

***Political Institutions, Policymaking Processes and Policy Outcomes:
The Case of Uruguay***

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Abstract

Uruguay generates different kinds of policy outcomes. First, relatively stable policies, such as the commercial and financial openness of the country. Second, inflexible and low quality policies, such as those related to social policies, some areas of the State reform (civil servants' wages and hiring mechanisms), the bankruptcy regime, and so on. Third, volatile outcomes across economic shocks, such as the discretionary public spending side. In the cases in which history or the availability of external enforcement devices do not lead to relatively stable policies, the main outer feature of Uruguayan policies is rigidity. The source of rigidity appears to be a mixture of institutional factors (multiple veto points, factionalized parties and direct democracy mechanisms) and political conflict (divergent policy preferences), in which it is very costly to move from the *status quo*, due to the credible threat of policy reversal. Political institutions in Uruguay are conducive to political compromise with a short run perspective, but not to effective cooperation about stable and flexible policies in the long run. The difficulty to achieve intertemporal political exchanges is consistent with the main characteristics of the political environment: large number of key political actors and veto points, a relevant amount of unobservable political moves, poor enforcement technologies in the economic arena, politically influenced bureaucracy, political exchanges occurring outside the legislative arena, a particular constellation of parties and preferences, and costly policymaking and institutional change.

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CONTENT

Introduction.....	3
1 Analytical Framework	5
2 Characterization of Public Policies in Uruguay	5
2.1 International Comparative Indicators.....	6
2.2 Description of Some Specific Policies.....	9
2.3 Tentative Characterization of Policies in Uruguay.....	14
3 A Description of the Uruguayan Political Process	17
3.1 Formal Political Institutions.....	17
3.2 Parties and Party System.....	20
3.3 Informal Political Institutions	24
3.4 Bureaucracy and Administrative Capabilities.....	24
3.5 Judiciary.....	29
3.6 Interest Groups	32
4 The Dynamics of Political Preferences: An Overview.....	32
5 A Characterization of the Policymaking Process.....	36
5.1 A Brief Description of the PMP.....	36
5.2 Main Implications	39
6 The Perception of Relevant Actors	41
7 Some Results	43
8 Bibliography	45
Appendix I: Brief Description of Some Policy Cases.....	48
Appendix II: Legislative Process of Three Relevant Laws	69
Appendix III: Career Path and Seniority in Uruguayan Congress	71
Appendix IV: Some features of public employment in Uruguay	73
Appendix V: Quality and Celerity of the Judiciary	76
Appendix VI: Description of the Élite Survey.....	77

Introduction

The quality of policies and of policy implementation has been tainted by structural characteristics of the policymaking processes (PMPs) in the Latin American countries, as well as by the failure to adapt the policy design and implementation to these structural characteristics. The capacity to sustain intertemporal commitments, the quality of policy implementation and the stability and credibility of policies are all profoundly influenced by the characteristics of the policymaking process (and hence, of the political process) in each country. Policymaking processes (and so-called State capabilities) are grounded, in the end, in each country's political process. The political process is conditioned by the incentives and constraints faced by the key political actors. These, in turn, are shaped by the country's political institutions—that is, by the rules of its political game. The specific objective of this paper is to study the case of Uruguay, including the description and analysis of the features of policies, the policymaking processes and the institutional determinants of them, with particular emphasis in the impact of political institutions.

Uruguay is the most enduring democracy in Latin America. To a large extent, its long-lasting democratic process has been sustained by an institutionalised party system, where only two parties (Partido Colorado and Partido Nacional) have been dominating the political scene since the country's origins. In the long run, therefore, the Uruguayan political system shows an important level of stability and continuity that makes it almost an outlier in the regional context. Since the return to democracy in 1985, Uruguay has shown a high degree of political inclusion, and political and social participation. Intensive negotiations took place between political parties and social organizations, each holding a significant degree of power. Nevertheless, it has not been easy to arrive at agreements in a number of important policy areas.

Uruguay can be considered as a pluralistic system with strong parties, with a highly participative democracy. Indeed, the pluralism in the political institutions and party system is at the same time nourished by the participation of citizens and social groups, especially through certain procedures of “direct” democracy (plebiscites, referendums) on constitutional matters, human rights issues and privatisations. The key role of the State is the result of political leadership and the performance of parties, through a long historic process, which has had long lasting effects on citizenship and civic culture.

Some data about the Uruguayan public opinion profile (*Latinobarómetro* poll series 1995-2002) show the importance of democratic culture and attachment to the State among the citizens/voters: (i) Uruguay and Costa Rica show the greatest support for democracy and the lowest tolerance towards non-democratic regimes. (ii) Uruguay has the highest level of interpersonal trust and Uruguayans are the most confident in political parties. Trust in government is above average, but a long way from the top. (iii) Uruguay's endorsement of the free market economy is by far the lowest in Latin America. (iv) Only Argentina has a more negative view of privatisation than Uruguay.

The Uruguayan public opinion exhibits high levels of Statism. Uruguayans' preferences of State over market were explicitly shown in two referenda carried out in 1992 (against the privatization of the State-owned telephone company) and in 2003 (against a law which would have allowed

the State-owned oil company to associate with a private partner). In the first occasion, 72% of the electorate vote against the law and in the latter 62% did the same. There also were other situations when just the threat of a referendum blocked market oriented reforms, such as the parliamentary revocation of the articles which would have allowed the partial privatization of the State-owned cellphone company in 2002, as soon as the signatures to call a referendum against them were collected. But this preference for State goes further, because it implies not only that resources must be concentrated in the State apparatus, but also that the State should have the capacity to satisfy every kind of “social” demands. In the same way that market-oriented reformers think that privatization serves to tie their hands related to resource allocation, State-oriented supporters vindicates its discretion because it is the only way to have different “weak” interest group needs (the pensioned, unions, debtors, etc.) fulfilled. Therefore, people tend to oppose not only to market-oriented reforms, but also to any kind of reform that pretend to define rules precisely and to provide rationality to the administration. This last feature of Uruguayan political culture is functional with constituency-oriented politicians that prefer to manage resources in a discretionary way rather than in a more institutionalized one.

In 2000, around 80% of Uruguayans thought that the State should hold most public companies under its control. This opinion was shared by 90% of those who consider themselves as left wing supporters, 82% centrists, and 71% of those who consider themselves to be located on the right side of the ideological spectrum. More recently, “de-monopolization” is seen as a better option by the public opinion; 50% of the surveyed people see it as a positive option, and 44% of those who think of themselves as being on the left. Moreover, 48% of the people surveyed believe that it is a good thing for private capital to be involved in the development of public companies, while 35% think that de-monopolization is inconvenient. (Cifra Survey, September 2000).

The democratic values of the Uruguayan people are associated with the centrality that politics has maintained in daily life. However, a declining interest in politics has been observed in recent years, although it tends to peak during elections. This process is rooted in the state of continued discontentment of Uruguay public opinion that could be traced back to the mid-1950s, when the import substitution model of development entered into crisis. From that moment on, the notion of a country in crisis and in constant deterioration has become an idiosyncratic trait of Uruguayan culture. It can be argued that the recent electoral growth of the left has been fed by the Uruguayan voters' political disenchantment that began long before the left's success in the electoral arena and the impact of which does not consist exclusively of widening its electoral base but also is expressed in a process of electoral circulation between and within the traditional parties.

The Uruguayan democracy shows some distinctive features in its institutions (parties and party system), and the preferences of the public opinion that makes it almost an outlier in the Latin American context. In those contexts where the party system is highly institutionalised, parties and their leaders contribute to shape the preferences of voters, but they also follow public opinion.¹ For this reason, the preferences of the public opinion is, as such, indiscernible from the policy preferences of the leadership and the Uruguayan parties in general. In other words,

¹ Even though this fact could be seen as politicians following public opinion preferences, at direct democracy events, like plebiscites and *referenda*, the party guidelines has been proved to be the decisive factor over the outcome. As suggested by Altman, 2002: “*When Uruguayans go to the polls to decide a popular initiative, they mainly take into consideration their political fraction's suggestion*”

Uruguayan parties strongly support the democratic process and its institutions, and the party system reveals a certain level of polarization regarding some policy issues such as the State participation in the economy.

1 Analytical Framework

Following Spiller and Tommasi (2003) and Spiller, Stein and Tommasi (2003), the policymaking process plays a crucial role in the link between political institutions and policy outcomes. Institutions do not affect outcomes directly, but rather through their impact on the process by which policies are designed, approved and implemented. Public policies are viewed here as the outcome of complex intertemporal exchanges among political actors. The ability of the actors involved in the policymaking process to achieve cooperative outcomes—i.e., their ability to strike and enforce intertemporal deals—plays a central role. An environment that facilitates cooperation on the part of these actors is likely to provide incentives for the policymakers to invest in State capabilities, as well as to generate policies that are less subject to changes in response to shifts in the political landscape but at the same time can adapt in response to new information and to changes in socioeconomic conditions. In contrast, in environments that hinder cooperation among the political actors involved in the making of economic policy, policies are more likely to be either unstable or inflexible, and policymakers will have fewer incentives to invest in State capabilities.

Policies are the combined results of actions taken by several actors operating through different stages of the policy process. Lack of coordination among those actors may lead to inconsistent or incoherent policies. Additionally, many actions have investment-like properties, showing upfront costs and long-term benefits. If the environment does not protect political property rights, those investments might not be undertaken. Another dimension is related to the public vs. private regardedness of the policies, which refers to the extent to which the policies produced by a given system resemble public goods, improve allocative efficiency, and promote the general welfare versus funneling private benefits to individuals, factions or regions in the form of projects, subsidies, and tax loopholes.

Whether the workings of the policymaking process facilitate or hinder cooperation will depend on some key features of this process, such as the number of actors involved, the frequency with which they interact, the extent to which they benefit by deviating from cooperation, the nature of the arenas in which they interact, the observability of their actions, the existence of enforcement mechanisms, etc. These features, in turn, will depend on the political institutions in place in each country, such as the political regime, the nature of the electoral rules, as well as the rules governing the interactions between the executive, the legislature and the judiciary, among other things.

2 Characterization of Public Policies in Uruguay

In order to develop a tentative characterization of policies in Uruguay along the dimensions suggested in Spiller, Stein and Tommasi (2003) and Scartascini and Olivera (2003), we include

three parts in this section. The first one contains an analysis of international indicators that contribute to get a comparative view of the main features of Uruguayan policies vis-à-vis those in the rest of the world. The second one submits different accounts of specific policy areas and specific policy cases, providing valuable information regarding the trend and the specific features of Uruguayan public policies. Finally, the third part summarizes the tentative description of the country's policies in terms of their stability, their flexibility to adapt to changing socioeconomic conditions, their rigidity, and so on.

2.1 *International Comparative Indicators*

The performance of political system constitutes a key ingredient of the relevant institutional environment within which public policies are designed and implemented. One of the oldest indexes published on an annual basis is the Gastils' index of freedom produced by Freedom House. The institution evaluates freedom in all countries in the world from 1972 using two dimensions: political rights and civil liberties. Uruguay has been evaluated as a free country since 1985 and its figures improved until the present placing the country in the top category with the maximum score since 2001. A second outstanding index of democracy is that developed for the *Polity Project* created by Ted Gurr together with Monty Marshall and Keith Jagers which assign scores to countries all over the world from 1800 up to the present. In this measurement Uruguay has again obtained the maximum score, this time since 1989. In both cases Uruguay is located in a leading place within the regional context, neck and neck with Costa Rica in the latter. An alternative way to evaluate the political performance is to take into account the perceptions of the citizenry. *Latinobarómetro* produces a "democracy index" which averages support for democracy and satisfaction with democracy. The survey is carried out since 1995 on an annual basis and Uruguay has alternated with Costa Rica in the first place, being placed in second in the last two editions.

A recent and sophisticated attempt to measure different institutional features of countries all around the world is that of the "governance indicators" carried out by the World Bank (Kaufmann *et al.*, 2003). They present estimates of six dimensions of governance covering 199 countries and territories for four time periods: 1996, 1998, 2000, and 2002. Uruguay never was rated first in the region in any single dimension. Specifically, Uruguay is placed in the third place, taking the 2002 estimates, behind Chile and Costa Rica, in four out of the six indicators, including those related to the quality of democracy. It occupies the second place just in the "Government Effectiveness" dimension, and falls from the second to the fifth place in Regulatory Quality. These results also reflect an institutional deterioration that took place in recent years.

According to the *Economic Freedom of the World: 2003 Annual Report*, Uruguay seems to be well placed in the context of Latin America when it comes to aspects of various important institutions. In Uruguay, the judiciary has a higher independence rating than in any other country in the region, and it is near the top of the list in the world in this respect. Besides this, it shares first place with Chile with respect to the impartiality of the courts. It is not so well placed when it comes to the protection of property rights in a set of items called Law and Order; in fact it is considerably behind the developed countries, and what is more, it is only in a lowish mid-table position in the rankings for the Latin American region. The summary indicator (Legal System

and Property Rights) places Uruguay second to Chile in the region, and as far behind the developed countries as most of the rest of Latin America.

Table 1 - Legal System & Property Rights Index – Selected Countries

	Judiciary independence	Impartial courts	Protection of intellectual property	Military in Politics	Law and Order	Legal System & Property Rights
Finland	8.9	8.7	8.6	10.0	10.0	9.3
United States	7.9	8.0	9.1	8.3	10.0	8.7
France	5.5	5.8	7.6	8.3	8.3	7.1
Chile	5.4	5.4	5.0	6.7	8.3	6.2
Uruguay	7.1	5.2	4.1	8.3	4.2	5.8
Brazil	5.3	4.6	4.8	6.7	3.3	4.9
Perú	2.2	3.0	2.6	8.3	5.0	4.2
Argentina	1.0	1.4	2.5	6.7	6.7	3.6
Bolivia	1.4	2.1	1.3	5.0	5.0	3.0
Paraguay	1.7	1.9	2.2	3.3	5.0	2.8
Ecuador	1.0	1.3	1.9	3.3	5.0	2.5
Venezuela	0.5	0.9	2.2	2.5	3.3	1.9

Source: *Economic Freedom of the World: 2003 Annual Report*

According to the *Global Competitiveness Report*, Uruguay ranks in 29th place out of 123 countries in the world, and it is the second on the list from Latin America (Chile is in 19th place)². Furthermore, according to the index in the *Economic Freedom of the World: 2003 Annual Report*, Uruguay is again second only to Chile out of all the Latin American countries when it comes indicators of (non) corruption.

Table 2 - Growth Competitiveness Index Components Ranking

	Growth Competitiveness Index Ranking (among 123 countries)		Macroeconomic Environment Index	Public Institutions Index	Technology Index
	2003	2002	2003	2003	2003
USA	2	2	14	17	1
France	26	28	20	23	28
Chile	28	24	35	19	31
Uruguay	50	40	89	29	51
Brasil	54	45	75	53	35
Argentina	78	64	93	88	45

Source: *Global Competitiveness Report, 2003*

² The study aims at analyzing the main determinants of the competitiveness of countries. The quality of public institutions is one of the most important variables, along with the macro-economic environment and the degree of technological development. It is in the rating for macro-economic environment that Uruguay fares worst: this is because the year of the report was the year that the county suffered its severe financial and banking crisis.

The breakdown in the *Index of Economic Freedom* shows other important characteristics of the country. This ranks Uruguay in 44th place, the same as Peru, and the only Latin American country above them is Chile, which comes 20th.

<i>Table 3 - Index of Economic Freedom</i>						
	Size of Government	Legal System & Property Rights	Sound Money	Freedom to Trade with foreigners	Regulation	Rank
United States	7,3	8,7	9,8	7,9	7,8	3
Chile	6,1	6,2	9,6	8,3	6,4	20
Peru	7,6	4,2	8,8	7,3	5,6	44
Uruguay	6,7	5,8	8,7	6,8	5,6	44
France	2,8	7,1	9,6	7,9	6,2	44
Bolivia	7,4	3,0	9,4	7,1	5,5	56
Argentina	7,9	3,6	9,6	6,1	5,4	56
Paraguay	8,1	2,8	8,8	7,2	4,8	64
Brazil	6,3	4,9	6,1	6,4	5,3	82
Venezuela	7,1	1,9	5,6	7,0	5,1	103
Ecuador	9,0	2,5	2,6	7,0	4,0	112

Source: Global Competitiveness Report, 2003

According to the trade index presented by Lora (2001) to evaluate the degree of commercial opening of the economies, the Uruguayan economy is one of the most open in the region. Only Chile and Bolivia rank higher. The Competitiveness Report indicator (which gives information about the freedom to do business with foreigners) shows comparative results that are less solid when we consider other dimensions of trade such as difficulties in importing and non-tariff restrictions, etc.

In the same source there is a financial index which measures the progress of reform in the financial sector. According to this, Uruguay is among the countries that are most open financially, along with Chile and Paraguay, and only Argentina and Bolivia are rank higher.

In the area of fiscal policy, Uruguay stands out as the country with the highest rate of value added tax in the whole region, and along with Paraguay it is the only country that does not have an income tax system.

Uruguay also stands out for having the lowest rate of privatization. What is more, the privatization that has taken place is almost all in the financial sector, and has to do with the re-privatization of banks that had been saved by the State in previous years. A second index prepared also by Lora (2001), the structural reform index, also places Uruguay at the bottom of the league.

2.2 *Description of Some Specific Policies*

In this Section, we summarize the description of a wide range of public policies, including some main economic issues, the constitutional reform and the measures embedded in the State reform program. An extended version of this descriptive analysis can be found in Appendix I.

Constitutional reform. Although this does not constitute an economic policy itself, the analysis of the Constitutional reform endorsed in 1996 helps to understand the workings of the political institutions and the policymaking process. The reform process that took place during the Sanguinetti's second administration was promoted and sustained due to the threat posed by a possible electoral victory by the left wing party (FA). The new electoral rules and specifically the majority run-off for the presidential election, favoured the tenure of the reformist coalition in office (between *Colorados* and *Blancos*), as well as the political fragmentation and the level of internal factionalism of political parties. The reform yields a reduction in the number of lower house lists of candidates and of the legislative support of the president, as well as a more disciplined legislative conduct on the part of the political parties. First of all, the combination of single candidates and the majority run-off system which the electoral reform set up could contribute to worsening the parliamentary position of the elected President. Under the current rules, the legislative representation of the party in government does not have to be the biggest in parliament because there is nothing to stop the election of the candidate of the second party, whose representation would be second in number of legislators as happened in the last election. In addition, there is no disposition in the new constitution which guarantees legislative weight to the President's faction. The elected President is the single candidate from his party, and he can be voted for together with any of the parliamentary lists of that party. The votes which the President's faction obtains are relatively independent of the electoral potential that he has, and consequently he may be in a minority in his party. Second, the elimination of the accumulation of *sublemas* (electoral alliances among lists) in the election of Representatives has made for a very big reduction in the number of lists presented in 1999, which amounted to less than a half of those presented in 1994. As long as different house lists can not accumulate their votes, the smaller ones have either to join one of the biggest or to build a single list among several of them. On the other hand, the reduction in the legislative supply is associated with the predomination of the main national factions with respect to local political groups, because the new rules enforce a rigid connection between the supply for the Senate and the supply for Representatives. Consequently, we can expect more disciplined legislative conduct from the sectoral representatives. The new electoral calendar also presents some important changes since the reform also compels parties to hold primaries in order to present unique presidential candidates. Given that those primaries are held almost one year before the general elections, the governmental process and most political agreements among parties was reduced, de facto, by increasing the time for electoral competition. An obvious by-product of this amendment is that parties and institutions decrease their interest in public policies.

The constitutional reform seems to be an example of the myopia of the political class pursuing short-term benefits to the detriment of long-term certainties. Additionally, the reform could not mitigate the political blockade, in spite of intending to include norms which encouraged political agreements, negotiation, coalition formation and stability in the Cabinet. This did not prove true, since the underlying incentives for cooperation and conflict did not change substantially.

Trade policies. The policy of trade opening, understood as the process of systematically lowering tariffs, was first implemented in 1974, and it brought to an end several decades of the import substitution model of trade policy. This change was a consequence of the fact that the deficit in the balance of trade, which came about following the first oil crisis in 1974, could not be sustained. The process of market opening continued throughout the period of the dictatorship, and it was not to any great extent reversed when the country returned to democracy in 1985. Uruguay joined the MERCOSUR, the tariff structure of the bloc was adopted in 1995, and this was consistent with the process of a general reduction in tariffs. In the early phase of trade liberalization that lasted until the early nineties, a relatively stable group of industries was isolated from foreign competition. In this framework, the exceptions list improves the chances of a trade reform because it makes it more palatable in political terms. In the second half of the 90's, reciprocal trade agreements (preferential or multilateral non-discriminatory) changed the political equilibrium of the previous unilateral trade policy. The number of Uruguayan industries isolated from the liberalization process was drastically reduced. Indeed, joining the MERCOSUR was to a large extent imposed by geographical reasons, although policy-makers around the region acknowledge the value of the agreement as a "commitment technology" that increased their autonomy *vis à vis* domestic interest groups (see Vaillant, 2003) .

When Uruguay returned to democracy there was no reversal of the policy of openness, although there was pressure for a move in that direction. This pressure was handled using non-tariff instruments which gave the levels of effective protection desired. In some cases this policy of "contingent protection" was applied to specific sectors (*e.g.* the automotive and sugar industries), and in other cases to sub-sectors or even to particular firms. This operated as an escape valve, and it meant that the general policy of reducing tariffs was not reversed. In 1995, the country adopted the tariff structure agreed in the MERCOSUR. From then on, discretionary activity in trade policy lessened, and it was expressed through managing the so-called lists of exceptions to the common regime of the common external tariff, and exceptions to the free movement of merchandise within the bloc. This was called the adjustment regime. In this sense, policies in the trade area became more public-regarding. Thus the MERCOSUR operates as a mechanism of external enforcement of the policy of openness, limiting the possibility for particular sectors to lobby. It was relatively obvious for all relevant actors that a small country like Uruguay has to be open to the world in trade terms. What it was not that obvious was the fact that opening to imports is the price to pay in order to get into international markets. The signature of the Asuncion Treaty is the cornerstone in terms of accepting the need to effectively open the economy, additionally tying the government hand's to avoid keeping sectoral privileges.

Financial openness. Uruguay started the process of opening the capital account of the balance of payments during the seventies. The motivation behind this policy was the same as that behind trade opening, namely the 1974 oil crisis and the need to finance the large deficit in the balance of trade which followed. The aims of the financial reform were to de-regulate internal capital markets and also to liberalize financial operations between the country and the rest of the world. The most important measures taken for liberalizing the financial sector were (i) that residents were authorized to maintain bank accounts in dollars in the country without having to account for the source of those funds, (ii) they were authorized to maintain any kind of assets abroad, (iii) that the profits and capital of foreign agents were authorized to leave the country freely, (iv) that

non-financial enterprises were allowed unrestricted access to foreign credit, (v) that the commercial banks were authorized to accede to foreign credit, and (vi) controls on the interest rates were removed in a gradual process until the late seventies. As in the trade case, this policy was managed by the Executive, through the Ministry of Finance. The Congress did not intervene except insofar as it passed certain laws which gave powers to the Executive to handle it. However, as long as the policy consisted in almost total freedom for capital movements, there was no room for much discretion in its implementation. Following the reform which led to financial opening, there have not been any changes towards hindering the movement of capital between Uruguay and the rest of the world. The economic and financial openness was part of systematic negotiations with multilateral organizations in the early eighties. During the nineties, an important wave of capital inflows occurred, which, in addition to a visible technological progress in the financial sector, endorsed the global policy. The whole process was consolidated and even during the recent financial crisis in 2002, no calls for capital movements control measures appeared, showing a high level of consensus on preferences related to this issue.

Pension system policy. In the early nineties, Uruguay had a social security system with a single pay-as-you-go pillar. It was not in imminent danger of collapse, but it did have serious problems connected to (i) a population structure in which pensioners accounted for a very high percentage compared to the economically active population,³ and (ii) the fact that for decades, the social security system had been used as an instrument for political favors. In 1989, after a plebiscite initiated by various pensioners' and workers' organizations, rules for the adjustment of pensions were incorporated into the Constitution. This worsened the economic problems of the social security system, and played a part in the political system's decision to take measures to counteract its slide towards insolvency. In 1995, Congress passed the Social Security Reform Law which set up a mixed system. It combined an individual capitalization pillar with a pay-as-you-go pillar. The reform was moderate insofar as it is estimated that when the system matures, 75% of the contributions will be made in the public pay-as-you-go pillar. This pillar is administered by the *Banco de Previsión Social* (BPS), while the individual savings pillar is administered by organizations which were created through the reform, the Pension Fund Administrators (called AFAPs for their acronym in Spanish). The reform passed in 1995 reduced the politicians' ability to manipulate the sector, using pensions as typical clientelistic resource. In particular, the implementation of work history as part of the reform reduced the capacity of politicians to grant benefits on a discretionary basis. As in the case of trade issues, policies here also seem to be getting more less private-regarding. The new stakeholders created by law, the administrators of the pension funds, can contribute to the formalization of the pension system (see Forteza, 2003).

The social security reform temporarily raises the deficit of the system because of the implicit debt of the downsized pay-as-you-go pillar. One of the consequences of this process refers to the fact that the government induces or even forces the administrators of the pension funds to invest a sizeable part of the fund in public bonds. In essence, the reform was characterised by intense negotiations, involving parties, factions and a large number of interest groups and associations, both at the executive and legislative process. The result is a rigid scheme which tries to avoid the opportunistic behavior from politicians, by making more costly to grant pensions on a clientelistic basis. The

³ An illustrative indicator is the Potencial Dependency Rate (*PDR*), which is the ratio between the number of persons who could potentially depend (younger than 13 years old + retired and potential retired people) and the number of persons who could potentially integrate the labor force (persons between 13 and the retiring age). The *PDR* was approximately 75% at the time of the reform implementation and is estimated in 65% for the next 20 years.

crisis of 2002 casted doubt on the capacity of the State to meet its payments for government bonds. An eventual failure to meet these obligations would have meant expropriations from the individual savings system, since this is a big holder of Uruguayan bonds.

Utility markets. Utility services have been traditionally provided by public enterprises which enjoyed monopolies in their respective spheres of activity. In the 1990s, moderate market-oriented reforms were promoted mainly in the electrical energy, communications and fuel sectors. These reforms were aimed at increasing competition in the markets for public services and partially privatizing the public enterprises. The reforms were carried out through laws which modified the definition of the monopolies of the public enterprises and the possibility of bringing private capital into them. In general, they have been challenged through referendums. (i) The 1992 Public Enterprises Law, which partially privatized the State-owned telecommunications enterprise ANTEL, was overturned in 1993 in a referendum that was initiated by the union of ANTEL's employees. (ii) The 1997 law concerning the new regulatory framework for electrical energy, was challenged by the union of UTE's employees, but this attempt failed. (iii) Legislation that dealt with changes in ANTEL's Charter and the opening of the international telephony was challenged, and the government brought about its abolition in 2002 when a referendum on that was imminent. (iv) The law for opening the market for refined petroleum products, which eliminated ANCAP's monopoly in refining and the distribution of these products, and which made it possible for private capital to come into the public enterprise, was recently overturned by a referendum that was initiated by ANCAP's employees. This process is indicative of the lack of basic agreement about these subjects among the main political groups. What is more consensual is the use of these monopolies as strong contributors of resources to the treasury. This promoted some efficiency improvements in the State-owned companies, but implies an obstacle in the process of liberalization in the utility markets.

In cases where the reforms went through (electricity, and partially in communications), the implementation of the policies has been volatile depending on the measures taken and the importance that they had at the time: (i) the objectives of the sectoral reforms, (ii) fiscal objectives, which are much more important during the crisis, and (iii) external constraints, which have spurred on the process of electrical interconnection with Argentina or the MERCOSUR. The reform of the electricity sector seems to be a paradigmatic case here, since it is a reform carried through by a law which was not overturned, but the implementation has not been completed seven years after.

Interest groups also play a relevant role in resisting some reforms, but with the exception of unions which promote referenda, they defend their in a more subtle way in the policy implementation stage. Broad policies in utility markets tend to be relatively rigid, when emerging from the interaction between the Legislative and the Executive. Examples of rigidity are: (i) the very existence of the State-owned companies are set in the Constitution, (ii) the mechanisms of appointing and firing their board members are also in the Constitution, and (iii) several laws are very specific in operative aspects, eliminating some discretion in terms of business strategies, association with private firms, and so on.

Fiscal policies. Since 1990 the tax burden increased considerably, growing from 25% to more than 30% of GDP (which was the highest possible when we consider regional comparisons). The

structure of this income remained basically unchanged: taxes on consumption (IVA (value added tax) and IMESI (sales tax)) accounted for 65% of income at the start of the period and stood at the same level at the end. Total income increased because of rises in the rates charged and a widening of the base where the tax was levied.

The tax administration system presents serious drawbacks, showing relatively high levels of evasion. Although there were a number of projects to reform this system, they were not passed in Congress. During the period, there was a continual process of creating, abolishing and modifying taxes, and this allowed discretionary management of fiscal income policy. In particular, tax exemptions were used as a mechanism for discretion in the management of fiscal policy in order to give attention to private interests. However, this feature was in operation in a relatively small group of taxes, and the taxation structure that accounted for the greater part of fiscal income remained unchanged.

Expenditure also increased over the decade, but by a smaller proportion than the increase in income. In 1989 there was a plebiscite which index-linked pensions to the past rate of inflation, and this generated the biggest fiscal problem on the spending side. In the five years immediately following the plebiscite, the deficit in the social security administration (the Banco de Previsión Social) jumped from 2.5% to 6.3% of GDP. The plebiscite had the effect of making social security expenditure a non-discretionary one for the government. In response to this problem, there was a reform to the social security system, which was passed by Congress in 1995. This reform did not change the fact that expenditure on social security was outside government control, but it did establish actuarial bases for the system that would be sustainable in the middle and long term.

The amount of salaries paid by the public sector also remained constant (in terms of GDP) throughout the period. The outstanding policy move in this area was the rendering of accounts by a single article. Starting in 1996, this was applied so as to avoid having to submit the revised annual budget to Congress (through voting on a single article, and this maintained the five-year budget without any modifications). This had the effect of avoiding discussion and negotiations with the public employee unions, and thus removed the possibility to increase expenditure on this item. The price the government paid for this strategy was that it made the budget process very inflexible.

Public sector investment remained stable over the period until 2002, when there was an abrupt fall due to the generalized economic crisis. Fluctuations in the management of this variable has a negative effect and generates a harmful cycle in public investment, which is well documented for the case of road infrastructure. Investment in public enterprises also fell as a response to fiscal requirements; investment decisions in State-owned enterprises are negotiated with the Planning and Budget Office and the Ministry of Finance when they bargain about the transfer of profits.

Almost all of the items on the spending side are essentially rigid and non-discretionary. Broadly speaking, half of public expenditures goes to social security and one fourth goes to wages. Interests and debt repayment are also outside the government control. Therefore, the “adjustment variable” of spending to the evolution of fiscal income (which is very procyclical) is the public sector investment. The volatility in this item is the result of the absence of anticyclical

mechanisms in the remaining items of public spending, in a context in which tax burden had reached a point where it is difficult to impose any new increase.

State reform. The design and implementation of State Reform programs in Uruguay were traditionally split up in diverse public offices with overlapping functions and deficient coordination, and with an important lack of human, technical and financial resources to implement it. In addition, legal measures related to the State reform resulting of the dealings between the Executive and the Legislative branch used to be quite inflexible due to political safeguards, as a result of the divergences in political and social preferences and the expected gains of the political actors, while the implementation of the policy needs of room for adjustments. This configuration of the policymaking process affected the quality and coherence of the measures finally implemented. The strategy was modified in 1996, when an articulated proposal on State Reform of the Central Administration was designed. The strategy was to pass in Congress the essential legal framework to implement the programmed measures and to establish the institution responsible to implement the program. This framework allowed the Executive to define some regulations by decree, increasing its capability to get more flexibility in policy implementation, but also increasing the effectiveness of lobby groups to influence the final outcome. Three aspects deserve to be stressed. First, the measures related to the State reform which emerge from the interaction between the Executive and the legislature tend to be rigid due to political safeguards. This is the case of hiring civil servants, setting public wages scales firing employees, and so on. Second, the policy tends to be more volatile at the implementation stage due to a larger Executive discretion and the poor observability of them. This process is influenced by the action of interest groups which affect specific decisions at that stage. Third, the measures that could be implemented in the terms it was expected were those related to the conditionality of financial disbursements by the IADB, *i.e.* when an external enforcement mechanism was set. In these cases, the IADB's conditionality played a role when it is aligned with the government's goals, by providing ammunition for the government to weaken those who oppose reform. Nevertheless, combined with the two previous aspects, they do not conform a coherent and predictable State reform as a whole.

Legal infrastructure reforms. There is a deep time inconsistency between the *ex ante* incentives for law compliance and the *ex post* inefficiency of non pecuniary punishments. The obsolescence of our bankruptcy code, together with its harshness "on paper" and its great flexibility "in practice", have created a culture of soft budget constraints in Uruguay. Agents able to exploit the loopholes in both the private and public sectors are bound to thrive. This process has a lot to do with judicial enforcement and the effective ability of Judiciary to deal with complex economic problems. Additionally, it is part of the ingredients that features the relatively weak institutional environment in terms of enforcement and incentives in the economy.

2.3 Tentative Characterization of Policies in Uruguay

A rough view about the main characteristics of economic policies in Uruguay suggests that the country is able to generate diverse kinds of results. First, some policies seem to be relatively stable and emerged from a long-term perspective, such as the commercial and financial openness of the country. After some debate until the early eighties, it is unusual to find voices in the

political arena claiming for “closing” the economy in the commercial or the financial sector. History dependence also plays a role, since it is very difficult to conceive to move back from MERCOSUR or to close the financial sector of the economy after the respective processes in both arenas. Second, there are some areas in which policies are featured by low volatility, but they tend to have low quality and show important signs of inflexibility. These are policies areas in which there are very large institutional costs of making and changing policy decisions and rigidity is the price to pay for political protection against future reversals, such as those related to social policies, some areas of the State reform (civil servants’ wages and hiring mechanisms), the fiscal policies, and the bankruptcy regime, among other examples. Third, some outcomes show some volatility, since they are not subject to specific policies with a long run perspective and they are affected by the result of other rigid policies. For example, the public sector investments are the “adjustment variable” of the global fiscal performance, which is plagued with inflexibilities in the rest of the items. Therefore, the variable that accompanies the evolution of the business cycle is the investment expenditure of the Central Administration and the State-owned Enterprises.

Therefore, it would not be accurate to describe policies in Uruguay in only one generic fashion, since we describe different types of outcomes. In the first case, the absence of a commitment mechanism would make the policy outcome highly volatile (as suggested by the history of trade protection and financial opening and closing). External commitment devices associated to international agreements, together with the role of time dependence, tend to limit the power of the domestic interest groups. The second group includes policies which are highly rigid and are sustained in that fashion by the blocking power of interest groups combined with voting interests. Thus, what we have is a) moving up in the equilibrium by commitment devices in policies that otherwise would be highly volatile, and b) huge inflexibilities in areas that also in the absence of rigidities, would be highly volatile. Related to the third kind of outcomes, it must be noted that the volatility does not emerge from the alternance of political actors with opposite preferences, but it is the result of the inability of the political system to set any fiscal responsibility rule to generate an anticyclical spending behavior.

Additionally, the fact that the country generates different types of policies is consistent with the analytic framework, since the resulting political decisions do not depend solely on the political institutions but also on the transaction-cost characteristics of the different arenas. Not all the policy areas imply the same policy preferences, identical demands in terms of intertemporal exchanges, the play of the same set of political and social actors and the same need for external enforcement. Several attributes distinguish policies in terms of their transaction-cost characteristics, in particular, those related to the requirements and the ability to develop intertemporal political exchanges: (i) the constellation of political preferences, how close they are, how salient the specific issue is and, in general, what are the expected gains from the political conflict; (ii) the availability of external enforcement mechanisms, (iii) the subset of political actors and veto players, (iv) the relationship between policy design and policy implementation in each arena and, consequently, the role of the Legislature and the Executive in the actual implementation of the specific policy, (v) the cost of implementing safeguards, and so on.

The description suggested above can be consistent with the Spiller and Tommasi (2003) analytical model. This constellation of policies can emerge from an institutional environment that does not facilitate intertemporal exchanges and cooperation. In the cases in which the political preferences are convergent, the expected gains from political conflict are not significant. Two examples of this situation are related to the financial and commercial openness of the Uruguayan economy, particularly since the late eighties and early nineties. First, most of the actors are convinced that a small country like Uruguay has to be open to international financial markets, since it needs loans and foreign direct investment in the development process. Second, after Argentina and Brazil decided to engage in an integration process (the conformation of the MERCOSUR), Uruguay had no choice but to join them, since they are its two main trade partners and significantly affect exports, financial markets, tourism, and so on. Cooperation over these issues had to be feasible even under a “weak” institutional framework, because of the convergence of political preferences. Additionally, external enforcement mechanisms could be available (conditionality with multilateral financial organizations, like the IMF and the World Bank, and the MERCOSUR agreement contained in the Asuncion Treaty of 1991). In the latter process, the strategy of “tying one’s hands” was very clear and the political system could advance in the commercial openness with a depth that not even the dictatorship could. Therefore, the result of close political preferences and the ability of generating external enforcement mechanisms is relatively stable policies, even under a political framework which does not encourage cooperation in the long run.

In cases in which preferences diverge but the cost of implementing safeguards is relatively low, the emerging policies are rigid and low quality. One example of this situation refers to the policies related to the enrolment, hiring and waging of civil servants. Instead of having a flexible strategy to adjust the size of the bureaucracy, to incorporate civil servants in the budget payroll with an economic criterion, to hire according to the needs of the State and their professional background and to remunerate them according to their opportunity costs, the policy is featured essentially by the prohibition of enrolling new civil servants in the budget, the virtual impossibility of firing them, and a rigid and incoherent wage scaling, complemented with the fact that every new contract is suspicious because of some political abuse of this hiring mechanism. These rigidities emerge from the need of political safeguards. A second example refers to bankruptcy procedures. The main law governing them has not been significantly changed in the last seven decades. However, the results in this policy area are very poor, since the mechanisms are very tough and inflexible and the weakness of the institutional framework encourages agents to solve the resolution of failed firms outside the courts or formal procedures.

In the case of volatile outcomes, such as the public sector investment process, this is the logical result determined by the absence of stable and adaptable policies in the fiscal arena. Since almost all the rest of the items in the public spending side are basically rigid (social security, wages, debt repayment, and so on), the procyclicality of fiscal income and the variations in the access to financial markets have to be compensated by the evolution of an “adjustment variable”: the public investment. The only expected outcome is volatility. The decisions in this case are essentially in the Executive’s hands and this helps to implement such a volatile outcome.⁴

⁴ Although the Executive does not directly decide the amount to invest in the cases of State-owned Enterprises, it crucially affects their decisions through the negotiations about the amount of transfers of profits from these companies to the Ministry of Finance.

Nevertheless, it worth noting again that this volatility is not the result of political conflict but of the inability to set long term rules for the public spending management.

In general, these policies show a visible lack of coordination and consistency, with very negative effects on the investment in domestic markets. The low quality of the policies is clear in these cases when negative economic shocks occur. This is the case for most of the arenas dealing with the rules of the game related to property rights and contracts. This is also the result of a weak institutional environment in which the interest groups encourages the myopia of the political system. In fact, in several areas the rules of the game are blurred and in other areas the rules are well defined but poorly enforced.

3 A Description of the Uruguayan Political Process

3.1 Formal Political Institutions

The Uruguayan constitutional design sets a presidential regime. The central feature that characterizes the Uruguayan presidentialism deals with the strong influence that the Executive exerts on the policy making process through different legal prerogatives to control the legislative process. Like many other cases in the region, presidents have important legislative powers such as total or item vetoes, the ability to initiate bills in strategic areas (budget or tax policy), the possibility of sending urgent consideration laws, as well as non-legislative powers such as ministerial appointments and other key bureaucratic spots. In the long run, at least since 1930, the Executive power has gained in successive constitutional reforms

Despite its institutional powers, most Uruguayan presidents since 1985 have been politically weak. This political weakness is the result of two different features associated to the party system and the partisan organization. On the one hand, the party system shows an increasing level of fragmentation since 1971, and particularly since 1989, with three parties and a half.⁵ On the other hand, and perhaps more importantly, the organizational structure of Uruguayan political parties shows factionalised parties which implies that the number of actors and hypothetical agents at the bargaining process will be higher than the one set by the system.⁶⁷

The transition from a bipartisan system towards a multiparty system has implied that most Uruguayan presidents since 1989 have been forced to negotiate coalition governments with opposition parties and factions. In other words, the multiparty system is the causal factor that explains the minority condition of most Uruguayan presidents, and for that reason has facilitated the emergence of coalition governments since the nineties onward (Chasquetti and Moraes, 2000). Given the combination of the presidential regime and the multiparty system with

⁵ The Effective Number of Parliamentary Parties (on average) for the period 1942-1966 was of 2.27, and 3.07 for the period 1971-1999.

⁶ Like the cases of Italy, Japan and Colombia, Uruguayan parties are factionalized. However, unlike those cases, Uruguayan factions are institutionalized agents within parties and the whole political system. Both Italian and Japanese factions are "informal" actors within parties, since the electoral system does not promote or legally legitimize those agents. Uruguayan factions are the direct consequence of the electoral rules, and for that reason they tend to be stable agents within parties, with their own leaders and organizations (see 4.2).

⁷ It is important to note that Uruguayan political parties are one (if not the most) institutionalized parties in the region (Mainwaring and Scully, 1995). However, because of its factionalized structure, presidents are only factional chiefs rather than party chiefs. Those factions are also highly institutionalized in the political process, but show higher levels of electoral volatility compared with parties as such.

factionalised parties, presidents have to negotiate inter and intra-party agreements in order to build coalitions or legislative majorities to pass their agenda.

The electoral rules are one of the key factors to understand the political dynamics described above. Presidents are elected for a five-year term with no reelection.⁸ Before 1994, presidents were elected by plurality system and Double Simultaneous Vote (DSV). This electoral feature allowed parties to present multiple candidates for the presidential race, given that voters cast their ballots primarily for a party and then for a presidential candidate. In this context, given that candidates within parties were able to sum up their votes (for the party), elected presidents became the most voted candidacy within the most voted party. A constitutional reform in 1996 changed these electoral rules. The reform eliminated the controversial DSV for the presidential election, and set the new election by majority runoff⁹. Additionally, it was constitutionally established that all parties have to perform primaries in order to select their single presidential candidates.

Uruguay has a bicameral Congress. Senators and Representatives are elected by proportional representation with closed lists, under Double Simultaneous Vote¹⁰. Until 1996 all elections were held simultaneously. Currently, legislative elections take place simultaneously with the first round of the presidential election. Citizens cast their votes with the lists of candidates for the legislature (Senate and Representatives) and the presidency in the same ballot. The Senate has 30 members elected in a single national district plus by the vice-president. The chamber of Representatives has 99 members elected in 19 multimember electoral districts.¹¹ In a first step, seats are assigned among parties applying the D'Hondt formula on a national basis. Secondly, the distribution takes place within parties (among factions), also under proportional representation, and within districts with a minimum of two representatives for each district. In this way, proportional representation is preserved in a perfect fashion.

The closed and blocked list increases the faction's leadership power, especially over those representatives elected in large districts. In those cases, the leader has an important discretion in selecting candidates, since he/she has the ability to influence (if not elaborate) the list of candidates of his/her faction. On the one hand, this power implies an important disciplinary element for the faction and, by extension, for the party. But on the other, the fact that the system or the partisan structure admit competition among factions, allows legislators to move from their faction and to run in further elections under a different presidential candidate (until the 1996 reform) or faction. In addition to those incentives to avoid the discipline imposed by faction leaders, representatives elected in small districts have some incentives to cultivate their personal reputations. Nevertheless, the constitutional reform imposed that each faction had to present only

⁸ Until the 1966 constitutional reform presidents and legislators had four-year term mandates.

⁹ The 1996 constitutional reform removed the DSV for the presidential elections without affecting legislative elections.

¹⁰ The different factions within parties provide party lists for the senate and the lower chamber. In the same ballot, the voter cast vote for: a) a presidential candidate and his or her corresponding vice-president; b) a list of candidates for the senate, and; c) a list of candidates for the lower chamber. Notice that faction leaders have the control over the nomination, despite the fact that a party authorization is the only requirement for creating a new list. This is so, because the system of close lists and proportional representation guaranties the primacy of leaders within each faction. The fact that voters cast simultaneously three votes and that the presidential election is the most important race, induces voters to "overdeterminate" the presidential election. In turn, the presence of simultaneous elections and PR makes that elected presidents will have a similar support of votes in the legislature to that obtained for the presidential race (see Buquet et al. 1998:8-15).

¹¹ The Uruguayan legislature has two large districts. The national Senate, which elects 30 members plus the vice-president and Montevideo for the lower chamber, which elects 44 out of 99 members. In addition to these large districts, there is one medium size district (Canelones), and seventeen small binominal and trinominal districts (corresponding to the countryside departments).

one list of candidates per district, enhancing the faction leader's authority to coordinate the provision of candidates. In sum, faction leaders and particularly presidential candidates have control over the nomination process in both large and small districts. These property rights over factions allow them to control not only the nomination of candidates for legislative elections but also and perhaps more importantly the party of faction discipline¹².

Like presidents, legislators are elected for a five-year term. However, unlike the former, legislators can be reelected without restrictions. This difference yields specific incentives for the system. Being unable to run for the reelection, the President's power becomes weaker, losing authority and control over legislators from his own party. At the same time, his or her legislators start to build new partisan loyalties (within the party) with presidential candidates who have the chance to be elected. Additionally, legislators who seek reelection in small districts will start to meet their voters preferences, be or not those of the main party leaders. In this way, the combination of legislative reelection with presidents unable to be reelected creates centrifugal tendencies in the political system, which are expressed through an extreme weakening of the President's power towards the end of each mandate. During this period parties are less prone to cooperate in order to pass relevant bills for the President's agenda.

The Uruguayan institutional design has also diverse mechanisms of direct democracy. Among the several existing mechanisms there are two remarkable constitutional devices. On the one hand, the referendum against laws passed by the Parliament. In this case, a 25% of registered voters have the option to express their support to the referendum in order to revoke the law. Approved laws dealing with taxes or those in which the Executive Power has exclusive initiative cannot be revoked through this mechanism. During the last fifteen years the opposition has used very frequently this constitutional device. Indeed, with the support of different interest groups in addition to parties and factions opposing some governmental policies, the use or threat of using referendums has operated as an important veto to revert relevant laws passed by government.¹³

On the other hand, the Constitution enables the use of direct democracy to reform the own Constitution. In this case, reformers must introduce the amendment with the support of a 10% of the citizens registered to vote. During the period 1985-2003, this mechanism has been frequently used by different interest groups, sometimes supported by opposition parties interested in reverting the interpretation given by the executive to some constitutional prerogatives (pensions), or to fix at the constitutional level the amount of public spending dedicated to public education. Although the technical nature of this institution is different to that of the referendum, it has also worked as a reactive device against the reforms carried out by all governments since the democratic restoration in 1985.¹⁴

¹² There is no compelling evidence showing that small-district legislators are more prone to perform particularistic behaviors. Indeed, legislators elected in the capital (M = 44) are more prone to provide constituency service than those elected in binominal districts.

¹³ Promoters have been successful in two occasions: "Privatization of major public firms" in 1992 and the "Association of the state oil company with private firms" in 2003. They did not achieve their goal to revoke the "Amnesty to military involved in human rights violations during the authoritarian regime" in 1989. In three occasions the popular support failed in obtaining 25% of the electorate to make use the referendum: "Deregulation of transmission, transformation, and distribution of electricity" in 1998; The "Reduction of the available period to workers to make claims against employers" in 1998, and; the "Improvement of Public and Private Services, Public Security and Promotion of Productive Activities" as an emergency law passed in 2001. Additionally, in only one occasion a law was revoked by the own parliament to avoid the use of a referendum that surely was going to be revoked by voters. This was the case for the "partial privatization of the mobile State-owned company".

¹⁴ Two popular initiatives were successful: "Adjustment of pensions based on wage fluctuations (1989), and pension regulations via budgetary amendments" (1994). Retirees and pension holders promoted both plebiscites in 1988 and 1993 respectively. Two popular initiatives were unsuccessful: a constitutionally fixed budget amount for public education (1994), and financial independence of the Judiciary (1999). Both plebiscites were promoted by labor organizations associated with public education and the judiciary and in the latter case the Judiciary supported

3.2 Parties and Party System

Uruguay has one of the few institutionalized party systems in Latin America (Mainwaring, 1999; Mainwaring and Scully, 1995). First, part of this characterization deals with the fact that two of the Uruguayan parties (Blancos and Colorados) are the oldest in the world. While Blancos and Colorados have 168 years, the left wing Frente Amplio has 33 years. This longevity reveals stability across time and there are no presages that the current system with three parties will suffer a major transformation in the short run¹⁵.

Until 1971, the Uruguayan party system was a robust bipartism. Since then, the emergence of the left wing party (FA) transformed this format into a multiparty system with three parties and a half, if we considered the systematic presence of a small fourth actor (Nuevo Espacio). In any case, the system reveals stability and party system change in a slow fashion, unlike non-institutionalized party systems.

Table 4 - Effective Number of Parties (1946-1999)*

	1946	1950	1954	1958	1962	1966	1971	1984	1989	1994	1999
Electoral	3.0	2.6	2.6	2.5	2.4	2.4	2.7	2.9	3.4	3.4	3.3
Senate	2.6	2.2	2.3	2.2	2.3	2.1	2.6	2.7	3.2	3.2	3.2
Deputies	2.9	2.6	2.5	2.4	2.4	2.3	2.7	2.9	3.3	3.2	3.3

* *Effective Number of Parties Index (Taagepera and Laakso, 1979).*

Source: *Buquet et.al. (1998) y Corte Electoral.*

A second relevant feature that contributes with the level of institutionalization identifies Uruguayan parties as agents with deep roots in society. Both the traditional parties and the left wing Frente Amplio have been the central mechanisms of representation and expression of political interests. Uruguayan voters have been identified with Blancos and Colorados for decades and the same has been true for the growing electorate of the Frente Amplio. These deep roots in society have at least two broad implications. On the one hand, it leaves no room for the advent of populist leaders that have been characterizing many Latin American party systems. On the other hand and more importantly, the deep roots in society are associated to very low levels of electoral volatility.¹⁶

in totum the referendum, including Supreme Court justices. Currently, there is an initiative to be considered by a plebiscite during the next election of 2004, dealing with the state management of water resources and its contracts with private firms.

¹⁵ There are good reasons to believe that the Uruguayan party system will remain stable in the short run. Part of this observation comes from recent pools carried out by different sources where despite some important changes in the distribution of votes there is no reason to believe that none of the two traditional parties will disappear. The transition from a bipartisan towards the current multiparty system has been gradual, and the same is expected for any further changes in a highly institutionalized party system like the one we are observing. Furthermore, the electoral system does not give incentives for a deep transformation of the party system. The new electoral formula with runoff elections (ballotage) eliminates the reduction effect produced by the old simple majority or plurality system for the presidential election (Shugart and Carey, 1992). Thus, neither voter preferences nor the new institutions regulating elections anticipate a dramatic change in the Uruguay party system in the short run.

¹⁶ For eleven elections held during 1946-1997, Uruguay had an electoral volatility of 9.7. Comparatively, these values are very low regarding other Latin American countries. According to Mainwaring and Scully (1995), considering four elections held during 1970-1990 in Costa Rica, the electoral volatility was 18.2; also considering four elections in Venezuela during 1973-1993 the index was of about 17.7; Chile, for three elections during 1973-1993 showed an 18.4 percent of electoral volatility.

Table 5 - Electoral Volatility and Vote Distribution (1946-1999)

	1946	1950	1954	1958	1962	1966	1971	1984	1989	1994	1999	Average
Electoral Volatility*	13.1	6.1	6.4	17.9	7.6	7.6	8.9	5.2	13.3	11.6	10.0	9.7
Colorados&Blancos	86.8	90.6	85.8	87.4	91.1	89.7	81.2	76.2	69.2	63.5	55.1	79.7
Frente Amplio	-	-	-	-	-	-	18.3	21.3	21.2	30.6	39.8	26.4

* *Pedersen Index of Electoral Volatility*

Source: *Buquet et.al. (1998) and Corte Electoral.*

A third factor deals with the acceptance of elections and parties as the only or best mechanisms to express popular demands. As we have seen before, Uruguay has been consistently located among those countries in which the overwhelming population prefers democracy to any other type of political regime. However, it is also true that parties have lost part its legitimacy in recent years, as a part of the economic crisis and also other more general trends of discredit that politicians have here and around the world. Despite those increasing levels of discredit, no outsider and new parties have been able to challenge the party system as has been observed in other institutionalized party systems like in Venezuela.

Fourth, Uruguayan parties are factionalized. As we said before, this type of internal organization is the direct consequence of electoral rules that facilitate the existence of these agents within parties. These factions are institutionalized and/or stable groups within parties, generally lead by presidential candidates or national senators.¹⁷ As can be seen in Table 6, the number of factions has remained stable over time. Although the total level of factionalization can be large since 1971 and particularly since 1999, the increase in the total level of factionalization is due to an increase in the effective number of parties. That is, the Effective Number of Factions within the “traditional parties” remain relatively stable over time (before and after 1971), but the emergence of the Frente Amplio increases the total level of factionalization given its large number of factions.

Table 6 - Effective Number of Legislative Factions (Senate). 1946-1999*

	1946	1950	1954	1958	1962	1966	1971	1984	1989	1994	1999	Media
Colorado Party	2.2	2.9	2.3	2.5	2.7	4.3	2.8	2.4	3.7	3.1	2.0	2.5
Nacional (Blanco) Party	1.6	1.4	2.7	2.0	2.5	4.6	3.8	1.8	2.9	4.1	1.7	2.6
Frente Amplio	-	-	-	-	-	-	-	2.5	3.3	3.4	4.7	3.4

* *Using the same formula for the Effective Number of Parties, this calculus takes into account the number of lists for the senate as the best proxy to consider factions.*

Source: *Buquet et.al. (1998) and Corte Electoral.*

Paradoxically, although the Frente Amplio has the largest number of factions, it has the higher level of routinization in its internal decision making process (Levitski, 2002). Compared to the Blanco and Colorado party, the Frente Amplio has solid mechanisms for making decisions beyond factions, with a unique leader and national committees and partisan structures with

¹⁷ There are no legal impediments to create new factions within parties. However, beyond the interest of politicians and voters, its relevance in the political system will depend on its ability to remain stable and gain parliamentary representation on a permanent basis.

effective functioning. Blancos and Colorados show a similar pattern routinization only when one of those parties remain in the opposition.¹⁸

The existence of factions within parties does not imply that parties are weak. Parties are organized around factions, but they are still relevant agents in the political system, since there are rules and procedures for making joint decisions beyond factional divisions or policy preferences. In any case, Uruguayan parties cannot be considered as unitary actors, but both factions and parties are stable agents in the political system.

The constitutional reform endorsed in 1996 helps to explain the reduction in the number of factions for 1999 (Buquet, 1999). The reform banned the accumulation of votes among factions for the lower chamber seats. More specifically, the reform reduced the number of factions because the supply of lists has to be associated to only one national senate list. Thus, faction leaders have to coordinate the selection of candidates among different individuals. Before 1996, potential candidates could make deals with different senate lists and gain election or reelection. After 1996, the restriction of a single list per faction at the district level reduces the proliferation of factions, since major factions have more chances to make deals with local leaders.

Party leaders have a strong power not only to control the nomination process but also –and by implication– the party discipline. Since the nomination control rest to a large extent on the leaders discretion, legislators have strong incentives to follow the faction leader and his policy preferences. This is guaranteed by the fact that the own electoral system of close list and PR guarantees that that leaders have the control or strong leverage in the nomination process. It follows from this type of nomination control that legislators follow the faction or party discipline. Since faction leaders have control over the nominations, undisciplined legislators will not be endorsed for reelection and their chances for gaining endorsement for other career paths are fairly low.

Several studies suggest that Uruguayan parties are strongly disciplined in congress (Buquet et al, 1998; Lanzaro et al. 2000; Koolhas, 2003). Using the standard Rice Index¹⁹, Table 7 shows the level of party discipline for the period 1985-2003. As can be observed, at least since 1985, Uruguayan parties are very disciplined when voting in parliament. In addition to those mechanisms of faction-leader over legislators, other political factors are also influencing the level of party discipline. For instance, specific agreements and governmental coalitions carried out by Blancos and Colorados during the last fifteen years have had a strong influence, in the sense that they have forced faction leaders to fulfill their commitments within those political arrangements. In other words, those agreements and coalitions have not only served as binding conditions to enforce party discipline but also to facilitate the policy-making process. According to Table 7, in 86 out of 125 relevant laws passed by parliament during the period under consideration, legislators from the three parties voted completely united within their parties.

¹⁸ Since 1985 the “Mesa Política” (or literally “political bureau”) has been conducting the Frente Amplio, with the exception of programmatic issues and the selection of candidates. Something similar happened during the governments in which traditional parties switched in the presidency. In this case, the Blanco and Colorado party were conducted by the “Honorable Directory” and the “National Executive Committee” respectively.

¹⁹ The Rice Index is calculated by using the difference between affirmative and negative votes among members of the same party or faction for a particular bill. The index varies between 100 and 0, for values of perfect discipline and complete indiscipline, respectively. For instance, if a party has ten members and for a certain bill six vote in favor and four against the bill, the Rice index will take a value of 20. Similarly, if the party votes completely united, it will take a value of 100 and 0 if it is completely divided between two groups.

Table 7 - Party Discipline in Parliament (Rice Index): 1985-2003

	1985-1990		1990-1995		1995-2000		2000-03	
Number of votings *	40		33		34		18	
	RI	DV	RI	DV	RI	DV	RI	DV
Partido Colorado	91	8	87	9	99	1	100	0
Partido Nacional (Blancos)	94	7	90	8	99	1	100	0
Frente Amplio	100	0	100	0	92	5	95	2

* *Senate voting in highly relevant laws.*

- *RI; Rice index of Party Discipline.*

- *VD voting instances in which factions split the party vote.*

Source: Buquet et.al. (1998); Lanzaro et.al. (2000); Koolhas (2003).

Finally, the party system has shown a centripetal mode of political competition, given its low levels of ideological polarization. This particular feature of a polity (ideological polarization) has a relevant impact on the way a political system is able to handle not only the policy process but also the interaction among actors regarding the political regime. Indeed, low levels of ideological polarization are more conducive to achieve agreements among political actors and the democratic process is less likely to suffer the policy differences among actors. Inversely, a high level of ideological polarization inhibits the ability of agents to achieve agreements and threatens the democratic process. More concretely, the level of ideological polarization is a key factor to understand executive-legislative relations, since low levels of this dimension facilitates the extent to which presidents are able to achieve agreements with the parliament.

In recent years, authors like Gonzalez (1993) have pointed out that the ideological distance between the extremes of the ideological spectrum in 1986 was 25 percent less than the value shown for the year of the military coup in 1973. More recent measurements (EPI-IEIP-CIS, 1998) show that twelve years after Gonzalez measurement, the level of ideological polarization remains fairly stable.

Table 8 - Legislators Ideological Identification*

	1986		1998		Variation	
	1	2	1	2	1	2
Partido Colorado	5,4	7,1	5,0	7,0	0,2	-0,1
N	(31)	(64)	(20)	(49)		
Partido Nacional (Blancos)	5,0	5,9	5,6	7,4	1,3	1,4
N	(40)	(55)	(20)	(48)		
Frente Amplio	3,0	2,9	2,9	2,6	-0,1	-0,3
N	(24)	(70)	(25)	(46)		
Distance **	2,4	4,2	2,1	4,4	-0,3	0,2

* *Ideological positioning ranging from 1 to 10, where 1= extreme left; 10= extreme right*

** *Maximal distance among parties*

1. *Ideological positioning of legislator's own party*

2. *Ideological positioning typified by other party members*

Source: Gonzalez (1993); Alcantara (2000)

As can be observed in Table 8, there has been a meaningful change in the evaluation that legislators have on the Blanco party. Basically, while in 1986 was observed as a centrist party, it has been progressively perceived as a center-right party. The Colorado party remains relatively stable over time, being observed as a center-right party, which is consistent with other measurements carried out for a longer span of time (Coppedge, 1998). The Frente Amplio also reveals a relative change in its ideological positioning, being progressively considered as a center-left party rather than a pure leftist party. In this case, the evidence presented in Table 8 is also consistent with the steps taken by the Frente Amplio to go beyond its original core constituency of labor movements, blue-collar workers and young voters of the capital, moving towards capturing a broader spectrum of the electorate. Overall, these variations observed for 1986-1998 are small enough to continue perceiving the system as having relatively moderate levels of ideological polarization.

3.3 *Informal Political Institutions*

The coparticipation system has been a key “informal institution” that paralleled not only the evolution of Uruguayan political parties but also the democratic process itself. This was the guarantee that no party would prevail in controlling the whole political process and the bureaucratic apparatus. Indeed, the coparticipation system comes from a long series of conflicts between the traditional parties, before the emergence of the modern democratic process. This system facilitated a form of interaction between *Blancos* and *Colorados* and created forms of proportional access to public goods and the decision making process was dominated by mechanisms of control and veto by the opposition party.

The emergence of a third party in the political arena (*Frente Amplio*) produced some important changes in the way coparticipation was being applied (“winners did not take all”), and particularly in the emergence of new regulations that have implied an exchange of public resources by political support. Traditionally, the coparticipation system did not imply any form of political support for those who won the presidency. However, the constitutional reform enacted in 1996 tried to impose a form of transaction by which losers will only have access to cabinet portfolios and other public appointments if they are to cooperate with parliamentary support. Otherwise, the Executive would have the authority to remove those parties or factions without the intention to support the policies promoted by the president. Despite these new forms of legal enforcement of the old coparticipation system, *Blancos* and *Colorados* broke the coalition in 2002 and the *Blanco* party still controls all the appointments with the only exception of six head of cabinet portfolios originally bargained at the outset of the current administration.

3.4 *Bureaucracy and Administrative Capabilities*

In the Uruguayan State apparatus, political rationale strongly prevails over administrative and technical considerations. The current Uruguayan State is comparatively large but administratively inefficient, if we are to compare with other neighboring countries, such as Chile or Brazil. The basis of this characterization must be understood in the context of its own evolution. Two broad periods must be considered. The first one reveals a substantive process of

State expansion in the economy and the provision of public services. This process begins at the early twentieth century and unlike most Latin American countries it shows the emergence of an important Welfare State. During this period, the Uruguayan State created an impressive set of economic regulations and policies in which political parties were responsive to the citizens and interest groups' demands. Essentially, Uruguayan parties were the key actors in the delivery of public goods and benefits on a particularistic basis such as rents and clientelistic practices. This long standing process was facilitated by the fact that parties preceded the State formation in Uruguay, and for this reason they were also able to expand its own basis. This process involved a substantial growth of the number of civil servants and an increasing amount of social services, such as education and social security.²⁰ In such a context, the behavior of the bureaucracy was not ascribed to a Weberian structure but to an environment of political patronage and nepotism. The bureaucratic and the political spheres were both parts of a complex link.²¹ The influence of the political patronage involved the lack of the State's technical capacity. The second period began at the mid fifties after a deep economic crisis that affected the country. The Uruguayan State began a very slow period of retrenchment in most economic areas and the delivery of public goods. This retrenchment in the State performance did not imply the lack of bureaucratic strengthening and technical improvement in some strategic areas. Since the mid sixties onward, the State has been able to implement several reforms regarding its informational systems in various policy areas, administrative reforms in public offices, as well as the rationalization of the budgetary process. In the long run, these reforms at the State level have been slow, but certainly real.

Needles to say that compared to the mid sixties, the current Uruguayan State reveals smaller levels of economic intervention. In particular, since the mid nineties, the State apparatus verified an important set of reforms undertaken by political parties that produced a drastic decrease in the old clientelistic practices. Those reforms can be observed in the social security system, telecommunications, electricity, water supply and other set of monopolistic public services. These improvements within the administration of the State apparatus implied declining levels of political manipulation and intervention in the State performance. Nevertheless, the State remains as the most important agent in the economy representing a 35% of the Uruguayan GDP. Currently, large areas of the State remain politically controlled with low levels of technical efficiency.

As highlighted by Spiller *et al.* (2003) a high quality bureaucracy, adequately supervised by Congress, could contribute to an environment conducive to intertemporal enforcement of political agreements. Scartacini and Olivera (2003) sustain that an organised Civil Service can reduce the capacity of politicians to reverse their decisions in response to short-term considerations. While the former emphasizes on the incentives generated by the institutional framework, the latter insist on the importance of preventing the short term public interests from influencing the public policy dynamics. Following Evans and Rauch (1999), Uruguay is one of the Latin-American countries with worse performance in the "weberianness scale". The authors give Uruguay 4,50 points. At this level, Uruguay beats countries like Guatemala, Argentina and Ecuador, but it is under Chile, Brazil, Colombia, Mexico and Costa Rica. The low level of

²⁰ In 1960, 20% of the labor force was employed by the State and 30% of the population depended on pensions (Alonso and Demasi, 1986).

²¹ Both main political parties were the creators and the beneficiaries of a system in which they delivered public posts according to voting performances (Zurbriggen, 1999).

professionalism of the Uruguayan bureaucracy is even more evident when it is compared to countries of other regions such as Spain, India, Malaysia or Singapore.

Table 9 - Ranked score on the Weberianness scale

CONTRY	WEBSCALE
ARGENTINA	3,80
BRAZIL	7,60
CHILE	5,00
COLOMBIA	8,50
COSTA RICA	9,00
ECUADOR	4,00
ESPAÑA	10,00
GUATEMALA	3,00
INDIA	10,00
MALAYSIA	10,50
MÉXICO	8,50
SINGAPORE	13,50
URUGUAY	4,50

Source: Evans and Rauch (1999)

These authors' view of Uruguayan bureaucracy is, in general terms, certain. However, it is necessary to make an important distinction. In fact, inside the structures of the State in Uruguay there are different levels of professionalism. More specifically, from this point of view, it is necessary to distinguish between the central government agencies (the different Ministries), that have low levels of professionalism, and the bureaucracies of Public Enterprises (ANTEL, UTE, ANCAP, etc), that are better organised.

State-owned Enterprises have managed to preserve and reproduce acceptable levels of professionalism, fundamentally due to their greater levels of autonomy regarding the Executive. They can dismiss their employees with greater discretion than a Ministry in the Central Administration.²² They also have more autonomy to elaborate their budgets. This makes it easier for them to escape from restrictions to salary increases for the public sector that the Ministry of Economy has been imposing in the aim of controlling fiscal deficit. The obvious result is that wages (and therefore the technical capacity) at the State-owned Enterprises are considerably higher than in the Central Administration.

However, the boards of these enterprises have been integrated by politicians from different parties since 1931. The "coparticipation" in the management of Public Enterprises was a consequence of a pact made between some sectors of the two main traditional parties. Even though the set of rules that regulates the appointment for the boards of Public Enterprises has been changing, the institutional design has always assured that the two parties are represented in them. The rule for representation of the major minority in the boards of these enterprises determines that the rotation of parties in government does not imply an abrupt change in the policies of Public Enterprises. The fact that politicians are appointed to manage public agencies

²² The civil servants in the Central Administration have the privilege of "immobility", rule that requires an authorisation from the Senate to remove them. An employee of the State-owned Enterprises can be dismissed only by a pronouncement of the Directory.

and State-owned enterprises implies that they are seldom adequately professionally handled. (Rivarola 2003). This problem could be compensated if politicians count with technical support at the party levels. However, this is not the usual practice in Uruguayan politics. When appointing their support and advisory teams, they choose to reward political loyalty rather than technical and professional suitability.

Policies designed and implemented at Ministries level have been, in general, more unstable and lower quality than those related to Public Enterprises. In general, Ministers does not have the obligation to choose collaborators from other parties, and appoint a great number of “officials for responsible posts” that carry out the most important duties. Additionally, Ministers receive an administrative machine of low professional level and very little motivation. Within this framework, the bureaucrat will not try to get involved in the implementation of public policies, since there are little chances that his knowledge is taken into account. In the long run, this goes against investment in developing bureaucratic technical capacities. Thus, it can not be expected that the bureaucrat feels himself involved in the orientation of the public policy and actively cooperates in policy implementation.

At the beginning of the 1950s, the problems in bureaucratic structures of the central government started to be incorporated in the political agenda. The Hall (1954) and the CIDE (1965) reports offered organized views of the main problems that Uruguayan bureaucracy faced. Among other aspects, these studies showed the need to change from a system structured on the basis of political clientelism to another that privileged merits in the appointment for Civil Service and in the administrative career. The understanding of the need for an administrative reform to take place led to the creation, in 1968, of the Nacional Office of Civil Service (ONSC).

Even though during the military regime clientelism diminished, no great changes were made in terms of an administrative reform. Once democracy was restored, and especially during the nineties, new trials for reform inspired on the New Public Management theories were made. At first, Parliament prohibited the inclusion in the budget of new civil servants (this rule has existed for more than 15 years). Secondly, both, Lacalle (1990 – 1994) and the second presidency of Sanguinetti (1995 – 1999) set the problem of bureaucracy modernisation among the priorities of their agendas. Lacalle implemented a National Programme for Debureaucratisation (PRONADE) that, among other things, strongly modernised some functioning rules, in particular those related to State purchasing (TOCAF) and the Administrative Process (Decree 500/91). Sanguinetti created an Executive Committee for the State Reform (CEPRE) attached to the Presidency. The CEPRE impuled the decrease in number of ministry officials, the concentration of their activities on those defined by each public office as “substantive” and the implementation of a system of management evaluation and, taking into account its results, the incorporation in the budget (Ramos 2003).

Table 10 - Civil Servants in Uruguay during the XX century

Year	Number of Civil Servants	Number of Civil Servants as % Population
1900	14.500	1,8
1931	43.220	2,4
1941	57.200	2,9

1955	166.000	6,9
1969	213.001	7,4
1985	258.000	8,7
1990	272.000	8,8
1995	256.000	7,9
2000	223.619	6,8

Source: Filgueira, Garcé, Ramos and Yaffé (2003)

The PRONADE and CEPRE reached partial goals. The number of civil servants has been reduced but the quality of bureaucracy in the central government is still insufficient.

Uruguay shows a comparatively low rate of incorporation of specialized knowledge in public policies (De Armas and Garcé 2000).²³ This characteristic of the political process also conspires against the quality of public policies.²⁴ The supply of social research that could be potentially useful in public policies is still comparatively weak. Social sciences in Uruguay have had a late development. In Brazil, Argentina, Mexico and Chile they were thriving during the 30s and 40s, whereas we had to wait until the 60s to find significant advance on this area in Uruguay. Even though in the last 20 years it is possible to find a tendency to strengthen social sciences, they are still notoriously far behind. In particular, there are very few human resources specialised in public policy analysis. There is some accumulation of specialised knowledge in areas such as education, poverty and income distribution, but there is few research in industrial policies, farming, technology, etc. In fact, the only policy studies available are made almost exclusively from an economic perspective. Consistent with the politicians' incentives and actions, the demand for specialised knowledge from them is still negligible. Political parties did not developed cadre formation policies and the State does not have government schools.

The interface between social research and policymaking is narrow and unstable and there are no institutions to facilitate the encounter of demand and supply. The characteristics of public administration do not contribute to the incorporation of specialized knowledge. Bureaucracy is weak from a technical perspective. In the cases in which it is not, it is insufficiently taken into consideration, because it has been excessively subordinated to political dynamics (Filgueira, Garcé, Ramos and Yaffé 2003). Congress has not built a system of assessment and advising staff and the parties lack think tanks. In the last 20 years, there has been a more ample use of specialized knowledge in public policies than in the 50s and 60s, particularly at the Executive's orbit. It was done generally taking advantage of external financial support by multilateral organizations.²⁵ Even so, deficiencies in the Uruguayan political process regarding this issue become evident when it is compared to other countries of the region, such as Chile and Brazil (De Armas and Garcé 2000).

²³ For example, when going over the list of Uruguayan ministers from 1985 onwards, very few took graduate studies abroad and none of them had a Ph.D. degree.

²⁴ The current discussion on how to increment the impact of research on public policies can be found in "Bridging Research and Policy", project launched by the Global Development Network (<http://www.gdnet.org/rapnet/>) in 2002. See specially Stone, Diane, Simon Maxwell and Michael Keating (2001).

²⁵ Some of the programmes that have led to the generation of specialised knowledge in social policies are: Social Investment Programme (PRIS), Strengthen of the Social Area (FAS), Institutional Strengthen of the Health Sector (FISS), Programme of Improvement of Quality on Primary Education (MECAEP), Programme of Modernisation of Secondary Education and Teacher Education (MES and FOD). The main poles of accumulation and production of specialised knowledge in the State are the Planning and Budget Office (OPP) and the Economic Research Department of the Central Bank of Uruguay. The Office of Programmes and Farming Policy (OP and PA) of the Cattle-raising, Agriculture and Fishing Ministry on its specific sectors and the Management of Planning and the National Administration of Public Education are also to be mentioned.

3.5 Judiciary

Uruguay has got a strong and prestigious tradition in Law studies and a numerous and competent body of lawyers, prosecutors and judges. The high standard of development of legal studies has allowed important levels of specialisation, mainly in the following areas: Civil, Commerce, Family, Criminal, Minor, Customs and Administrative Law.

Unlike what was described at the State structure, the Judiciary has an important tradition of independence and professionalism *vis-à-vis* the political process. The Supreme Court is appointed by 2/3 of votes of the Uruguayan Senate. Given the scope of fragmentation at the party system level, the rule of 2/3 for judicial appointments isolates the judiciary from major political discretion and manipulation. Traditionally, the Uruguayan judiciary has been independent from political influences and this reputation has been the basis of its levels of public support among Uruguayan citizens and domestic decision makers. The Supreme Court is the organ responsible for the appointment of judges and the judicial career. In 1993, the Supreme Court created a Consultant Commission for the promotions of magistrates. This Commission is composed by five members: a Minister of the Supreme Court who presides, a Minister of the Appellations Courts, a representative of the Magistrates Association, a representative of the Lawyers College and a representative of the Faculty of Law of the University of the Republic. This Commission annually elaborates lists composed by 10 magistrates that are suitable for promotion.

After the reestablishment of democracy, followed by a process that included the majority of the Latin American countries, the judicial system in Uruguay has been subject to some important initiatives of reform. These initiatives had a strong stimulus during the first presidency of Sanguinetti, at the request of the Law Faculty of the University of the Republic and of the Vice – president Enrique Tarigo, Professor in that Faculty and an expert in Procedural Law. Within this framework, in 1988 two important innovations took place. Firstly, the new General Procedural Code (CGP) was approved. This Code, that replaced the one that had been in operation since 1876, aimed at making the judicial process easier and more democratic. In order to do so, the CGP established the oral trial in civil, commercial, family, labor and administrative disputes. Secondly, an institution specialised in the training of magistrates was created (Centre of Judicial Studies of Uruguay – CEJU). The creation of CEJU was a corollary of the implantation of the new procedural mechanisms. The start of the CGP raised abruptly the request for judges and the requirement of training courses for professionals that had to start using it. Since the creation of CEJU the graduates from this institution have priority in the admission to the magistracy and in the judicial career. The creation of CEJU and the Consultant Commission has strengthened the meritocratic rule in the Uruguayan judicial system.

Besides the judicial apparatus that depends on the Supreme Court, there exists the *Tribunal de lo Contencioso Administrativo (TCA)*, which is in charge of delivering justice at the government administrative level. In fact, most of the claims against government decisions are submitted to the TCA, in general, after they are done at the corresponding office and at the upper hierarchical level. The TCA has three members appointed by Congress and the typical composition includes

judges and not politicians. This is an autonomous judicial body which is financed by a specific item of the National budget and the income from its activities.

Despite the healthy levels of institutional independence, the Uruguayan Judiciary also presents some drawbacks. Naturally, one of the main obstacles to the modernisation of the Judiciary comes from financial restrictions. The administrative members of the Judiciary earn very low salaries. The majority of the judicial offices are inadequate and there is not enough information processing equipment. Anyhow, it should be highlighted the fact that, since 1985 on, the Uruguayan State has made an effort to improve the salaries of magistrates.

The Judiciary has also some important institutional problems. A main drawback is the lack of specialisation in economic and financial problems and crimes. Particularly, the Uruguayan judicial body has not developed experience in terms of adequately solving contractual disputes when economic complexity is at stake. Additionally, the lack of specialised staff or specific courts has not been compensated with resources that could allow the subcontracting of these activities (Bergara, 2003).

Another institutional problem is that the Judiciary does not have financial independence. Although formally, according to the Constitution, it has to elaborate its own budget, in fact, its economic resources are determined by the Budget Office that depends on the Executive. It has an important handicap in handling its own budget, given some important restrictions imposed by the Executive Power in the national budgetary process. This financial dependence conspires, at least partly, against the equilibrium between the Executive and the Judiciary.

Finally, the Judiciary has a limited power to declare the unconstitutionality of laws. Indeed, the legal system allows the agent to appeal declaring the unconstitutionality of a specific law for only that specific case. In other words, the judicial review only operates when third parties request the Supreme Court intervention for that particular case, without affecting the law under consideration.

Milnitsky (2004) presents some indexes related to the quality and the celerity in the judicial activity in Uruguay, taking into account the information at the Judicial Power, without including the cases submitted at the Supreme Court.²⁶ The annual demand for justice services involves approximately 200.000 cases, which must be added to a typical stock of 300.000 cases initiated in previous years. In terms of quality, the Sentence Revoking Rate (SRR) is the percentage of sentences which, once appealed, are partially or totally revoked, showing some substantial or formal imperfections in the original judgement. The results show that one out of seven definitive sentences are appealed at the Appeals Courts and approximately half of them are totally or partially revoked. The *SRR* is on average for the period 1997-2002, lower than 7%, suggesting that the quality is relatively high. Additionally, 10% of the second instance sentences are appealed to the Supreme Court.²⁷

In terms of celerity, two indicators were estimated: the Clearance Rate and the Congestion Rate. The former is the ratio between the number of cases solved and the number of cases initiated in

²⁶ The basic information for this analysis can be seen in Appendix IV.

²⁷ Information on the revoking results of this appealing process is not available.

every year. This constitutes an indicator of the production capacity of the Judiciary related to the demand for judicial services. The latter is the ratio between the total caseload of the system (the initiated process plus those unsolved in previous years) and the number of cases solved in the year. This gives an indication of how many years it would take to clear the stock of cases by working at the current pace. The results suggest that the average Clearance Rate for the period 1995-2000 is lower than 1 (0.91) and the Congestion Rate is almost three years, with an increasing trend, consistent with the inability to clear the annual demand. Although the information is not available for the years after 2000, the financial and economic crisis could foreseeably worsen both rates, given the increasing demand. An international comparison of indicators suggests that the Uruguayan judicial system shows similar levels of celerity than other Latin American countries such as Argentina and Costa Rica, at least for civil and family cases.

According to official information of the Judicial Power, Courts takes on average between 15 and 25 months to judge in Civil, Penal, Administrative and Labor issues and 40 months in Customs issues. Additionally, Appeals Courts takes from 7 top 10 months on average) in most of these issues to achieve definitive sentences.

Proceedings at the *TCA* are usually very costly and the administrative staff has essentially the typical features of the Uruguayan bureaucracy. Sentences from the *TCA* tends to take years, particularly when some political and economic complexity is involved.²⁸ Therefore, the ability of the Judiciary to reverse government decisions exists, but it could be of little material impact in most of the important cases.

The only important exception took place in 1992, during the Lacalle administration. In this case, the government was able to pass a small piece of legislation reforming social security within the budget bill. After the approval in Congress, the law was appealed by individual citizens and the Supreme Court declared the law as unconstitutional, following the procedure in the Uruguayan case. However, the sentence opened the door for an enormous number of appeals that ended in a strong political mobilization against the law made by the association of pensioners and retirees. This mobilization promoted a plebiscite held concomitantly with the 1994 elections, where an overwhelming majority of the electorate (85%) supported the option to revoke the law and prohibit the possibility to pass social security reforms in budget laws.

The Uruguayan institutional design sets a Supreme Court without the ability to declare the unconstitutionality of certain bills during their consideration in Congress. The Court can only be an effective veto gate once the bill has been approved by Congress and an individual citizen has been affected by it. Only when those individual citizens ask for the unconstitutionality, the Court can intervene in that particular case without consequences for the law in other cases. The central point here is that, *per se*, the Judiciary has a limited ability to make policy reversals when the Executive or the Legislative promote unconstitutional bills. However, and despite these formal proceedings, both the Executive and Legislative are strategically oriented to minimize the costs of further defeats, particularly when certain laws are politicized by opposition parties.

²⁸ One interesting example refers to a claim submitted by potential providers of paid TV in Montevideo which were not authorized by the government in February, 1994. The permits had a 10-year term (thus, they already expired) and the *TCA* did not reach a judgement yet. The Adjoint State Attorney in the administrative jurisdiction submitted her report to the *TCA* in August, 2003, that is, nine and a half years after!!

3.6 *Interest Groups*

Given the influence exerted by parties and the overall political process in the State apparatus, interest groups have had different roles depending on the interaction between parties and the state. During those years marked by the State expansion in the economy and the provision of public goods, interest groups focused their pressures and demands over political parties in the search for rents and particularistic benefits. The political system and parties in particular responded to those requests by regulating in specific areas of the economy, in which the import substitution industrialization shows a paradigmatic momentum in that trend. Business firms and economic agents took for granted those mechanisms until the partisan preferences shifted towards more policy oriented principles. The end of the import substitution model also meant, by default, some changes in the particular type of interaction between rent seekers and political parties.

More recently, interest groups occupy a relatively different role in the policy making process. First, interests groups have been able to use some legal instruments like plebiscites and referenda in order to veto some policies preferred by the governing coalitions or impose their own preferences to the overall political system. These clean and visible veto mechanisms have been frequently used during the last years and remains as one of the most important weapons in the hands of most labor organized interests and pensioners. Second, interest groups have been also able to interact *ex ante* and *ex post* in the policy making process, affecting the overall performance of different policies. *Ex ante* policy enactments, many organized interest groups exert an important pressure at the Executive and Legislative powers. *Ex post*, if those pressures are unproductive during the policy making process, some interest groups are able to exert enough political pressure at the party system and executive levels that the policy implementation and enforcement can remain incomplete. Both the most visible and accountable veto mechanisms via plebiscites and the obscure veto at the implementation stage are being observed in recent years in the Uruguayan political process. Interestingly, political parties play a relevant role in both cases.

The political action of business organizations has been oriented to exert influence on public policies through direct contacts with the Executive, the bureaucracy and, subsidiarily, with the Legislative (Zurbriggen, 1999). They display more veto power to counteract specific initiatives rather than hegemonic leadership to impose coherent public policies (Caetano, 1992). The interest groups channel their demands through the political parties, which develop a key role as mediators of diverse interests and pressures.

Unlike other countries in the region, the Uruguayan businessmen did not seem too willing neither to support relevant research centres or think tanks nor to hire specialists. At least in some sectors of the entrepreneurs, this process appears to be changing very gradually.

4 **The Dynamics of Political Preferences: An Overview**

For many years researchers on the uruguayan politics have argued that the ideological differences between *blancos* and *colorados*²⁹ were not relevant. Although nowadays this interpretation is being reviewed (De Armas, Garcé and Yaffé, 2003), it is not easy to establish those parties' ideology. The main difficulty lies in the fact that both parties have allocated, throughout history, fractions with noticeably different preferences. In spite of this, the task of defining the ideology of *blancos* and *colorados* is not impossible. Firstly, because generally, in each historical period, there is a more influential fraction in each party. When that influence persists, the whole party becomes "tinted" with the preferences of its predominant fraction. Secondly, because beyond the differences, in each party there is a preference zone that is common to all the fractions.³⁰

During the first half of the 20th century, the Colorado Party occupied an extensive political space from the center to the left. Actually, during that period, the ideological position of the Colorado Party was determined by the predominance of the *batllismo* in the internal political competition. The substantive preferences of the *batllismo* can be assimilated to those of the socialdemocracy or Labor Parties. Searching for economic growth and an improvement in income distribution, the *batllistas*³¹ expanded the role of the State, protected the national industry and developed an enlarged Welfare State. The Nacional Party, meanwhile, occupied a space from the center to the right. During those years, the *blancos* questioned the *batllista* model in the name of the principles of economic liberalism and cattlemen's interests.

Since the economic crisis of the fifties, this ideological map has suffered deep changes. In fact, between 1971 and 1989 the relative position of the *blancos* and *colorados* in the left-right axis experimented a reversion: the *colorados* abandoned the left and adopted economic liberalism; at the same time, the *blancos* moved towards the left, encouraged by the influence of the ECLAC theories. Those changes are deeply associated to the leadership of Jorge Batlle in the Colorado Party and Wilson Ferreira in the Nacional Party. Since Wilson Ferreira's death in 1989, the Nacional Party has returned to its traditional place. Simultaneously, the Colorado Party, then under Julio María Sanguinetti's petition, tried to occupy the space of center and center-left.

Although between 1989 and 1990 it reached a position at the left of the Nacional Party, the Colorado Party could never return to a growing path towards the left, because of the emergence of the *Frente Amplio*. Driving the liberal agenda with the *blancos*, and in spite of Sanguinetti's efforts, inexorably, the *colorados* abandoned the left wing. The fall of the Berlin Wall in 1989 made it easy for the Frente Amplio Party to start a slow but systematic turn towards the center. In a few years, this party capitalized the political legacy of the *batllismo*: nowadays it occupies an extensive ideological space from the left to the center, while the *blancos* and *colorados* share the space from the center to the right.

In 1984, with the re-establishment of democracy, the levels of polarization were lower than those of 1971 (González, 1993). This trend towards the center was consolidated during the following years pushed by the changes in the Colorado Party (the disappearance of its right-most wing under the leadership of the ex president Pacheco) and by the gradual programmatic and political

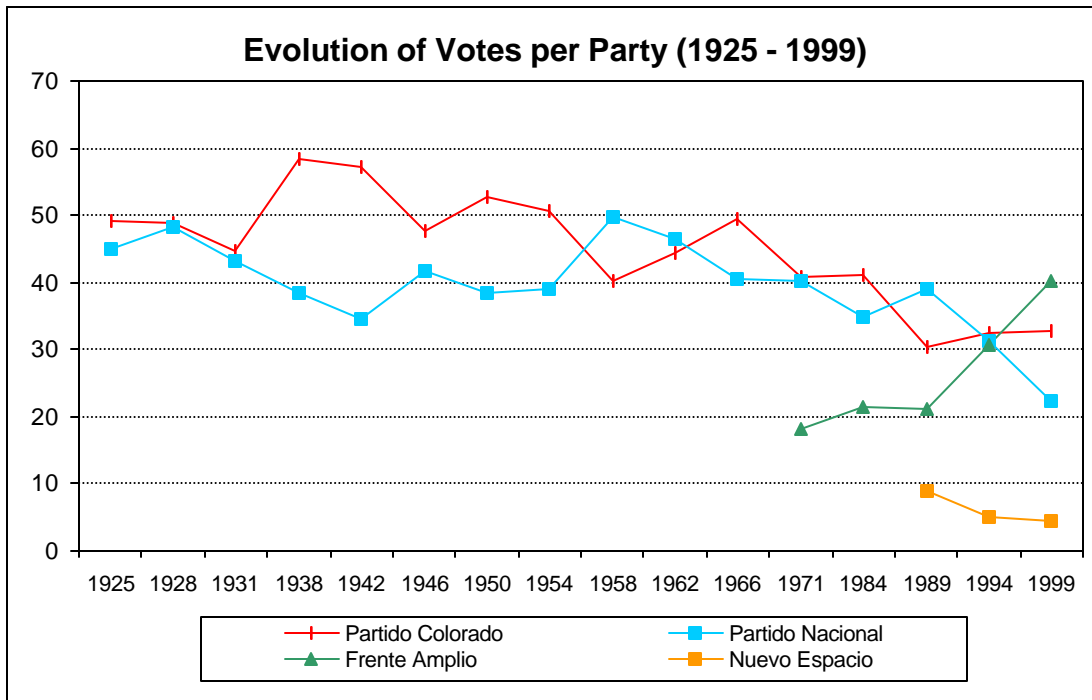
²⁹ Partisans of the Nacional Party and Colorado Party respectively.

³⁰ Parties in the U.S. have recently been analyzed from a similar perspective. See: Gerring, *Party Ideologies in America 1828-1996*, Cambridge University Press, 2000.

³¹ Partisans of the *batllismo*.

moderation of the Frente Amplio. Until the early sixties, Uruguay had a two party, moderate system. At the beginning of the seventies, the scenario changed deeply: the number of parties increased and polarization grew. After the dictatorship, the number of parties did not change, but polarization slowed down, so that the present Uruguayan political system can be described as moderate and multi-party.

Chart 1



After a process of ideological and programmatic evolution, the left ended up tuning with the media voter. Through a systematic opposition to essentially all the reforms, the left became the political force that best interprets the Uruguayan “*batllista* political culture”. Of course, to get to this stage the left had to go through a deep change. The fall of the Berlin Wall in 1989 made it easier for the Frente Amplio Party to start a slow but systematic turn towards the centre. The thrive of economic liberalism that followed the collapse of the socialist system and the crisis of the Welfare State left a deep imprint in the ideology and programme of the left. The Frente Amplio has abandoned radicalism regarding the State and the nationalist ideas it used to have at the beginning of the seventies. Its current programme can be defined in general as social-democrat. Although it still assigns an important role to the State on the administration of the economy, it does not promote nationalisation policies, recognising the role of private initiative (Garcé y Yaffé 2004). In a few years, the *Frente Amplio* capitalised the political legacy of the *batllismo*: nowadays it occupies an extensive ideological space from left to centre, while *blancos* and *colorados* share the space from centre to right.

An overview to the dynamics of political preferences helps understanding why public policies in Uruguay have been reformed in such a moderate and gradual way. During his two presidencies, but specially during the second one, Sanguinetti tried not to set his political discourse and his workings in office far from the predominant preferences of the citizenship regarding State

intervention and social policies. Any effort to explain the content of the reforms that were implemented over those years is likely to fail if it does not take this aspect into account. Additionally, Sanguinetti's political preferences tend to be closer to social democrat ideas rather than to liberal ones. The possibility of forming political and social coalitions capable of repealing laws passed by Congress has obliged presidents to be extraordinarily cautious and to try not to affect the interests of those groups with veto and mobilization power. The referendum and plebiscite rules are key institutional ingredients to understand the moderation of the liberal reforms carried out in Uruguay from 1990 onwards.

This ideological moderation process, in the context of the diminishing party system polarization, gave place to, at least in theory, a favourable scenario for the construction of agreements between the traditional parties and the left wing opposition. However, between the *blancos* and *colorados* on one side, and the left on the other, there have been low levels of cooperation. Both political blocks have contributed to this situation. *Blancos* and *colorados* have generally preferred to leave the left at the margin of the main negotiations, probably to impede its movement towards the center. The left has chosen a clear opposition policy, querying systematically and indiscriminately the successive governments.

From 1985 on, except for some exceptions, such as the constitutional reform of 1996, the reform of Social Security or the ANCAP Association Law that has been recently repealed, *colorados* and *blancos* did not look for cooperation of the opposition in Congress. Not only it was easier for them, but also politically convenient to reach agreements between them than with the left wing opposition. Regarding substantive preferences, it was the case because ideological distance between *blancos* and *colorados* is far less than it is between any of them and the left wing. Regarding political strategies, it was due to the fact that traditional parties have no interest in favouring the left wing's growth and they did not need it to pass the laws. Apparently, the leaders of the traditional parties were convinced that the best way to prevent the left wing from growing was, precisely, to keep it aside from relevant decision-making. Having the left wing not to take part in political agreements on relevant issues had, from an electoral point of view, two objectives. First, to show that the problems of the country could still be solved by the traditional parties without the cooperation of the left wing opposition. Second, to hinder the process of political moderation of the left wing and its shift towards the centre. The traditional parties left aside the exclusion strategy only when they believed that reforms would not be possible without the inclusion of the opposition.

Nevertheless, the lack of agreements between the successive governments and the left wing can not be explained only by the political strategies of *blancos* and *colorados*. It is essential to take into account the fact that the opposition did not show any interest in cooperating. Since the creation of Frente Amplio in 1971, the majority of its leaders has believed that the best way to increase the electoral support of the left wing is to adopt an opposition strategy, systematically questioning the governments. The Uruguayan electoral behavior seems to have praised this strategy. Between 1984 and 1999, despite it was essentially a period of growth and reduction in poverty, the opposition could double the number of votes, becoming the most voted political party.

Summarising, after the dictatorship, differences in program among the left wing and the other parties diminished. However, the political strategies orienting electoral competition among relevant actors hindered the building of bridges between the parties that assumed the responsibility of government and the left wing opposition.

5 A Characterization of the Policymaking Process

5.1 A Brief Description of the PMP

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

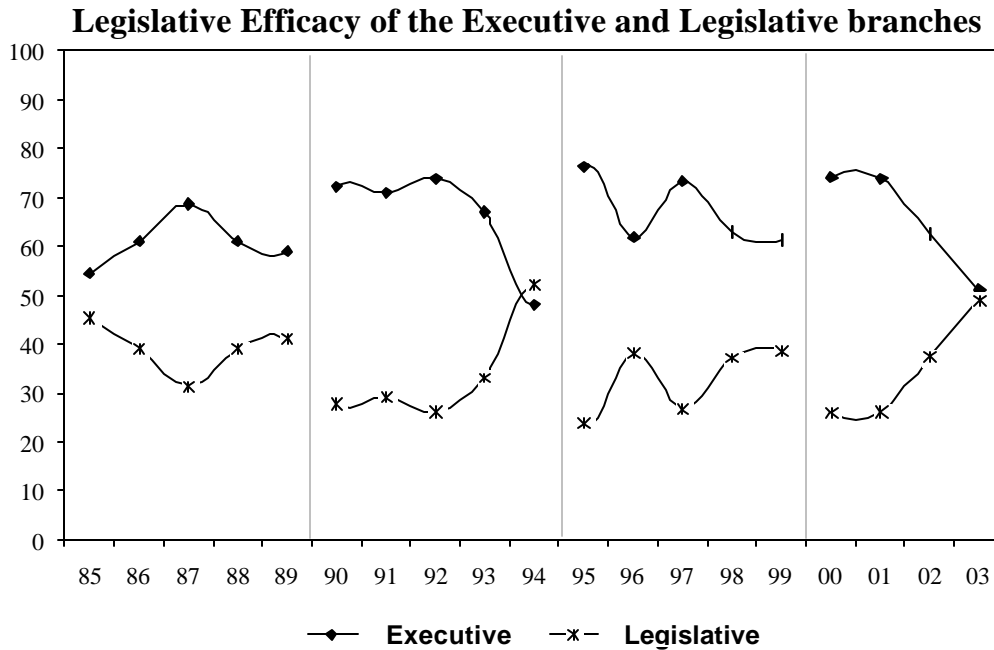
In the context of a presidential regime with a multiparty system, most Uruguayan presidents since 1985 have been forced to form governmental coalitions to pass their policies. Thus, before each government takes power, most presidents have to negotiate the policies to be incorporated in the political agenda. This process implies an intense inter and intra-party negotiation process³², based on an exchange of political support in a set of strategic bills (for the president) for cabinet portfolios demanded by those parties and factions that will be part of the governmental coalition.

During the span of time that presidents are supported by the governmental coalition, they are willing to pass the agenda (or at least partially) and the policies negotiated at the coalition formation stage. However, as long as the presidential term progresses, the incentives for those who cooperate with the president decrease, given that the electoral calendar forces coalition members to compete. Indeed, the payoff structure of governmental coalitions under presidential systems determines that those who support successful governments will receive small benefits (votes), and for this reason coalition termination before the electoral campaign begins is a precondition to avoid such electoral inefficiencies. On the contrary, those who support unpopular or unsuccessful presidents have strong incentives for coalition termination. In both cases, the duration of governmental coalitions under presidential systems is limited by the electoral schedule. Given the process described above, as long as the term progresses the electoral competition leaves most presidents without legislative support to pass their policies. In sum, cooperation characterizes the first period of most Uruguayan administrations, while competition is the norm in a second stage.³³

³² The intra-party negotiation is the result of the predominant model of parties. Given that parties are factionalized, presidents have to negotiate policies with other factions within their parties, in addition to the inter-party negotiation in order to form a governmental coalition.

³³ The political cycle has to be expected in all presidential regimes with simultaneous elections and fixed term for presidents. However, in some political systems that this conditions are met also show a less pronounced cycle or it has a minor relevance for the policy making process. In most of these cases there are other institutional devices that buffer political or institutional conflict between presidents and assemblies (Shugart and Carey, 1992). For instance, the presidential reelection allowed by the 1997 constitutional reform in Brazil changed dramatically the positioning of political parties regarding the electoral competition and their strategies towards the executive. Something similar can be observed in Chile with the system of binominal districts, which forces parties to cooperate by being part of coalitions. Overall, some institutional devices beyond fixed terms and simultaneous elections can induce higher levels of cooperation during presidential mandates (See Chasqueti, 2001).

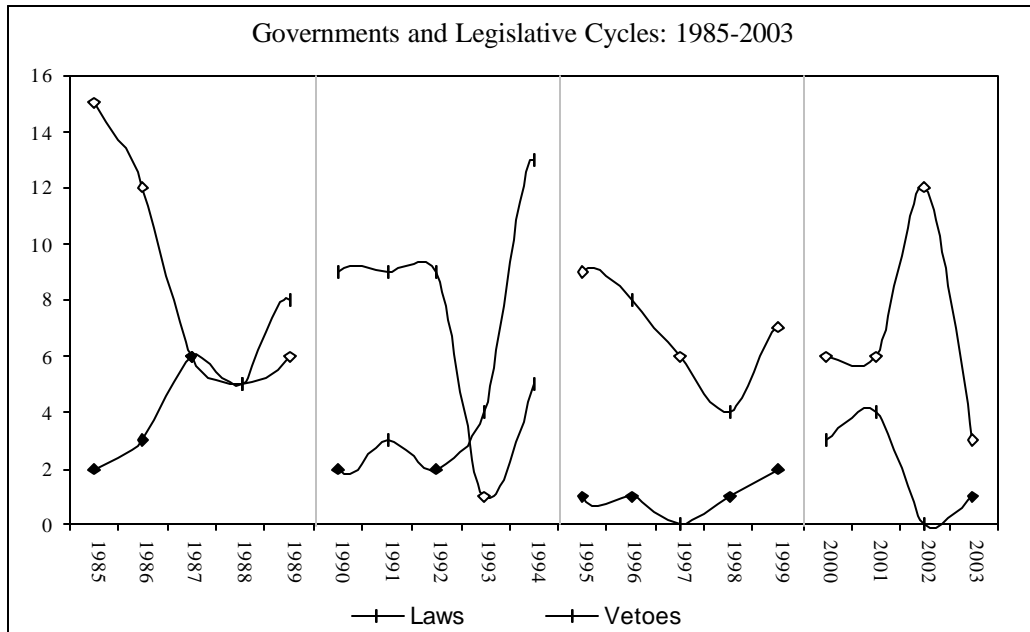
Chart 2



As can be observed in Chart 2, while cooperation periods enable presidents to pass their agenda, competition periods are characterized by the presidential inability to buffer the policy preferences of the legislature and the opposition parties. In sum, cooperation periods yield policy formation under political agreements, while competition periods are more prone to policy stalemate or *status quo* (Buquet et al., 1998). This dynamics implies the ability to develop some political exchanges and get some cooperation in several areas, although that cooperation will be difficult to sustain until the end of presidential mandates because of the logic of the electoral competition mentioned before.

The PMP evolves under the above political and institutional dynamics. Theoretically, the PMP can be analyzed taking into account the agenda setting and the policy design processes. The agenda setting process in Uruguay is determined by the cyclical pattern of government described above. At the outset of each government, presidents and coalition partners bargain on a set of policies that will prevail in the legislative arena. By implication, those policies will have political support in Congress. In addition to those contexts in which presidents are supported by governmental coalitions, some institutional features give them an important asymmetry in the congressional arena. Indeed, Uruguayan presidents have exclusive initiative in relevant policy areas, such as the budgetary process, tax policy and the ability to appoint new personnel for key administrative posts. Thus, during cooperation periods, presidents are able to legislate and pass the governmental agenda without major congressional opposition.

Chart 3



According to Chart 3 the above political context suffers major changes as long as term mandates advance, since most presidents systematically lose political support towards the end of their terms. Systematically, during the last two years of each government the agenda tends to shift from the executive towards the policy preferences of the legislature, and particularly in favor of those who are leaving the coalition or more punctual governmental agreements. During the second part of the cycle, the policy agenda follows a more particularistic pattern, given the electoral proximity and the fact that during the first part of the cycle legislators were working with the policy preferences of the executive³⁴. During this period, legislators are more prone to respond (via legislation or simple attention) to more narrow constituencies. Given that parliament becomes more proactive in the legislative process, it is also expected that presidents will be more prone to react to their policy preferences. For this reason, executive vetoes become more frequent during the last part of each government. Presidents can veto legislative initiatives (also with item veto) without restrictions on policy areas and can be overridden by a vote of 3/5 in each chamber (Magar and Moraes 2003).

The process of policy design is also strongly determined by the institutional rules and structures. Presidents have not only exclusive power of legislative introduction in some policy areas, but also key institutional sources of expertise located at the bureaucratic apparatus. In contrast, the parliament lacks these resources in order to design public policy. Given that legislators gain their nomination from faction leaders and that those leaders are policy brokers who negotiate policies (via coalitions or particular agreements) with other parties or factions, individual legislators have no incentives to create strong institutions within congress.³⁵

³⁴ Interest groups have a limited influence as agenda setters. However, those groups have an important veto power. Generally, interest groups exert a direct pressure on the Executive in order to modify or reverse some policy decisions. When those pressures are ineffective, interest groups shift their efforts towards Congress and particularly to the committee structure.

³⁵ The Uruguayan parliament has a relatively small budget. Individual legislators can count on small amounts of money to finance and solve their particular needs in terms of staff, information and logistic resources. The internal institutions oriented to fulfill legislator's needs are scarce and not well equipped both in human resources and technical knowledge on public policies. During 1997 the IADB financed a large research project to evaluate the viability of introducing a permanent technical staff to assist the needs of legislators in different policy areas. However, Uruguayan legislators and the administrative staff frustrated the reform. In particular, Uruguayan politicians have been reluctant to accept think tanks

The Executive has an important set of specialized agencies and experts that will be in most cases responsible for designing public policies, further delivered to the legislative arena. As such, the legislature reveals a limited set of resources and specialized staff to produce public policies. Indeed, neither parties nor the legislature have think tanks and specialized bodies dedicated to design public policies. Regularly, coalition legislators are capable to influence the policy design during the legislative process. The most important bills get into Congress through the Senate (Chasquetti and Lanzaro, 2003). The senate committee in charge has the authority to make changes, despite the fact that the Executive will avoid a policy stalemate by sending bills far from its best policy preference. As a general rule, committees frequently amend Executive proposals, negotiating with the president or individual members of the cabinet. Additionally, interest groups, bureaucrats and experts participate in the discussion of each particular bill. Therefore, the negotiation process implies not only a strong Executive influence, but also the important participation of key legislators in the committee structure.³⁶

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

One of the main ingredients of Uruguayan political institutions refers to the fact that the exchanges among key actors take place outside the Congress, not because of its institutional strength or capabilities mentioned before, but because legislators and the institution as such delegate the policy negotiation in the faction-leader structure. The main policy decisions are delegated to the party leaders and the policy design is frequently delegated to the Executive once the political deal has been signed. In several areas, the incentives for non-cooperative behavior are intense, particularly when negative economic shocks occur.

This scenario seems to be able to support some political cooperation in the short run. However, this constellation of political institutions does not appear to be conducive to cooperation in long-run stable and flexible public policies.

5.2 Main Implications

research and individuals specialized in some policy areas of strategic importance, such as telecommunications, energy and also institutional or political reforms. The legislature and individual legislators have followed two types of bypasses to solve the lack of technical knowledge. On the one hand, since the legislature delegates a large part of the policy design in the executive power, all committees require information and the opinion of ministers and public firms directors in order to have a better look at the policies under consideration. This process has been intensified during the last coalition governments observed since 1990 onward. On the other hand, legislators are allowed to request the transfer of public servants to work in their particular staff. Those public servants are generally professionals working in areas of particular interest for the legislator (see Chart in Appendix III to observe the level of seniority in the Uruguayan parliament).

³⁶ Each chamber determines the set of standing committees that will have at the beginning of each legislature. Overall, the number of those committees has increase during the last decades. For instance, during the period 1985-1990 both chambers had 9 standing committees, but the current legislature (2000-2005) shows a lower chamber and a senate with 14 and 15 standing committees respectively. In addition to these committees, each chamber can create ad hoc or special committees to investigate a certain type of policy or to oversight executive decisions and policies. This type of committees requires special majorities to be created and its survival is very limited, since they are created with very specific purposes (see www.parlamento.gub.uy).

Hitherto, the basic form of the Uruguayan policy-making process shows several implications. First, the Executive power is the main agent in the legislative process. This Executive has a mode of interaction with legislatures in which the latter retains the power to veto executive proposals and shift the policy preferences of the president (Cox and Morgenstern, 2002). Executives set the agenda by using different prerogatives and rest upon strong bureaucratic and administrative capabilities that allow them to design their policy preferences.³⁷

Second, the opposition party (Frente Amplio) has no incentives to become a policy maker within the legislature, given that governmental coalitions simply pass their own agenda. Thus, since 1985 the Frente Amplio has increasingly become a control agent rather than a policy maker, as a consequence of its own position outside the presidency and governmental coalitions (Chasqueti, 2003).³⁸

Third, there are implicit delegation mechanisms from the legislature to the Executive. By delegating the policy design into the Executive Power, government or coalition-legislators are able to dedicate their time and resources to serve their constituents by providing particularistic benefits in the form of small pieces of legislation and casework (Moraes, 2004).³⁹ This type of delegation allow pressure groups to focus their lobby at the executive power rather than the legislature and individual legislators, despite the fact that those interest groups participate during the legislative process and particularly at the committee level. Furthermore, interest groups are mostly oriented to influence coalition members because they are part of the executive power. Thus the incentives to knock on the doors of the legislature are fewer than those to pressure the executive and those who join the governmental coalition. Furthermore, the dynamics of executive-legislative relations also affect the incentives to create legislative institutions. During the two-to-three years of cooperation (within governmental cycles) the Senate is oriented to work with the presidential or coalitional agenda. For this reason, during this stage the Senate does not have incentives to create institutions to create informational resources. However, during the second part of governments legislators are oriented to the electoral competition and their own constituencies and by implication the incentives to create those institutions and informational resources are low.

Fourth, since parties are strong, logrolling is negligible in the Uruguayan Parliament, with the only exception of low profile bills at the end of legislative terms (Weingast and Marshall 1988). For this reason, legislators have few incentives to create legislative institutions in order to improve their chances to pass their policy preferences and by implication their probability to be reelected. However, from an informational point of view (Krehbiel 1991), only the Frente Amplio has incentives to create those institutions or informational resources. Given that coalition partners or governmental parties delegate the policy formation and the informational resources to the Executive Power, these parties have no incentives to create those institutions. Hence, only the

³⁷ The Uruguayan Executive is structured around 11 ministries with a policy area of specialization and control over a set of programs. Additionally, the Executive has an Office of Planning and Budget that designs and controls the whole elaboration and execution of the national budget.

³⁸ During 1985-2003, the Frente Amplio performed a total of 9217 requests of information to the executive power, representing a 60,4% of whole number of requests made by the Parliament during that period. However, since 1997 the Frente Amplio intensified its requests arriving to values above 80%.

³⁹ Uruguayan legislators invest 28 hours a week (on average) in providing help to individual voters. This number of hours is almost equal to other countries in which legislators have notorious institutional incentives to provide particularistic benefits and goods to their voters, such as the Brazilian case (Hagopian, 2002).

opposition party has the incentives to create those resources or institutions within parliament. Additionally, the Frente Amplio has the highest reelection rates, which supports the thesis that the creation of specialized bureaus and informational resources are linked.

Fifth, the lack of incentives to build institutional capacities is not due to the fact that reelection rates are low. Rather, the Uruguayan case shows comparatively high levels of turnover in the region. More specifically, a 49, 54 and 65 percent among those who seek reelection achieved their goal for the 1989-94 and 1999 elections (Altman and Chasquetti, 2002). This evidence reinforces the argument that low reelection rates are not the argument for explaining the weakness of legislative institutions in Uruguay.

Sixth, the legislature also delegates power into executive programs and specific agencies. This type of delegation originates at the executive power, but the legislature generally intervenes during the policy making to permit itself further mechanisms of control. Thus, this type of delegation may not result in an efficient way of transferring power through administrative procedures. Generally, many institutions have several problems to execute their objectives due to the fact that legislators and parties usually exert pressure over those agencies to shift their policies. Also in this case, interest groups exert a direct pressure to revert policy decisions made by those agencies. As obvious, the type pressure exerted by those interest groups leads into poor levels of institutional performance given the dominance of informal channels of interest representation.

Finally, a relevant feature of the Uruguayan policy making process is that executives never bypass the legislature. Unlike many Latin American countries where executives circumvent legislatures using their decree power and other institutional devices, Uruguayan presidents do not have such a power. Even in those cases where the executive has some attributions to regulate via decree some policies passed by congress, the executive never violates the stipulations made by the negotiations that lead to proper law. The Uruguayan political system has a strong legalist tradition where the legislature and the executive interact to produce public policies.

There are no cases since Pacheco's presidency in 1968 in which the executive has tried to circumvent the legislature. Indeed, it has no legal instruments (such as decree powers or administrative procedures), but in some cases in which deadlock raised, political negotiations always prevailed. If presidents usurp legislature's rights and particularly some of the core policy preferences of the left wing party, the costs of this type of action can surpass the benefit. Since the opposition can be a relatively easy promoter of plebiscites or individuals can use the judicial power to declare the unconstitutionality of laws and decrees, Executives have tried to avoid these actions by broadening political negotiations. Overall, there is a trade-off between representativeness or "democratic inclusiveness" and efficiency and efficacy, given the number of veto gates (as institutions) and veto players (as political actors operating those institutions).

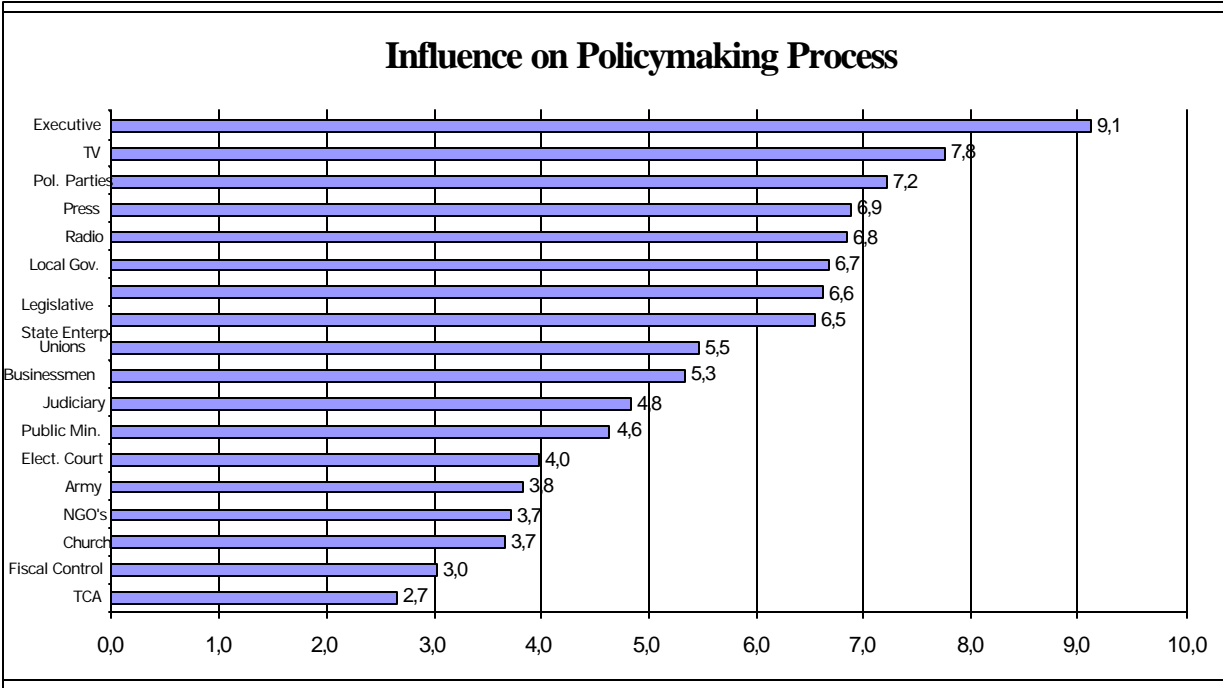
6 The Perception of Relevant Actors

An elite survey was developed about the main aspects linking the political institutions and the policymaking process. The view of relevant actors about how they perceive these issues can be

taken as a crucial ingredient in order to understand the process and the political culture in the country. The survey includes 46 variables related to the policy making process, the inclination to agreements, and the perception of changes and stability in public policies. Respondents were selected among Uruguayan “elites”, including ministers, legislators, mayors, directors of public enterprises, leader of unions and businessmen, scholars and journalists.

A first approximation to the policymaking process arises from the comparison of the degree of influence that have diverse private and public institutions. According to the perceptions of the elites, the Executive the predominant role in such process. Secondly, it ranks the political parties and the media, and it is only in a third group in which it appears the Legislative, local governments and public enterprises. Businessmen and unions are located also within the groups that are assigned with some influence by the elite.

Chart 4



The Executive-Legislative relations constitute the core of the policymaking process. The hindering vision of the Legislative Power is a minority perception among the Uruguayan elite and it is concentrated on the businessmen. Most of the opinions are divided among those who perceive a stable relation between both powers and those who believe that the Executive is imposed on the Legislative. As expected, the members of the Executive clearly prefer the equilibrium vision, while among legislators dominates the vision of the imposition of the Executive.

Broadly speaking, elites tend to assign the Legislative with relatively little influence in policy design as well as in control and overseeing. The issue in which the Legislative is seen with the highest influence is the elaboration of the national budget, the only field in which its role can be qualified as significant. The budgetary process is the environment in which the Uruguayan

society as a whole (political and not political) sees the Parliament as a decisive actor. Additionally, the elite thinks that the time typically taken by Congress to pass a law is excessive and that productivity in the legislative action is not adequate.

In general, the elite tends to perceive the existence of few changes in Uruguayan policies since 1985, in accordance with the common view of a country reluctant to innovate, quite conservative, and gradualist in the application of measures. Nevertheless, it is worth noting the perception of some improvements related to the modernization of the State-owned enterprises. Given the incorporation of new technologies, the improvement in the quality of services and, in some cases, the price declines, this is the area of the State seen as the most dynamic and efficient.

We explored the perception of the elite regarding the possibility to achieve agreements in different areas of public policy. In the first place, social and foreign policies appear to be the environments where, according to the polled, the agreements would be more feasible. Secondly, it appears an extensive set of public policies (commercial opening, economic policy, public utilities, retirements and pensions, fiscal policy, tax reform, State reform and financial opening) in which some actors believe that some agreements can be achieved, although they do not constitute a majority. Finally, there are two areas in which the elite clearly mistrust in the possibility to agree: labor flexibilization and privatizations, which have been the source of main political conflicts in recent years.

The study finally tackles the perception of the elites with respect to the stability of diverse Uruguayan public policies. In general terms, public policies are qualified in an intermediate level of stability; nevertheless we can appreciate important differences according to the policy in question. In the first place, it is worth emphasizing the great stability that the elite attributes to the policy of public liberties. It can be said that the notion of a consolidated and sound democracy appears clearly reflected in the answers of the polled. Second, we find a very extensive group of policies whose stability results qualified at intermediate levels. Financial and commercial opening stand out among them, with the greater scores. A second subset (taxation policy, legal security, international relations, public expenditures, social security and public utilities) can be reasonably qualified with intermediate stability. Educational and health policies remain more relegated, with scores that clearly approach them to a low stability. Finally, the State reform appears as the policy with worse performance in terms of stability. Linking this indicator with the poor qualification that the public administration obtained in terms of changes, we can conclude that there exists a hardly critical judgment of the Uruguayan elite with respect to the performance of the State.

7 Some Results

Uruguay has a political pattern of implementing policies and reforms that permits progress in an incremental fashion. This incremental feature of the Uruguayan PMP is the result of the prevailing institutional engineering (electoral and regime rules) and the transformation of the party system in recent years (electoral realignment and substantive changes in party functions and strategies).

The Uruguayan political parties are the main actors both in government and opposition, shaping the processes and contents of major public policies. Particular attention shall be paid to the switch from a politics of "triangle" to a politics of blocs. In fact, to the extent that the leftist front (FA) grows, "blancos" and "colorados" - who have been rivals throughout Uruguayan history and have been competing against each other in the new democratic period - are nevertheless going through a process of "convergence". Even when they are still competitive partners, they contrive compromises and coalitions, and thus form a political pole and an ideological family. On the other side, the leftist FA is developing as the dominating opposition force, putting forward its positions against liberal initiatives and privatisation. These patterns of competition and cooperation are central factors in order to explain the different chapters of the politics of reform and their outcomes.

Uruguay is able to generate different kinds of results. First, relatively stable policies, such as the commercial and financial openness of the country. Second, policies featured by a low volatility, but inflexible and low quality, such as those related to social policies, some areas of the State reform (civil servants' wages and hiring mechanisms), the bankruptcy regime, and so on. Third, volatile outcomes across economic shocks, such as the discretionary public spending side.

Consistent with the analytic framework, the resulting political decisions do not depend solely on the political institutions but also on the transaction-cost characteristics of the different arenas, such as political and social preferences, demands of intertemporal exchanges, different sets of political and social actors and the availability of enforcement mechanisms. This constellation of policies can emerge from an institutional environment that does not facilitates intertemporal exchanges and cooperation, due to the relevant ingredients contained in the description of political institutions.

In the cases in which the policies are relatively stable, political preferences tend to be convergent and the expected gains from political conflict not significant. Additionally, external enforcement mechanisms could be available through strategies such as "tying one's hands". The commitment technology was not provided by the working of the political system itself, but external "enforcers" were needed. Here history dependence could also play a key role, which makes very costly to reverse policies in several areas.

In the cases in which the policies are rigid and low quality, political preferences tend to diverge but the cost of implementing safeguards is relatively low. The rigidity emerges from the need of political safeguards and the low volatility is consistent with the fact that institutional change is very costly in Uruguay. These areas can be featured by the presence of political threats and the perception of politicians that the probability and costs of having their policies reversed are high.

In the cases of volatile outcomes, this result is determined by the absence of stable and adaptable policies across economic shocks. The decisions here are delegated essentially in the Executive, particularly in the implementation stage. This is not the result of political conflict but of the inability to set rules with a long term perspective.

Political institutions in Uruguay are conducive to political compromise with a short run perspective, but not to effective cooperation about stable and flexible policies in the long run. With the new constellation of parties and political preferences, there is a greater uncertainty about the ability to cooperate in the future.

The difficulty to achieve intertemporal political exchanges is consistent with some characteristics of the political environment. The number of key political actors and veto points in several areas is relatively large and this does not facilitate cooperation, even if the political leaders have some intertemporal linkages. A relevant amount of political moves is not openly observable, although some transparency emerged in recent administrations. Despite the tradition of a relatively independent Judiciary, the enforcement technologies are poor in the economic arena; the bureaucracy is crucially influenced by political considerations, relevant and actual delegation has not took place and the Courts are not well prepared to handle complex economic issues. The key political exchanges take place outside the legislature and their certainty, observability and enforcement are less obvious, in a framework of political fragmentation, a particular constellation of parties and preferences, and costly policymaking and institutional change. Additionally, the workings of the policymaking process suggest that the intra-period payoffs from non-cooperation are high.

Those areas in which the Executive has broader discretion and, therefore, require less bargaining and cooperation, tend to show more volatile outcomes, since the Executive has some freedom to accommodate them to economic shocks. Again, this is not the result of political conflict but of the inability to set rules with a long term perspective, in an environment featured by mostly rigid policies. An example of this case is related to discretionary public spending. Those areas in which more participation of the legislature is required and the interaction between the Executive and the Legislative is more intense, policies tend to be rigid. Social policies are typical examples of this case.

In sum, in the cases in which history or the availability of external enforcement devices do not lead to relatively stable policies, the main outer feature of Uruguayan policies is rigidity. The source of rigidity appears to be a mixture of institutional factors (multiple veto points, factionalized parties and direct democracy mechanisms) and political conflict (divergent policy preferences), in which it is very costly to move from the *status quo*, due to the credible threat of policy reversal.

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Appendix I: Brief Description of Some Policy Cases⁴⁰

a) Constitutional Reform

Although this does not constitute an economic policy itself, the analysis of the Constitutional reform endorsed in 1996 will help us to understand the workings of the political institutions and the policymaking process. The proposal, discussion and establishment of political reforms is not a symptom of a particular special situation in Uruguay, since the expedient of constitutional reform was used many times during the last century as a mechanism to overcome different political stalemates which challenged our traditional party politics. In Uruguay, the predominant vision of politics is juridical, and an effort has been made to include all the fundamental institutions in the constitution, with relatively detailed regulations. This means that the

⁴⁰ In some of the policy descriptions, the works of the GDNet project “Understanding Reform, the Uruguayan Case” have been used as very significant inputs.

constitution must be changed whenever there is a move to introduce some institutional experiment.

Nevertheless, the Uruguayan electoral system had a very solid set of characteristics that were gradually built along the first decades of the XXth. century, through a consensual agreement that involved both traditional parties. The first rule adopted was the double simultaneous (DSV) vote, introduced by law in 1910. In the constitutional reform of 1918, the DSV was maintained and combined with the election of the president by plurality, and the proportional representation (PR) was introduced for the election of the low chamber. Finally, the electoral system finished to take its shape with the constitutional reform of 1934, that made all elections concurrent, and the constitutional reform of 1942 which applied the PR system on both chambers. That four features (DSV, plurality for presidency, PR for legislative, and concurrency) describe, broadly speaking, the mature Uruguayan electoral system that regulated electoral competition from 1942 to 1994 and for most of the time were functional with the characteristics of the Uruguayan party system.

Uruguay has had a solid bipartisan political system for more than a century. But during the 1960s the Uruguayan party system began to undergo changes, which have continued up to the present time. These changes include the systematic loss of votes by the traditional parties and the consequent growth in the electoral strength of the leftist opposition, which grew to the point where it was poised to be a sure winner in the 1999 elections. As it stood, the electoral system, which for decades had served needs of the particular structure of the traditional parties, would have allowed the left to come to power. Foreseeing this eventuality, the traditional parties effected sweeping reforms in the old electoral regime. Among other measures they brought in the majority runoff system⁴¹, and so improved their chances of continuing in power.

On December 8th, 1996 there was a plebiscite in Uruguay, which approved the sixth constitutional reform in the history of the country. That day, with one of the closest results in electoral history, the Uruguayan people ratified the political changes advanced by the two traditional parties (the Partido Colorado and the Partido Nacional) in concert with a small center-left party (Nuevo Espacio), and opposed by the main left wing party (the Frente Amplio).⁴² The new law makes considerable changes to the rules of the political game and especially to the electoral system, but it also deals with the level of regulation of the political parties and the relationship between the executive and legislative branches.

The new electoral rules, which came into force in 1999, modified three of the four main characteristics of the electoral system, leaving intact solely the use of proportional representation in legislative elections. First, the plurality system for the election of the President was replaced by the two-ballot majority system. Second, the employment of multiple simultaneous vote⁴³ was drastically reduced as now each party could only run one presidential candidate, a maximum of two candidates for municipal mayor, and the accumulation by *sublemas* for the election of

⁴¹ The rule is that to be elected president an overall majority of the votes is required. If this does not happen in the first round, a second election is held between the two candidates who received the most votes, so in the end one of them must necessarily receive more than half the valid votes.

⁴² For the sake of brevity, PC for the Partido Colorado, PN for the Partido Nacional, NE for the Nuevo Espacio and FA for the Frente Amplio, in what follows.

⁴³ The utilization of the concept of the "multiple simultaneous vote" means it is possible to select on two levels within a party. When a vote is cast for a political party (lema) it is possible to vote directly for one of its lists of candidates, or, if this list forms part of a party faction (sublema), the vote is cast first for a group of lists and then for one list in particular. In the former case there is a "double simultaneous vote" (party – list) and in the latter a "triple simultaneous vote" (party – party faction – list). In the presidential election only the double simultaneous vote was permitted.

representatives was eliminated. Third, the all-concurrent elections system changed to a partially non-concurrent system as the elections were disconnected and separated (the internal from the general, the national from the municipal, and, to a certain extent, the parliamentary from the presidential). A fourth important change was the elimination of the distinction between “permanent” and “accidental” *lemas*, allowing new parties to present a number of lists for the parliamentary election⁴⁴. In fact, the electoral system has undergone changes so far-reaching that, in the long term, very significant transformations in the dynamic of the political system can be expected.

The new rules also promoted the political fragmentation and the level of internal factionalism of political parties. The reform yields a reduction in the number of lower house lists of candidates and of the legislative support of the president, as well as a more disciplined legislative conduct on the part of the political parties. The new electoral calendar also presents some important changes since the reform also compels parties to hold primaries in order to present unique presidential candidates. Given that those primaries are held almost one year before the general elections, the governmental process and most political agreements among parties was reduced, *de facto*, by increasing the time for electoral competition. An obvious by-product of this amendment is that parties and institutions decrease their interest in public policies.

The reform process that took place during Sanguinetti’s second administration, which had in the constitutional reform its cornerstone, was launched and maintained –in the context of a government coalition between the two traditional parties- due to the threat posed by the prospect of an electoral victory for the leftist opposition in the subsequent election, which seemed highly likely (Filgueira & Filgueira). But the constitutional reform was carried out on the basis of a diagnosis which detected deficiencies both in the area of the legitimacy of the political system and in the efficacy of the task of government, and therefore tended to incorporate changes which generate popular support on the one hand and facilitate the process of policy decision making on the other. The political process of the reform looked for the possible most extensive agreement, and, as a consequence, the result was a complex “package” of norms where those intended to solve some problem might generate others.

The political process that led to the constitutional reform of 1996, is very interesting in terms of the role played by the major political actors involved, their policy preferences, and their strategic choices. Since 1985, several proposals were made by alternative groups of parties and factions. The first one submitted in 1986, an informal proposal made by some young politicians appeared in 1990, the *maxirreforma* of 1993 and the *minirreforma* of 1994 were all beaten by either the political process itself or the popular vote in the plebiscite in the latter case. After this sequence of failures, Sanguinetti created a Multiparty Commission to deal with this issue, which ended with the proposal finally approved in 1996. It is important to say that the main leaders of the *Frente Amplio* essentially agreed with the terms of the Constitutional reform during the negotiations, but this generated a serious internal conflict which resulted with the party voting against the proposal and with the resignation of its President.

The main strategic goal of the constitutional reform was achieved as long as the new electoral rules, specifically the majority run-off, favored the maintenance of the reformist coalition in

⁴⁴ From 1966 until the 1994 election, only “permanent” parties, i.e. those that already had parliamentary representation in 1966, had the prerogative to present more than one candidate per party, that is to say to benefit from the simultaneous multiple vote.

office. But it occurred in a different way in relation to the originally planned. The winner party was the Colorado instead the Nacional and the majoritarian factions inside parties were the radicals instead the moderates. The difference between the actual outcomes and the expected ones came from some erroneous calculations made in the original plan (Buquet & Piñeiro) and some strategic mistakes made during the electoral campaigns (Chasqueti & Garcé). Additionally, the new rules hardly improved the political system performance and, actually, we would be able to think that they had a negative impact if we pay attention to different indicators, as coalition duration and productivity or the approval of the government. The constitutional reform seems to be an example of the myopia of the political class pursuing short-term benefits to the detriment of long-term certainties. Additionally, the reform could not mitigate the political blockade, in spite of intending to include norms which encouraged political agreements, negotiation, coalition formation and stability in the Cabinet. This did not proved true, since the underlying incentives for cooperation and conflict did not change substantially.

b) Trade Policy

Trade policy is in the hands of the Ministry of Finance⁴⁵ (MEF) and the Ministry of Foreign Affairs (MRE). The MEF has played the more important role in defining the country's unilateral trade policy, while the MRE has been more important in trade negotiations in the international ambit.⁴⁶ The Board of Foreign Trade of the MEF has had a special role. Historically it was connected to promoting the international insertion of the country, but after the appearance of other specialist organizations at the beginning of the 1990s (URUGUAY XXI, chambers of entrepreneurs) it's role was reformulated as a technical advisor to the MRE in trade negotiations and international forums, which increased considerably in number in those years (WTO, MERCOSUR, etc.). Negotiations in the MERCOSUR led to the generation of a more permanent and coordinated scheme of cooperation in the public ambit than had been in operation up to that time. Uruguayan representation in the Common Market Group is made up of representatives from the MEF, the MRE, the Uruguayan Central Bank (BCU), and the Planning and Budget Office (OPP), in which the MEF has been a protagonist. The role of the MEF is linked, among other things, to the continuity of the technicians who participate, something which the MRE has not been able to achieve because of its own diplomatic functioning. However, the MRE recently set up the Integration and MERCOSUR Board as a response to the problem mentioned above.

Congress' participation in policy design is not very great, it has been limited to certain general laws which basically assigned the formulation of trade policy to the Presidency. Parliament's most important contribution has been to ratify the integration agreements and other international agreements signed by the country. Its participation in these has been quite unusual since it was not possible to modify the text of the agreements, so they were voted on in the form that had been previously agreed. Except for the ratification of international agreements, the main decisions in trade policy are taken at the administrative level. With the agreements on regional integration, the way in which trade negotiations are conducted has become a key element for understanding the country's trade policy, and above all for gauging the quality of that policy.

⁴⁵ In the MEF the relevant departments are the Trade Policy Board, the Economic and Finance Council, the Advisory Commission on Tariffs, and the Board of Foreign Trade.

⁴⁶ This section is mainly based on Vaillant (2003), which is freely cited on a number of occasions.

Uruguay's trade policy underwent a big change in 1973 when trade was reformed and opened up. The reform put an end to several decades in which the import substitution model had been applied. For the purposes of analysis, the trade reform process can be divided into a number of distinct periods. These are (i) the promotion of exports and unilateral opening 1974 – 1984, (ii) the continuation of the reform and greater opening 1985 – 1994, (iii) convergence towards the trade policy of the MERCOSUR 1995 – 1999, and then (iv) trade policy in the crisis 2000 – 2003 (Vaillant 2003).

In the period 1974 – 1978, policy was aimed at promoting exports in categories that were denominated non-traditional, which involved the use of instruments of fiscal exemption from internal taxes and from those on foreign trade, credit stimuli and price management. In the period 1979–1984 there was unilateral opening, and some of the incentives to export were reduced. The return to democracy was a political change, but it did not lead to a change in the open market orientation of trade policy in spite of the fact that there was considerable pressure to move in that direction. However, this pressure resulted in greater protection for specific sectors through the use of various non -tariff instruments which were capable of ensuring the desired level of protection. This has come to be called the policy of contingent protection.⁴⁷

After 1990, the process of reducing tariffs accelerated, thus increasing the degree of openness (reduction in the levels of protection and tariff dispersion). The MERCOSUR regional integration agreement dates from the beginning of the 1990s, but it is only after 1995 that the tariff structure of the country took the form agreed by the countries that subscribed to the Ouro Preto Agreement (December 1994). After that, discretion in trade policy was expressed through the management of the so-called lists of exceptions to the common external tariff and exceptions to the free circulation of merchandise within the bloc, in what is called the adjustment regime. A certain change of course can be perceived in trade negotiations since the year 2000, with priority being given to the FTAA over collective negotiations of the MERCOSUR with the European Union, which is the opposite of what policy had been in the previous decade. This has coincided with a period of special difficulties in the MERCOSUR countries and a deterioration in the relations between the members of the bloc.

With the economic crisis which broke in mid 2002, non-tariff measures began to be taken in response to complaints from different sectors that were affected. The ones that stand out are the legal authorization by the Presidency to constitute guarantees to ensure fiscal credit prior to the customs clearance of merchandise, the increase in the rate which the Banco de la República charges for imports, the fact that the reduction that had been announced in value added tax (VAT) and the supplementary social security contribution (COFIS) in order to reach values that do not discriminate against imports was not implemented, etc., (Vaillant 2003). Besides this, there is special protection for certain sectors (footwear and oil).

Some sectors have enjoyed special treatment throughout the period, namely the automotive, textile, sugar industry, and leather and metallurgy sectors. Besides this, the agricultural and forestry sectors have been given preferential treatment through special regimes for the import of

⁴⁷ The sequence of measures during this period are described in Amorin and Bergara (1992). Reduction in tariffs implied the elimination of the redundant protection until the early eighties and non-tariff barriers were extensively used until the MERCOSUR agreement. Bilateral agreements with Argentina and Brazil were deepened in this period, but they had a larger effect on the export side.

inputs, the telecommunications and computer sectors have been helped through special regimes for the import of capital goods, and there have been special regimes for the tourist, health and medicine, education and culture, aeronautical, and naval and marine transport sectors.

A central feature of Uruguayan trade policy is that it has largely remained outside political discussion in spite of the fact that it is a subject on which the population has preferences that are quite marked. This is a distinctive characteristic of this policy when we compare it to other policies like those that have to do with the provision of public services. We should remember that the open market policy was initiated in the period when the country was not under a democratic regime, and it was basically a response to external shocks (the oil crisis, a worsening in the terms of exchange) which made the previous scheme unsustainable. However, the process deepened as time went on, and there was no substantial back-pedaling when democracy returned. Pressure for greater protection was not channeled through the political system, rather it was the sectors that were affected by market opening that put direct pressure on the government to obtain special treatment (for their sector or their company) which would insulate them from the effects of competition. Congress was not a leading actor in the policy, on the contrary, it was the Executive that implemented it, based on some key pieces of legislation. The legislators acted basically as the bearers of complaints made by the business sector to the Executive, rather than as policy makers. On the other hand, the independence of the policy of openness from any recent legal act impeded the use of the instruments of direct democracy to reverse it.

Congress' main participation was when it approved the integration agreements. These were ratified just as they had been negotiated by the government, which is why there was no room for negotiations about policy. Besides, regional integration should be distinguished from the open market policy when it comes to the preference of the majority, since the latter is relatively accepted, perhaps more as a bad effect associated with political integration with Uruguay's neighbors than as an objective in itself. Hence the agreement to join the MERCOSUR was passed unanimously in the Legislative.

Since the return to democracy in 1985, the open market policy has not been retracted, instead particular interests began to be contemplated in particular decisions. The main instruments which were used to bestow this discretionary protection were Minimum Export Prices and Reference Prices, non-tariff instruments which by definition are connected with the protection of internal agents from certain unfair trade practices (dumping). At the beginning of the 1990s, procedures were established which gave greater transparency to the application of these instruments, they were used less, and they were finally eliminated in the year 2000.

From the mid 1990s, market opening took place in the framework of the integration process, and this served the government (external enforcement) by enabling it to not give in to the eventual calls for tariff protection. On the other hand, the fact that regional integration enjoys a level of public support that is much higher than support for market opening means that we can expect that this element of enforcement will help to make openness a long-lasting policy. The pressure which formerly sought tariff protection and a special regime of exchange, etc., and which later changed over to demands for minimum prices for exports, has, with the arrival of the regional agreement, been manifested in seeking exceptional conditions within the MERCOSUR (either as exceptions to the common external tariff or as exceptions to free internal movement).

In the early phase of trade liberalization that lasted until the early nineties, a relatively stable group of industries was isolated from foreign competition. In this framework, the exceptions list improves the chances of a trade reform because it makes it more palatable in political terms. In the second half of the 90's, reciprocal trade agreements (preferential or multilateral non-discriminatory) changed the political equilibrium of the previous unilateral trade policy. The number of Uruguayan industries isolated from the liberalization process was drastically reduced. Indeed, joining the MERCOSUR was to a large extent imposed by geographical reasons, although policy-makers around the region acknowledge the value of the agreement as a "commitment technology" that increased their autonomy *vis a vis* domestic interest groups.

c) Pension System Policy

The social security system is made up of one main public system and a number of smaller para-State systems. The main system consists of the Banco de Previsión Social (BPS), which is in charge of maintaining work history records and also of the whole public benefits system. There are private pension fund administrators (AFAPs) which handle the individual capitalization system. The para-State funds organize specific sectors of activity, and function independently of the main system, these being funds for professionals, notaries, bank personnel, the military and the police.⁴⁸ The regulation of the system of individual savings is currently run by a division of the Central Bank. The rules for the functioning of the system are laid down by law, so Congress was involved in the construction of policy in this area.

The policy of social security reform is mainly set out in the Social Security Reform Law, which was passed in 1995. This replaced the previous single pay-as-you-go system with a mixed system, which has one public pay-as-you-go pillar, and one individual capitalization pillar. The worker can either participate in both pillars or just participate in the public benefits pillar. The reform has been moderate in that the public benefits pillar is still the fundamental basis of the new system (it is estimated that when the system reaches maturity, the public benefits pillar will be responsible for 75% of total benefits). The transitory deficit which usually results from change in a social security system (because contributions to the pay-as-you-go system decrease while the payments it makes remain the same) was financed through the obligation imposed on the AFAPs to invest their funds in government bonds.

In 1989, the indexation of pensions and benefits in line with the index of public sector salaries was incorporated into the Constitution of the Republic after this measure was established in a plebiscite initiated by pensioners' organizations. This made the economic problems of the social security system more acute, and made the increase in the deficit, a trend which had been apparent for a number of years, even worse⁴⁹. To a certain extent, this made it inevitable that the social security system would have to be reformulated on new foundations. Although those who instigated the reform insisted that a crisis in the old system, such as a suspension of payments, was imminent, this was not in fact the case, although there was a sizeable deficit. Thus the perception of a crisis rather than an actual crisis was what triggered the reform. The multilateral organizations had relatively little to do with the preparation of the reform. The World Bank even

⁴⁸ This section is based on Forteza 2003, and he is freely cited.

⁴⁹ Expenditure on benefit payments increased by 4 points of the GDP between 1990 and 1994.

declined to participate, after a confrontation with the government. This has to do with the fact that the Uruguayan reform was moderate and that it does not fit in with the scheme promoted by these organizations in other countries. The basic difference is that in the Uruguayan reform, the public pay-as-you-go pillar has not been replaced, as has been the usual practice elsewhere, but continues to function as the basis of the system. The IADB did not participate in the design of the reform but it did finance the transition. The promoters of the reform had an explicit interest in showing that it was designed in a way that was independent of the “recipes” recommended by these international bodies.

The reform of social security was one of the main policies of the coalition government headed by Sanguinetti from 1995 onwards. It seems clear that the promoters of the reform were conscious of the risk that the reform might be reversed. The 1989 plebiscite mentioned above, and also a second plebiscite that took place in 1994⁵⁰, showed how much activism and support there was for the sectors of pensioners and of workers nearing retirement who benefited directly from these plebiscites. Consideration of this factor had an influence on the timing and the nature of the reform.

The reform was passed at the beginning of the government’s term in office, and this is considered to be an important factor in its success. The law can only be repealed by plebiscite (and this must coincide with national elections) because social security comes under the private initiative of the Executive, and therefore a referendum on it cannot be called. The fact that the system was functioning reasonably well when the elections came helped forestall opposition to it.

Although the unions and the organizations of workers and pensioners did not participate in negotiations for the reformed law, they were borne in mind in the design of the new system because, as mentioned above, it was feared that they might subsequently work to reverse it. Opposition from pensioners and from people nearing retirement age was avoided by means of (i) guaranteeing the rights that had been acquired by all pensioners, (ii) not making it compulsory for people over 40 years of age to join the new system (they could continue under the rules that had been in operation before the law was passed), and (iii) the adjustment of benefits in line with index of salaries, as had been established in the plebiscite of 1989, was incorporated into the law. It was also decided to postpone tackling the problem of the existence of more than one retirement pension system, which is why the law did not require the para-State pension funds for professionals, notaries, the military and the police to join the new system.

The high cost of the transition was also a factor in the design of the reform, since it ruled out the possibility of moving on to more radical reform measures.

The fact that the reform of social security was gradualist cannot be attributed to one single factor, but to a collection of various factors: (i) the coalition which promoted the reform was in the political center, (ii) there was fear that the reform might be overturned, and it was thought that the more radical the reform, the greater the opposition that it would provoke (gradualism as a

⁵⁰ It was established that constitutional norms cannot be included in budgetary laws. With this measure, norms that had been passed in the 1991 rendering of accounts were annulled.

strategy to overcome blockages, Forteza 2003), and (iii) there was an unwillingness (or an inability) to incur very high transition costs in a very short period.

As said before, the domestic political process in which the political opposition and different stakeholders actively participated conditioned the timing and content of the reform. The use of instruments of direct democracy allowed some stakeholders to directly influence the design of the pension policy. A number of referenda were successfully implemented in this period and the credible threat that this recourse could be used again conditioned the content and scope of the reform.

The reform passed in 1995 reduced the politicians' ability to manipulate the sector, using pensions as typical clientelistic resource. In particular, the implementation of work history as part of the reform reduced the capacity of politicians to grant benefits on a discretionary basis. The new stakeholders created by law, the administrators of the pension funds, can contribute to the formalization of the pension system. The social security reform temporarily raises the deficit of the system because of the implicit debt of the downsized pay-as-you-go pillar. One of the consequences of this process refers to the fact that the government induces or even forces the administrators of the pension funds to invest a sizeable part of the fund in public bonds. In essence, the reform was characterised by intense negotiations, involving parties, factions and a large number of interest groups and associations, both at the executive and legislative process. The result is a rigid scheme which tries to avoid opportunistic behavior from politicians. The crisis of 2002 casted doubt on the capacity of the State to meet its payments for government bonds. An eventual failure to meet these obligations would have meant expropriations from the individual savings system, since this is a big holder of Uruguayan bonds.

d) Utility Markets

Utility services have been traditionally provided by public enterprises which enjoyed monopolies in their respective spheres of activity⁵¹. The existence of these enterprises is enshrined in the Constitution of the Republic, and their monopolies were set up by laws which are mainly of a sectoral nature. The management of these enterprises is to a certain extent independent, although the Presidency does have two fundamental powers: to appoint their board members (who have to be approved by the Senate), and to approve the tariffs that the enterprises propose in the monopoly segments. Besides this, there are areas in the various sectoral ministries with responsibilities for the definition of specific sectoral policies, such as the National Energy Board of the Ministry of Industry, Energy and Mining (MIEM), which is formally in charge of defining the energy policy.

Recently, the definition of these monopolies has been affected by changes to the laws that set them up. (i) In 1997, the new regulatory framework for electricity was passed, keeping transmission and distribution as UTE's monopoly. (ii) In the year 2001, ANTEL's monopoly in all telecommunications except for local and long distance national telephony was abolished. This basically allowed the entry of competitors into the international telephony market, because other segments such as data transmission and mobile telephony were not under the monopoly regime.

⁵¹ UTE is the electrical energy public enterprise, ANTEL is the public enterprise in telecommunications, OSE is the public enterprise for water and sewage works, and ANCAP is the public enterprise for oil refining.

In 2002, this piece of legislation was repealed by Congress. Nevertheless, the companies that had come into the market in the period when the legislation was in force continued to operate.

In terms of regulatory bodies, the UREE, which regulated the electricity market, was created in 1997 but put in place effectively in 2000, after a failed attempt to repeal the regulatory framework by UTE's employees union. In 2002, it was absorbed by a new regulatory agency, the URSEA, which also regulates the sectors of fuel, gas, water and sewage. In telecommunication and postal services, the URSEC was set in 2001. Both agencies are formally within the Executive Branch, although they do have a certain degree of independence in their functioning.

In the period under consideration, two policies connected to public services can be identified. The first is the attempt to authorize the participation of private capital in the provision of these services, either through the association of public enterprises with private firms, or through authorizing other companies to compete with State-owned enterprises. The second policy is to strengthen public enterprises and to use the profits that they generate as an additional fiscal income source. These two policies have different degrees of consensus within the political system. The policy of incorporating private capital into the provision of public services has been expressed in various attempts at making changes to the laws in question, usually of a sectoral nature, and involving a combination of strategies of partial market liberalization and partial privatization of public enterprises.

The reasons behind these market-oriented reforms can be found in the objectives that are usually proclaimed by those who promote them (see Forteza, 2003), and also in the demands which the process of integration into the MERCOSUR has imposed on the country. Here it should be emphasized that the biggest partners in the bloc, Brazil and Argentina, have a high degree of openness in their utility services markets. While negotiations about services are among the least advanced on the MERCOSUR agenda, they will be taking place over the next few years, and, in the medium term, it will not be possible to maintain monopolies in a scenario of regional integration. For this reason, the adjustment of utility services legislation to the minimum conditions of competition compatible with regional integration into the MERCOSUR is a line of policy that has also been promoted in recent years.

The first attempt to introduce market-oriented reforms was the 1992 Public Enterprises Law. This was a proposal to reform a number of public enterprises, among which the closure or privatization of some (ILPE and PLUNA⁵² respectively) and the partial sale of ANTEL (the sale of 51% of the shares with the restriction that 51% of the whole company would belong to Uruguayan agents) stand out. This law was overturned by a referendum that was initiated by the union of ANTEL employees and supported by a wide range of political factions. Even the faction led by ex-president Sanguinetti supported its abolition. Following this political reverse for the radical reformist groups, the policy of improving public enterprises sharpened as it became a continuous process. The resources that flowed from main public enterprises – UTE, ANTEL and ANCAP – into the treasury increased steadily up until the time when the economic crisis hit.

The next effort at reform was the Law of the Regulatory Framework of the Electricity Sector in

⁵² The State-owned seal and fishing enterprise and the Uruguayan airline respectively.

1997. This consolidated the possibility of having competition into electricity generating (already set in the electricity Law of 1977) while maintaining UTE's State monopoly in the transmission and distribution of electrical energy, and the privatization of UTE is not contemplated. A referendum to abolish the law was called, but in the end it was ratified. The regulations of the law did not appear until the year 2000, when the regulatory agency (UREE) was set up. This agency designed the rules which will make the market operational, and they were approved by the Executive in 2001 and 2002. The wholesale electricity market, the key institution to enable transactions to take place between private (eventually Argentine) electricity generators and the big consumers or distributors, has not yet gone into operation, almost seven years after the legislation was passed.

The reform in the communications sector started in the year 2001, when Congress approved substantial changes in ANTEL's Charter and the sectoral regulatory agency (URSEC) was set up. The piece of legislation allowed the partial privatization of ANCEL, the mobile telephony division of ANTEL. Subsequently, the process to hold a referendum about the legal basis of the reform got under way, but at the end of 2002, before this question went to a popular vote, the key articles of the law were repealed of the reforms in parliament. The result of this process has been (i) the incorporation of several competitors into the international telephony market (although the conditions for fair competition between the new firms and the incumbent enterprise, ANTEL, have yet to be consolidated), and (ii) the entry of new competitors ended when the legislation was repealed.

The last step in this process was regulated by the law which authorized ANCAP to associate with private firms for oil refining and selling refined products for a period of 30 years, and also liberalizes the imports of refined products since 2006. This law was overturned in December 2003 by a referendum initiated by the union of ANCAP employees and supported by the leftist political party, Frente Amplio, although most of this legislation was proposed and written by some of their senators. This is a perfect example of the difficulties of having political agreements and how the society "punished" them somehow.

The policy being pursued in the water and sewage sector is different to that in the sectors examined above. In this case, private participation is brought about through awarding concessions for services in specific limited areas of the country (e.g. the tourist area around Punta del Este). The first concession, in a small area, dates from 1992, and the second one was in 2000 in a larger area. These concessions did not require legal approval; they were awarded through administrative channels. The public enterprise has maintained its monopoly in the provision of water and sewage services in most of the country. It is significant that the process of improving management which the main State-owned enterprises undertook did not occur in OSE. In its better years OSE has not run a deficit, but unlike the other State enterprises it has not been able to contribute with fiscal resources. It should be pointed out that regulatory design has been notably deficient in the water sector (OSE was the de facto regulator and the controller of the concession contracts, until the creation of URSEA in December 2002), and this became evident during the opaque process of renegotiation of the concession contracts after the crisis in early 2002. The public company did not undergo a process of improving management as occurred in the electricity, communications and fuel enterprises (it still has levels of technical

and economic deficiency similar to those that are the norm in Latin America), it does not make any contribution to the treasury, no effort is being made to improve the quality of the directors (these are usually political candidates who failed in the previous elections).

Market –oriented reforms were of limited scope, and they also varied considerably according to the sector of activity in question. We can distinguish two cases, (i) sectors in which reform involved changes to the law, and (ii) sectors in which reform was effected through administrative procedures. The main distinctive feature of Uruguay with respect to the first of these cases is that this country has mechanisms of direct democracy. These have been used systematically, by the leftist opposition at the instigation of the unions in the public enterprises concerned, to put a brake on reforms. This was what happened with the reforms undertaken in the electrical energy, fuel and telecommunications sectors. The calling for referenda has meant that, at best, the application of the reforms was delayed for a year, while in other cases the legal framework on which they were based was overturned. As to the second case, private participation was promoted basically through the concession of local monopolies which were awarded using administrative measures which did not require legal approval. This was what happened with the concessions for water and sewage services, and for road, seaport and airport infrastructure. In these cases opposition was weaker, and it did not succeed in reversing the policy.

After the repeal by referendum of the Public Enterprises Law of 1992, there was a move to improve management in the State-owned enterprises for electrical energy and telecommunications. This process, which we believe constitutes a policy itself, has led to a situation in which both UTE and ANTEL can now boast of technical and economic indicators that are considerably better than the typical situation of monopolistic State-owned enterprises in developing countries. Parallel to this improvement in the management of the enterprises, and to a certain extent made possible by that improvement, these enterprises have established themselves as generators of resources for the treasury. The policy of improving public enterprises has enjoyed the approval of most the political factions in the country, but this in fact took place only in the companies which contributes twith fiscal resources. There are many reasons for this approval, just as the motivation of the different agents is very varied. (i) The idea that the State should play a main role in utility services is deeply rooted in the majority of the population. (ii) The factions on the political left are the biggest defenders of this idea, and they have support it because these are strategic sectors which should remain under State control, the profits from these enterprises are necessary for financing services like health and public education, and small countries have a weak bargaining position when it comes to dealing with the multinational companies that operate in these sectors. (iii) Although the moderate reformist factions follow a line that supports market opening, in practice they are behind the improvement in these enterprises and the increase in the resources contributed by these enterprises to the national budget, an element which they found very useful when confronting the problem of the fiscal deficit. (iv) The radical reformist sectors, especially after the repeal of the Public Enterprises Law of 1992, supported the thesis that if it is not possible to sell enterprises then they had better be improved.

The consolidation of the public enterprises as big contributors of resources to the treasury has been a determinant factor in the development of structural reforms in those enterprises. In a situation where there are big problems with the fiscal deficit, the resources from these public enterprises have an

advantage over any other source of tax income: they do not require Congress approval, which is always costly in such cases. Thus the increase in fiscal income from the profits of these enterprises implies a source which the government would find it hard to forego, and this factor weighed against sectoral liberalization objectives in the process of structural reforms.

The reform of the electricity sector was the only reform requiring legal approval which could not be subsequently overturned by referendum. However, eight years after the reform went through, the wholesale electricity market has still not been established, there have been no transactions among private agents, and no new electricity generator has been installed in the country. We should remember that the law was passed against the background of a particular situation in the electricity market. Uruguay has a small system that is interconnected with the Argentine system, which is twenty times bigger. This interconnection allows Uruguay to avoid having to make big investments since the Argentine market can serve as backup to cover failures in the generating system or exceptional situations (hydroelectric systems account for a sizeable proportion of the output of the Uruguayan generating system). The situation in the mid-1990s was that Argentine sold Uruguay energy under economic conditions that were markedly worse than those which participants in the Argentine electricity market enjoyed, and this was buttressed by the fact that Uruguay did not have a market that was viable for integration into the Argentine market. In this situation, making the regulations compatible should be interpreted as an external restriction in the sense that not doing so would mean big investment costs in electricity generation (Vaillant, 1995, describes the situation of the electrical interconnection between Uruguay and Argentina in the middle of the 1990s).

The law reforming the regulatory framework of the electricity sector was passed in 1997 but regulation did not take place until 2000, which shows the lack of interest that the political system in general and the government in particular had in the reform. We should also remember that this period coincides with the increase in UTE's profits and in its contributions to the treasury, and this has to be connected to the lack of interest in promoting competition in the sector. Additionally, most of the action was delegated to the Executive and the influence of powerful interest groups was in the direction of blocking some crucial elements of the reform. Among the sectoral objectives that have been achieved, we should highlight the importance of the creation of the specific regulatory agency UREE in the year 2000. This agency has acted to foster competition, and this has led to a certain amount of conflict with UTE, as expected. We can hypothesize that this conflict alerted the political system to the risks of bestowing decision-making power and autonomy on the bureaucracy. The political system had traditionally maintained control over the operation of these markets through its control of the public enterprises. The new scheme means reduced discretionary power to the political system and greater power to the bureaucracy. In any case, the autonomy of the regulatory agency is relative; for example, the approval of all regulations that have to do with the functioning of the market are maintained in the orbit of the Presidency, and the agency's contribution is restricted to making proposals for these regulations. During 2002, there was a re-definition of the regulatory agency. It was given other sectors to regulate (gas, fuel, water), but at the same time it became less autonomous from the Presidency, and its economic capacity (which is known to be strongly linked to technical capacity) was reduced. This can be interpreted as a reaction on the part of the political system to the effects which the action of a relatively independent regulatory bureaucracy had.

In the telecommunications sector it became evident that there was a contradiction between reform and the fiscal objectives of maintaining ANTEL as a source of implicit tax collection. One example was the introduction of a specific tax on the services that had been liberalized directly after market opening took place (the tax on telecommunications, ITEL). It is appropriate here to emphasize certain aspects which stress some institutional difficulties of the sectoral policy. (i) In spite of the fact that the government could anticipate that privatization was almost sure to provoke a referendum against its policy, it have still proposed the partial privatization of ANCEL and an opening up of the market. This was because the government was politically weak and it had to negotiate with factions of the National Party in order to obtain the majority in Congress. (ii) Once the reform law was passed, the government intervened in ways that impaired the attractiveness of the reform, particularly to foreign investors. Again, the ITEL is a good example of that.

The strategy of granting concessions in the water and sewage sector was opposed by certain groups of users, but concession (i) did not lead to wider repercussions since it was a localized phenomenon in the country, and (ii) mechanisms of direct democracy could not be used against the move because it was not based on a specific sectoral law. The lack of attention to the handling of the water and sewage enterprise is due to several factors. (i) The fact that it does not make any contribution to the treasury has meant that improving its management seemed to warrant less attention. (ii) Besides this, OSE has continued to be used as an area for political cronyism by successive governments; they put politicians who have been unsuccessful in the previous elections in charge. (iii) The possibility of privatizing the enterprise is not being considered because it would not be politically viable politically.

In sum, liberalization reforms faced less popular resistance than privatisations, but were often opposed or implicitly rejected by those who are responsible for short term policy (implicitly accountable politicians). Interest groups also play a relevant role in resisting some reforms, but with the exception of unions which promote referenda, they defend their in a more subtle way in the policy implementation stage. Broad policies in utility markets tend to be relatively rigid, when emerging from the interaction between the Legislative and the Executive. Examples of rigidity are: (i) the very existence of the State-owned companies are set in the Constitution, (ii) the mechanisms of appointing and firing their board members are also in the Constitution, and (iii) several laws are very specific in operative aspects, eliminating some discretion in terms of business strategies, association with private firms, and so on. However, the implementation tends to be more volatile, since it is delegated to the Executive and the degree of observability is lower. Several examples can be obtained from the action of the new regulatory bodies, because they have systematic difficulties in transform their mandates in actual facts.

e) Fiscal Policies

Every 5 years, at the beginning of each new government. The budget proposal is submitted by the Executive and discussed and passed by Congress. Every year, and with the same procedure, the rendering of accounts laws are passed, and this is the only time when it is possible to make modifications to the 5-year budget. The President has the power of veto over parliamentary modifications to the original Presidential proposal, but the veto can be reversed in Congress with special majorities. The legislative branch has financial autonomy; it votes on its own

income and expenditure. Local governments (*Intendencias Municipales*) collect taxes in the local ambit and also receive subsidies from the central government. There is parliamentary control over the level of taxes they can collect. The budgets of the bodies covered by Article 220 of the Constitution (the University of the Republic, public enterprises etc.) are also passed by Congress, but these bodies are to a certain degree independent of the central government in the way that they execute their budgets.

In the late eighties, the economy recovered from the 1982 crisis but high levels of inflation persisted, and the average deficit was 5.5% of GDP. This was connected to an improvement in the situation of the region as a whole, a fall in oil prices, a rise in internal demand and a fall in interest rates (Borchardt, 1998). Income increased thanks to economic expansion, and because of a reduction in the weight of debt interest payments which resulted from the first re-negotiation of the debt and a fall in interest rates. Nevertheless, the fiscal balance was still in deficit. The possibilities of financing it were limited by the high level of accumulated debt and by the high rate of inflation. Additionally, there was a constitutional reform which index-linked social security expenditure to past rates of inflation, and this severely compromised the fiscal balance for the future.

In 1990 a new stabilization plan came into operation, besides a considerable fiscal adjustment. This was basically aimed at increasing income from taxation, which rose by 5% of GDP from 1989 to 1990. Expenditure did not decrease very much because allocations to the social security system were particularly inflexible. However, expenditure on interest payments fell as a consequence of Uruguay joining the Brady Plan. As a result of the fiscal adjustment, the primary surplus was 3.1% of GDP, while the conventional deficit fell from 6.9% to 3.1% of GDP. In 1995, with the increase in expenditure on social security, there was a new fiscal adjustment which involved a new increase in income from taxation, and restraint in expenditure. Also in 1995, a reform of the social security system was passed (this is described in more detail in the appropriate section) which ended the upward trend in expenditure on social security that had been making fiscal policy untenable. In 1996, a plan to reduce the number of public employees, which was aimed at reducing costs in this area, began to come into operation.

The level of public debt fell markedly as a result of joining the Brady Plan and because of the positive evolution of endogenous determinants on that debt. It should be pointed out that sustained growth (which endogenously affects income from taxation), the fall in interest rates (real interest rates became negative) and the reduction in the level of the debt itself led to a permanent fall in the debt / product ratio and to an improvement in the conditions of access to credit (the *investment grade* was obtained in 1997). Additionally, the real inflation of the currency, along with the high dollarization of the debt, reinforced the endogenous reduction of the debt / product ratio (Rial, 2002).

Indicators showed that in the period being studied, the Uruguayan economy did not suffer from problems of solvency, and the fiscal policy was sustainable (Borchardt, 1998, Rial, 2002). The primary deficit was always above what was necessary to stabilize the debt / product ratio of the previous year, and there was always the possibility of financing the deficit with external resources given that there was access to these funds. In addition, there was a belief in the private sector that the State would continue to be solvent, so fiscal policy seemed to be sustainable and

solvent in the period (Rial, 2002). In spite of this, fiscal policy appeared to be vulnerable in the face of big fluctuations in one of its fundamental determinants, the gap between devaluation and inflation. Vulnerability to the other relevant factors, interest rates and product, does not seem to have been significant (Rial, 2002). Towards 1999, problems began to emerge, making visible the vulnerability of the situation. A general deterioration in the regional situation took place, Brazil devalued its currency in 1999 and Argentina was hit by devaluation and recession in 2001.

In the face of these shocks there was no big adjustment in the Uruguayan economy, and in particular there was no serious devaluation, but there was a primary deficit of 1% after a decade of positive results. The deficit stood at around 4% of GDP. Since there was no problem about access to credit the deficit was financed in that way, and the gross debt rose from 40% to 55% of GDP while the net debt increased from 27% to 36% of GDP. Solvency indicators fell rapidly. Hence, for example, the primary superavit necessary to maintain the same level of debt as the previous year rose to 8.5% of GDP, while the increase in income needed for this same purpose came to 5% of GDP. These figures were difficult to reach given that fiscal pressure after the successive fiscal adjustments was 31% of GDP, the highest in South America. Given that fiscal adjustment on the side of expenditure was not possible either, because of rigidity in that area, there did not seem to be any real solutions on the fiscal policy side to maintain exchange rate policy. In 2002 exchange rate policy was abandoned and the exchange rate was allowed to float freely. The fiscal deficit was maintained at 4% of GDP and there was a considerable increase in debt, which was no more than the manifestation of the latent risk mentioned above (Rial, 2002). The immediate consequence was that the country lost the *investment grade* status, and there was a big rise in the cost of financing. Besides, the banking crisis led to the execution of contingent liabilities (the implicit deposit insurance) amounting to the equivalent of 15% of GDP, which was covered by increased indebtedness to multilateral organizations.

Income from taxation can be grouped into three broad categories, (i) payments received by the central administration, (ii) contributions to social security, and (iii) municipal taxes (collected by local administrations). These three sources of income account for something in the order of 90% of total State income, excluding indebtedness (Lagomarsino, 2002). The main sources of non-tax income are remittances from the public enterprises. The tax burden (total of taxes collected over GDP) grew from 25% to more than 30% since 1990. The tax structure has remained stable throughout the period of study. The main component of the taxation structure are taxes on goods and services - IVA (value added tax) and IMESI (non-deductible sales tax) - which accounted for some 65% of total income, and have been constant over the period. The main variations have been in taxes on income and profits, which increased from 14.1% to 21.4% of GDP (taxes on industrial and commercial income - IRIC - and income from agriculture - IRA - increased to 6.3% of GDP and 11.8% of GDP respectively), and in taxes on foreign trade, which fell from 11.6% to 4.2% of GDP as a result of policies of trade opening and integration into the MERCOSUR (Lagomarsino, 2002).

Public sector expenditures increased less than fiscal income, but it did go up in terms of GDP since 1985 (Elias, 2000). A suitable way to analyze State spending policy is to separate costs over which it is possible to exercise some control (discretionary) from those that are determined endogenously (non-discretionary). Since 1990, non-discretionary expenditure rose considerably as a percentage of total spending, which is mainly explained by the increase in financial assistance to

the social security system and, as a result of the crisis, by the increased burden of servicing the debt.

Although State salary costs have remained at the same level in terms of GDP, there have been different policies in different areas. The central administration itself made a notable effort and reduced its number of employees 15% in the last five years of the 20th century. When we analyze expenditure we can separate areas over which the government has direct control (the central administration) from those over which its control is less and is indirect, which are the legislative branch and the bodies that come under Article 220 of the Constitution. Elias (2000) points out that in the 1990s growth in expenditure was inversely proportional to the capacity of the government to control costs. Hence the central administration reduced its share in total operative costs from 76% to 65%, while the share of the bodies that come under Article 220 increased from 23% to 34% (Elias, 2000).

In general, policy on public income is stable but inflexible, low quality, and very often it benefits private interests as against the general interest. Fiscal income increased over the period of this study, so much so that it almost reached the limit of what is possible for fiscal pressure, compared to international parameters (Lagomarsino, 2000). The rates of existing taxes went up (as happened with IVA), the base on which existing taxes are levied was widened (the public enterprises have been incorporated into the base for levying IVA for example) and new taxes were brought in - IRP (wage tax), COFIS (tax on business transactions for social security), etc. However, the shares of each of the main taxes in total income generated by the taxation system have not changed.

The biggest contribution to total public income is from taxes which distort the quantities traded in the markets, and, although this is a relatively inefficient way of levying taxes, it is a system that is theoretically simple to administer. On top of this, the administration of taxes, which is in the hands of the General Taxation Office (DGI) suffers from serious drawbacks^{53 54}, showing relatively high levels of tax evasion.

On this question we can note the following, (i) there have been a number of proposals for reforming the administration of taxation but these have not resulted in legislation or have not been passed by Parliament⁵⁵, (ii) the proposals to modify the main taxation structure that have been made (particularly the move to create a tax on personal income) have been strongly attacked by a sizeable sector of the political system and there has been no agreement at all about them⁵⁶.

⁵³ In its most recent letter of intent to the IMF, the government made a commitment to present a bill to parliament to reform the DGI, which shows that this has been identified as an important problem.

⁵⁴ It could be argued that, since the taxation administration office is not able to run a system based on IVA, it is not institutionally viable to ask them to run a system that is much more complex, like one based on personal income tax.

⁵⁵ The first Minister of the Economy in the Battle government (Bensión) proposed a reform to the taxation administration system which was basically aimed at unifying the rates of IVA by eliminating exemptions and lowering the basic rate. The project came in for a lot of criticism, mainly because of the adverse effects of charging IVA in sectors that had hitherto been exempt or had been paying at a lower rate (health, urban transport, fruit and vegetables). The main opposition to the project came from the sectors that were affected like the health system, where both the union organizations and the service providers mobilized to oppose the reform. There was also stiff opposition within the political parties, and the end result was that the government did not submit the project to parliament.

⁵⁶ In the 1999 electoral campaign, the *Frente Amplio* made a general proposal supporting the introduction of personal income tax. This was heavily criticized by the other political sectors so much so that it became one of the main issues that those parties used in their electoral campaigns. Some political analysts say that it was a factor in the *Frente Amplio*'s failure to win the election.

Another aspect that has to do with the quality of the policy is the fact that there has been an ongoing process of creating new taxes and modifying existing ones, not only the main ones but also the minor taxes. This process has led to a considerable increase in the number of taxes but has had very little impact on income from taxation. An important aspect of this process is that there has been considerable leeway for establishing tax exemption for special groups, both through legislation and in the administration of taxes, and the result is that there is discretion in the application of a number of taxes and this serves specific private interests.

In the period, the key event in the area of public expenditure was a 1989 plebiscite which established a law that, from 1990 onwards, pensions would be index-linked to previous rates of inflation. This made expenditure on social security a non-discretionary cost for the government. Between 1991 and 1996, the deficit of the social security administration (which is called the Banco de Previsión Social) rose from 2.5% to 6.3% of GDP, which gives an idea of the extent of the fiscal problem that resulted from this change in the law. In response to this, in 1996 there was a reform of the social security system which modified the actuarial factors of the system (retirement age, factors for calculating pensions, etc.), brought in measures to combat evasion, and set up a system of privately administered individual accounts (Borchardt, 2000). The immediate result of this reformist policy was a greater short term deficit due to the costs of changing the system, but these costs were met in a period of growth, which shows how opportune the new policy was. The reform led to a reduction in fiscal pressure in the middle term, and it has been a key factor in the sustainability of fiscal policy.⁵⁷

An important element from the point of view of policy is that the reform in the social security system still respects the index-linking of benefit payments laid down in the 1989 plebiscite, so the reform has not affected the fact that expenditure on social security has been changed from a discretionary to a non-discretionary expense for the government. The merit of the reform is that it has established sustainable actuarial parameters for the system, but the cost of the system is still an item that is outside government control.

Salary costs have remained unchanged in terms of GDP throughout the period of study. The definition of salary levels for public employees is under continual negotiation. A change of policy in this area occurred in 1995, and it has come to be called the rendering of accounts of the single article. The passing by parliament of the 5-year budget plan and of the annual rendering of accounts are both instances in which the public employee unions negotiate with the government over salaries. The change that took place was that this opportunity to negotiate when the time came to render accounts was eliminated by a strategy of not introducing any changes to the budget in that particular rendering of accounts. In this way, the government coalition has tied its own hands in order to avoid increases in its costs with each annual rendering of accounts. This move has made for great inflexibility, but it is a factor that helps to explain why government salary costs have remained stable.

Public sector investment remained stable over the period until 2002, when there was an abrupt fall due to the generalized economic crisis. Fluctuations in the management of this variable has a negative effect and generates a harmful cycle in public investment, which is well documented for

⁵⁷ Borchardt (2000) establishes that fiscal policy can be classed as sustainable according to projections of the balance in the social security system in the middle term.

the case of road infrastructure (see Pereyra, 2002). Investment in public enterprises also fell as a response to fiscal requirements; investment decisions in State-owned enterprises are negotiated with the Planning and Budget Office and the Ministry of Finance when they bargain about the transfer of profits.

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

The current critical fiscal situation is connected to a deterioration in endogenous factors which has affected non-discretionary government expenditure. In particular, real currency devaluation and the banking crisis have had a severe negative effect on the amount of the debt, on the level of interest payable, and on the possibilities to obtain external financing.

f) State Reform

Despite diverse attempts in the early nineties, it is only in 1995, during the second presidency of J.M.Sanguinetti, when an articulated proposal on State reform of the Central Administration took form. This first stage of reforms may be seen as the necessary underpinning for the second reform package implemented from 2001, under the presidency of J. Batlle. Previously, there had been different unsuccessful attempts to promote reforms in the Central Administration, mainly because of the lack of clear aims and of the absence of a domestic consensus that could assure the implementation.

The first phase of reforms in the Central Administration, implemented from 1996 and throughout the second presidency of J.M Sanguinetti, was mainly restricted to rationalize its structure, through a clear cut definition of the mission and goals of each Executive Units, to improve the allocation of public expenditure (mostly in human resources allocation), and to increase accountability in the financial process by the implementation of the Integrated System of Financial Information (SIIF). The outcome was a more reasonable definition of agencies' tasks and the indispensable homogenization of organization criteria for the Ministries and their divisions, which in turn lead to the reduction of a number of offices (about 40%) with overlapping functions in the Central Administration and the shrinking of 10% of working positions in the Central Administration. The downsizing measures included a retirement program for public servants and to forbid new hiring or labor contracts in the Central Administration, with the exception of three Ministries. In spite this measures denoted an improvement in the management of Human Resources in the Central Administration, they did not remove the most important constraints to implement a strategy linking employee performance and results.

The strategy adopted by the Executive in 1995 was to promulgate some decrees, previous to submit the main legal framework of the State Reform to Congress in the Budget Law 1995-1999. They created the Sectorial Commission for the State Reform (N° 140/995), integrated by

representatives of the Ministries, the Budget and Planning Office, and the Civil Service National Office, in addition to two delegates of the public servants (public servants union) and one representative of the private sector. They also created a Technical Working Group for the State Reform aimed to assist the Budget and Planning Office, which in cooperation with the Ministry of Economy Finance was responsible for the coordination and follow-up of the State reform proposals. The decree 255/995 stated the characteristics and scope of the Administrative Reform articulated in the “Methodology for the Formulation of the Proposal of the Five-year Budget Law 1995-1999”, aimed to guide the preparation of the budget proposals of the Ministries, pointing out that “the budget preparation has to be seen as an instrument for the State Reform”.

The second step of the strategy designed by the Executive, was to pass in Congress a great number of articles in the Budget Law N° 16.736 of January 1996 which stand for the legal framework of the first phase of reforms and allowed the Executive to define specifically the essence of the legal framework via decrees. The Executive obtained more autonomy for its actions, as long as the specific regulations of the legal framework were stated by decree. This procedure made possible the implementation of a series of measures otherwise constrained by the fact that traditionally the outcomes related to the State reform resulting from the interaction between the Executive and the legislature tend to be rigid due to political safeguards.

In the Budget Law 1996-1999 and in different decrees it was stated “the urgent need of reforms” in the Central Administration, and the need of promoting “deregulations, privatizations or decentralization aimed to optimize the quality level of the activities of the Central Administration”, aiming “to increase the efficiency and efficacy of public expenditures to be allocated to basic social needs.” Additionally, it was created the Committee for the State Reform (CEPRE) with the assignment of put into practice the State Reform program, which counted with the political support of the *Colorado* and *Blanco* parties. The CEPRE was integrated by the Director of the Budget and Planning Office, as the president of the Committee, the Ministry of Economy and Finance and the Director of the National Civil Service Office (ONSC). In addition, by an ordinance of the Budget and Planning Office, it was created the Unit of General Coordination of State Reform Program, subordinated to the President of the CEPRE, which was in charge of implementing the State Reform program and coordinating the financial aspects of the program, being in fact responsible for the implementation of the agreements reached with the IADB.

A second reform package was put into practice in 2001, under the presidency of J. Batlle. In this case, the aims were to increase efficiency, transparency and accountability in the Central Administration, besides to reformulate Central Administration procedures to reduce direct and indirect costs of services to citizens and business, and to reduce regulations preventing competition. It is worth to underline that policy measures dealing with market deregulation clearly started in the year 2000, even though during the 90’s most instruments of regulation were oriented towards the Entry and Exit of firms in different markets. In spite of the deregulating activity of the Central Government in the last three years was fairly important, is not clear its actual impact, because some Ministries put into practice a range of intern resolutions restraining their impact. In some cases it can obey to the activities of different lobbies, while in other cases it can be the result of the difficulties to implement the legal framework.

It is worth to point out that the bulk of the reform program aimed in this second phase were designed in a way that it did not need further legislation. In addition, the reform program was integrated to the Sector Loan of the IADB (Loan 1336/OC-UR), turning over the different aims and measures of the reform program to the roll of conditions to be fulfilled by the Executive to make possible the disbursement of US\$150 million to finance the budget. In that way the Sector Loan was tied to agreed measures and specific targets defined by the program, and set up disbursement in three tranches of US\$60 million, US\$50 million and US\$40 million, each. This contract with the IDB may be seen as an enforcement mechanism as long as the disbursement of the consecutive tranches was tied to the accomplishment of the three set of conditions stated in the contract. Furthermore, after the financial crisis of 2002 the critical need of funding by the Executive speed up the fulfillment of the disbursement conditions, leading to that in spite the loan contract established a time span of 42 months to fulfill conditions to the disbursement of those three trench, they were meet in 20 months.

The program's objectives agreed with the IADB in 2001 can be arranged in four main domains:

1) Measures to improve management of public resources included four activities area of interest: (i) modernizing the administration of public-sector revenues; (ii) enhancing the efficiency of public expenditure, linking expenditures to tasks to Organization Units level; (iii) reducing the cost of the Central Administration procurement and making it more transparent; and (iv) the divestment of superfluous real estate.

2) Measures aimed to enhance competitiveness distinguish two areas of action: (i) rationalization of central government regulations, prices and fees; and (ii) rationalization of the main items of central government bureaucracy that the private sector has to comply with.

3) Measures to increase service quality aimed to improve: (i) the quality and administration of the main central government citizen services; (ii) the transparency of central government actions in the eyes of citizens.

4) Measures in human resource management were defined in three areas: (i) modernization of the legal framework for central government staff management; (ii) proposals to reform the National Civil Service Office (ONSC); and (iii) implementation of the information systems designed under the previous program with reference to working conditions and the earnings system.

The design and implementation of State Reform programs in Uruguay were traditionally split up in diverse public offices with overlapping functions and deficient coordination, and with an important lack of human, technical and financial resources to implement it. In addition, legal measures related to the State reform resulting of the dealings between the Executive and the Legislative branch used to be quite inflexible due to political safeguards, as a result of the divergences in political and social preferences and the expected gains of the political actors, while the implementation of the policy needs of room for adjustments. This configuration of the policymaking process had constrained the capability to implement State Reforms measures and affected the quality and coherence of those measures finally implemented.

The strategy was modified in 1996, during the second presidency of J.M.Sanguinetti, when an articulated proposal on State Reform of the Central Administration was designed. The strategy was to pass in Congress the essential legal framework to implement the programmed measures and to establish the institution responsible to implement the program. In turn it was possible to pass it because it went through in the very beginning of the presidential mandate, integrated in

the Budget Law. This timing was particularly relevant, because the capacity to get some cooperation from other political parties reduces considerably for the Executive as the times run out. In addition, the legal framework approved in 1996 allowed the Executive to define some regulations by decree, increasing its capability to get more flexibility in policy implementation, but also increasing the effectiveness of lobby groups to influence the final outcome. As well as the State Reform legal framework gave to the Executive more flexibility to the adjusting measures at the time of their implementation in the first phase of reforms (1996-1999), it also restricted the scope of possible measures to further reform the State as long as the strategy was to avoid to send new proposals to Congress, due to the lack of political consensus. On the other hand, the degree of confrontation with the civil servants' union declined as long as the retirement program required that the working position had to be declared as superfluous (*excedentario*) by the Execution Unit and also that the employee agreed to be included in the program. Moreover, they obtained a retirement bonus equivalent to 12-18 salaries, as well as financial support to establish new business activity.

Moreover, the existence of a legal framework and the stability of the institutional arrangement in charge of the State reform allowed the continuity of the reform program by means of the "Public Administration Modernization Program" agreed with the IDB under the presidency of J. Batlle. In addition, as in the first reform program (1996-1999) the agreement with the IDB worked as an enforcement mechanism for the Executive, increasing its compelling force by the need of funding of the Central Administration after the financial crises of 2002.

In sum, three aspects deserve to be stressed. First, the measures related to the State reform which emerge from the interaction between the Executive and the legislature tend to be rigid due to political safeguards. This is the case of hiring civil servants, setting public wages scales firing employees, and so on. Second, the policy tends to be more volatile at the implementation stage due to a larger Executive discretion and the poor observability of them. This process is influenced by the action of interest groups which affect specific decisions at that stage. Third, the measures that could be implemented in the terms it was expected were those related to the conditionality of financial disbursements by the IADB, *i.e.* when an external enforcement mechanism was set. Nevertheless, combined with the two previous aspects, they do not conform a coherent and predictable State reform as a whole.

Appendix II: Legislative Process of Three Relevant Laws

This Appendix summarizes the work of Chasqueti and Lanzaro: "A Study of Legislative Process in Uruguay: Three relevant laws", done in the framework of the Work Program oriented to assess the Legislative Process at the Instituto de Ciencias Políticas, Universidad de la República, in agreement with the Legislative Power, with the support of the Interparliamentary Union and the UNDP.

The legislative processes in Uruguay was analysed in the research of three laws: Law N°16.211 of Public Enterprises Reform (October, 1, 1991); Law N°16.713 of Social Security Reform (September, 3, 1995); Law N°17.243 - Urgent Law I (June, 29, 2000). These three laws can be considered extremely important legislative pieces, because of their content, the innovations

proposed within them and their general and particular effects. They were passed by the Congress during the ruling periods of the Presidents Lacalle (1990-1995), Sanguinetti (1995-2000) and Batlle (2000-...). An active participation of the Congress was observed in the three cases, with a divided voting where the parties played a central role. During the process the Ministers, public authorities, representatives from the interest groups involved, advisers and specialists participated in the Committees works.

A Reactive Congress. The first conclusion of this study is that the Congress has, in general terms, an active participation in the legislative process, which is not restricted to ratify projects. In the three cases, the Congress effectively showed its reactive capacity faced to initiatives coming from the proactive Executive. Nevertheless, the parliamentary influence changes according to the strength of the President's legislative support (majority or not in the Chamber) and to the consistence of the project of law making process in the Executive. Minor changes are observed in the law when the legislative coalition supporting the President is strong and disciplined. When the project of law is consistent and the making process involves wide technical knowledge together with the coalition member's points of view the law suffers less modifications. Specifically, the case study shows that the projects sent by the Executive are remade in the Congress. Two parliamentary instances exist where relevant modifications take place: a) the Chamber Committee where the project entered (in the three cases the Senate); and b) the plenary of the Chamber.

Modifications at the Committee of the Senate: The Law of Social Security Reform – which is the best designed and counts with the support of a strong coalition – has experimented less modifications in the Committee (70% of the articles without alteration). The Public Enterprises Law presents the inverse example: the corresponding Committee takes more than a half of the articles away from those proposed by the Executive (54%), modifies almost a third (30%) and leaves unchanged only the 17% of the original articles.

Modifications at the Chamber of Senators: In the three cases, the Committees elaborated replacing projects with the agreed changes. Once the replacing projects were presented at Chamber experimented new modifications. These changes are the result of negotiation between parliamentary leaders of the government coalition. In the plenary of the Chamber once again the Law of Social Security Reform was the one that received less modifications, given that the major part of the replacing project articles remained (87%). The other two cases present similar treatments in the plenary of the Senate with modifications that reach one third of the articles and a 6% is eliminated.

Softened Bicameralism. A similar pattern is registered in the three processes: the first Chamber works on the project in two phases (Committee and Plenary), and the second Chamber avoids the introduction of new modifications. This softened bicameralism pattern comes from the agreements built by the Executive (coalition) in order to guarantee the sanction of the laws. The partners agree on the approval of the project and keep the instance of the Senate to influence on the final decision. Once the law is passed, the Committee in the second Chamber (Deputies Chamber) tends mainly to ratify it and the attempts to leave this way are systematically refused by the majority. Regarding the Law of Public Enterprises Reform and the Law of Social Security Reform, it is interesting to remark that – to advance in that way- members of the Deputies

Chamber, from the coalition parties, participated in the negotiations that took place in the Senate Committee.

Appendix III: Career Path and Seniority in Uruguayan Congress

From *Altman David & Daniel Chasqueti 2004. "Patterns of Incumbents' Turnover at the Uruguayan Congress (1985-1999): An Institutional Account"*

“4. - Legislative Careers in Uruguay

There is virtually no information on legislative careers in Uruguay. This section tries to fill this lacuna addressing the fate of legislators that could not be reelected in 1995. The reasons for choosing the legislature 1990-1995 are twofold. On the one hand, the study of this legislature allows us to see whether legislators returned to congress after one interim period (1995-2000). On the other hand, it is close enough in time to check with the legislators themselves in case doubts arise. Hopefully, this will serve as a springboard for future studies in legislative careers in Uruguay and Latin America.

From the 130 incumbents in Congress for the 1990-1995 legislature, only 36.2% were reelected in the elections of November 1995. In the following paragraphs we will discuss what happens to the other 63.8% (n=83) of the legislators who failed to do so. Taking the 83 legislators as the range of analysis we see that almost 57% were legislators from big electoral districts (Montevideo, 34.9%; Senate, 21.6%). Regarding the 83 legislators, their future was as follows: almost 35% remained in the public domain albeit an ample majority of those were appointed to office (72%) rather than elected to public office (28%); the bulk of them (48.1%) returned to the private world; and finally, 17% either retired or passed away (see Table 12).

Those who were elected to public office are equally distributed between Departmental Majors (including the Montevideo) and legislator substitutes. Over 25% of all 83 non-reelected legislators occupied appointive posts in the national or departmental executive branches. Within this group, the biggest groups are those who were Directors at the publically-owned companies (such Telecommunications or Electricity), and other executive offices (such as the National Institute for the Family and Women, National Institute for Alimentation). Four legislators were appointed ambassadors of Uruguay to Argentina, Paraguay, Dominican Republic, and Costa Rica (note that the first two are extremely sensitive embassies for Uruguay). Also, four legislators become advisors or consultants for ministries or Departmental governments. One was nominated Minister of Defense, Nicolás Storace, and one, Abayubá Martorell, was appointed as the Chief of the Police at the Lavalleja Department.

Table 12: Fate of non-reelected legislators in 1995 during the administration 1995-2000

Total	100% (83)		
Remained in the Public Arena	34.94% (29)		
	<i>Elected</i>	27.59% (8)	
		Departmental Mayors	4.8% (4)
		Legislators' Substitutes	4.8% (4)

<i>Appointed</i> 72.41% (21)	
Executive Directors (*)	10.8% (9)
Ambassadors	4.8% (4)
Advisors	4.8% (4)
Secretaries at Dept. Govts'	2.4% (2)
Cabinet Minister (Defense)	1.2% (1)
Police Director	1.2% (1)
Private arena	48.19% (40)
Retired	7.23% (6)
Passed away	9.64% (8)

(*) This category includes Directions at publically-owned companies, decentralized services, and other independent offices. Source: Authors' elaboration

Without taking into consideration those legislators that passed away, almost all of the remaining 75 legislators continued in the same party (95%).⁵⁸ Nonetheless, four changed parties (we have evidence from three of them). One from the Partido Nacional shifted to the Frente Amplio (Ruben Martínez Huelmo), one did the reverse move (Francisco Rodríguez Camusso), and a third changed from the Nuevo Espacio to the Frente Amplio (Héctor Lescano). Nonetheless, the shifting from fraction to fraction in the same party is much more pronounced. Of the 71 who remained in the same party, 52.1% (37) maintained their fraction affiliation while 47.8% (34) did not.⁵⁹

Of the 75 incumbents during 1990-1995 that were not re-elected in 1995, 32.3% (23) remained in the public arena after the elections of 1999. Of these 23, nine returned to congress for the 2000-2005 legislature, either as legislators (5) or as legislator substitutes (4). It is interesting to note that the five legislators that gained office in the elections of 1999 were all from the so-called traditional parties (three Colorados and two Blancos) and none was from the Frente Amplio nor Nuevo Espacio. Three from the 23 were elected Intendentes, two of these were re-elected for a second period such as Mariano Arana in Montevideo and Eber Da Rosa in Tacuarembó. The other 11 occupied appointive posts in the national or departmental executive branches: seven at the publically-owned companies and decentralized services; two were nominated ambassadors; one, Sergio Abreu, Minister of Industry; and the latest at the government of Montevideo (Gonzalo Carámbula), see Table 13.

Table 13: Fate of non-re-elected legislators in 1995 during the administration 2000-2002

Total	100% (75)
Remained or returned to the Public Arena	32.3% (23)
<i>Elected</i> 52.17% (12)	
Legislators	6.7% (5)
Departmental Mayors	4.0% (3)
Legislators' Substitutes	5.3% (4)
<i>Appointed</i> 47.82% (11)	

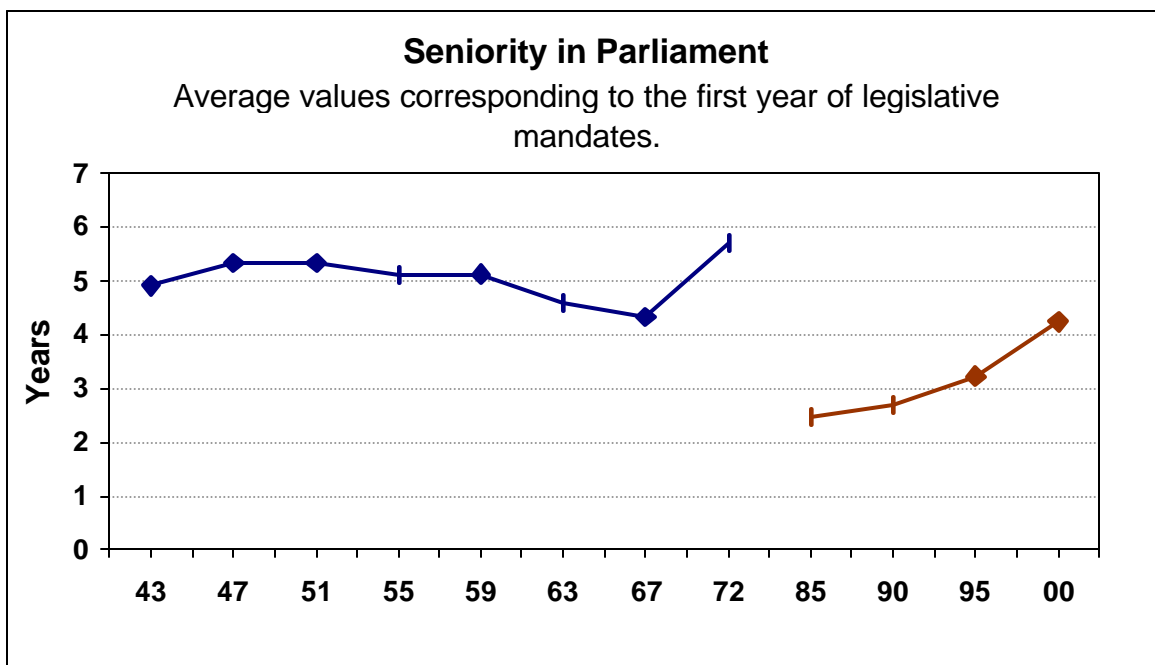
⁵⁸ Here we are also including those legislators that retired given that the pensioner status does not necessarily mean retirement from politics.

⁵⁹ It does not mean a straight jump from one fraction to another, but in several occasions means a jump from one fraction to an "independent" status before joining other fraction.

	Executive Directors (*)	9.3% (7)
	Ambassadors	2.6% (2)
	Advisors	1.3% (1)
	Cabinet Minister (Industry)	1.3% (1)
Private arena	69.33% (52)	

(*) This category includes Directions at publically-owned companies, decentralized services, and other independent offices. Source: Authors' elaboration”

The following Chart shows the changes in seniority in the Urugauyan Congress over time.



Appendix IV: Some features of public employment in Uruguay

In 2002, 5% of the population were public employees, amounting by 19% of the Economic Population. Although the Central Administration accounted for almost 40% of public employment, the policy of human resources management seems quite heterogeneous and incoherent when it comes to results evaluation. This is particularly true in the wages policy, which depends to a considerable extent on each agency, and in no way can public salaries be seen as an example of “equal remuneration for equivalent work”. According to some analysts, the low productivity of the staff is due partly to the organizational culture, people having a second job, and low levels of application to the job, and also very much to the fact that many

professionals are working in functions and positions which have little to do with their specific knowledge.

The following Table presents the composition of public employment according to the nature of the employer:

Distribution of Public Employees. 1985-2002

YEAR	LOCAL GOVERNMENTS	STATE-OWNED ENTERPRISES	CENTRAL ADMINISTRATION	OTHER	TOTAL
1985	13.2%	21.3%	40.9%	24.5%	100%
1993	13.7%	16.0%	38.8%	31.5%	100%
1995	14.9%	15.4%	39.6%	30.1%	100%
1996	14.9%	17.2%	39.0%	28.9%	100%
1997	15.3%	16.0%	39.1%	29.6%	100%
1998	15.6%	15.9%	38.0%	30.4%	100%
1999	16.2%	16.1%	38.6%	29.1%	100%
2000	16.4%	15.9%	39.1%	28.6%	100%
2001	16.1%	15.5%	39.6%	28.8%	100%
2002	15.4%	14.9%	39.6%	30.1%	100%

We find an important concentration of employees in a few Ministries, with relatively low salaries. Likewise, average salaries by Ministry are very heterogeneous, and this cannot be explained by differences in qualifications. Approximately 65% of Central Administration's employees in 2002 were at the Ministries of Defense and of the Interior, while they only accounted for 51% of Central Administration's expenditure in salaries.

Human resources and average monthly payments in the Central Administration

	Human resources of Central Administration		Average earnings
2 – Presidency of the Republic	1,332	1.42%	10,332
3 – Ministry of National Defense	33,158	35.32%	5,670
4 – Ministry of the Interior	28,273	30.12%	6,232
5 – Ministry of Economy and Finance	4,201	4.48%	14,815
6 – Ministry of External Relations (in the country)	356	0.38%	19,021
6 – Ministry of External Relations (abroad)	230	0.25%	121,511
6 – Ministry of External Relations	586	0.62%	59,247
7 – Ministry of Livestock, Agriculture and Fishing	2,537	2.70%	9,802
8 – Ministry of Industry, Energy and Mining	484	0.52%	12,585
9 – Ministry of Tourism	296	0.32%	6,897
10 – Ministry of Transport and Public Works	3,541	3.77%	9,014
11 – Ministry of Education and Culture	3,233	3.44%	10,812
12 – Ministry of Public Health	15,780	16.81%	4,914
13 – Ministry of Labor and Social Security	1,359	1.45%	8,838
14 – M. of Housing, Reg. Planning and Environment	477	0.51%	5,636
15 – Ministry of Sport and Youth	1,157	1.23%	6,516

Central Administration Total	93,877	100%	6,917
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The following Table shows the composition of the Central Administration staff in terms of qualifications, although it must be noted that the heterogeneity in average earnings is not the result of differences in qualifications in the different Ministries. There are considerable differences between earnings by employees that are on the same category, depending on their place of work.

Human resources by categories in the Central Administration

STAFF CATEGORIES		SHARE
A	Professional university trained personnel	7.47%
B	Technical personnel	2.21%
C	Administrative personnel	6.00%
D	Specialist personnel	8.96%
E+F	Skilled trade and auxiliary services personnel	9.25%
K+L	Armed forces and Police personnel	61.17%
M	Foreign service personnel	0.29%
P+Q	Political and special trust personnel	0.16%
	Others	1.26%
	Not specified	3.23%
TOTAL		100.00%

By using information from the Remuneration System (SR) in the Central Administration and from the 2002 Household Survey of the National Statistics Institute for the private sector, the Executive Committee for State Reform (CEPRE) evaluated the public employees' average earnings per hour with those in similar categories in the private sector.

Comparison of net earnings per hour

CATEGORY	Public	Private (total)	Private (formal)	Pub./Priv. (total)	Pub./Priv. (formal)
A and B	76	101	96	0.75	0.79
C	66	53	54	1.23	1.21
E	53	32	37	1.66	1.43
F	41	28	31	1.44	1.29
L	33	21	22	1.57	1.47
P	180	192	189	0.94	0.95
Q	113	192	189	0.59	0.60

It can be seen that the most highly qualified personnel and those in position of special trust in the Central Administration are paid considerably less than in the private sector, while those categories with lower qualification are better paid in the public sector. This differences with the private sector are, in fact, greater, if we take into account that public employees have other rewards, such as the fact that they cannot be easily removed from their jobs, that they have special holiday regimes, and so on.

The system of staff's performance evaluation works poorly. The evaluation does not depend on whether or not the units they belong have reached their targets. Supervisors have used the system not to foster competition oriented to a general improvement in performance, but mainly to maintain and eventually raise levels of motivation among a nucleus of employees who are better trained and more disposed, and some supervisors have combined this with criteria that are not connected to performance.

In the State-owned enterprises, employment levels fell considerably over the period 1985-2002. The decrease amounted to 37.6%, although most of this reduction took place before 1995. This staff reduction, along with a rise in sales of goods and services in the 1990s, lead to a considerable rise in "productivity" per employee and allowed a significant increase in wages. Employees in those entities are much better paid (category by category) than those in the Central Administration.

Appendix V: Quality and Celerity of the Judiciary

QUALITY INDICATORS

	1997	1998	1999	2000	2001	2002
Appeals / Definitive sentences	13.1%	13.2%	13.6%	13.2%	15.0%	15.0%
Totally revoked cases / Appeals	20.7%	22.8%	20.7%	25.2%	21.2%	22.1%
Partially revoked cases / Appeals	20.7%	24.8%	23.1%	29.9%	25.0%	21.0%
Revoked cases / Appeals	41.5%	47.5%	43.8%	55.1%	46.2%	43.2%
Totally revoked cases / Definitive sentences	2.7%	3.0%	2.8%	3.3%	3.2%	3.3%
Partially revoked cases / Definitive sentences	2.7%	3.3%	3.1%	4.0%	3.8%	3.2%
Revoked cases / Definitive sentences	5.4%	6.3%	6.0%	7.3%	6.9%	6.5%
Appeals to the Supreme Court / Sentences of Appeals Courts	9.7%	10.3%	9.5%	9.9%	7.1%	5.9%

CELERITY INDICATORS

		1995	1996	1997	1998	1999	2000
a)	Files at the beginning of the year	233,854	229,259	258,093	262,462	306,283	327,687
b)	Files at the end of the year	229,259	258,093	262,462	306,283	327,687	326,010
c)	Initiated cases	158,509	181,397	181,267	171,981	189,698	164,726

d)	Caseload (a+c)	392,363	410,656	439,360	434,443	495,981	492,413
e)	Solved cases (a + c - b)	163,104	152,563	176,898	128,160	168,294	166,403
f)	Clearance Rate (e / c)	1.03	0.84	0.98	0.75	0.89	1.01
g)	Congestion Rate (d / e)	2.41	2.69	2.48	3.39	2.95	2.96

INTERNATIONAL COMPARISON FOR CIVIL CASES – YEAR 2000

Countries	Clearance Rate	Countries	Congestion Rate
Mexico	1.03	Peru	1.01
Nicaragua	1.01	Spain	1.04
Peru	0.99	Mexico	1.18
Spain	0.96	Nicaragua	1.53
Argentina	0.83	Italy	1.66
Italy	0.82	Costa Rica	3.82
Uruguay	0.70	Colombia	5.09
Costa Rica	0.55	Uruguay	5.15
Colombia	0.44	Argentina	7.63

INTERNATIONAL COMPARISON FOR FAMILY CASES – YEAR 2000

Countries	Clearance Rate	Countries	Congestion Rate
Colombia	1.07	Peru	1.03
Peru	0.97	Spain	1.04
Spain	0.96	Italy	1.74
Italy	0.96	Colombia	1.80
Uruguay	0.85	Nicaragua	1.82
Costa Rica	0.84	Costa Rica	2.07
Argentina	0.57	Uruguay	4.30
Nicaragua	0.55	Argentina	7.01

Appendix VI: Description of the Élite Survey

An elite survey was developed in order to incorporate relevant information into the study on Political Institutions, the Policy Making Process and Policy Outcomes. The survey includes 46 variables related to the policy making process, the inclination to agreements, and the perception of changes and stability in public policies. The survey was answered through 110 face to face interviews. Respondents were selected among Uruguayan “elites”, including ministers, legislators, mayors, directors of public enterprises, leader of unions and businessmen, scholars and journalists. Legislators are distributed according to the party share of seats at the senate and rulers are distributed according to the party share of ruling positions. Businessmen and union

leader are selected, half from the top ten unions or associations and the other half from minor organizations. Journalists and scholars are tried to be representative of the different mass media or academic institutions. The fieldwork was conducted between February 15th and April 15th 2004. Part of the variables were included in previous surveys with the same design. Then, the aggregate values of answers include, in those cases, not only the present but also the former respondents. The N value in each table indicates whether we have just new answers (N=110) or old and new answers together (N=216 or N= 330). When N=216, the other 106 respondents were polled last year, and when N=330, the other 220 respondents were polled in 2001 and 2002. The following table shows the distribution of respondents of each survey according to their position

Position (elite type)	2001	2002	2003	2004
Legislators	30	30	30	31
Rulers (minister, mayor, public manager, etc.)	20	20	19	19
Businessmen	20	20	20	20
Union leaders	20	21	18	20
Journalists	9	10	9	10
Scholars	10	10	10	10
Total	109	111	106	110

The presentation of results is divided in two sections. The first section presents the answers related to the policy making process, which includes the elite perception of the relations between executive and legislative powers, an evaluation of the performance of the legislative power and the opinions on the influence of the legislative power over different policy areas. The second section summarizes the answers related to the policy outcomes, which includes the inclination to agreements, and the perception of changes and stability in public policies.

POLICYMAKING

Relationship between Legislative and Executive

	Legislator	Ruler	Businessman	Union Leader	Scholar	Total
No answer	1,6%	2,6%	2,6%			1,4%
Legislative imposes	6,6%	10,5%	20,5%	5,3%	7,7%	9,8%
Executive imposes	55,7%	23,7%	43,6%	68,4%	56,4%	50,2%
Equilibrium	36,1%	63,2%	33,3%	26,3%	35,9%	38,6%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: ¿Cómo diría Ud. que es la relación entre el Poder Ejecutivo y el Poder Legislativo?
N=216

Relationship between Legislative and Executive

	P. Nacional	P. Colorado	EP-FA	Total
No answer	2,0%	1,6%		1,4%
Legislative imposes	16,3%	13,1%	3,4%	9,7%
Executive imposes	34,7%	18,0%	78,4%	50,0%
Equilibrium	46,9%	67,2%	18,2%	38,9%
Total	100,0%	100,0%	100,0%	100,0%

Question: ¿Cómo diría Ud. que es la relación entre el Poder Ejecutivo y el Poder Legislativo?
N=216

Time to pass a law

	Legislator	Ruler	Businessman	Union Leader	Scholar	Total
No answer	1,6%	2,6%			2,6%	1,4%
Depends on law	24,6%	23,7%	12,8%	18,4%	10,3%	18,6%
Insufficient	1,6%			10,5%	2,6%	2,8%
Adequate	41,0%	21,1%	5,1%	5,3%	25,6%	21,9%
Excessive	31,1%	52,6%	82,1%	65,8%	59,0%	55,3%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: ¿Considera Ud. que el tiempo que se toma normalmente el Poder Legislativo para sancionar una ley es excesivo, adecuado o insuficiente? N=216

Productivity of the Legislative

	Legislator	Ruler	Businessman	Union Leader	Scholar	Total
No answer	1,6%	2,6%				,9%
Inadequate	45,9%	50,0%	82,1%	84,2%	64,1%	63,3%
Partially adequate	26,2%	31,6%	12,8%	13,2%	33,3%	23,7%
Adequate	26,2%	15,8%	5,1%	2,6%	2,6%	12,1%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: ¿Ud. cree que la productividad del Parlamento se adecua a las necesidades del país?
N=216

Evolution of the workings of the Legislative

	Legislator	Ruler	Businessman	Union Leader	Scholar	Total
No answer	3,3%		2,6%			1,4%
Much worse		2,6%		7,9%		1,9%
Worse	23,0%	39,5%	33,3%	42,1%	33,3%	33,0%
Same	34,4%	39,5%	48,7%	26,3%	46,2%	38,6%
Better	37,7%	18,4%	10,3%	23,7%	15,4%	22,8%
Much better	1,6%		5,1%		5,1%	2,3%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: Y, respecto a los primeros años de democracia ¿cree Ud. que el funcionamiento del Parlamento ha mejorado, sigue igual o ha empeorado? N=216

Influence of the Legislative on..... (N=216)

	Legislator	Ruler	Businessman	Union Leader	Scholar	Total
Budget Prepar.	5,30	5,88	7,18	5,09	5,56	5,75
Budget Control	4,81	4,74	3,59	4,82	3,50	4,34
Govt. Control	5,52	5,53	3,76	4,39	3,93	4,71
Economic Policy	2,73	3,33	3,85	3,77	2,65	3,21
Foreign Affairs	3,28	3,42	3,50	3,86	3,59	3,50
Social Policies	3,83	5,00	3,33	3,51	4,10	3,94
Average	4,24	4,65	4,20	4,24	3,89	4,24

Influence of the Legislative on..... (N=216)

	P. Nacional	P. Colorado	EP-FA
Budget Prepar.	6,67	6,34	5,04
Budget Control	4,08	4,81	4,32
Govt. Control	4,56	5,68	4,28
Economic Policy	3,06	3,61	3,07
Foreign Affairs	3,27	3,99	3,48
Social Policies	3,81	4,59	3,71
Average	4,24	4,84	3,98

Influence of the Legislative on budget preparation (N=216)

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP - FA	Total
No answer			2,6%			2,0%	0,0%	0,0%	,5%
None	6,6%		2,6%	13,2%	7,7%	4,1%	1,6%	9,1%	6,0%
Little	44,3%	42,1%	20,5%	39,5%	38,5%	24,5%	29,5%	48,9%	37,7%
Enough	32,8%	39,5%	28,2%	28,9%	33,3%	32,7%	45,9%	23,9%	32,6%
Much	16,4%	18,4%	46,2%	18,4%	20,5%	36,7%	23,0%	18,2%	23,3%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: ¿Cuál es, en su opinión, el grado de influencia que tiene el Poder Legislativo en la elaboración del Presupuesto Nacional?

Influence of the Legislative on budget control (N=216)

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP - FA	Total
None	4,9%	5,3%	20,5%	21,1%	5,1%	16,3%	6,6%	10,2%	10,7%
Little	52,5%	55,3%	56,4%	34,2%	84,6%	55,1%	49,2%	59,1%	56,3%
Enough	36,1%	31,6%	17,9%	23,7%	10,3%	18,4%	37,7%	21,6%	25,1%
Much	6,6%	7,9%	5,1%	21,1%		10,2%	6,6%	9,1%	7,9%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: ¿cuál es, en su opinión, el grado de influencia que tiene el Poder Legislativo en el control de la ejecución presupuestaria?

Influence of the Legislative on government control (N=216)

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP - FA	Total
No answer		2,6%	2,6%			4,1%	0,0%	0,0%	,9%
None	1,6%		12,8%	7,9%	2,6%	6,1%	1,6%	5,7%	4,7%
Little	44,3%	36,8%	56,4%	60,5%	76,9%	53,1%	34,4%	64,8%	54,0%
Enough	41,0%	52,6%	28,2%	23,7%	20,5%	26,5%	55,7%	25,0%	34,0%
Much	13,1%	7,9%		7,9%		10,2%	8,2%	4,5%	6,5%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: ¿Cuál es, en su opinión, el grado de influencia que tiene el Poder Legislativo en la fiscalización del gobierno y la administración?

Influence of the Legislative on economic policy (N=216)

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP - FA	Total
None	31,1%	10,5%	23,1%	26,3%	28,2%	28,6%	16,4%	29,5%	24,7%
Little	57,4%	78,9%	51,3%	47,4%	64,1%	53,1%	65,6%	55,7%	59,5%
Enough	9,8%	10,5%	12,8%	13,2%	7,7%	16,3%	11,5%	8,0%	10,7%
Much	1,6%		12,8%	13,2%		2,0%	6,6%	6,8%	5,1%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: ¿Cuál es, en su opinión, el grado de influencia que tiene el Poder Legislativo en las decisiones de política económica?

Influence of the Legislative on foreign affairs (N=216)

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP - FA	Total
No answer		2,6%			2,6%	0,0%	1,6%	0,0%	,9%
None	21,3%	13,2%	17,9%	23,7%	12,8%	22,4%	9,8%	19,3%	18,1%
Little	59,0%	65,8%	61,5%	47,4%	61,5%	57,1%	59,0%	61,4%	59,1%
Enough	19,7%	18,4%	17,9%	18,4%	23,1%	20,4%	27,9%	14,8%	19,5%
Much			2,6%	10,5%		0,0%	1,6%	4,5%	2,3%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Question: ¿Cuál es, en su opinión, el grado de influencia que tiene el Poder Legislativo en la determinación de la política internacional?

Influence of the Legislative on social policies (N=216)

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP - FA	Total
None	14,8%	7,9%	23,1%	26,3%	7,7%	18,4%	11,5%	18,2%	15,8%
Little	55,7%	44,7%	56,4%	50,0%	61,5%	53,1%	44,3%	55,7%	54,0%
Enough	29,5%	36,8%	17,9%	15,8%	30,8%	24,5%	39,3%	22,7%	26,5%
Much		10,5%	2,6%	7,9%		4,1%	4,9%	3,4%	3,7%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

PREGUNTA: ¿Cuál es, en su opinión, el grado de influencia que tiene el Poder Legislativo en la elaboración de políticas sociales?

POLICY OUTCOMES

Perception of changes in different policy areas (1 to 10 index: nothing=0; little=3.33; enough=6.66; a lot=10)

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP – FA	Total
Modernization State-Owned Enterpr.	6,26	6,67	5,76	5,30	5,76	5,88	6,74	5,47	5,98
Influence of businessmen	4,95	4,39	4,74	7,17	5,17	4,76	4,34	6,09	5,26
Influence of unions	5,16	4,39	4,56	4,83	4,83	5,87	4,75	4,28	4,80
Efficiency of private sector	5,16	4,56	5,79	4,17	3,67	5,24	5,35	4,06	4,71
Demonopolization and deregulation	4,91	4,35	4,07	5,90	4,12	3,79	4,22	5,52	4,70
Contract fulfillment	4,84	5,26	5,26	4,00	3,67	4,44	5,66	3,77	4,62
Ownership legal protection	4,84	5,09	5,09	4,00	3,83	4,76	5,25	4,06	4,59
Burden of the State in the economy	4,43	4,69	3,90	5,74	3,84	4,75	4,54	4,75	4,52
Privatization and outsourcing	4,47	4,01	3,95	5,90	4,01	3,73	3,83	5,40	4,48
Reduction of public employment	4,10	4,29	2,82	6,17	3,95	3,39	4,04	4,98	4,27
Fulfillment of fiscal obligations	3,76	4,56	4,56	4,33	3,83	4,13	4,75	3,84	4,16
Efficiency of public sector	3,99	4,24	2,37	3,99	3,67	3,39	3,94	3,61	3,69
Average	4,74	4,71	4,41	5,13	4,20	4,51	4,78	4,65	4,65

Question: Actualmente se habla mucho de innovación y modernización en el Uruguay. En lo que va de 1985 a la fecha, ¿Ud. cree que el Uruguay ha cambiado o no ha cambiado en los siguientes aspectos?

Perception of predisposition to significant agreements in different policy areas

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP - FA	Total	N
Social policies	68,1%	69,5%	50,8%	77,0%	54,2%	61,0%	60,6%	69,4%	64,4%	3
Foreign affairs	61,3%	47,4%	63,2%	80,0%	70,0%	42,9%	45,5%	84,8%	64,2%	1
Commercial openness	41,9%	21,1%	57,9%	80,0%	40,0%	42,9%	30,3%	56,5%	47,7%	1
Economic policy	54,9%	47,5%	32,2%	55,7%	39,0%	42,4%	31,9%	59,7%	46,8%	3
Utilities services	41,9%	15,8%	26,3%	85,0%	50,0%	14,3%	15,2%	78,3%	44,0%	1
Social security	45,2%	26,3%	26,3%	70,0%	35,0%	47,6%	18,2%	54,3%	41,3%	1
Fiscal policy	45,2%	15,8%	31,6%	60,0%	40,0%	28,6%	12,1%	63,0%	39,4%	1
Tax policy	37,4%	37,3%	42,4%	50,8%	27,1%	30,5%	31,9%	50,7%	38,9%	3
State reform	38,5%	28,8%	27,1%	49,2%	23,7%	32,2%	23,4%	44,0%	34,0%	3
Financial openness	19,4%	26,3%	26,3%	50,0%	30,0%	33,3%	18,2%	30,4%	29,4%	1
Labor market deregulation	12,1%	16,9%	13,6%	6,6%	15,3%	15,3%	16,0%	6,7%	12,8%	3
Privatization	9,9%	18,6%	10,2%	4,9%	10,2%	11,9%	13,8%	8,2%	10,6%	3
Average	39,6%	30,9%	34,0%	55,8%	36,2%	33,6%	26,4%	50,5%	39,5%	

Question: ¿Cuánto cree Ud. que los uruguayos estamos dispuestos a acordar en materia de.....

Perception of stability in different policy areas (1 to 10 index: nothing=0; little=3.33; enough=6.66; a lot=10)

	Legislator	Ruler	Businessman	Union Leader	Scholar	P.N.	P.C.	EP - FA	Total
Political liberties	7,31	7,72	8,60	5,33	7,00	7,62	8,48	6,01	7,18
Commercial openness	6,02	6,32	5,79	5,17	6,17	4,92	6,46	6,09	5,88
Financial openness	6,67	5,44	5,61	4,33	6,17	5,56	5,86	5,65	5,73
Tax policy	5,27	5,61	5,44	4,83	5,50	5,71	5,66	5,14	5,33
Ownership legal protection	5,91	6,32	5,26	3,67	4,83	4,92	6,77	4,42	5,30
Foreign affairs	4,62	6,49	6,32	4,33	4,83	5,08	7,17	4,13	5,27
Public expenditures	5,48	5,09	5,09	4,67	5,83	5,24	5,35	5,00	5,24
Social security	5,70	5,96	5,44	3,33	5,67	5,40	6,06	4,57	5,21
Utilities services	5,16	5,09	5,09	3,50	4,83	4,29	5,76	4,20	4,76
Education	4,62	5,09	4,21	3,00	4,67	3,97	5,86	3,55	4,33
Health	4,09	5,09	3,68	3,00	4,33	4,13	4,95	3,55	4,00
State reform	3,76	4,21	3,16	4,50	3,67	2,70	4,44	4,13	3,82
Average	5,39	5,70	5,31	4,14	5,29	4,96	6,07	4,70	5,17

Question: ¿Qué tan estables y/o previsibles en el largo plazo cree Ud. que han sido las políticas públicas uruguayas en los siguientes ámbitos? N=110