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# *Presidential Agenda Control and Spending Policy: Lessons From General Pinochet's Constitution*

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Formal institutions put in place upon the establishment of a new democracy can have profound effects on political bargaining. We demonstrate how the budgetary procedure bequeathed by the outgoing Chilean military regime affects policy choices available to elected officials. Chilean budget procedure should discourage deficits, allow for a reduction in the relative size of the defense budget, and facilitate cuts in executive proposals when the institutional interests of the legislature are at stake but not under conditions of coalitional conflict. We present a simple spatial model of bargaining over spending decisions between the executive and Congress that facilitates comparisons between the Chilean budget procedure and that of other presidential systems. The model suggests that, relative to other regimes, Chile's budget process should constrain spending and favor the president's preferences over the legislature's. Comparative fiscal data from twelve other presidential democracies and from the first eight Chilean budgets since the transition to democracy, as well as interviews with key legislators and executive officials, all support our hypotheses.

## 1. INTRODUCTION

How do the formal institutions put in place upon the establishment of a new democracy affect policy performance? The question is of particular salience where outgoing authoritarian regimes are able to impose institutional design on their successors (Boylan 1998; O'Donnell and Schmitter 1986; Stepan 1988; Valenzuela 1992). Yet specific hypotheses that connect procedure to policy remain scarce and detailed empirical studies even more so. This article illustrates the impact of budgetary laws on spending policy in Chile.

The literature in comparative politics generally holds that transitions to democracy generate political pressures toward high government expenditures and fiscal deficits. The rationale is twofold. First, budget cuts that hurt

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interests privileged under prior authoritarian regimes could undermine support for the new regime and might even prompt authoritarian backlash. Second, new democracies must assimilate the distributive demands of groups that were excluded from policy bargaining prior to democratization, generating pressure toward deficit spending (Galenson 1959; Haggard and Kaufman 1995; Huntington and Dominguez 1975; Przeworski 1991). In light of these expectations, the tendency of Chile's new democracy to move toward fiscal restraint is remarkable. Chile has run a budget surplus during each of the first six years after the transition from military rule in 1990, averaging over 2 percent of gross domestic product (*International Financial Statistics* 1998).

The procedure by which the annual budget is drafted, amended, and passed into law in Chile contributes to two tendencies: fiscal restraint and the realization of presidential preferences on spending policy. Specifically, we emphasize the importance of the president's exclusive ability to propose an annual budget law that becomes the reversion policy if Congress does not pass an alternative, as well as restrictions on Congress's ability to amend the executive proposal.

The Chilean budget process and the manner in which it differs from procedures elsewhere is a direct legacy of authoritarian rule. The rules governing budget making in Chile are part of a broader institutional context—including the design of the central bank, the electoral system, and the composition of the Senate—that was designed purposefully by the prior military government to constrain the discretion of elected officials. We trace the manner in which these elements of institutional design are filtered through the budget process into policy outcomes.

The paper proceeds as follows. First we describe main institutional actors and the procedures for drafting, amending, and passing the budget law. Next, we present a spatial model of the process that distinguishes the policy outcomes expected under Chilean rules from the outcomes expected under budget procedures in other systems. From this model we derive three hypotheses regarding the specific effects of procedure on Chilean budget deficits/surpluses, military spending, and legislative budget cuts; we evaluate these hypotheses against data on budget policy from Chile and from twelve other presidential systems. We conclude by addressing the implications of this research for the study of institutions more generally.

## 2. THE BUDGETARY PROCESS

### 2.1 The Executive, Congress, and Central Bank

The rules governing budget making in Chile are established in the Constitution of 1980, which was drafted and ratified by plebiscite during the military dictatorship of General Pinochet (1973–1990). The Constitution re-

flects Pinochet's deep distrust of bargaining among politicians, as well as his own expectation that he would hold the presidency even after martial law was lifted and the Constitution took effect (Valdés 1995). Ironically, this strong presidency has been dominated since the transition in 1990 by Pinochet's opponents from the center-left *Concertación* coalition.

Congress is comprised of a Chamber of Deputies, whose members serve four-year terms, and a Senate, whose members serve eight years. For the purposes of this study, the most important structural characteristics of the Chilean Congress are the manners by which its two chambers are selected. The entire Chamber and most of the Senate are elected from two-member districts. Technically, the electoral system employs a straightforward d'Hondt divisor rule in allocating seats among coalition lists (Taagepera and Shugart 1989, 32–34). The important effects of combining this formula with Chile's two-member districts are first, to guarantee that the two strongest lists win *equal representation* in each district unless the first-place list *more than doubles* the vote share of the second-place list; and second, to create strong incentives for parties to coalesce such that both the coalition of the right and the *Concertación* act much as unified parties within the legislature (Carey 1998). In terms of policy, the coalition of the right generally favors a smaller public sector than the *Concertación*; in terms of the military, however, the coalition of the right favors higher spending than the *Concertación* (Instituto Libertad y Desarrollo 1995; Weyland 1997).

The distribution of *elected* seats between the two coalitions has been nearly identical in both chambers after all post-transition elections. The Senate is distinct, however, in that it includes lifetime seats for former presidents and nine appointed seats. The first cohort of these senators (1990–1998) was effectively Pinochet appointments. The second cohort will necessarily be somewhat more sympathetic to the *Concertación* because two of the nine seats are appointed by the president. Yet the second cohort includes Pinochet himself (as a former president) plus seven others appointed by the Supreme Court and the military, both of which remain largely composed of Pinochet appointees. The importance of the appointees is that they have denied the *Concertación* a Senate majority despite its ability to win majorities of the elected seats in all three elections since the restoration of democracy.

Another important institutional constraint on spending policy is the central bank's autonomy from political control. Like the electoral law, the legislation governing the role and organization of the central bank was crafted by the outgoing military regime specifically to limit the policy discretion of future elected officials (Boylan 1998). Toward this end, the bank's executive committee members serve ten-year terms and cannot be removed for political reasons. More importantly, the bank is prohibited

from financing government expenditures through monetary emission or the purchase of government bonds.

The autonomous structure of the Chilean Central Bank undoubtedly makes it more difficult for politicians to pursue expansionary spending. In this sense, the central bank is an important part of the broader institutional context that shapes fiscal as well as monetary policy. Despite the attention that central bank autonomy rightly receives in much of the recent literature on comparative political economy (Cukierman, Webb, and Neyapti 1992; Franzese 1995), however, it cannot by itself account for fiscal restraint for a couple of reasons. First, restrictions on central bank finance of government spending do not preclude government borrowing on private bond markets to finance deficit spending (Haggard 1997). Second, formal legal provisions do not guarantee autonomy in practice, particularly in developing countries where *de facto* autonomy is as much a product of international financial pressures and the interests of domestic political coalitions as of legal status (Maxfield 1997). We present data later on fiscal deficits throughout Latin America that supports this interpretation and shows no correlation between formal legal autonomy of central banks and fiscal conservatism.

## **2.2 Constitutional Provisions**

The Chilean fiscal year is concurrent with the calendar year. The first public sector budget created under the current process was for 1991 and was passed by the newly elected President and Congress in 1990. For the seventeen years prior to that, the annual budget law, like all legislation, was decreed by the military government of General Pinochet.

Article 64 of the Chilean Constitution establishes the procedure for making government spending policy as follows:

The Budgetary Law Bill must be submitted to the National Congress by the President of the Republic at least three months prior to the date on which it should become effective; should it not be passed by Congress within sixty days of its date of submittal, the proposal submitted by the President of the Republic shall enter into force.

The National Congress may not increase or diminish the estimate of revenues; it may only reduce the expenditures contained in the Budgetary Law Bill, except for those established by permanent law.

Estimation of the returns of resources stated in the Budgetary Law and other resources established by any other proposed law shall be the exclusive right of the President, following a report to be submitted by the respective technical agencies.

Congress may not approve additional expenditures by charging them to the funds of the Nation without indicating, at the same time, the sources of the funds needed to meet such expenditures.

The President's agenda control over fiscal policy, moreover, is not limited to the annual budget bill; it extends generally to all spending and tax policy. Article 62 states, in part:

The President of the Republic holds the exclusive initiative for proposals of law related to . . . the financial or budgetary administration of the State, amendments to the Budgetary Law included . . .

. . . The President of the Republic shall also hold the exclusive initiative for:

1. Imposing, suppressing, reducing or condoning taxes of any type or nature, establishing exemptions or amending those in effect and determining their form, proportionality or progression . . .

. . . The National Congress may only accept, reduce or reject the services, employment, salaries, loans, benefits, expenditures and other related proposals made by the President of the Republic.

### 2.3 Negotiating Budgets

The first step in the budget process, submission of the executive proposal to Congress, requires revenue estimates for the coming year as well as a distribution of proposed spending. Both tasks are coordinated by the Directory of the Budget (*Dirección de Presupuesto*, or DiPres), which is part of the Finance Ministry. The proposal is sent to Congress by October 1 and is immediately referred to a Joint Budget Committee (JBC), which is composed of an equal number of members from both the Chamber and Senate. Over the next six weeks, the JBC holds hearings on the budget bill, suggests specific cuts in accord with Article 64(2), and submits the entire budget bill, as amended, to each chamber of Congress. If further amendments are made on the floor such that the Chamber and Senate produce different versions of the budget, the bills return to the JBC for reconciliation. This process can continue until Congress reaches an agreement on the budget or until the sixty-day period elapses.

The role of the veto in the budgetary process is one important ambiguity, with respect to Article 64, that warrants additional consideration. The Chilean president is endowed with a veto over normal legislation that requires a two-thirds supermajority in both chambers of Congress to override (Article 70). However, because the process for enacting the annual budget law is specified in a separate constitutional article, and because that article neither mentions the veto nor explicitly rules out its use, there is disagreement over whether and how the president might reject an amended version of the budget and over what would be the corresponding reversion budget. Recall that Article 64 states, "should [the budget law] not be passed by Congress within 60 days of its date of submittal, the proposal submitted by the

President of the Republic shall enter into force.” What remains subject to debate, and perhaps to eventual judicial interpretation, is whether the president’s proposal would remain the reversion in the event that Congress passes an amended budget which is in turn vetoed.

There are two questions: First, can the president veto the budget law? Second, if so, what should the reversion point be, given that a veto necessarily implies that the budget law is approved by Congress (as stipulated in Article 64)? On the first question, DiPres Director (1990–1997) Juan Pablo Arellano argues in favor of the veto:

[The veto] never has happened, but there are situations that are not very clear, but I would say that the president could veto . . . There are other mechanisms for reaching agreement—like the JBC—but if there were ultimately disagreement, the president could veto the budget bill. (Arellano 1996)

Rosanna Costa, an economist for the *Renovación Nacional* (RN), the largest party in the coalition of the right, acknowledges more constitutional ambiguity on the question:

One possible interpretation is that the part of the budget on which there is objection does not take effect. That is, the Ministry of Health has no budget—and it would be difficult to defend that as viable. Another interpretation is that the amount agreed to is the lower of the two figures.<sup>1</sup> A third interpretation, consistent with the precedent of the 1925 Constitution, is that the previous year’s law remains in effect . . . There exists a fourth possibility—that the government instructs its legislators to prevent a quorum, and if there is no quorum there can be no approval of a law, and if there is no approval of the law, the president’s original proposal takes effect. (Costa 1996)

In the event that a conflict over the use of the veto and the reversion policy is not resolved within the time limit, the judiciary would most likely be called upon to resolve the issue. We cannot speculate on how the courts would regard such a case.

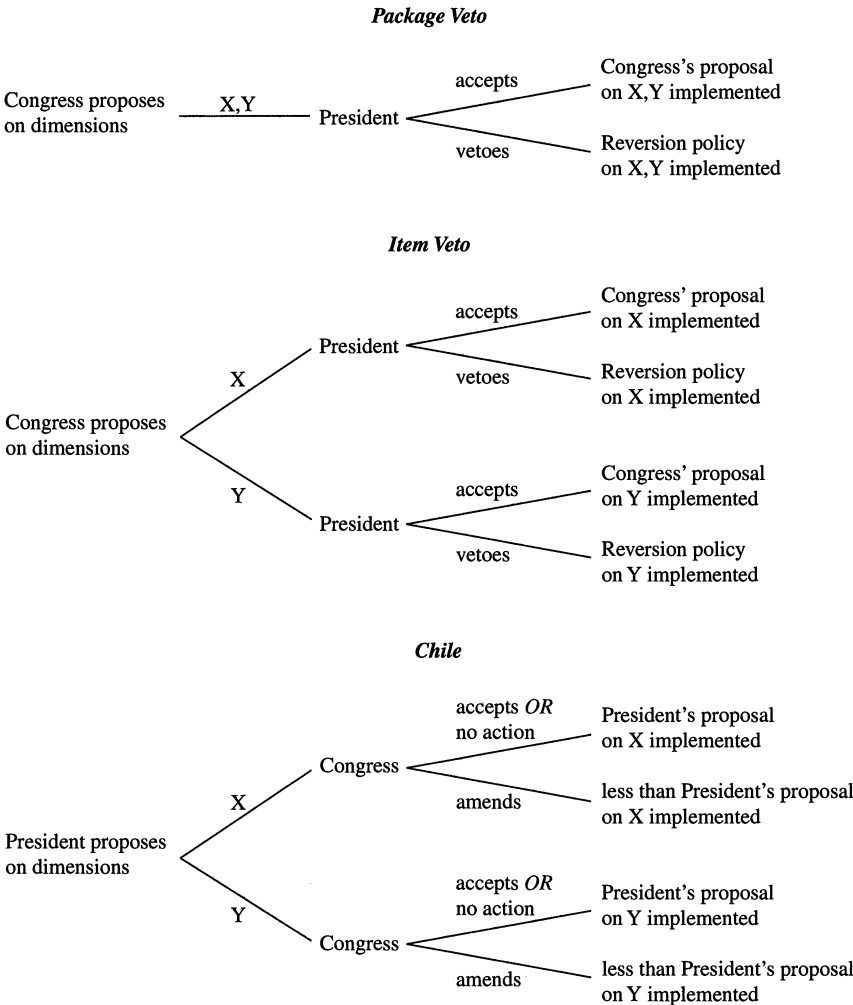
### 3. THE MODEL

The provisions above create two general expectations regarding budgetary policy in Chile. Relative to budgetary policy in other presidential systems, the Chilean procedures should (1) restrain spending and (2) advantage the president over Congress in bargaining over budgets. To see why this is so, consider budgetary policy making under Chilean rules and two alterna-

<sup>1</sup>This would appear to be Congress’s position (by definition) on spending given that without executive approval, it can only reduce expenditures on specific items.

tive formats common in presidential democracies—the package veto and item veto formats—as presented in Figure 1. The first is a simplified version of budgetary policy making in the United States and elsewhere in which the Congress presents the president with a budget law that the president must either accept in its entirety or veto, in which case spending is set at some reversion point known to both players. Under the item veto format, found in

Figure 1. Three Budget Proposal Games





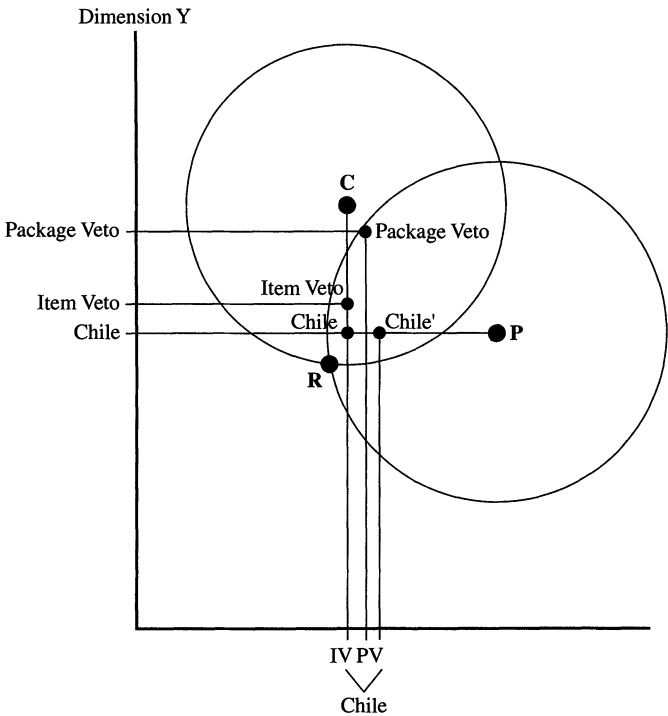
Latin American countries such as Argentina and Brazil as well as in many U.S. states, the Congress passes a budget and the president then has the option of vetoing specific spending provisions while promulgating the rest, with spending on those vetoed items set at the known reversion point.

Initially, we make some simplifying assumptions for the purpose of comparing these formats. First, we ignore veto overrides for now in part to make the comparisons tractable and in part because the existence and implications of a veto on the budget law are subject to dispute in Chile. Second, we assume that players have unique preferred policies. Thus, we assign an ideal point to the Congress and one to the president. Third, we assume the players know each other's most preferred policies and the reversion point. Finally, for the two non-Chilean procedural formats, we assume that the spending reversion point is lower than the spending levels preferred by either Congress or the president on all dimensions. This is consistent with our empirical knowledge of comparative budget making whereby the reversion policy is either zero spending or the current spending level, not unadjusted for inflation.

Consider budget outcomes across two dimensions of spending under the package and item veto formats and the Chilean procedure. In Figure 2, the two axes represent levels of spending along dimensions X and Y. C and P represent the ideal points for Congress and the president, respectively. R is the reversion point if no spending bill is passed and is less than either player prefers on both dimensions. The circle centered on C and passing through R represents all the points to which Congress is indifferent to the reversion outcome; Congress prefers all policy points inside this circle to no agreement on a bill and prefers no agreement to all points outside the circle. The same is true for the president with respect to the indifference curve passing through R and centered on P.

In our example, Congress prefers higher spending than the president on one policy dimension (Y), and the president prefers more than Congress on the other (X). We choose this particular configuration of preferences for both empirical and theoretical reasons. In the context of Chile in the 1990s, for example, we might think of the Y axis representing military spending—a higher priority for Congress (with its pro-Pinochet Senate majority) than for the executive—and the X axis representing social welfare spending, a higher priority for the two *Concertación* presidents. More generally, given the vast range of policy areas on which national budgets set policy, it is virtually inevitable that Congress will favor more spending on some issues and others on which the reverse holds true. The configuration of preferences depicted in Figure 2 is also theoretically more interesting than the case in which one actor is the “high-demander” and the other the “low-demander” on all dimensions. Bargaining (logrolling) over spending levels can potentially occur

**Figure 2. Expected Policy Outcomes Under Three Different Budgetary Procedures**



across various dimensions of policy when Congress and the president disagree on spending issues. Because the rules of procedure on which we focus affect actors' ability to realize such logrolls, this configuration of preferences most clearly illustrates the potential effects of procedure on policy.

Under the package veto format, Congress should offer a bill setting spending on both dimensions as close to its own ideal point as possible, constrained by the president's willingness to sign the bill rather than accept the reversion outcome. This policy is the point just inside the president's indifference curve labeled "Package Veto" in Figure 2, with the corresponding lines extending to the axes indicating the spending outcomes on each policy dimension.

Under the item veto format, the president has the ability to "unpack" congressional proposals, effectively considering each dimension independently. Congress then can think of itself as making two separate proposals—

one on dimension X and the other on Y. On dimension X, Congress should thus propose spending exactly at level C given that the executive will prefer this to the reversion outcome. On dimension Y, the situation is somewhat different, as the president's ideal point is between R and C. Congress should propose a policy which is as close to C as possible but which the president marginally prefers to R.<sup>2</sup> In Figure 2 this point is identified in two dimensions as Item Veto, with spending levels on both axes lower than under the Package Veto format.<sup>3</sup>

Finally, consider the Chilean format. As outlined by the constitutional articles above, the president proposes an entire budget, Congress can amend specific items downward only, and if Congress does not pass a budget bill, then the president's proposed budget becomes law. Under the simplest interpretation the president should simply propose point P. Congress accepts the president's preferred spending level on dimension Y given that it prefers even more but cannot amend upwards. On dimension X, Congress can use its amendment power to reduce spending to its own ideal level. The outcome would be spending at the level indicated by "Chile" on dimension Y and equal to the level under the Item Veto format on dimension X, reflecting the preferences of whichever branch, Congress or the executive, prefers less spending in each particular issue area.

As the controversy surrounding the veto illustrates, however, what it means for Congress to "fail" to pass a budget law is an unresolved issue. Chilean budgetary negotiations in the 1990s have been marked by some uncertainty over what reversion policy would obtain if Congress attempted to reduce spending levels over executive objections. In every instance so far the two sides have eventually negotiated budget agreements that preclude vetoes. Nevertheless, as long as there is some probability that the president's initial proposal would be implemented in the event of a standoff between the branches, Congress may be willing to accept somewhat higher spending on dimension X than its ideal. We represent this potential presidential advantage, generated by uncertainty over the constitutional status of the veto, as the distance between the points marked "Chile" and "Chile'" in Figure 2. Later, we suggest that this uncertainty contributed to the executive's ability to bargain for higher spending than Congress preferred on programs for women and youth.

<sup>2</sup>If the president's ideal point were between C and R and were closer to C than to R, of course Congress could simply propose its ideal point, C, on this dimension as well and the president would accept.

<sup>3</sup>We thank Gary Miller for pointing out that of the three procedures discussed here, only the package veto format yields outcomes located on the "contract curve," the line connecting the two players' ideal points. By discouraging logroll agreements across policy dimensions, both the item veto format and the Chilean format are, thus, Pareto-suboptimal.

Whichever interpretation of the constitution ultimately holds in the event of a standoff, the Chilean process encourages low spending relative to other formats. Where the president wants low spending, he can secure his ideal due to his proposal power combined with Congress's inability to amend items upward; where the president wants more than Congress, Congress may be able to impose its preferences in the event of conflict. Even if not, the president will only be able to secure higher spending insofar as Congress prefers the newly proposed level to whatever reversionary point is specified by constitutional arbiters.

The model illustrates two bottom-line differences between expected policy outcomes under the Chilean procedure and other common budget procedures which we stated at the beginning of this section and reiterate here. First, overall spending in Chile should be restrained. As long as each actor—Congress and the president—prefers higher spending on at least one policy dimension, spending should be strictly lower under the Chilean format than it would be under a package veto format. If the president is not allowed to veto an amended budget, spending should be strictly lower than under the item veto format as well; if the veto is allowed *and* the reversion, in the event of standoff, is the president's original proposal, then whether the item veto or the Chilean format generates less spending will depend upon the relative preferences of the president and Congress. Second, in either case, the outcome across both dimensions is closer to the presidential ideal point than in either the package or item veto formats.

### 3.1 Hypotheses

The model and the institutional background provided above suggest specific hypotheses about Chilean spending policy that can be tested empirically as follows:

*H1: Fiscal Policy.* Chilean budget deficits should be low (or alternatively, surpluses high) relative to regimes with other budget procedures.

*H2: Defense Spending.* The share of the budget devoted to the military should decline in the early 1990s.

*H3: Legislative Cuts.* Congress will be more effective in cutting executive spending proposals when the chambers are unified around the institutional interests of the legislature than when they face partisan or coalitional differences across chambers.

The first hypothesis (H1) reflects the insight from our spatial model that, on each policy dimension, the Chilean budgetary process favors the institutional actor—Congress or the president—who prefers less spending. The budget procedure implies that if the president prefers less spending on a

particular item, then his proposal sets the spending ceiling; however, if Congress prefers less, it can amend to its ideal level. Formally, by prohibiting Congress from creating new programs or even from transferring funds among programs, this procedure limits the potential for legislative logrolls or logrolls between the branches that push spending up. H1 also reflects the assumption that tax and revenue policy are stable in the short run so that the direct effect of policy-makers on deficits is through appropriations decisions. We discuss this assumption later.

The second and third hypotheses reflect our expectations about *how* spending restraint operates under Chilean procedures and corresponds with situations in which the Congress and president, respectively, are the relative high demanders for spending on specific policy dimensions. H2 directs attention to a policy area in which executives in the 1990s have preferred less spending than Congress and projects the effect of the president's power to set item-by-item spending ceilings.<sup>4</sup> H3 pertains to the ability of Congress to impose cuts when it prefers lower spending than the president and specifies how differences between the coalitional majorities in the two chambers will affect this capacity. On issues that divide the two major coalitions, simultaneous bargaining within Congress and between the branches, coupled with the sixty-day time constraint, will hamper congressional action. On issues that divide the branches on *institutional* rather than coalitional grounds, however, Congress should be effective in cutting spending.

#### 4. H1: FISCAL POLICY

Our first expectation is that the Chilean budget process should restrain spending, as reflected in relatively small fiscal deficits or even surpluses. Implicit here are two assumptions: First, revenue policy is stable in the short run and constrains spending and second, the formal budget procedure as stipulated in Article 64 effectively restrains *informal* legislative logrolls across dimensions of spending policy, both among legislators and between Congress and the executive.

The assumption that revenue policy is stable in the short-run allows us to infer that the effects of appropriations procedures are reflected in deficits. Consider the grounds for this assumption in the Chilean case. First, the ex-

<sup>4</sup>Under the specific coalitions that have controlled the Chilean executive and each legislative chamber since redemocratization, defense spending is the *only* major policy area in which we expect this condition to apply. However, the straightforward implication of our model is for different bargaining dynamics and different policy outcomes should different coalition configurations apply. For example, should the existing coalitions and their preferences remain stable but the coalition of the right win the presidency, the model implies executive proposals (which would be unamended) for relative decreases in spending on an array of social welfare programs along with proposals for relative increases (which would be targets of amendments to reduce) for spending on the armed forces.

ecutive and legislature are constitutionally required to produce new budget legislation each year, whereas the tax code remains unchanged by default. Second, constitutional Article 62 gives the executive exclusive gatekeeping authority over tax policy. If the executive prefers no change in tax policy or expects that an effort to alter the tax system will be amended unacceptably by Congress, then no change will be initiated. Coupled with the existence of an opposition majority in the Senate, we expect executive gatekeeping to generate stable tax policy. The empirical record generally bears out these expectations. The only significant reform of the Chilean tax code during the years examined in this study took place immediately after the transition, before the first budget was written and tax policy has remained stable since (Weyland 1997). In the cross-national analysis, we cannot account for the specific details of revenue policy in each case, but in examining deficits as a product of appropriations procedures, we implicitly assume that existing revenue levels imply spending constraints.

Our model of Chilean budgeting reflects the constitutional constraint on congressional discretion to amend specific items in the executive's proposal exclusively downward. It would not be unreasonable, however, to expect legislative influence on appropriations decisions through *informal* logrolls in which the executive may *propose* higher spending than its ideal in one policy area in exchange for Congress *refraining from imposing cuts* in some other area or in exchange for support on some other pieces of legislation desired by the executive. Such logrolls would require communication between the branches outside of formal budget procedures which does, in fact, occur (Palma 1996). Nevertheless, congressional lobbying has little impact on the final budget (Arellano 1996; Boeninger 1996; Feliu 1996a; Orpis 1996; Palma 1996; *La Época* 1998).<sup>5</sup>

#### 4.1 Chile: Pre- and Post-Transition

The Chilean military government ran deficits in three of its last six budgets, even in a context of strong economic growth (Baldez and Carey 1996). Moreover, in the late 1980s the Chilean public sector accounted for about 30 percent of GDP. Of the seven largest economies in South America—Argentina, Brazil, Chile, Colombia, Peru, Uruguay, and Venezuela—Chile's government expenditures accounted for the largest share of GDP through 1987,

<sup>5</sup>Consider the difference in incentives for the executive to accommodate the particularistic demands of legislators between the Chilean procedure and that in Taiwan, another post-authoritarian system with a budget process similar on all counts *except* for the reversion policy. In Taiwan, if the executive budget fails in the Legislative Yuan, the legislature can draft an entirely new document, making legislative threats to block the executive's budget credible. As a result, particularistic demands of legislators are incorporated in executive proposals, swelling deficits (Chen and Haggard 1996).

when surpassed by Brazil. Under the current budget process the Chilean government ran substantial fiscal surpluses—an average of 2.0 percent of GDP—in its first six years.

## 4.2 Comparative Evidence

The pattern of fiscal restraint is even more striking when we compare Chile against other presidential democracies. Table 1 shows thirteen major presidential democracies according to the size of their mean budget surplus/deficit as a share of GDP, along with a group of economic and institutional factors that we might expect to affect fiscal balance. Most of the cases experienced transitions from authoritarian rule either immediately prior to or early in the time period examined.<sup>6</sup> Longstanding democracies are in italics. The institutional variables included are an index of the legal autonomy of central bank officials from pressure by elected politicians (Cukierman, Webb, and Neyapti 1992) along with four different budgetary powers afforded to presidents in various constitutions. The first of these, gatekeeping, indicates whether the president exclusively has the authority to introduce spending bills (or alternatively, whether legislators also may do so). The second, ceiling, indicates whether president's annual budget proposal establishes maximum spending levels and if so, whether as an aggregate ceiling across the entire budget (within which legislators may transfer funds by amendments to the budget bill) or item-by-item as under Chile's Article 64. Reversion indicates whether the president's proposed budget serves as the reversion policy if Congress does not succeed in passing a budget bill. Item veto indicates whether the president may reject specific spending items in legislation while implementing the rest of the legislation.

Table 1 reveals several patterns. First, the cases with strongest economic growth performance tend toward smaller deficits (or surpluses). Among the institutional variables, the cases with gatekeeping and ceiling authorities tend to exhibit more positive fiscal balances.<sup>7</sup> No obvious relationships are evident between deficits and either formal central bank independence, reversion powers, or item vetoes. These bivariate patterns are illustrated more

<sup>6</sup>Because international credit markets and the policies of international lending institutions directly affect budget constraints for almost all the countries we consider, we draw data from a uniform time period for all countries, including data from all years in which budgets were formed by the procedures described in Table 1. We do not include the Central American countries other than Costa Rica because either their budgets were heavily dependent on foreign aid during this period or their democratic credentials were especially dubious or both.

<sup>7</sup>With respect to Peru, the sole case with gatekeeping in which mean deficits are on the high side, Gregory Schmidt (personal communication) indicates that absolute presidential gatekeeping has not always been effectively enforced.



**Table 1. Deficits/Surpluses in Post-transitional Presidential Democracies, 1985–1996**

Country	Mean Deficit/ Surplus as % of GDP	Mean Annual Rate of Real GDP Growth	Cuckierman Index of Central Bank Autonomy <sup>a</sup>	Presidential budget powers			
				Gate keeping	Ceiling	Reversion	Veto
Chile <sup>b</sup>	2.01%	8.45%	.46	Yes	Item	Yes	No <sup>c</sup>
Ecuador	0.16%	2.93%	MD	No	No	No	No
South Korea <sup>d</sup>	-0.16%	7.44%	.27	Yes	Item	No	No
Colombia	-0.76%	4.36%	.27	Yes	Aggregate	Yes	No
Uruguay	-1.09%	3.85%	.24	Yes	Aggregate	No	Yes
Venezuela	-1.30%	2.81%	.43	No	No	No	No
Philippines <sup>e</sup>	-1.58%	3.86%	.43	No	Aggregate	No	Yes
Argentina	-2.04%	3.31%	.40	No	No <sup>g</sup>	No	Yes
Peru <sup>f</sup>	-2.58%	2.28%	.43	Yes	Aggregate	Yes	No
Costa Rica	-3.20%	4.13%	.47	No	No	No	No
United States	-3.39%	2.46%	.48	No	No	No	No
Bolivia	-5.13%	2.59%	.30	No	No	Yes	No
Brazil	-7.98%	2.43%	.21	No	No <sup>g</sup>	No	Yes

<sup>a</sup>Based on Table A-1 in Cuckierman et al. (1992). Maxfield (1997) reports that Argentina, Colombia, and Venezuela enacted reforms in 1992 to increase the legal autonomy of their central banks.

<sup>b</sup>Data are from 1991–96, following the transition to democracy in 1990.

<sup>c</sup>The status of any type of veto (package or item) over the budget is subject to dispute, as discussed above in text, but it is not explicitly provided by the constitution.

<sup>d</sup>Data are from 1989–96, following the transition to democracy in 1988.

<sup>e</sup>Data are from 1987–96, following the transition to democracy in 1986.

<sup>f</sup>The years 1992 and 1993 are omitted. In April 1992, partly as a result of a dispute with Congress over the budget, President Fujimori carried out a presidential coup with the support of the military, shutting down the legislature. As a result, the budgets for 1992 and 1993 were implemented by decree. Because the presidential budgetary powers discussed in this paper are identical under the new, 1993 constitution and the previous constitution of 1979, we do not distinguish the two as separate regimes in our analysis.

<sup>g</sup>Legislators offering amendments to the budget proposal or separate bills requiring spending must name a source of revenues to cover the cost of appropriations, but they are not precluded from raising aggregate expenditures.

Sources: Ames (1996); Blaustein and Flanz (1971–current); Carey, Amorim Neto and Shugart (1997); Cuckierman (1992); *International Financial Statistics* (1990, 1992, 1996, 1997, 1998); also personal communication with Matthew Shugart, Gregory Schmidt, Scott Morgenstern, and Mark Jones.



**Table 2. Mean Deficit as % of GDP, 1985–1996,  
by Values of Growth and Institutional Variables**

Mean Rate of Real GDP Growth Over Period				
greater than 5.0%	4.0–4.9%	3.0–3.9%	2.5–2.9%	less than 2.5%
0.93% (2)	–1.98% (2)	–1.57% (3)	–2.09% (3)	–4.65% (3)
Cukierman Index of Formal Central Bank Independence				
greater than .45	.40–.45	.30–.39	.25–.29	less than .25
–1.53% (3)	–1.88 (4)	–5.13 (1)	–0.46 (2)	–4.54(2)
Presidential Gatekeeping Over All Appropriations				
Yes		No		
–0.52%(5)		–3.06%(8)		
Presidential Proposal Sets Spending Ceilings				
Item-by-item	Aggregate		None	
0.93%(2)	–1.50%(4)		–3.27%(7)	
Presidential Proposal Sets Reversion Budget				
Yes		No		
–1.62%(4)		–1.59%(9)		
Item Veto				
Yes		No		
–3.02%(5)		–1.73%(7)		

Note: The number of cases falling into each category is in parentheses beside each mean.  
Source: *International Financial Statistics* (various issues).

clearly in Table 2 which shows mean deficits for cases broken down according to values of the explanatory variables.<sup>8</sup>

Countries with the strongest growth over this period exhibited the most positive fiscal balance, and those with the most sluggish economies exhibited the largest average deficits, although in the middle range of growth rates the pattern is slightly less clear. With central banks, there is a weak overall tendency toward larger deficits as autonomy shrinks, but some of the smallest deficits are found among countries with low levels of formal indepen-

<sup>8</sup>Standard statistical analyses of this dataset quickly run into serious problems. In OLS regressions of mean deficits on each of our explanatory variables alone (with ceiling coded as 0=none, 1=aggregate, 2=item-by-item; and the other presidential powers as 0/1 dummies), growth, ceilings, and gatekeeping all produce strong and significant coefficients while the others do not. However, these three prime explanatory variables are all strongly correlated (significant at the .05 level in each case) such that multivariate analysis is hampered by both multicollinearity and degrees of freedom problems.

dence. Among the presidential powers, which are scored in a more blunt fashion, the patterns (or lack thereof) are easier to recognize. Mean deficits among cases with gatekeeping are around half of one percent of GDP, compared to an average of over 3 percent for the others. The two cases with the strongest ceiling-setting authority, Chile and South Korea, show mean surpluses; those with aggregate ceilings, moderate deficits, and those where the president's proposed budget imposes no fixed constraint have average deficits over 3 percent of GDP. Neither presidential authority to establish the reversion policy nor the item veto (by themselves) appear to constrain spending—with mean deficits under item veto formats actually *higher* than where this power is absent. Analysis of variance tests rejects the null hypotheses that gatekeeping and ceiling powers have no impact on deficits with greater than 90 percent confidence.

A couple of points are in order here regarding the various procedures described in Table 1 and their relation to the spatial model. To keep the model in Figure 2 visually manageable, we do not include alternative reversion points or aggregate ceilings separately from the congressional proposal, item veto, or Chilean procedures. What effect would considering such provisions have on the spatial model? Regarding reversion policies, the answer depends on the requirements for veto override. Except Bolivia, the systems in which the president's proposal sets the reversionary budget do not require extraordinary majorities to override presidential vetoes (whether item or package); thus, these presidents cannot simply offer a proposal and then veto alternatives preferred by legislative majorities.<sup>9</sup> Once congresses in such systems amend the initial proposal and send it back for executive consideration, the initial proposal is effectively moot as a reversionary policy, and we are henceforth in either the standard congressional proposal or item veto game. In the Chilean context, the possibility of exercising a strong presidential veto makes the reversionary proposal power both controversial and potentially formidable.

When presidents can set an aggregate budget ceiling, legislative amendments can move funds from executive-favored programs to those favored by congress, subject only to the constraint that the new policy is located somewhere in the "leaf" of overlap between the players' indifference curves as shown in Figure 2. Anticipation of this should affect presidential bargaining with Congress prior to the proposal. The nonseparability of policy dimensions during the amendment process opens the possibility of budgetary

<sup>9</sup>If Chilean presidents are allowed to exercise a veto over budgets, then Chile would join Bolivia in this category in the future. It would be worthwhile to investigate whether Bolivian presidents have relied on the strategy of exercising—or threatening—vetoes to prevent Congress from passing amended versions of the proposed budget.

logrolls between the branches. A key insight of the spatial model, to which both reversion and aggregate ceiling powers by themselves are irrelevant, is the importance of separability of policy dimensions for bargaining between the branches under the Chilean (and the South Korean) format. The ability of presidents to establish item-by-item ceilings in budgetary proposals is a rare and, we argue, important power.

To sum up, the fiscal balance sheet of Chile's current regime is distinct both from that of other presidential regimes and from that of the preceding military regime. The variables that best explain the cross-national pattern are economic growth as well as the presidential agenda powers of gatekeeping and setting spending ceilings. A limited number of cases and the strong correlations among these variables complicate efforts to untangle the effects of these factors entirely. To determine the plausibility that presidential agenda control drives spending policy in the manner suggested by our model, we turn to case studies of specific spending policies that serve as critical tests of our model: first, the president's ability to restrain spending when he is the low demander relative to Congress and second, Congress's ability to cut proposals when it prefers less than the president.

## 5. H2: DEFENSE SPENDING

Since the transition to democracy in Chile, the executive has been controlled by a coalition that prefers higher spending in most policy areas than either the previous military regime or the Senate majority (Instituto Libertad y Desarrollo 1995; Weyland 1997). Thus, the executive ceiling-setting authority should be relevant only in limited areas. However, the *Concertación* was born out of opposition to the military regime; many of its leaders personally suffered repression under the military government, and all its parties endured the suspension of political and civil rights (Constable and Valenzuela 1991). If there is one area where the executive ceiling-setting authority should be relevant, then, it is on military spending.

H2 predicts that cuts in military spending will be relative rather than absolute, however, because of two organic laws decreed by the Pinochet government in an effort to protect military funding.<sup>10</sup> First is Law 13,196 (The Classified Copper Law) which designates that 10 percent of the gross earnings from the national copper company (CODELCO) are credited to the coffers of the armed forces (Palma 1998).<sup>11</sup> Depending on copper

<sup>10</sup>In Chile, organic law occupies an intermediate status between constitutional provision and normal statute. Altering organic law requires a vote of at least 60 percent of all members of each legislative chamber rather than a simple majorities of the quorum.

<sup>11</sup>These transferred funds fall outside the regular appropriations itemized in the annual budget law but are included in the total revenues and expenditures.

prices, transfers under Law 13,196 have ranged from U.S.\$180–300 million per year (*La Época* 1996).<sup>12</sup> The second obstacle to civilian discretion over military budgets is Law 18,948 of 1990, issued literally in the last week of the military regime, which compels the annual budget law to provide real, nonpersonnel, military appropriations at least at the level of 1989, adjusted for inflation.<sup>13</sup>

These laws deny civilian politicians—whatever their preferences—discretion to cut real levels of military spending, but they establish only a minimal level of real spending; they do not guarantee the military any fixed share of overall appropriations. This point has been overlooked in many accounts of the transition in Chile which emphasize that the institutional legacy of guaranteed spending levels is to render civilian officials ineffectual in military policy decisions. Zagorski, for example, explicitly interprets Law 18,948 as “guaranteeing the military’s *share* of government spending” [emphasis added]—even while citing in the next sentence the *fixed*, real dollar amount of guaranteed military spending (1992, 89). Agüero notes that “legislation passed during the final days of the Pinochet regime limited the power of government to significantly affect the military budget” and later concludes that “only marginally could the [first civilian] administration begin to address national defense policy, which, excepting a few important foreign policy initiatives with military implications, remained within the confines of the military” (1997, 186 and following 190).

Table 3 shows levels of military spending as a share of GDP during the decade bracketing democratic transitions for our nine postauthoritarian regimes. Contrary to the accounts above, which suggest the relative incapacity of Chilean elected officials to attack military budget prerogatives, Chile is among the cases in which the military’s share of GDP drops most sharply.

Closer examination of Chilean appropriations patterns illustrates the story more clearly. Over the last five budgets under the military government, the mean share of military appropriations was 12.6 percent, whereas under the first five civilian budgets the figure was 10.5 percent. Only in the first year of civilian rule did the minimum appropriations constraint have any bite. The appropriation for 1991 reduced spending from the 1990 level to precisely the minimum level stipulated in Law 18,948 (República de Chile

<sup>12</sup>All currency figures in this paper are reported in thousands of 1995 U.S. dollars. Spending and borrowing in Chilean pesos were adjusted for inflation to 1995 levels, then converted at the 1995 exchange rate. Spending and borrowing in foreign currency is always itemized in U.S. dollars; these were adjusted for inflation (International Financial Statistics, April 1996). Data for this paper is drawn from executive budget proposals and final budget laws from 1985–1996.

<sup>13</sup>Appropriations for personnel are indexed according to the formula for other government employees (Article 96).

**Table 3. Military Spending as Share of GDP Before and After Transitions from Authoritarian Regimes**

	Average, Transition and Four Previous Years	Average, Five Years Following Transition	Percentage Increase or Decrease
Uruguay	3.2 (1981–85)	2.1 (1986–90)	–33
Bolivia	3.5 (1978–82)	2.6 (1983–87)	–26
Ecuador	2.4 (1975–79)	1.8 (1980–84)	–25
Chile	2.1 (1986–90)	1.6 (1991–94) <sup>a</sup>	–24
Argentina	3.2 (1979–83)	2.5 (1984–88)	–22
South Korea	4.3 (1986–88) <sup>a</sup>	3.7 (1989–93)	–13
Brazil	1.3 (1981–85)	1.4 (1986–90)	+8
Philippines	1.8 (1982–86)	2.3 (1987–89) <sup>a</sup>	+28
Peru	3.9 (1977–80) <sup>a</sup>	6.2 (1981–85)	+59

<sup>a</sup>Data for some years are missing in specific editions of the *SIPRI Yearbook*. Data reported within each edition are collected according to consistent criteria, and these criteria occasionally change across different editions; thus it would be inappropriate to fill in missing data with figures from other editions.

Sources: Haggard and Kaufman (1995, 115); Brazil and Uruguay figures from The Stockholm International Peace Research Institute, *SIPRI Yearbook 1992* (Stockholm: SIPRI); Ecuador from *SIPRI Yearbook 1985* and *1986*; Chile and South Korea from *SIPRI Yearbook 1996*.

1991b).<sup>14</sup> Subsequently, however, in the context of a booming economy and growing government budgets, the spending floor has become moot. Presidential proposals have exceeded the minimum required level and have been accepted virtually unchanged.<sup>15</sup> At the same time the share of all appropriations going for defense has fallen substantially.<sup>16</sup>

The outgoing military regime provided itself with an array of institutional protections and privileges, including amnesty from prosecution for human rights abuses, guaranteed representation in the Senate, and the guarantee that the commanders of each branch of the armed forces cannot be re-

<sup>14</sup> There is a substantial cut below the 1990 appropriation and even a slight cut relative to 1989. This is not in violation of Law 18,948; however, the law stipulates only that the government must *appropriate* (in Article 2 of the budget law) sufficient funds that *total expenditures* (in Article 1 of the budget law), which include transfers such as those provided for by Law 13,196, remain at or above the 1989 floor. Finally, the appropriation includes personnel spending which is indexed according to a separate algorithm. This factor contributes to minor discrepancies in the spending levels.

<sup>15</sup> Appropriations for defense have differed from executive proposals by an average of one-fifth of 1 percent for the five years for which we have data.

<sup>16</sup> Copper revenues provided under Law 13,196 have cushioned the military's losses somewhat, with share of the military's budget drawn from outside standard appropriations increasing from 15 percent to 18 percent between 1992 and 1998 (República de Chile 1998b).

moved by the president. However, analyses of the Chilean transition that focus on “reserved domains”—guarantees explicitly provided to the military—overlook other institutional factors with important and countervailing implications for military policy (Casper 1995; Constable and Valenzuela 1991; Valenzuela 1992; but see Hunter 1997). In this case, a guaranteed minimum level of real military appropriations has proven not to be a binding constraint on civilian policymakers in the 1990s environment of expanding overall government revenues and budgets. The more relevant procedural constraints are the president’s exclusive authority to propose appropriations and to set ceilings on particular programs. Given that defense is the *only* major policy area in which *Concertación* presidents prefer lower spending levels than the divided Congress, the decline in the military’s share of the budget is evidence of the executive’s ability to restrain spending and move policy closer to its preferences through its constitutional proposal power.

### 6. H3: LEGISLATIVE CUTS

The last hypothesis focuses on situations in which Congress prefers less spending than the president. Because amendments to executive proposals are central to Congress’s power as a low demander, the nature of negotiations between chambers, time constraints, the reversion policy, and the constitutional ambiguity over the status of the veto are all important here. Consider two scenarios: In the first, both major coalitions (and thus both chambers) agree on reductions. Congress should have no difficulty in amending the executive’s proposal downward and could even override a veto if the president attempted one and it were deemed admissible by the courts. In the second, one coalition (and thus one chamber) favors cuts but the other does not. This describes the common situation in the 1990s in which the *Concertación* majority in the Chamber supports executive proposals that are opposed by the coalition of the right in the Senate. Here, we might expect the Joint Budget Committee to produce an amendment that falls between the ideals of the two chambers—still lower than what the executive wants. Rather than accept such an amendment, however, the high demand chamber could simply stonewall, refusing to pass an amended budget altogether. This would mean sacrificing any amendments to which the chambers might agree across all other dimensions and accepting the president’s original proposal in its entirety. In addition, in the face of an objectionable potential amendment, the president might threaten to attempt a veto which would in turn open the issue of the appropriate reversion policy to the courts. When the chambers do not concur on cuts to the executive proposal, then, the bargaining position of the low demander is tenuous.

The two scenarios are illustrated by the result of congressional opposition to executive proposals in two areas: discretionary funds, which divide

Congress from the executive on institutional grounds; and funding for women's and youth programs, which divided the coalitions, and thus the chambers as well, in the mid-1990s.

### 6.1 Institutional Conflict: Shrinking Executive Discretion

The specific item in the budget law that has come under the most severe attack by the congressional opposition is called the Provision for Financial Obligations (*Provisión para Financiamientos Comprometidos*, PFC). Congressional skepticism toward the PFC is based both on its enormous size—over 10 percent of all appropriated funds in the early 1990s—and on the fact that these funds are only used for minimally constrained purposes. Congressional opponents object to its use as an executive discretionary fund (Feliu 1994, 1996b; Orpis 1996). The funds are appropriated to the Treasury but are transferred by the executive, as needed, to various ministries to cover unforeseen expenses, particularly those implied by new laws that authorize programs for which specific funds will not be appropriated until the next year's budget (Palma 1996). Thus, the PFC serves as a substitute for supplemental appropriations legislation during the year.

The PFC survived as a line item in the 1995 and 1996 budgets, but Senator Feliu succeeded in inserting new regulatory articles into the 1995 and 1996 budget laws that required DiPres to produce quarterly reports for the Finance Committees of each chamber which itemized transfers and expenditures of PFC funds. By the 1998 budget, the corresponding article mandated monthly reports (República de Chile 1995b, Article 25, 1996b and 1998b, Article 22). The PFC is the only item in the entire budget singled out for special reporting. These moves to increase oversight and decrease executive discretion could not have passed in the Chamber without support from *Concertación* legislators.

Given the rate of overall revenue and budget growth in Chile during the 1990s, the changes in the PFC item during this period testify to the effectiveness of a Congress that is unified in constraining spending favored by the executive. From 1992 to 1998, the PFC shrank in real terms from just over U.S.\$1 billion to U.S.\$761 million. As a share of total appropriations, it declined from 10.5 percent to 5.4 percent (República de Chile 1992–1998b). The overall trend in the size and share of PFC appropriations, however, suggests that congressional opponents are prevailing, perhaps through cuts and perhaps through reduced executive proposals in anticipation of congressional opposition. What is clear from the combined interview and budgetary data is that the size of the PFC and the procedure by which it is administered have attracted opposition from legislators of both coalitions on the grounds that the PFC violates Congress's prerogative to approve specific expenditures. Concurrently, the PFC has steadily declined in relative *and real* terms.



## 6.2 Coalitional Conflict: Programs for Women and Youth

Two other disputes during the 1996 budget process illustrate both the ability of Congress to impose cuts to specific items in the executive budget proposal and the limitations on this ability implied by coalitional divisions in the legislature and the executive's agenda control. The first example pertains to the National Women's Service (*Servicio Nacional de la Mujer*, or SERNAM), the government's agency for women. In 1995, legislators from the right condemned SERNAM for the platform it planned to present at the United Nations Fourth World Conference on Women, arguing that it represented the views of radical feminists and violated the Chilean national interest. Deputies from the right followed up during the budget process by offering a series of amendments to cut almost 13 percent of SERNAM's proposed budget. The amendments were initially rejected by the JBC in a vote of nine to five, divided on coalition lines (Senado de Chile 1995, 2140–2141). Later the Senate resuscitated the same amendments, prompting a round of eleventh-hour negotiations between members of the JBC and the Finance Ministry to hammer out a compromise that could pass both chambers and was acceptable to the executive before the sixty-day time period elapsed. In the final deal, about 30 percent of the proposed cuts were reintegrated into the budget law, thus reducing SERNAM's proposed budget by 3.6 percent. A similar scenario unfolded around the National Youth Service (*Servicio Nacional de Menores*, SENAME) with a proposed series of cuts rejected in the JBC by a coalition-line vote, then resuscitated during negotiations with the executive due to Senate support and included in the final budget law (Senado de Chile 1995, 2061–2067).

These examples document the constraints on Congress's ability to impose cuts to specific items in the executive budget proposal. The final reductions were substantially less than the amounts stipulated in the initial amendments proposed by the right. Moreover, despite cuts to the executive proposal, the final spending levels for both SERNAM and SENAME grew over 1995 spending levels and at slightly higher rates than the overall budget. Thus, budget cutters in Congress modified, but did not succeed in overturning, executive spending preferences in these areas.

Two factors limited the ability of congressional opponents to make their cuts stick. First was a divided Congress, which was unable to agree on the JBC's version of the budget within the allotted sixty-day period. Second, and directly following from the first problem, was uncertainty about the reversion point if Congress failed to agree to a budget law within that period. This uncertainty encouraged concessions in last-minute negotiations with executive officials. The theme was echoed by a number of participants in the 1996 negotiations (Orpis 1996; Feliu 1996a; Arellano 1996).



The examples of the PFC and the battle over SERNAM and SENAME illustrate the difference in Congress's ability to curtail executive spending requests during institutional and coalitional conflict. In the case of the PFC, conflict has focused on the institutional prerogatives of two branches, Congress has acted in a unified manner to impose constraints, and the item has been cut substantially in *real* terms even in the context of growing overall budgets. In the case of SERNAM and SENAME, some cuts to the executive proposal supported in the Senate were imposed, but the cuts were watered down considerably as the sixty-day timetable and uncertainty over the reversion policy in case of a veto undermined the bargaining position of budget hawks in Congress.

## 7. CONCLUSION

This paper takes as its starting point the standard refrain that institutions matter, both to policy outcomes and to post-transition democratic performance more generally. From this premise, we develop a simple model that generates specific predictions about policy choices and conflicts in Chile, a renewed democracy with a formidable institutional legacy from the authoritarian regime. We argue that Chilean budget procedures should generate fiscal restraint; that the military's share of the budget should decline after the transition; and that legislative efforts to cut executive spending proposals, although viable, should be hampered by differences between the preferences of majorities in each chamber and by uncertainty over the constitutionality of the veto and the budget reversion policy. All the implications of our model are supported by evidence from budgets and executive proposals over the 1985–1996 period, by cross-national fiscal data, by interviews with Chilean legislators and executive officials, and by newspaper and congressional records of specific policy debates.

Beyond the specific implications for Chilean budget policy, this study demonstrates both the importance and some limitations of institutional design for democratic performance. The Chilean military regime consciously crafted the 1980 Constitution, the budget process, and the electoral system in order to constrain the policy outcomes generated by elected civilian politicians. To a certain extent, the institutional engineers appear to have succeeded—particularly in designing an electoral system that has disproportionately rewarded the right and a budget process that generally encourages fiscal austerity. On specific policy issues, however, there are some ironies, including the military's shrinking share of the budget despite decree laws aimed at guaranteeing its revenues and the difficulties faced by the Senate in imposing cuts in social programs objectionable to its majority.

In closing, we wish to emphasize two points—one related to policy and the other to the study of political institutions. With respect to policy, we

stress the importance of relative stability in fiscal policy. The Chilean case is informative, especially in light of the tremendous fiscal instability that has accompanied democratic transitions in countries such as Peru, Bolivia, Argentina, Brazil, and Russia and recent swings to and from austerity even in Venezuela's longer-standing democracy (Romero 1997). It suggests that institutions can be crafted which contribute to fiscal stability and that this goal can be consistent both with robust economic growth and with redistributive social welfare policies (Weyland 1997). With respect to the study of institutions, we emphasize that the formal rules of procedure, whether imposed or agreed upon, have predictable and measurable effects on policy making. Comparative politics, including the study of transitions, consistently acknowledges this at a general level but frequently stops short of generating specific arguments about *how* institutions matter or following them up empirically. We regard this work as a step in that direction.

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