dysfunctional, reflecting the weakness of both these institutions. Whether nominally linked to parliaments or not, general audit offices are independent of government and provide critical support to parliaments' oversight functions by independently auditing public accounts. However, general offices often lack political independence, resource endowments and technical capacities to discharge their responsibilities credibly and effectively.[19]

Institutional capacities

A second set of constraining factors is internal to parliaments and is linked to their institutional capacities. These relate to the organization of parliamentary work and the

[19] In Latin America, there exist three broad institutional models of general audit offices, each entailed a distinctive linkage to parliament institutional models: (i) that of an autonomous state institution, such as the Chilean and Peruvian *Contralorías Generales de la República*; (ii) that of an advisory body to parliament, such as the Argentinean *Auditoría General de la Nación* (Despouy 2003); and (iii) that of independent institution with quasi-judicial powers, such as the Brazilian *Tribunal de Contas da União* (Speck 2000).

structures and procedures framing the budget process within parliament. Three legislative budget institutions are particularly relevant: (i) the organization of legislative committee work; (ii) the extent of legislative technical advisory capacity; and (iii) the extent of legislative budget research capacity. Table 1 provides an overview of legislative budget institutions in Latin America in 2004.

Parliamentary committees The committee system remains unconsolidated and has fluctuated over time. The organization of committee work often lacks the kind of institutionalization that would allow specialized committees to effectively contribute to the budgetary process in all its stages. Strengthening the organization and functioning of key legislative committees, in particular the budget, finance and public accounts committees, would undoubtedly enhance legislative budget oversight (Wehner 2003; McGee, 2002). Saeigh (2005) identifies as key variables the number and size of committees, noting that in Latin America 'too many committees vie for legislators' effort' (ibid:14), as well as their composition, membership and leadership. Political parties have a central role in determining committee assignments, especially its chair and, therefore, its working agenda.

In Latin America, as in most countries, a single legislative committee, the budget and finance committee, generally deals with the executive's budget proposal. This is committee is one of the single most important legislative committees. In Brazil, the Joint Committee on Plans, Public Budgets and Auditing (CMPOF) has a dominant role in examining the executive's proposal. It consists of 84 members from both houses of parliament (21 senators and 63 deputies) (IMF 2001a; World Bank 2002). Sectoral committees formally or informally participate in the budget negotiations, such as in Argentina, Brazil or Mexico. In contrast, however, public accounts committees are generally weak, especially if they function as stand-alone committees separated from the budget and finance committee. In bicameral systems, joint legislative budget committees are not always permanent structures. In Chile, Special Joint Budget Committee of the bi-cameral parliaments was only made a permanent structure in 2003.

In some countries, a more rational division of responsibilities between the different committees dealing with different facets of public finance (taxation, budgeting, oversight and control) could help enhance the coherence of parliament's impact on the budgetary process. For example, while in Peru three distinct parliamentary committees oversee public finances, in Venezuela these structures are sub-committees of the finance committee of the unicameral National Assembly.

Furthermore, the internal composition of committees tends to lessen the incentives for government oversight. In the majority of the cases, the composition of budget committees is decided on a proportional basis, thus mirroring parliamentary majorities. In conditions of unified government, the ruling party therefore chairs these committees and sets its agenda. These features tend to lessen the incentives for effective oversight and control (Messick 2002). In contrast, in several parliamentary systems, the main opposition party chairs public accounts committees and a shadow cabinet oversees government (McGee 2002).

Advisory capacity In Latin America, as elsewhere, the quality of technical advisory capacity is largely inadequate to allow parliaments to effectively engage with increasingly complex budgetary issues. Budget and public accounts committees are assigned only a limited number of permanent technical advisers. However, this is not an unusual situation, as most legislative budget committees are staffed by two to five advisers, as Table 9 shows.[20] However, recent research reveals that in the case of Argentina, while parliamentarians keep

20 Ibid, Question 2.10.d.

a large parliamentary staff, these are under-prepared and inadequately financed to conduct thorough evaluations of government policy proposals (Saeigh 2005:26).

Table 9: Staff levels of budget-related legislative committees

	Total	Percentage for all countries	Percentage for OECD countries	Latin America
< 2	2	5.1 %	3.8 %	Uruguay
2-5	17	43.5 %	46.1 %	Argentina, Bolivia
6-10	9	23.0 %	15.3 %	Mexico, Chile
> 10	11	28.2 %	34.6 %	Colombia

Source: OECD World Bank Budget Database (2003), Question 2.10.d

In fact, the political advisers of individual parliamentarians sitting in the budget and public accounts committees carry out most of the advisory work, although these advisers might not always be budget experts or solely dedicated to budgetary issues. Advisers to political parties also provide support in budgetary matters. Tables 10 to 12 illustrate the extent of budgetary advice provided by partisan structures, which, although limited, exists.

Table 10: Members of parliament with professional staff dealing with budgetary issues

	Total	Percentage for all countries	Percentage for OECD countries	Latin America
Yes	3	7.5 %	3.8 %	Colombia
Yes, but only those who belong to budget, finance or other related committees	14	35.0 %	30.7 %	Argentina, Bolivia, Uruguay
No	23	57.5 %	65.3 %	Chile, Mexico

Source: OECD World Bank Budget Database (2003), Question 2.10.h.

Table 11: Political parties in the legislature with advisory capacity dealing with budget issues

	Total	Percentage for all countries	Percentage for OECD countries	Latin America
Yes, supported by parliament budget	10	27.0 %	20.0 %	Bolivia, Chile
Yes, supported by party funds	5	13.5 %	16.0 %	Mexico, Argentina
No	22	59.4 %	64.0 %	Colombia, Uruguay

Source: OECD World Bank Budget Database (2003), Question 2.10.f.

Table 12: Number of technical advisory staff serving political parties and dealing with budget issues

	Total	Percentage for all countries	Percentage for OECD countries	Latin America
None	8	25.0 %	19.0 %	Colombia
<10	19	59.3 %	66.6 %	Argentina, Bolivia, Uruguay
10 to 25	4	12.5 %	9.5 %	Chile
25 >	1	3.1 %	4.7 %	Mexico

Source: OECD World Bank Budget Database (2003), Question 2.10.g.

Research capacity Similarly, the budget research capacity of parliaments remains largely deficient, except in a few cases. Often a result of the absence of a tenure-track parliamentary staff technical, input in the budget review process tends to lack the technical substantiation required for impartial evaluation. In many countries this is accentuated by the weaknesses of civil services.

This is gradually changing, however. Although not as powerful or well resourced as the US Congressional Budget Office (CBO), legislative budget offices are being strengthened, such as in Chile, Mexico or Venezuela, as Table 1 shows. In Argentina in 2003, Senators Baglini and Lamberto introduced a proposal to create such an office. In Chile, an embryonic budget research office was established in 2003 with professional staff of three analysts (OECD 2004), as part of broader reforms aimed at enhancing the role of parliament in the budget process. Similarly, in Venezuela, an Economic and Financial Advisory Office (OAEF) was created in 1997. Nevertheless, tensions between the government and parliament have undermined the functioning of this office (Rojas and Zavarce 2004). Furthermore, legislative research offices and parliamentary libraries exist in several countries, such as Brazil, Chile, Colombia and Peru. Henceforth, as Table 13 shows, the situation of Latin American parliaments is not radically different to that of their counterparts in the OECD.

Table 13: Legislative budget offices

	Total	Percentage for all countries	Percentage for OECD countries	Latin America
Yes (<10 professional staff)	7	17.9 %	12.0 %	Chile
Yes (10-15 professional staff)	1	2.5 %	4.0 %	
Yes (>16 professional staff)	3	7.6 %	12.0 %	Mexico
No	28	71.7 %	72.0 %	Argentina, Bolivia, Colombia, Uruguay

Source: OECD World Bank Budget Database (2003), Question 2.10.e.

Increasing the research capacities of parliaments for budget analysis is likely to enhance their role in public budgeting. Access to independent budget analysis helps parliaments redress the asymmetries of budgetary information with governments. Parliamentary committees rely y on the information that government agencies provide them with, which significantly constrains their ability to carry out independent reviews of budget proposals and government performance.[21] It is indeed noticeable that a major impediment to legislative budgeting often resides in parliaments' incapacity to engage constructively with the budget process, rather than the restraints put on their budgetary powers.

Two noteworthy exceptions are Brazil and Mexico, which successfully developed technical capacity within parliament on a level comparable to that of advanced democracies. The Brazilian Congress' Joint Committee on Plans, Public Budgets, and Auditing (CMPOF) is assisted by a research office consisting of about 35 professionals, which is not, however, exclusively focused on providing services to the committee. The Brazilian lower house of parliament has an advisory organ, the Legislative Consultancy, with 245 employees, 190 of which are specialist consultants in diverse areas. These individuals are full time employees of parliament and are selected through a competitive examination. Similarly, the upper house has its technical support service, with 308 consultants selected through a competitive public examination.

In Mexico, parliament's research and advisory capacities for independent budget analysis have been significantly enhanced with the establishment, in 1998, of a Centre for the Study

[21] As Saeigh (2005:17) remarks, 'The reliance on executive agencies' expertise negatively affects a legislature's role in the policymaking process. Unless they develop comparable levels of technical capacity, legislatures are at a disadvantage in evaluating executive-initiated bills. They are also at a disadvantage when it comes to holding the executive branch accountable.'

of Public Finances (CEFP) in the lower chamber of parliament, strengthening further the parliament's general research capacities found in the more traditional Research and Analysis Services (SIA) of the parliamentary library and the Institute for Legislative Research of the upper chamber of parliament (IILSEN), established in 1985.

Political incentives

A third set of factors is linked to the political incentives of individual members of parliament to build parliaments' institutional capacities and use them effectively. The formal and informal rules shaping executive-legislative relations include such factors as: (i) the presidential nature of political systems, (ii) the modes of governance and the reliance of executive decrees, (iii) electoral rules and the nature of the party system.

Economic governance The presidential nature of political systems, coupled with an over-reliance on executive decrees in economic policymaking has a detrimental effect on legislative oversight and government accountability in public budgeting. In most Latin American presidential systems, the use of executive decrees in public budgeting is impressive both in absolute and relative terms in countries, such as Argentina, Brazil or Peru. Parliaments exercise little oversight on presidential decrees (Carey and Shugart 1998). Moreover, the frequent use of urgency decrees to change budget appropriations and approve budget supplements adversely affects the quality of budget management.

In Peru, for example, between January 1994 and March 2001, parliament passed 1,152 laws or legislative resolutions, while the president issued 870 decrees, 86 percent of which were urgency decrees. Of those 748 urgency decrees, 27 percent directly amended the budget and a further 41 percent had clear effect on the budget or public finances (World Bank 2001:60-62). Furthermore, the fact that not only executive decrees are frequently use, but also the fact that they are used early in fiscal year hinders the credibility of the budget as a credible instrument of economic governance and strategic planning (Santiso and García Belgrano 2004). In Argentina, over-reliance on executive decrees to reallocation budget items is compounded by the systematic delegation of legislative budgetary powers in successive annual budget laws in recent years (Rodríguez and Bonvecchi 2004; Uña et al. 2005).

The over-reliance on executive decrees is symptomatic of the insulation of economic policymaking within the executive branch (Santiso 2004a, 2004b, 2003, 2001). In some countries, it has become an 'addiction to decrees.' A defining characteristic of first-generation market reforms in the early 1990s has been their emphasis on insulating economic policymaking from political meddling. Indeed, the insulation of economic policymaking and the centralization of budgetary systems were largely complementary processes. Nevertheless, the manner in which first-generation economic reforms were implemented has often undermined the mechanisms of political accountability, external scrutiny and legislative oversight in public finance, sometimes unintentionally, but often purposefully. In Argentina under Menem, the neutralization of 'veto points', such as legislative oversight or judicial review, did indeed facilitate the implementation of market reforms in the early 1990s (Santiso 2001).

Political governance Parliamentary behavior and executive-legislative relations in public budgeting are necessarily intermediated by political parties and electoral rules. Recent research on the politics of budgeting shows that participation by parliament in the budget process can only be understood when the political parties and electoral rules are taken into account.[22]

Alesina and Perotti (1996) find that key political-institutional variables are the role of electoral systems, party structure, government fragmentation and political polarization, as well as the incentives shaping legislators' behavior, such as career paths, partisans links, personal vote, term limits and re-election constraints. Stein et al. (1998) show that electoral systems characterized by a large degree of proportionality (i.e. large district magnitude) and political fragmentation (i.e. number of effective parties represented in parliament) tend to have larger governments, larger deficits and a more pro-cyclical response to the business cycle. However, they 'find no evidence that centralized budgetary arrangements neutralize the potentially adverse impact on fiscal deficits of a large degree of proportionality of the electoral system' (ibid:17). Torsten Persson and Guido Tabellini (1999) show that large deficits and debts have been more common in countries with proportional rather than majoritarian electoral systems, coalition governments and frequent government turnover, and lenient rather than stringent government budget processes.

The fragmentation and volatility of political party systems is detrimental to the effective exercise of legislative budget oversight. They significantly shorten the time horizons of individual parliamentarians. In many countries in the region, parties lack the sort of internal coherence, cohesion and discipline that would allow them to act purposefully and consistently within parliament. Electoral rules have particularly powerful influence on fiscal governance, as they largely determine the incentives and motivations of individual parliamentarians. As improving legislative budget oversight critically hinges upon the political incentives of individual parliamentarians. Electoral rules that improve party consolidation, cohesion and coherence are likely to increase the political incentives of legislators to effectively oversee the execution of the budget. In Chile, for example, the binominal electoral system creates strong incentives for the formation of two electoral coalitions.

For example, term-limits and low re-election rates mean that the career paths of parliamentarians critically hinge on their links with the governing party. Argentine legislators have short-term horizons as a result of electoral rules and the influence of local politics. Table 14 shows that about 17% of legislators in Argentina were re-elected in 1997, but only 26% ran for re-election, compared to 43% and 67% in Brazil and 59% and 76% in Chile. Low re-election rates amongst legislators and high rotation rates amongst those legislators sitting in those committees tend to weaken the committee's capacity to effectively engage with the budget process (Saeigh 2005; Morgenstern and Nacif 2002). Furthermore, the career paths of parliamentarians critically hinge on their links with the governing party (Morgenstern and Nacif 2002).

Table 14: Re-election rates of parliamentarians

Country	Seeking reelection	Elected (from candidates)	Re-elected
Argentina (1997)	26%	67%	17%
Brazil (1995)	70%	62%	43%
Chile (1993)	76%	78%	59%

Source: Jones et al. 2000:34, Table 3.

The short duration of legislative careers reflected in high turnover rates and low re-election rates mean that parliamentarians are '*professional politicians and amateur legislators*'

[22] See, in particular: Mainwaring and Welna 2003; Morgenstern and Manzetti 2003; Figueiredo 2002, 2003; Alesina and Perotti 1996.

(Jones et al. 2000). They have little incentives to strengthen parliaments' institutional capacity, develop technical policy expertise and engage in long-term structural reforms.

Nevertheless in some countries such as Chile, while budget expertise in not necessarily institutionalized, members of the budget and finance committee often have ample expertise in fiscal matters, some of them having occupy senior positions in government, including as finance minister or director of the central budget office.[23] The high rate of re-election in the Chilean legislature helps to translate individual expertise into institutional expertise (Montecinos 2003). The Chilean parliament of the 1990s has been described as an unusually professionalized and technically competent parliament. A group of economists-senators dominating the finance committee of the Chilean Senate has help increase the credibility of parliament in economic matters. As opposition Senator Hernán Larraín acknowledged, 'fortunately we have people who are well versed in economics, it increases the respectability of Congress as an institution' (cited in Montecinos 2003:28).

Consequently, changes to electoral systems are likely to have broader implications to the governance of the budget. For example, according to Mark Hallerberg and Patrik Marier (2004:571) 'executive power in the budget process is most effective in reducing budget deficits when electoral incentives for the personal vote is high in the legislature, while strengthening the president (or prime minister) in countries where the personal vote is low in the legislature has no effect.' In other words, the severity of the 'common pool' problem depends on the type of electoral system: if states have open list proportional representation systems favoring the personal vote, such as Brazil, then increases in the district magnitude tend to increase the problem, while under closed list systems, such as in Argentina, increases in the district magnitude tends to decrease the problem.

Parliamentary opposition A particular factor determining the role of parliaments in the budget process, especially its oversight, concerns the strength and coherence of parliamentary opposition. As the executive dominates budget formulation and execution, partisan participation in the budget process depends on the parties' relations with the executive (Pereira and Mueller 2002).

In presidential systems, the separation of powers tends to provide parliament with significant oversight powers, while semi-presidential and pure parliamentary systems are generally found to provide fewer opportunities for oversight (Dubrow 2002). What matters is the degree of congruence between the legislative majority and the ruling party in government. When the ruling coalition holds a disciplined majority position in parliament, such as in parliamentary systems and presidential systems with unified government, control can be diluted or neutralized. As Richard Messick underscores, 'When the interests of a legislative majority and the executive branch coincide, the majority has little incentive to oversee the executive' (2002:2) and, as a result, legislative oversight is often weak. In presidential systems, situations of divided government are likely to provide further incentives to parliament to effectively exercise its oversight powers.

Interestingly, in Mexico, the emergence of a parliamentary opposition following the 1997 elections, when the long-time ruling party lost its legislative hegemony in the lower chamber of parliament, the Chamber of Deputies, has led to a surge in parliament's budget activism (Weldon 2002; Gutiérrez et al 2001). In 2000, the opposition won the presidential election for the first time in 71 years, leading to the first alternation of power under the terms of the 1917 Constitution. This electoral victory provided strong incentives for increasing the role of

[23] These include Alejandro Foxley, Eduardo Boeninger, or Carlos Onamini.

parliament in the budget process, strengthening its capacities for independent review of the budget. It has also revealed the flaws of the formal budget process.

Until then, unified government, party discipline and the recognition of the president as the party leader gave the latter unusual *de facto* budgetary powers, concentrating enormous discretion over public spending. In fact, between 1928 and 1999, the formal institutional framework regulating the budget process enshrined in the 1917 Constitution was ignored, neutralized by the 'meta-constitutional' powers of the president (Weldon 2002). Parliament used to approve the budget proposal sent by the president without major amendments (Wilkie 1967). Indeed, as Jeffrey Weldon remarks, a striking feature of legislative politics in Mexico until recently has been 'the disuse of Congress' power to oversee the executive budget' (2002:119).

Many opposition parliamentarians therefore recognized that significant steps ought to be taken to allow parliament to fully exercise its constitutional powers in the budgetary process. Among those steps were ensuring that the Chamber of Deputies (the only chamber dealing with budgetary issues) had access to the information necessary to review the executive's budget proposal and monitor its execution. This recognition led to the establishment of a legislative budget office in 1998 and a structural reform of government auditing functions in 2000, bringing external auditing within the purview of parliament. Since 1997, the Chamber of Deputies has more forcefully intervened in the budget (Sour et al. 2003).

Clarification of the 'rules of the game' of executive-legislative budget relations is now warranted under divided government. For example, constitutional provisions do not provide for a reversion point in the event that parliament does not approve the budget on time (Casar Pérez 2001). Similarly, the Mexican 1917 Constitution and the organic budget law of 1976 do not clearly establish whether the president can veto the budget bill, either by using an item veto on specific articles of the draft budget bill, or a package veto on its entirety (Sour et al. 2003). There thus exists scope for interpretation. Lack of clarity in legal provisions did not represent a problem in the previous context of unified government, characterized by the fusion of executive and legislature power. It does now under divided government, which led President Vicente Fox to propose amending the constitution in 2001. In December 2004, conflict over the extend of the president's veto powers has led to a stand-off in over the 2005 budget when President Fox vetoed the amendments made by parliament and threatened to take the dispute to the Supreme Court (Economist 2004). Previously, the president's 'meta-constitutional powers' allowed him to circumvent the formal restraints put on executive power.

The case of Mexico demonstrates two important issues. First, the emergence of a credible parliamentary opposition significantly increases the incentives of parliaments to oversee the budget, which, in turn, leads to steps towards strengthening legislative capacities (Carbonell 2002; Weldon 2002). Second, parliaments do possess important budgetary powers, but often fail to exercise them effectively until political incentives are 'right.' The Mexican parliament does indeed possess unusually extended formal *de jure* budgetary powerst. Its authority to approve, modify or reject both the income and expenditures pieces of the budget gives it much more authority than most of its Latin American counterparts. The exercise of its formal budgetary powers, in turn, depends on the configuration of political power.

Government discharge The impact of political systems on parliaments' role in the budget process is acutely reflected in the dysfunctions in the certification of public accounts and parliament's discharge of government. The quality of functional and institutional linkages between the parliamentary public accounts committee and general audit offices are key in that respect. General audit offices help enhance legislative budget oversight by providing audit information on the reliability of government public accounts. At the same time, audit findings are largely ineffectual if they are not properly followed-up by parliamentary committees. Similarly, securing the political and financial independence of general audit offices is critical to guarantee effective external auditing of government finances, which in turn partially depend on the parliaments' active defense of general audit offices (Santiso 2005, 2006a).

Nevertheless, relations between general audit offices and parliamentary public accounts committees remain deficient. Audit findings are largely ignored and audit reports have limited publicity, questioning the capacity and willingness of parliamentary public accounts committees to act upon the recommendations of the audits they perform. An important consequence of these dysfunctions is the resulting unavailability of timely information on budget performance, which hampers effective oversight of government finance and limits effective budget oversight by parliaments.

These dysfunctions are most noticeable in the process of certification of public accounts and the discharge of government. There are important time lags and inconsistencies that adversely affect the accountability cycle of the budget process. There is only limited opportunity for the external audit report of the execution of the previous year's budget to inform the review of the draft budget bill of the following year, which in practice does not occur. In Peru, for example, parliament receives the reports on the previous year's public accounts by 15 November and must approve the following year's budget by 30 November. During that short period of fifteen days, the budget debate takes place in plenary, which further limits technical input into the process. In effect, the parliament's review of the government's budget proposal is largely disassociated from its control of the budget executed in previous periods, significantly weakening the accountability functions of parliamentary oversight.

In Brazil, the federal general audit office emits a preliminary opinion on the financial statements of the federal government. Subsequently, parliament appoints one of its members to review government financial statements and the audit opinion to make a recommendation to the plenary to either approve or disapprove public accounts. However, this process suffers important delays in the legislative phase (World Bank 2002). In 1996 and 1997 the parliamentary review process was not completed. More importantly, since 1995, parliament has made no final decision of approval or otherwise of the government financial statements.

Acknowledging these shortcomings, Latin American countries are seeking to strengthen their external auditing functions, with the support of international financial institutions (Santiso 2004c, 2006a, 2006b). Important reforms have been introduced in recent years. In Mexico, for example, a general audit office was reformed in 1999 as an advisory body to the lower chamber of parliament, to assist the latter in the oversight of federal public finances and the review of federal public accounts (Solares Mendiola 2004). Shortly thereafter, in 2000, parliament approved a law on external accountability. In Chile, the 2003 inter-party political agreements underscored the need to reform the general audit office.

Concluding remarks: Politics of public budgeting

Parliaments can make an important contribution towards improving transparency and accountability in the management of public finances, provided that they have the necessary institutional capacities and political incentives to do so. Parliaments are endowed with budgetary powers but often fail to exercise them effectively and responsibly. For example, the 1988 Brazilian Constitution 'provides an extensive array of oversight mechanisms and an adequate legal apparatus to sanction government […] These favorable institutional conditions, however, are not sufficient for effective oversight. Congress's legal ability to take on oversight initiatives is much greater than its capacity to achieve actual results' (Argelina Figueiredo 2003:172).

The politics of public budgeting constitute a determining factor of the efficacy of legislative budget oversight. Ultimately, effective budget oversight by parliament requires the existence of a sufficiently effective parliamentary opposition and the strengthening of the legislative capacities for independent budget analysis. Four main conclusions can be derived from the analysis of the effectiveness of parliaments' role in the budget process.

A first issue concerns the role parliaments should have in the budget process. In fact, Schick (2003b) aptly notes, in the case of Argentina, that parliaments most important influence on the public budget occurs outside the budget process through the introduction of other substantive laws. Legislative oversight of the budget is critical to enhance government accountability in public finances. While debates on the role of parliaments in the budget process focus in its legal prerogatives in the approval stage, more attention ought to be paid to the contribution of parliaments to the latter stages of the process, in particular the oversight of budget execution and the ex-post control of budget performance. However, parliamentarians have greater political incentives to bargain over the appropriations of the following year's budget in order to obtain benefits for their constituency, rather than assess the performance of past years' budgets and discuss fiscal policy.

Second, parliaments do posses as a full range of budgetary powers but often fail to exercise them effectively or responsibly. Indeed, the review reveals that, most commonly, parliaments ought to be reformed inasmuch as strengthened. As Saeigh (2005:36) notes, 'we will not be able to empower legislatures if we do not establish the right incentives for individual legislators first.' The question of strategy then becomes whether technical capacities or political incentives ought to be enhanced first. Technical capacities and political incentives interact in determining the effectiveness of parliaments in overseeing the budget along its different phases. While capacity constraints partly explain why parliaments do not exercise their budgetary powers effectively, governance constraints explain why they sometimes do not exercise them responsibly. Increasing technical capacity and enhancing analytical capabilities through building legislative research services or improving investigation techniques in audit institutions are likely to remain ineffectual as long as there does not exist enough political space for them to be exercised effectively. The key question is whether endowing oversight institutions with more technical capacity can strengthen them, or whether increased independence and assertiveness would lead these institutions to create and utilize more technical capacity, as the case of Mexico shows. As Thomas Carothers aptly underscores, 'to build effective legislatures, mobilizing political power is more important than increasing technical skill' (1999:181).

Third, parliaments cannot be strengthened in isolation. They are part of a broader system of fiscal control whose ultimate efficacy depends on the quality of inter-institutional linkages and the effective cooperation between its different components. The quality of inter-institutional cooperation is determinant to the effectiveness of public finance accountability. The links between parliaments' public accounts committees and general audit offices are such an example of dysfunctional links in the systems of fiscal control. Improving transparency and accountability in public finances necessarily requires focusing on the process of fiscal control, as much as on the institutions of budget oversight. As Stein et al. (2005:258) underscore, 'It is difficult to produce institutional change by addressing an institution in isolation. To intervene effectively, it is important to understand the complex interdependencies that exist among institutions. […] Trying to strengthen the legislature to improve its technical contribution to the design and implementation of policies requires changing the incentives for legislators to invest in such capacities, which in turn may require changing the electoral system or the party system.'

Four, a key challenge of legislative budgeting is to adequately combine increased legislative oversight with the furtherance of fiscal discipline. Schick (2003a:14) summarizes the critical tension to be resolved: 'as legislatures enhance their budget role, one of the challenges facing budget architects will be to balance the impulse for independence with the need to be fiscally responsible. The future of legislative-governmental relations will be strongly influenced by the manner in which this balance is maintained.' Finding the right balance between executive prerogatives and legislative oversight in public budgeting is a permanent challenge. However, these should not be seen as exclusive, but rather as mutually reinforcing. The executive has interests in enhanced parliaments' budget capacities to have a more credible interlocutor and reliable partner to engage with. As Stein et al. (2005:56) note, parliaments 'with greater capabilities tend to play a more constructive role in the policymaking process.' One institutional solution is to differentiate the role of parliaments in the different phases of the budget: while executive dominance in the formulation and management of the budget is more likely to ensure fiscal prudence, parliaments' contribution to the budget process ought to be significantly strengthened in the latter phases, in particular its oversight and control.

Achieving these qualitative changes would require transforming institutional attitudes and executive-legislative budgetary relations, from a predominantly confrontational and adversarial relationship to a more cooperative and constructive approach. Building legislative fiscal capacity is not only about restraining government, lengthening budget execution or sanctioning financial mismanagement. It is also about improving financial management, stimulating efficiency reforms, and promoting fiscal discipline. As Schick (2002:17) underscores, 'the legislature's new role in budgeting cannot come from government's weakness […] the legislature's role must be defined more in terms of policy, accountability, and performance, and less in terms of control and restriction.'

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