PRESIDENT, CONGRESS, AND BUDGET-MAKING IN ARGENTINA AND MEXICO: THE ROLE OF INFORMAL INSTITUTIONS

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PRESIDENT, CONGRESS, AND BUDGET-MAKING IN ARGENTINA AND MEXICO: THE ROLE OF INFORMAL INSTITUTIONS

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ABSTRACT

Latin American political systems are characterized by powerful presidential institutions vis à vis legislatures. Presidents hold significant power resources to control the budget process, leaving the congress as a mere rubberstamp. This situation is bolstered not only by formal institutional engineering, but also by informally institutionalized mechanisms at the macro (political system) and micro (budget process) levels. Building on the literature on institutions, executive-legislative relations, and budget-making, this dissertation addresses the following question: How have informal institutions influenced presidential control over the allocation of resources in Argentina and Mexico from 1994 to 2006? My core argument is that when political decision makers resort to informal macro institutions (control over nominations and political careers, and clientelism) and micro institutions (delegation of powers, and the tactical use of economic data and revenue estimates for budgetary projections,) this tends to enhance the power of the president and governors vis à vis the legislature in countries with PR electoral rules and low legislative reelection rates, or where there is no immediate
reelection. This situation is enhanced under an economically favorable context — economic growth, low inflation rates, and a fiscal surplus — and a majority presidential contingent in Congress with high levels of party discipline. In this study, I draw on extensive interviews and analysis of budget data to trace the processes by which presidents, governors, and legislators exercise power in the budget-making arena. I find that divergence in the influence of informal institutions explains why the Mexican budget-making process has become more evenly balanced between the legislature and the presidency, while Argentina has seen budget-making power increasingly concentrated in the hands of the executive.
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CHAPTER 1. INTRODUCTION

Separation of powers and checks and balances play an important role in the study of Latin American presidential democracies. The latest research on those subjects has mostly drawn on institutionalist perspectives, positing formal institutions as explanatory variables to account for how power is distributed among actors in a democracy, as well as the outcomes of that distribution in the political, social, and economic spheres. Notwithstanding this academic trend, new research increasingly suggests that informal institutions can be as important as the formal ones when it comes to explaining political phenomena.¹ This dissertation examines how informal institutions influence the balance of power among branches of government to shape the very bases of presidential regimes. The budgetary process, a repetitive and continuous policy cycle, allows us to see the interaction among actors and the interplay of formal and informal institutions. The budget process is “an arena in which the struggle for power over public policy is worked out” (Wildavsky and Caiden 2001, 204).

Drawing on Huntington’s definition, I consider institutions to be “stable, valued, recurring patterns of behavior” (1968, 12). In other words, they are shared rules or routines that influence actors’ behavior, arrange power structures, and shape policy outcomes. Formal institutions are normally written, legally established, and enforced through official channels, while informal ones are usually unwritten and enforced outside official means (North 1990; Knight 1992; MacIntyre 2003; Helmke and Levitsky 2006).

¹ Kent Weaver explains it by saying that the “old institutionalims” have been criticized for “excessive emphasis on constitutional/legal structures rather than actual behavior and consequences, as well as for excessive normative emphases and for insufficient attention to cross-national theory building and testing.” (2006, 216)
Latin American countries have been characterized as having strong presidential systems, due either to the executives' formal powers or to the informal dominance they exert within the political system (Mainwaring and Shugart 1997). Contrary to the US, where a balanced distribution of powers exists together with an effective system of checks and balances, Latin American countries have historically built stronger presidential institutions vis à vis congress (Mainwaring and Shugart 1997; Cox and Morgenstern 2001; Smith 2005). The roots of those institutional arrangements are found in the need to unify national territories and diverse populations, and the need to avoid the longstanding risk of coups d’état. The downside is that many Latin American strong presidencies consolidated power to the point of becoming dictatorial or authoritarian systems at some point in their history. But the 1980s and 1990s saw the return of democracy to almost every country in the region, and these polities began searching for a balance between maintaining strong executives, building equally strong legislatures and party systems, and deepening democracy and social peace (O'Donnell, Schmitter, et al. 1986; Diamond 1997; O'Donnell, Vargas Cullel, et al. 2004; Valenzuela 2004).

In both Argentina and Mexico the creation of a strong central executive is attributed mainly to the historical need of regime stability, and, as part of reaching that goal, to the need to put an end to the quarrels of local and regional leaders. After several political fallouts in the Nineteenth and Twentieth Centuries, the two political systems were reconfigured to diminish duels among power-holding actors that could end up overthrowing the government. Through the unification of political forces commanded by a single actor, the president, regime stability began to be guaranteed and disagreements
among actors managed within the system.\(^2\) Presidents’ power capabilities have been based not necessarily on the formal attributes of the executive branch, but on the sum of other institutional arrangements as well, including electoral rules and cycles, powers of congress, party systems, and the like (Morgenstern and Nacif 2002; Stein, Tommasi, et al. 2005). These features normally give the president several advantages over the other branches of government for advancing his agenda. One notable advantage is the control that the executive exercises over the budget process. Taking into account the size and complexity of a national budget and what it implies in terms of governmental action and resource distribution, the executive has a policy-making capacity that the legislature normally lacks. It is illuminating to analyze these issues in Argentina and Mexico, two countries with a convoluted democratic history, and which also share the attributes of strong presidencies, feeble legislatures, authoritarian pasts, entrenched political parties with corporatist features, and executives that have often governed with a legislative majority.\(^3\)

This research focuses on two principal informal mechanisms at the political macro-level that might be used by the executive, the legislature, and state or provincial governors: first, the power to nominate candidates for electoral offices and control over such candidates’ subsequent political careers; and, second, control over other forms of clientelism, such as distribution of goods and services and access to state-sponsored

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\(^2\) For further information on the creation of strong presidential systems in Argentina and Mexico, see Carpizo (1978) and Nino (1996).

\(^3\) The main political parties with these characteristics in Argentina and Mexico are the Partido Justicialista (PJ) and the Partido Revolucionario Institucional (PRI), respectively. Some of the shared features will be delineated below. See Garrido (1986), Burgess (2003), and Levitsky (2005).
assistance programs. Although both informal mechanisms can be categorized as clientelistic methods, the first one targets politicians, legislators, and political actors, while the second one focuses on voters and interest groups. At the budgetary micro-level, two informal institutions, both of which work chiefly to the advantage of the executive, will be studied: first, the power of delegation (from the legislature to the executive), and, second, the manipulation of revenue projections to establish the base level of available resources.

Along with formal institutions (federalism, electoral systems and cycles, party system, powers of the president and of Congress, legal actors involved in the budget process and their powers), informal institutions are treated as a cause of power distribution among relevant actors, which is one of the bases upon which a political or a policy process operates. The other two foundations are economic contexts (stability), and political environment (composition of Congress, partisan control over governorships, and political fragmentation). In this case, presidential control over budget-making is the process that serves as the dependent variable. Control over the expenditures budget is measured by changes made to the budget proposal in Congress, changes made by the executive to the approved budget bill during its execution, and the degrees of conflict of the approval phase. More specifically, in order to establish causal links between informal institutions, the balance of power among actors, and democratic features such as checks and balances, this study addresses the following question: How have informal institutions influenced the control that the president wielded over the allocation of resources (the budget and its process) in Argentina and Mexico from 1994 to 2006?

4 Corruption is not included for three main reasons: for maintaining parsimony; because it can be seen as an outcome of the interplay of formal and informal arrangements, and not as an institution itself; and because the topic in itself is so difficult to measure and approach that has been deliberately left for future research.
The comparison between Argentina and Mexico makes for an interesting case study. Over the time period from 1994 to 2006, which includes watershed moments for both cases, we see that the two countries have taken different paths in terms of power concentration in the executive’s control over the budget.\(^5\) Mexico has moved toward greater democratization since the economic crisis of the mid 1990s, expanding political competition while abolishing or decentralizing many of the (mostly informal) “metaconstitutional” powers that characterized the presidency under the previous hegemonic party system (Weldon 2002; Langston 2008; Selee 2011). Meanwhile, the president has been ceding control over the budgetary process just as he lost the majority in congress in 1997, and the power resources of Congress have been transformed; while before 1997 Congress used to approve the budget without changes, after that year it has incrementally introduced changes to the executive’s proposal (Bailey 1984; Casar 2002a; Weldon 2004; Sour 2007). The period from 2000 to 2006, saw stronger budget-related legislation passed to increase legislative oversight over the executive and its agencies (Farfán Mares 2010; Velázquez López Velarde 2010).

In contrast, Argentina has taken the path of “delegative democracy” (O'Donnell 1994), a weak and unrepresentative democratic system with fragile checks and balances that the executive authority used to concentrate power, enhance its unilateral decision-making capacity, and disregard other branches of government (Abuelafia, Berensztein, et al. 2006; Rodríguez and Bonvecchi 2006; Uña 2006). In effect, Argentina resembles in

\(^5\) For Argentina the watershed is the 2001 economic catastrophe, in which GDP dropped by more than 10 percent and inflation increased by more than 25 percent, and for Mexico is the 1997 election in which the president’s party loss the majority of the seats in the lower chamber – the first experience of divided government in Mexico’s contemporary history.
some aspects the former Mexican regime. Since the mid 1990s the Argentine executive has accumulated greater power. After the 2001 economic crisis, the president’s party held a majority in congress and in provincial governorships. Since then, informal arrangements for exerting control over the budgetary process have only been augmented or re-concentrated in the president, giving stronger power resources to the executive to control the legislature and use his discretionary capacity to decide resource allocation.

For one example of this enhancement of “hyperpresidentialism” (Nino 1996; Mustapic 2002), a mixture of informal and formal mechanisms, we can observe an amendment to the Law of Fiscal Administration that assigns formal powers to the president’s Chief of Cabinet. This official can modify, amend, and reassign expenditures at any point during budget execution, with only a few specific limits, and without being subject to legislative review.

How have formal and informal institutions, and actors’ power resources, influenced the different paths that Argentina and Mexico have followed? That two presidential, democratic, federal, and bicameral countries have followed such divergent ways cannot be addressed only by recourse to their formal institutional design. The two cases make for good examples of how formal institutions may be deceptive when it comes to analyzing actors’ power resources. We see the importance of the interplay between formal and informal institutions when comparing the expected power distribution under a particular institutional design to what happens in reality. The study of

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6 There are competing perspectives on the delegatory nature of democracy in Argentina, which will be addressed in the following chapters, but in general terms, I agree with scholars as O’Donnell (1994) and Rodriguez and Bonvecchi (2006) who classify that country as a delegative democracy.

7 The popularly known “Ley de los Superpoderes” (Superpowers Bill), is really an amendment that was passed in 2006 by a Congress dominated by the president’s political party. It was a presidential initiative and gave formal powers to the Chief of Cabinet to bypass Congress during the execution of an approved budget.
formally weak (Mexico) versus strong (Argentina) presidents needs to include informal rules and informal actors to account for changes across time. These contrasts between cases give us the opportunity to see why and how changes in informal institutions can modify the balance of power among branches and levels of government, the very core of democratic presidential regimes.

The budget process deserves attention for several reasons. Budgets serve as the most important governmental technical and political tool to plan and execute actions and policies, in response to the preferences voiced by an electorate. They are also the response to and the reflection of the power struggle derived from certain institutional configurations. As such, the budget process and outputs serve as a barometer of power distribution and decision-making among different actors, and they are also one of the fundamental instruments of public policy-making via the allocation of scarce resources. The budget reflects the distribution of power between the executive and the legislature, and between the federal government, the state or provincial, and the municipal ones (Wildavsky 1986; Rubin 2000; Wildavsky and Caiden 2001). The budgetary process attempts to reconcile competing agendas and exemplifies how actors make use of resources to achieve their preferences (Epstein and O’Halloran 1999; Schick 2000). Methodologically viewed, the cyclical repetition of the budgetary process helps identify continuities and changes, allows for a sufficient number of observations, and accounts for path-dependent processes in specific institutional settings. Over time, the process reveals critical junctures that have marked transformations. In this dissertation I focus on the expenditures budget, which allows us to see the president’s control over allocation of resources.
While impressive progress has been made by scholars like North (1990) and Helmke and Levitsky (2003), much work remains to be done in examining how informal institutions work in practice, and how they relate to formal institutions, to the power instruments of key actors, to political contexts, and to economic constraints. In order to give an accurate response to this dissertation’s main subject, it is useful to address some secondary conceptual questions about informal arrangements: What are informal institutions? What are their functions? How are they relevant? How and why do some informal institutions become formalized while others disappear?

More concretely, when assessing Latin America’s problems of accountability, weak democratic procedures, and governments’ effectiveness for improving citizens’ wellbeing, another series of inquiries specific to Argentina and Mexico need to be dealt with: What formal and informal institutions have influenced modifications in the budgetary process and in the president’s control over it? What types of by-products have been generated by the interaction effects of formal and informal institutions? Which factors in what ways have triggered changes in formal and informal institutions? The comparison of cases reveals patterns that help answer these questions.

**RELEVANCE OF THE RESEARCH**

The study of budgetary processes – not as isolated pieces of legislation, but as policies linked directly to executive-legislative relations in a democratic context – and the informal institutions that surround and affect them, makes a compelling subject on multiple levels. It not only speaks to theoretical perspectives; it also matters to
policymakers in a substantive way when analyzing some of the problems that countries as Argentina and Mexico have had during their recent democratic history, and how the paths that they have followed can yield some clues to what may be expect to happen in the future. The history of Argentina and Mexico has been characterized by differences among their territories and their population. The Nineteenth and Twentieth Centuries were full of seesaws in their political, social, and economic arenas. Recurrent political crises and economic turbulences gave birth to the arrival of democracy in the 1980s and 1990s, and governments had to put emphasis on addressing the poverty and social inequalities of their countries. It is within these historical processes that decision on budgeting get made, both in the taxing and spending sides, which include social security, social and economic assistance programs, regional development, infrastructure, health, and education.

This research contributes to two major streams of literature. The first one is the study of institutions. Different academic approaches have developed their interpretations about the importance, features, functions, types, and effects of institutions. In recent times, comparative historical institutionalism has turned to less rigid and behavioralist, and more inclusive and contextual, explanations that until recently were centered on formal institutions (Katznelson 2002; Mahoney and Rueschemeyer 2003a; Mahoney and Thelen 2010). Historical institutionalism helps scholars account for the importance that informal arrangements have within a given setting, in terms of actors’ decision making-processes and their policy implications. This line of thought has yielded such contributions as Helmke and Levitsky’s (2006) and Meyer’s (2006) studies on informal institutions and their attempts to produce a typology, which have opened new
possibilities for explaining social and political phenomena. But it has not been sufficient in terms of comparative studies. This dissertation will contribute to a more in-depth analysis of the outcomes that informal institutions may generate, and the interaction effects that they may have together with formal rules. It will also establish an example of comparative studies that examine informal institutions and the effects they have on politics and policymaking. Specifically, this research will address actors’ power resources and executive-legislative relations as the result of the interplay of formal and informal institutions, introducing state or provincial governors as key actors in that traditionally two-party relation.

The second branch of literature to which this subject speaks to is the study of budgets and budgetary processes. Budget analysis does not necessarily incorporate political variables and power-centered explanations, as do the ones developed by Dirk-Jan Kraan (1996) and Allen Schick (2000). Nor do they automatically build bridges to other topics, such as political systems and democratic regimes. The inquiries that have indeed focused on the political side of the budget and its process have mostly taken formal and rational choice perspectives, or have not accomplished an accurate inclusion of informal factors as determinants for budgetary results. Most of them have begun from approaches that use economic factors or formal rules of the game as explanatory variables (Rubin 2000; Jones 2001; Wildavsky and Caiden 2001; Weldon 2002; Hallerberg and Marier 2004; Hallerberg, Scartascini, et al. 2009). Wildavsky’s work (1986; 2001) stands out as an exception to this because he includes informal mechanisms and political phenomena as fundamental explanations of how the budget process works. Although necessary as a starting point, an in-depth analysis of formal institutions does
not satisfactorily account for all the dynamics of the budgetary process, much less to explain the power relationship between its two principal legal actors at the federal level: the executive branch and the legislature. We must broaden our perspective. Therefore, the inclusion of informal arrangements that this dissertation proposes becomes essential.

We already have a good insight into the effects of certain types of formal institutions in Latin American countries. Although the topics of institutional design, executive-legislative relations, and public policies, are not new – especially in other regional contexts – few analyses have made the jump from the formal rules of the game to the examination of the informal mechanisms that, sometimes in equal amounts, generate a specific result in terms of who gets what out of the budget. The studies that focused on Latin America also began by accounting for budget deficits and fiscal discipline through legal rules and the characteristics of presidentialism (Alesina, Hausmann, et al. 1996; Gavin and Hausmann 1998; Hausmann 1998; Cheibub 2006). Recent studies on budgetary processes in Argentina (Abuelafia, Berensztein, et al. 2006; Braun, Díaz Frers, et al. 2006b; Rodríguez and Bonvecchi 2006; Uña 2006), Brazil (Ames 2001; Pereira and Mueller 2004; Alston and Mueller 2005), and Mexico (Casar 2001; Weldon 2004; Lehoucq, Negretto, et al. 2008; Velázquez López Velarde 2010), claim that “informal institutions matter,” recognizing that the formal process and its framework are not enough for assessing who controls the distribution of resources. These studies represent a promising first step, particularly since many academic approaches have discounted or ignored the importance of informality; still, this constitutes only the
beginning of a research agenda. If we manage to put together the causal relations that explain formal and informal institutional effects, the analysis will approach a more complete understanding of the budget as the most fundamental piece of legislation that the executive, the legislature, and other important actors such as governors, construct.

This research can help clarify how power is really structured regardless of its constitutional distribution, where it is located beyond what is written in the law, and reveal how economic and political variables play an influential role in the accommodation of power, and budgetary outputs. The research agenda on how democracy works, moving beyond narrow procedural terms to a much broader conception, has yet to be exhausted. We need to address in detail the way in which important democratic processes are carried through. Issues of accountability, transparency, and checks and balances, can be better understood through a more inclusive study of a continuous annual cycle of money allocation. Also, we can see the real implications of the executive’s and legislators’ everyday decisions for their constituencies, as well as the key role that state/provincial governors play within the process (File and Scartascini 2006; Langston 2010).

THE ARGUMENT

This dissertation introduces a new model of policy-making with respect to budget-making in Latin America: the typically studied executive-legislative relationship

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8 The rational choice approach, which has largely influenced political science and political economy, does not treat informal mechanisms as determinant or influential of certain processes; such is the case of many studies on the budget. For a better understanding of the principles guiding rational choice analyses, see Levi (2002).
is reconfigured to incorporate a third actor that is equally influential in distributing resources: governors. Three principal variables, economic constraints, political context, and power resources of the executive, Congress, and governors, affect the relationships established within the budget process. The interplay of formal and informal institutions modulates actors’ power resources: agenda-setting capacity, control over information, and political control.

The core argument of this dissertation is that an increasing degree of influence of informal macro (control over nominations and political careers, clientelism) and micro (delegation of powers, and the use of economic data for budgetary projections) institutions, tends to enhance the power of the executive and governors vis à vis that of the legislature in countries where political parties are strong and legislative reelection rates are low or there is no immediate reelection. This situation is enhanced under an economically favorable context – economic growth, low inflation rates, and a fiscal surplus – and a majority presidential contingent in Congress (with high levels of party discipline).

The macro informal institutions (those related to the political system) give greater degrees of control either to the president or to governors over legislators’ preferences. The micro informal institutions (those related directly to the budget process) tend to augment the president’s leeway. This can be seen in the control and influence that the president and governors have over a recurring policy process: the budget cycle. More specifically, this political balance of power is revealed in negotiations between the two branches of government, and the lobbying capacity of governors through their legislators and directly with the president, which are reflected in greater resource allocations to the
provinces or states. Formally, the constitutional-legal context of presidential systems causes the executive branch to exert the highest amount of control on the budget process because its formulation mostly takes place within the executive, which establishes the grounds of the budgetary debate; moreover, in Argentina and Mexico, it is the actor with greater technical capacities (Hallerberg and Marier 2004; Braun, Díaz Frers, et al. 2006a; Farfán Mares 2010). Informal mechanisms are seen as shapers of power relations. When strong informal institutions are in place – or when they arise – they usually help the president bypass congress in the calculation of economic projections and revenues due to fluctuations in commodity prices, the acquisition of authorization for expenditures, and the allocation of resources to favor certain actors, programs, and policies. Some informal institutions may also facilitate the readjustment or reallocation of previously approved amounts while the budget is being executed, after the approval phase of the budget cycle has ended.

This happens mainly for three reasons. First, in cases where reelection rates are low, or there is no immediate reelection in the legislature, congressmen are highly dependent on whoever holds nomination power and control over political careers – their political bosses. Normally, political parties, the president, governors (these last two acting as political parties’ leaders), or other political bosses, hold these resources, which gives them a certain degree of control over legislators (Ai Camp 2008; De Luca 2008; Jones 2008; Langston 2008, 2010). The second is the difference between the executive and the legislative branches in technical capacity, staff, and expertise, and the resulting information asymmetries distinguishing power relations (Morgenstern and Nacif 2002; Stein, Tommasi, et al. 2005). The third is related to the configuration of both institutional
actors in centralizing decision-making procedures and the corresponding leeway they have to do so.\footnote{For a comprehensive explanation of these phenomena, see on the “common pool resource problem” Hallerberg and Marier (2004). For a detailed description of collective action problems and common pool resources problem, see the edited volume by Fukasaku, Hausmann, et.al. (1998), or Olson’s classic work (1965).} Delegation of power from congress to the executive branch, conceived as a unitary actor, is explained as a way to solve coordination problems among different fractions and political parties (Fukasaku and Hausmann 1998; Wildavsky and Caiden 2001; Hallerberg and Marier 2004). The executive and the legislative branches of government work differently based on their internal structure. In presidential systems one elected individual forms the executive with a national constituency (despite the appointed actors that might be found in its hierarchical organization, ministries, agencies, and bureaucracy), while congress is formed by a large number of elected individuals who are formally equal but have different constituencies and different political bosses.\footnote{Tsebelis (2002) work on veto players treats this point as a fundamental one when analyzing power relations and actors’ bargaining capacity and resources. In a similar way, Weir (2006) explains political institutions and their effects on policy-making differentiating actors within themselves.} This applies both to federal executives and to governors of states or provinces. With respect to hierarchy, the executive is conceived as hierarchical institutional actor, while congress is, at least ideally, constituted as a collective body of equals (although, as we will see for Argentina and Mexico, this is not always the case, because members of certain committees, chairmen, and the directive board of both chambers of congress have more influence than other legislators). The president is the only public elected official with a national constituency (Hallerberg and Marier 2004). Theoretically this makes him accountable to citizens, and responsible for the acts carried through by his appointees (cabinet members, people in the president’s office and staff, and others). Legislators, while being part of a single institutional actor, \textit{vis à vis} the executive, do not share the
same constituency, nor do they respond to the same interests, the same political party, or leadership. This can make them act not only and always as part of a joint cohesive body, but also, and often at the same time, as competing individual actors among themselves. When negotiating a budget, differences among legislators are accentuated when there is no party majority or party fragmentation is high (Jones 2005).

Governors or provincial/state party bosses are influential in nominations and political careers, and also play an important role in shaping how members of congress behave. In Argentina and in Mexico this fact has become increasingly important as a long-term situation due to the political and party decentralization processes (in different moments of time) in both countries. When working on certain issues (especially those that involve resource distribution), negotiating directly with the executive to extract more funds for their districts or provinces might benefit some legislators individually.

In the two cases examined in the following pages we will see that when informal institutions are in play, they tend to give greater discretionary power and control over negotiation resources to the institutional actor that is more coherent, and that contains fewer veto players within (Tsebelis 2002). This situation augments his power resources, so he can decide to bargain or exchange favors with specific actors. Those actors, the legislators, when behaving in a selfish way, may end up diminishing the power of the whole collective body to take action as a consistent counterbalance to the president. If we add to the mix a situation of political plurality in congress, and weakened political parties with small degrees of discipline, these circumstances may be even critical.

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11 As analyzed by Olson (1965) the collective action problem emerges when a group of individuals organizes itself to achieve certain goods. If those goods are private to only the members of the group, the incentives for cooperation will be high for each individual. If the goods are public, individuals will face a “free-rider” problem, because they will obtain the goods regardless of their participation in the group.
Provincial or state governors are configured similarly to the national executive, being more unitary actors than legislatures, which provides them with the same tools and cohesiveness to negotiate with the president (De Luca 2004; Jones and Hwang 2005a; Siavelis and Morgenstern 2008).

Following this logic, I do not intend to approach the executive as a unified actor because this is not always accurate. I will sometimes make reference to the executive but at other times I will distinguish the president from his cabinet members. When it comes to the budget process, the most influential agency within the executive is, as has been discussed by Hallerberg and von Hagen (1998), the Ministry of Economy in Argentina and the Secretariat of Treasury and Public Credit in Mexico. This agency mostly concentrates on the production, control, and distribution of information for budgetary matters, even in the Argentine case where the figure of chief of cabinet in theory takes a leading role. This leverage makes for a huge distinction between the executive’s agencies because it is clear who controls the significant resources and sets the guidelines of the process and spending limits. Just as in the case of the legislature, the many individual actors who compose that branch of government may sometimes hold divergent priorities and respond to diverse interests.

The executive branch is not a unitary entity, but rather it is multi-faceted and factionalized, so negotiations carried out between components of this branch demand attention. They are not the same as the ones between the executive and congress or among members of congress, governors, and other actors, but these internal processes are present throughout the budget process and influence the power configuration of the

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12 Technically, the Chief of Cabinet is granted by the Constitution a key role in the budget process, but in practice, the Ministry of Finance remains the key player. This will be explained in detail through the Chapters on Argentina.
actors. What we can see throughout this study is that in Argentina and Mexico, the real control of the budgetary process rests in the executive, and increasingly in the hands of governors. Variations in presidential control over the budget through time and across countries will be analyzed in the substantive chapters.

This research will also show that the relationship between the national executive and governors has a similar dynamic as the relationship between the executive and congress. Governors do not act in concert unless some special circumstance demands that they do so. They normally interact face to face with the national executive, sometimes bypassing their own parties in bidding to gain access to resources, votes, or political capital.

Accordingly, it will be illustrated how in Argentina, through the centralization of informal institutions in the hands of the president – to the point of their formalization through the law –, the head of the executive has enhanced its control over the budgetary process, augmenting its bargaining power and weakening congressional oversight. In contrast, the Mexican case demonstrates that the disappearance and decentralization of informal institutions has a direct impact on actors’ power resources (agenda-setting capacities, information control, and political control), and on power relationships, which leaves the president with diminished control over the budget in its approval phase, and increased accountability to strengthened legislative oversight. Governors have become increasingly relevant in Mexico, while their strength has been diminished in Argentina. Not only does this research address how informal institutions influence policy processes by altering or reconfiguring the balance of powers and distribution of resources, but also how they are affected by other variables as economic and political context.
Other key factors will also be addressed: if a governor or a legislator is from the same political party – or political intra-party group or clique – as that of the president, this may influence the relationship between them and the national executive, but does not necessarily define it. In both cases, Argentina and Mexico, we will see how this factor varies in significance depending mostly on the resources controlled by the president, the political configuration, and the stage of the economic cycle that the country is living through, as well as the autonomy and relative power of local actors.

**HYPOTHESES**

To unravel the relationship between informal institutions and presidential control over the budget, I develop related hypotheses that link the explanatory variables to the dependent variable. These hypotheses were chosen following a logic that explains, first, how the factors influencing the control over informal institutions by the executive and governors, ultimately enlarge or diminish presidential control over the budget. The same is applied to untangle environmental factors that influence presidential control over the budget.

H1: Low electoral competition, by maintaining weakly contested power in the chief executive, will tend to centralize or concentrate of the handling of informal institutions, *nominations of candidates and control over political careers* and *control over clientelistic networks*, in the national executive. This centralization of informal macro-institutions will augment the president’s power resources (*agenda-setting capacity, information control, and political control*), which will enhance his influence
over the budget process and the final allocation of resources. Under these circumstances, the executive’s budget proposal will be approved with minor or no changes from legislators.

On the other hand, increasing political competition in the national realm will tend to decentralize these informal institutions, augmenting provincial or state executives’ power resources (especially, agenda-setting capacity and political control). This will be reflected in increases to the budget proposal for federal transfers or items related to pork barrel (infrastructure, communications and transports, social spending, and public works).

Parallel to the above, an increasing salience of informal institutions controlled by the president or governors, will decrease the legislature’s power resources, especially control over information and political control, and the control that it has over the budget, by either increasing the executive’s power or governor’s power.

H2: In a country with low reelection rates or no immediate reelection, and proportional representation with closed-lists rules (either a pure PR system, like Argentina’s, or a hybrid electoral system, like Mexico’s), the president, governors, or political parties’ leaders will hold control over nominations of candidates and political legislators’ career paths, and clientelistic structures. Legislators will be controlled by whoever holds decision power over their nominations and careers, and will play the role of political brokers for those they are dependent on, instead of representing their voters and being accountable to their constituency.

Legislators are usually situated in a web of clientelistic structures, either through their membership in a political party, or their relationships with their political bosses or
their constituency. In contexts of low reelection rates in congress and with PR or mixed systems, and dependence on their political bosses instead of on voters, the significance of clientelism as an enhancer of legislators’ power resources will be limited. Consequently, political bosses, parties’ leadership, and the national and provincial/state executives will reap greater benefits from this informal institution, increasing their chances of setting the agenda, and augmenting their political control. Electoral rules are a significant driver of informal institutions.

H3: In contexts of low electoral competition, and a larger contingent of legislators from the president’s party in Congress, the executive will increase its tactical use of revenue projections (macroeconomic indicators, commodity prices) to expand its leeway in the allocation of resources during the implementation phase of the budget. We can expect to see underestimation of economic projections in those cases, and a consequent increase of total spending along the fiscal year, as result of expanding resources, without the observation of approved resources in a budget bill by Congress.

In the same sense, we can expect more delegation of powers to the executive by congress, to manage reallocations.

The executive branch is in charge of formulating the budget, and often seeks to have more resources that can be distributed discretionarily during the execution of the budget; to avoid confrontation over this practice, the executive often employs the tactical use of data for economic projections. The executive controls the tactical manipulation of data if Congress has a weak formal participation in the budget process, and no technical
capacity to produce independent economic data (through an active information-generating office of the budget).

H4: When the president’s party contingent in congress forms a majority party fraction (50% + 1), and there are low degrees of party fragmentation (high party discipline), one should expect to see fewer changes to the budget proposal, than when there is a divided-government situation (the president’s party does not have a majority of seats), or party fragmentation is high.

A unified-government situation with low levels of party fragmentation will make legislators responsive to the president, notwithstanding the economic cycle. Congress’ resources in terms of professionalization, oversight of the executive, and effective influence in the policy-making process will be weakened.

H5: During an expansive economic cycle, having a majority of his co-partisans in congress will allow the executive to increase public spending during the fiscal year autonomously. Due to the increase of revenues and resources, the executive will be able to allocate more money in a discretionary way.

In times of economic contraction, without a majority in congress, the executive will make fewer adjustments to expenses in the course of the fiscal year.
**MAIN FINDINGS**

In these pages I aim to disentangle how control over the budget is influenced by the combination of macro-institutional characteristics of a system and those related to the budgetary process, and certain informal rules, resulting in different actors’ power resources. Those power resources interact with environmental variables, economic context and political circumstances. All of these factors can augment or diminish the president’s control over the budget.

Argentina and Mexico have indeed followed opposite paths during the 1994 – 2006 period. Some of the main findings of this dissertation are:

1. Economic policies: While both countries have historically faced recurrent economic and fiscal woes, the last Mexican crisis of 1994 – 1995, in the time period of this study, helped authorities to make some structural reforms that have maintained fiscal discipline, low inflation rates, and economic growth.\(^{13}\) Argentina faced the impacts of the Mexican and the South East Asia crises, and the precarious economic situation led to the 2001-2002 crisis. In Argentina on the other hand, although economic growth has been high since 2004, a lack of reform and of fiscal discipline has kept inflation rates high.

\(^{13}\) We will see how the economic growth of Mexico since the 2001 US economic deceleration has not been sufficient, mainly because some needed deeper structural changes and reforms – fiscal and energy reforms, among others – have not been enacted.
2. Political configuration: Mexico transitioned from a durable and long-running hegemonic party system to the opening of electoral competition, the strengthening of opposition political parties, and the loss of the president’s party majority in Congress in 1997. A further watershed moment occurred when the PRI lost the presidency in 2000, ushering in an era of divided-government for the first time in 72 years. In Argentina, cyclical circumstances have prevailed, both in the political and economic realms. The period covered began with a PJ president’s loss of his majority in Congress. The opposition’s subsequent victory in the presidential race in 1999 resulted in a two-year period of divided government, political scandals, and the decomposition of political parties. The PJ returned to the presidency in 2001 and managed to both retake the Congress and engineer its own reunification as party. At the same time, opposition parties became diminished, fragmented, and incapable of contesting the president’s power.

3. Relationships among the president, governors, and legislators: Mexico went from the ample control of the president over governors and legislators, profoundly shaped by informal institutions, to a decentralization process of those informal institutions into the hands of state governors. Legislators have increased their strength and role in politics and policy-making, but with an unexpected twist: the increased power of governors has brought them to resemble their Argentine counterparts, who, like the president, exert high levels of influence over legislators. Argentina has seen the decay of the legislature, and to some extent the
loss of governors’ powers after 2003, while the president has re-centralized many of its powers.

4. The budget process: Although changes have been made in both countries, in both Argentina and Mexico, the executive continues to exert a higher level of control over the budget than Congress. This is principally because:

a. The concentration of information\textsuperscript{14} in the agency in charge of the budget, and the fact that no congressional budget office exists (in Argentina), or is grossly insufficient (in Mexico.)

b. The tactical use of economic projections to calculate available resources, and the resulting exceeding resources in times of economic growth, which are discretionarily distributed by the executive in Argentina (through the use of emergency decrees and delegatory powers) and Mexico (because of a lack of legal constraint and a tacit delegation of powers by congress.)

Some changes have been seen in this balance of power: Mexico has gone from absolute control of the budget by the executive to a more balanced structure. The legal constraints imposed through constitutional amendments and new laws, the enhancement of congressional organs, and the lack of a presidential majority in Congress, have been translated into increasing changes to the budget proposal and increasing regulations for accountability and oversight. In Argentina, Congress has progressively delegated more budgetary authority to the executive, with fewer controls and a lesser degree of involvement by legislators.

\textsuperscript{14} Several works on the US budget and its process have studied the executive’s dominance over the budget as a defining feature, using the term “the president’s budget” due to the fact that the formulation is done inside the executive. See, among others, Schick (2000).
Informal powers: We observe a decentralization process (to governors) or even the disappearance of informal institutions within the Mexican executive, while the opposite has happened in Argentina, to the degree of formalizing in the law the delegation of powers to the president.

CONCEPTUAL CLARIFICATIONS, METHODOLOGY, AND RESEARCH DESIGN

Budgets are the reflection of political and policy decisions and actions. Historical processes lead actors to decide on social and economic issues to be addressed and to be set as priorities. Along a country’s history some big issues get resolved while others remain pending and get incorporated as taxing and spending commitments on specific policies.

In the literature on budgets they are normally addressed as a single document, containing estimated revenues and spending formulated by the executive, approved by the legislative, and executed by all three branches of government and other agencies. One key clarification needs to be made corresponding the concepts of the budget and its process, and the scope of this research. In the case of Argentina, the Budget Bill (Ley de Presupuesto) includes revenues and expenses, and both chambers of Congress approve it. Meanwhile, in the Mexican case, there are two separate pieces of legislation. The Revenue Bill (Ley de Ingresos) is a unique document that needs approval from both chambers of Congress. A second document, the Budget Decree of Appropriations (Presupuesto de Egresos de la Federación) refers exclusively to the spending part and
only the Chamber of Deputies approves it. Although this makes for an interesting
difference between the two countries, and will be treated as a relevant issue, only the
expenditure part of the budget will be studied within this dissertation; nonetheless, some
basic data about Argentina and Mexico’s taxation policies will be addressed. The annual
expenses included in the expenditures Budget accounts for an average of 16 percent of
GDP in Argentina, where significant government expenses are left outside the Budget
(see Chapter 3), including direct federal transfers to the provinces. In Mexico, the
expenditures budget accounts for an average of 20 percent of GDP, and it covers all
government spending (see Chapter 5).

The axis of this investigation is the negotiation and bargaining processes relative
to public spending found in the budgetary cycle, carried out by the executive with the
legislature, governors, and other actors. Although the four phases of the budget cycle will
be covered in a general way – formulation, approval, execution, and audit –, I concentrate
on phases in which negotiation among those institutional actors is more pronounced,
allowing us to focus on the political side of the budget more than on its technical
components. These phases are formulation, approval, and execution.

This study employs mostly qualitative methods; it aims to encompass the formal
and the informal features of the budgetary negotiation process. The dependent variable,
control over the budget, is operationalized through three indicators: changes introduced
by Congress to the executive’s budget proposal, adjustments made to the budget bill
during its implementation, and the pace and degree of conflict of the budget passage
through Congress until its approval. In order to account for variations in the allocation of
resources, I include some descriptive analytical work systematizing data on budget
proposals, approved budget bills, and executed expenditures in Argentina and Mexico, from 1994 to 2006. In other words, a comparison is made between the total expenses projected by the executive and sent to Congress for its approval, the amounts approved by Congress, and the final executed expenditures once the corresponding fiscal year is over, which are reflected in the public accounts of each country. To illustrate more clearly changes in expenditures along the budget process, some disaggregated comparisons are made by functions of the budget (e.g. education, communications and transports, security) showing specific yearly cases.

This study follows a historical institutionalist approach, seeking to contextualize and locate the relevant actors involved over time, their preferences, their strategies, and the ways in which they relate to other actors. Process-tracing\textsuperscript{15} allows us to follow and analyze changes over time and repeated patterns, and to fully explore multi-causal mechanisms.\textsuperscript{16} The data used for the description of each annual budget has been collected from existing literature, interviews, and media coverage.

The explanatory variables are economic stability, majority of the president’s party in Congress and degree of party discipline, the president’s party control of governorships, the capacity of each president to modify the budget along the fiscal year, and overall actor’s power resources.

In terms of methodology and construction of a research design, studying two cases from the Latin American region allows for a more useful mix of a comparative

\textsuperscript{15} Process-tracing its used to follow the links between possible causes and observed outcomes, by building an explanatory sequence (Eckstein 1975; George and Bennett 2005).

\textsuperscript{16} This is done following George and Bennett’s (2005) work on case studies.
study and within-case analysis.\textsuperscript{17} The multiple years analyzed for both Argentina and Mexico give more validity to the study of budget-making and informal institutions, and enhance the possibility of generalization; it also allows one to trace for path-dependence and patterns of multiple causality. Within-case analysis allows for process-tracing, and has a broader descriptive power (Shapiro 2004). Given the cyclical character of the budgetary process, which is amenable to the historical approach, this permits us to account for a higher degree of complexity in the cases.\textsuperscript{18}

I assume that all actors (elected officials, members of congress, high-ranking appointed officials, and local authorities) are power-seekers and tend to maximize their resources to fulfill their preferences, trying to maximize expenditures that will benefit them, within a given context. In reference to the budget, this translates into a series of practices, including negotiations, agreements, and clientelistic measures, that actors may use to get what they want. In both countries, twenty-four interviews with high-ranking current and former politicians involved in the budget process, bureaucrats, congressmen, their staff, and scholars, provide information about the above assertions. Interviews were semi-structured, with open-ended questions, and were carried out between November 2008 and August 2009.

With respect to the case selection, Argentina and Mexico are currently two of the three Latin American democratic countries that have federal presidential systems with bicameral legislative branches.\textsuperscript{19} Both have undergone recent processes of

\textsuperscript{17} Eckstein (1975) mentions the usefulness of combining these two approaches; George and Bennett (2005) advance this claim further.

\textsuperscript{18} As Pierson (2003) has mentioned, the use of these methodologies allow for the examination of slow-moving processes, and can account for processes that are linear, cyclical, and those that contain critical with critical junctures.

\textsuperscript{19} The third is Brazil.
democratization, recurrent economic crises, and periods of divided government. Despite the commonalities between them, the two cases diverge in some institutional design variables such as electoral rules and presidential powers. Most interestingly, they show a divergence in the development of the informal institutions that have exerted powerful influences upon them. Both budgetary processes are annual and divided similarly into four stages (formulation, approval, implementation, and audit) although some of the rules governing them are quite different.

To sum up, this dissertation asks how informal institutions have influenced the control that the president held over the budget and its process in Argentina and Mexico from 1994 to 2006. The main hypothesis is that the interplay of formal and informal institutions (nomination of candidates and control over political careers, control over clientelistic networks, delegation of powers from Congress to the president, and manipulation of revenue data for economic projections) shapes actors’ power resources (agenda-setting capacity, control over information, and political control), which influence the degree of control that the executive, governors, and legislators have over the budget. In contexts with low reelection rates, or a non-consecutive reelection provision, and low party fragmentation, all of the above will result in stronger powers for the president and governors vis à vis Congress over the allocation of public resources.

In the next chapter, the reader will find a detailed explanation of concepts used, the theoretical framework on which this study is grounded, and the causal model that guides the analysis of the cases.

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20 A divided government situation is one in which one party controls the executive, and another (or others) control one or two chambers of Congress. Contrary to that, a unified government situation describes a political setting in which the president’s party has a majority of seats in Congress.
CHAPTER 2. CONCEPTS, FRAMEWORK, AND CAUSALITY

INTRODUCTION

This dissertation examines the processes by which informal institutions shape the balance of power between executives and legislatures in the budget-making process. While approaching the subject largely through the lens of historical institutional analysis, this study brings together two major streams of literature, one concerned with institutions and the other focused on budget-making, in order to conceptualize the dependent and independent variables and establish causation.\(^1\) I propose a theoretical model that describes how the intertwining institutional effects of formal and informal rules influence who exerts control over the budget process. The dependent variable under study here is presidential control over the budget, which I conceptualize using elements from the budget-making process, and from an institutional analysis of executive-legislative relations. I focus on three main explanatory variables. The first of these is the interplay of formal and informal institutions, which results in the power resources (agenda-setting capacity, control over information, and political control) held by governmental actors (the executive, the legislature, and governors). I also examine the influence that other actors (political parties, unions, international financial institutions, bureaucracy, and businesses) may have upon the relationships of the three main governmental ones. The second

\(^1\) In developing my argument, I will present theoretical discussions that reflect the embeddness of the budget-making process within its specific institutional context (Wildavsky and Caiden 2001). For a broader discussion about the influence of contexts over policies, see Pierson’s work (2006) and the whole research about policies versus institutions in Shapiro, Skowronek, et al. (2006).
independent variable is political context (configuration of Congress and governorships, and party fragmentation). The third variable is economic context (economic growth and stability), which is addressed to complement the causal model by explaining changes in budgetary control and variances in spending amounts, as well as positing that certain crisis situations may be triggers for institutional change.

A set of converging elements discussed in this chapter determine the functions that actors play in the allocation of federal resources and the roots of the power they hold. The model is intended to demonstrate how interlocking effects of formal and informal institutions influence the balance of power between the executive and the legislative branches; it will also evaluate the changing role of governors and other significant actors within the process, and explain how expectations about a certain formal institutional configuration can be enforced, secured, or altered by strong informal mechanisms.

With an eye toward these multiple and complex variables, I trace variation in presidential control over the budget from 1994 to 2006 in Argentina and Mexico, and under what circumstances we can expect to see change or stability in that control.

This chapter is divided into four parts. It begins with a brief assessment of executive-legislative relations, a subject that has received considerable attention from institutionalist scholars. Secondly I examine the dependent variable—control over the budget—drawing on the works of José Antonio Cheibub (2006), Abuelafía, Berensztein, et al. (2006; 2009), Uña (2006), Casar (2001), Weldon (2002), and other accounts of changes in balance of powers between branches of government in budget-related issues (Spiller and Tommasi 2007; Farfán Mares 2010; Velázquez López Velarde 2010). In the third section, the explanatory variables are examined, building on Helmke and Levitsky’s
(2006) and Meyer’s (2006) typologies of informal institutions and on the literature on institutional design and change. Actors’ power resources are also addressed in this section, and I end with political and economic contexts, basing my account on Jones (2001, 2005), and Rodríguez and Bonvecchi (2006). In the fourth section, I present the causal model that constitutes the core of this dissertation, which will shed light on how the influential environmental, political, and power-related factors interact to influence the budgetary process. The model will also address factors and triggers for informal institutional change, theorizing the emergence, maintenance, change, and disappearance of informal institutions as possible outcomes generated by the convergence of multiple institutional rules, changing political contexts, and economic constraints.

EXECUTIVE-LEGISLATIVE RELATIONS AND POLICY-MAKING

Within the institutionalist literature, institutions are usually defined as “rules and procedures that structure social interaction by constraining and enabling actors’ behavior” (Helmke and Levitsky 2006, 5). There is a general consensus on at least two basic premises: (i) institutions matter, determining, or at least influencing, actors’ decisions and actions (Elgie 2005; Shapiro, Skowronek, et al. 2006; Spiller and Tommasi 2008); and, (ii) different sets of institutional arrangements produce different types of executive-legislative relations, as well as diverse policy outcomes (Weaver and Rockman 1993; Haggard and McCubbins 2001; Shugart and Haggard 2001; Morgenstern and Nacif 2002; Weaver 2006; Stein, Tommasi, et al. 2008). The development of institutionalist analysis has illuminated various causal relations that illustrate the relevance of these dynamics in
policymaking. For example, such formal political rules as electoral laws and cycles, which can either foster or weaken the president’s party having a majority in Congress, in turn directly affect the relationship between branches of government. Another example are reelection rules, which can influence whether legislators respond to their constituency or to a political leader who controls their nominations and future careers (Nohlen 1996; Jones 2008; Langston 2008). Some recent studies have gone from testing these assertions on formal institutions to incorporating informal rules, moving possible interactions between formal and informal institutional arrangements toward the center of attention (Helmke and Levitsky 2006; Meyer 2006). As in the literature on formal institutional engineering, informal rules, alone or interacting with their formal counterparts, can produce a spectrum of outcomes, enhancing or diminishing the influence of certain actors.

As institutional actors, the executive and legislative branches of government are constantly trying to enhance their capacity to push forward their agendas, for electoral reasons, for the advancement of their careers, and for policy preferences, any of which may generate more resources and power. As individuals, the president, members of his cabinet, deputies and senators, governors, and other actors, also compete among themselves to advance their personal and collective goals (Tsebelis 2002). But collaboration is in certain circumstances also feasible, due to the mutual benefits that

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2 See rational choice explanations on power-seeking actors and their preferences as driving mechanisms (Levi 2002), and the incorporation of these premises to comparative studies and institutional analysis (Ostrom 1991; Mahoney 2000; Mahoney and Rueschemeyer 2003b)

3 The literature on principal-agent models and on veto players makes good sense of this. See Tsebelis (2002) and MacIntyre (2003) for some examples at the theoretical level. See Spiller and Tommasi (2007, 2008) for a practical example on the Argentine case.
actors can obtain from cooperating to achieve policy goals (Velázquez López Velarde 2010).

The study of executive – legislative relations has been developed into a field with many highly differentiated subtopics, ranging from highly theoretical institutionalist perspectives to more practical policy-oriented ones. Perspectives on the subject are legion, from rational-choice theory to historical, sociological, and cultural institutionalist views, to principal-agent and collective action theoretic models (Lichbach and Zuckerman 2002). Scholars using institutional analysis have elucidated the complex patterns of different presidential systems by focusing on and delineating the specific, divergent, features contained within presidentialism (Mainwaring and Shugart 1997; Haggard and McCubbins 2001; Cheibub 2006). The relationship established between the executive and the legislature is one such salient feature (Morgenstern and Nacif 2002). The executive-legislative relationship has been approached also from a policy perspective, trying to unravel causal relations between the power distribution structure of a system and the efficiency and efficacy of those public policies produced by its actors (Fukasaku and Hausmann 1998; Haggard and McCubbins 2001). Translating this relationship into a policy-centered one has been fruitful when explaining specific policies such as health, labor, and education reforms. In recent years, studies on the budgetary process have been focusing on Latin America, because it represents an interesting set of comparable cases considering their similar historical legacies and the prevalence of presidentialism in the region.

In counterpoint to the Latin American republics, budget-making in the United States has been amply addressed, including the risk of legislative paralysis. The literature

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4 See, for example, the work of Grindle (2004) on education reform in Latin America.
on executive-legislative relations in the US is extensive, with rich scholarship devoted to analyzing and explaining the causes and consequences of divided government and its possible conflicts: congressional gridlock and governmental impasse. The roles, capacity, characteristics, motivation, possibilities of cooperation, and functions of the executive and the legislature have been widely developed for a longer time, as features that modulate the two key characteristics of presidential democracy: balance of power and checks and balances (Arnold 1990; Cox and McCubbins 1993; Aldrich and Rohde 2000; Binder 2003; Mayhew 2004b).

In studying the Latin American region, many scholars built on theoretical foundations drawn from American politics. Shugart and Carey (1992), Mainwaring and Scully (1995), Mainwaring and Shugart (1997), Carey and Shugart (1998), Morgenstern and Nacif (2002), and Gibson (2004) take up Linz’s (1994) concern with gridlock to argue that institutional engineering within a presidential system creates variations on (among other things) executive-legislative relations.\(^5\) While assigning different weights to various factors, all center their attention on some basic explanatory variables: electoral rules and cycles, party systems, federalism, internal organization of congress, and powers of the president. Other approaches are based on more formal models, as Epstein’s and O’Halloran’s (1999) transaction-cost approach work, or Tsebelis’s (2002) work on veto players, which move beyond the divided government premise to explicate cooperation between the president and congress considering multivariate explanations. Even in the absence of presidential control over Congress, there are other institutional (formal and

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\(^5\) These studies started what Elgie (2005) has called the second phase of institutionalism. Elgie’s work illustrates the three waves, and he puts at the center of his analysis how different scholars explained and approached executive-legislative relations and the possible outcomes that could derive from them.
informal) mechanisms to attain cooperation and produce policies with the votes of two or many political parties (Spiller and Tommasi 2007).

Several factors beyond institutions may also alter executive-legislative relations, and the influence that other actors, such as governors, may have in this relationship. Changes in political contexts are the most identifiable, but economic constraints and power resources of non-governmental actors also play key roles. In federal systems, and especially in those with low reelection rates or no immediate reelection, and with centralized nomination processes, governors influence executive-legislative relations by making themselves the political bosses who control congressmen, especially if the governors and the president are not co-partisan, which has an effect on the balance of power between Congress and the executive.

THE DEPENDENT VARIABLE: CONTROL OVER THE BUDGET

Partially as a result of the limited experience with democracy in most of Latin America, the budgetary process received limited attention until the second half of the 1990s. Exceptions include the works by Bailey (1984), Alesina and Perotti (1995), and Alesina, Hausmann, et al. (1996), which mainly addressed financial policies and fiscal deficits. We lack comparative research to build a comprehensive theory explaining the inner workings of budget-making, and taking into account its close connections with executive-legislative relations, actor’s power resources, and the prevalent practices of presidential democracies. This gap in the literature is exacerbated by three attendant factors: the magnitude of the topic, which exceeds a single well-defined thematic policy
(Wildavsky 1986; Wildavsky and Caiden 2001); the intricacy and opacity of budget negotiations throughout the annual cycles; and the centralization and concentration of the formulation stage of the process in the executive. In sum, the budget process has been a “black box,” one whose enormity and complexity dissuaded its serious study in relation to institutional arrangements and to the functioning of democracy itself. The budget is typically the most significant annual piece of legislation produced by the executive and the legislative branches (Gutiérrez 2001), as well as an indicator of the distribution of power between them and other institutional actors as state/provincial governors. The causality linking actors’ power resources to the budget process and final allocation of expenditures impacts all citizens, and is beginning to be used by policy and politics analysts, as a regular and systematized mechanism to evaluate how elected officials are deciding on their constituency’s monies.

Budget processes are formed by two main components: revenue collection, and expenditure allocation. As has been noted in the first Chapter of this dissertation, this study focuses on the expenditure side, but several comments on the revenue part of the process are worth making. Revenues collected by the government can come from taxes (direct and indirect) and non-tax sources (capital investments, oil resources, etc.) Tax policy is decided according to what will be charged for a certain thing and which sector of the population will carry the economic burden. Direct taxes include taxes on income, properties, and capital interests, which typically are progressive, meaning that people with more money will be taxed more than others with lower income. Indirect taxes, such as taxes on goods and services, are usually more regressive, because people with lower income will have to pay proportionally more than people with a high purchasing power.
Tax-policy decisions and negotiations are as important as expenditures negotiations; any decision on taxes establishes where will the money come from, in what amounts, and who will bear the economic burden. So presidents, legislators, governors, and political parties often shift the impact of taxation away from their constituencies while explaining these policy decisions in terms of their political platforms and ideology, knowing that if they impose higher taxes on a particular constituency they risk losing those votes. Center-right parties, their candidates, and elected representatives will normally opt for regressive taxes (those that weigh more heavily on people with less wealth and income), while center-left politicians and policymakers will be prone to choose progressive taxes (those that weigh more heavily on people with more wealth and income.)

Included in the universe of tax-policy decisions taken by the executive and legislators, we find tax expenditures. Tax expenditures are “fiscal instruments which governments use as an alternative to direct spending [or] the amount of income that government does not receive for giving a tax treatment which deviates from the general tax law” (Martner and Tromben 2004). They can be seen as subsidies given to an activity, productive sector, region, or group of people, and they can serve the function of increasing the government’s discretion on public spending for the different accountability problems that they generate.6

The functions of the budget and budgetary processes are broad. With respect to the functioning of democracy, budgetary systems help as information instruments for electoral competition, giving information to the voters and providing them with the

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possibility of evaluating people in office (Wildavsky 1986; Kiewiet and McCubbins 1991). They are meaningful accountability tools. Politically speaking, the budgetary process is formed by incentive mechanisms that drive actors to cooperative or to non-cooperative situations, which ultimately reflect the political composition of a country and, more specifically, executive-legislative relations and their interactions with other substantive power-holding actors such as governors (Kraan 1996). The budgetary process attempts to reconcile competing agendas and allows us to observe how actors make use of resources to achieve their fiscal, economic, and spending preferences (Epstein and O’Halloran 1999). In terms of policy analysis, the budget is a registry of the past governmental actions, as well as a projection of the future ones. It is also seen as a historical record that brings together the political, economic, and financial paths of a country (Lee and Johnson 1998). These points of view have converged since the mid-1980s, under the influence of rational choice theory, and with the introduction of economic variables into the social and political sciences.

Budgets are continuous cycles of stages and procedures that overlap over time. This is particularly relevant when taking it as an indicator of a political system because, ideally, “the cycle allows the system to absorb and respond to new information and thus allows government to be held accountable for its actions” (Lee and Johnson 1998, 47).

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7 This can be particularly clear in respect to the relation established between the executive and the legislative branches, but it also becomes clear when analyzing the relationships held between different levels of government and between public and private interests.

8 For a broader description of what a budget is, the conceptual definition given by Lee and Johnson (1998, 14 - 17).
The budget can be annual or multi-year, and the overlapping stages within it may serve to increase or decrease oversight and accountability.

The budget cycle consists of four main stages: formulation, discussion and approval, implementation, and audit. Of these, the first three phases entail higher levels of negotiation. The most significant direct interaction between those three phases is bargaining over specific items in the project elaborated by the executive, modified and approved by Congress, and finally executed by all actors. During these negotiations it becomes clear how differences among institutional frameworks may affect the power held by participating actors. In terms of executive-legislative relations, institutional variations might have two possible tendencies: toward an equilibrated balance of powers, or toward the strengthening of one actor’s position to the detriment of others. If governors are incorporated into the equation, we see that they also play a fundamental part in federal systems. They constantly battle for more resources for their states or provinces, which will help them advance their agendas in terms of policy preferences, career advancement, and increasing political capacity. This influence is greater in countries with higher levels of revenues collected by the national government and then distributed or transferred to state governments, such as Argentina and Mexico.

“Presidential control over the budget” is the dependent variable of this research (See Appendix I. Table 1). “Control” can be used similarly as “cause” or more accurately as “power” (Wildavsky and Caiden 2001). To cite Wildavsky and Caiden: “Budgetary

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9 Budget processes may have diverse timings and durations but most adhere to an annual budget cycle. One-year budgets allow for flexibility and adaptation in response to the changing economic, political and social conditions of a country.

10 There might be some cases where the audit stage is out of phase with the preparation one, so the new budget would be prepared without even analyzing and reviewing the last fiscal exercise. Argentina, Mexico and Brazil are examples of this phenomenon (www.cddhcugob.mx, www.congreso.ar) (Argentina; Weldon 2002; Pereira and Mueller 2004; Abuelafia, Berensztein, et al. 2005).
control involves conflict among people who want different outcomes and who attempt to exert power in order to make the size and distribution of spending different than might otherwise have been” (Wildavsky and Caiden 2001, 17). It is important to clarify that who controls the budget is different from having “budgetary authority” or “power of the purse” (Wildavsky and Caiden 2001) or from who can make “budgetary decisions” (Kraan 1996). The three concepts have to do with the capacity to decide over sources and amounts of revenue and destination and amounts of expenditures. The executive and congress have that formal capacity by law, but when I refer to control over the budget I refer to who can effectively exercise the power of actually deciding and carrying out that decision. This control, as opposed for example to legal capacity, goes beyond formal attributions, and can also be held by actors that not necessarily have the “power of the purse.” In sum, by “control over the budget” I mean the capacity of an actor to influence the allocation of resources and policy implementation.

Jose Antonio Cheibub (2006) uses this variable in his analysis of central government budget deficits as a percentage of GDP (what he calls “budget balances”) and their relationship to presidential and parliamentary systems. In his formulation, the president’s ability to dominate budgetary processes carries the greatest weight in explaining why presidential systems tend to have more balanced budgets. In a survey of 98 democracies, conducted from 1970 to 2002, Cheibub finds that the difference in budget balances depends not on the specific relationship between the executive and legislative branches, nor in other institutional arrangements (e.g., number of parties), but
on the type of democratic regime that a country has.\textsuperscript{11} Regime type seems to drive significant variations in budget balances. In presidential systems, executives tend to be more identifiable than their counterparts in a parliamentary system. This heightened visibility, and by extension accountability, encourages presidents to keep their budgets under control. This characteristic is ultimately a matter of accountability to their constituency.

While Cheibub’s study is valuable, his formulation of “presidential control over the budget” is limited by his restriction of the range of indicators to “constitutional powers.” The indicators are all formal arrangements (power of initiation, power of amendment, default situation\textsuperscript{12}, and power of veto). The difference between those is their configuration as proactive and reactive powers.\textsuperscript{13} But Cheibub does not include informal rules or the interaction of the selected presidential powers with the various macro-institutional rules and those relative to Congress and other actors, which is difficult to do in a large N study. Following Wildavsky (1986), and Wildavsky and Caiden’s (1986; 2001) work on the budget process, the work on executive-legislative relations in Argentina and Mexico (Casar 2001; Abuelafia, Berensztein, et al. 2006; Rodríguez and Bonvecchi 2006; Uña 2006; Lehoucq, Negretto, et al. 2008), and the IADB studies on budgets in Latin America (Fukasaku and Hausmann 1998; Stein, Tommasi, et al. 2005; Spiller and Tommasi 2008; Stein, Tommasi, et al. 2008; Hallerberg, Scartascini, et al.

\textsuperscript{11} Cheibub (2006) builds the variable “central government budget balances” as the overall central government budget balances as a percentage of GDP, where budgets deficits tend to occur more in parliamentary systems, while the balanced budgets are more frequent in presidential ones.

\textsuperscript{12} “Default situation” or “reversal point” is understood as the provision needed if no budget gets approved in time, and the budget law is not passed. Some Constitutions state that the budget from the previous year will be enacted, such as Argentina; others state that the president’s proposal is to be adopted. Some other cases do not have any constitutional references for these situations, such as Mexico.

\textsuperscript{13} This difference will be addressed and explained in later chapters. For an ample description of these powers see Shugart and Haggard (2001).
2009), I propose the inclusion of more indicators that also help influence the “presidential control of the budget” variable, such as informal mechanisms and other formal arrangements relative to the macro-configuration of a political system, and political and economic contexts, which I will discuss in the next section of this chapter. I argue that all these factors, in addition to the formal constitutional powers ascribed to the president regarding the budget, also determine his control over the budget.

As shown in Figure 2.1, I operationalize the dependent variable through three indicators. First, I look at the changes made by Congress to the executive’s budget proposal; then I look at the changes made by the executive to the approved budget bill during its implementation, and the final executed budget (at aggregated levels, and mentioning the most modified disaggregated levels). Finally, I show the duration and contentiousness of the approval phase, which are not necessarily related. All three indicators are generated through an in depth analysis of each annual budget.

**FIGURE 2.1. DETERMINING WHO HAS CONTROL OVER THE BUDGET**

**DEPENDENT VARIABLE**

Control over budget process and budget outcomes:

- Changes made to the budget proposal by Congress
- Duration and contentiousness of the process approval phase
- Changes made to the approved budget bill during its execution

Source: author’s own elaboration.
For concept-building and measurement purposes, I propose the construction of the dependent variable as a continuum rather than a dichotomy, following Gary Goertz (2006) and John Gerring (1999) who have proposed this treatment to assess differences in degree. This conceptualization can account for complexity, multiplicity of intervening factors, and degrees of power held by actors over the time. If we focus only on the executive-legislative relations perspective, at one extreme of this continuum lies complete control of the budget by the president. Complete control by Congress represents the other extreme (see Figure 2.2). In presidential democracies, though, both branches of government have budget authority (Wildavsky and Caiden 2001). This positions most cases, especially in Latin American presidential systems, in the middle range of the pendulum, tending somewhat toward the end of the spectrum that represents greater presidential control. Indeed, the majority of cases show a historical pattern that is inclined towards presidential control, with dictatorships and authoritarian regimes at the far pole of executive control. There are no cases in presidential systems that can be located at the Congressional dominance pole because of the necessary involvement of the executive in the policy process of creating and executing a budget.

**Figure 2.2. Who controls the budget process, the executive or Congress?**

The Budget Process

- Presidential control
- Congressional control

Source: author’s own elaboration.

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14 Budget authority is, as defined by Wildavsky and Caiden (2001), the power that congress has to give legal authority to the federal government in order for it to provide money to someone.
To include governors into the continuum, a new figure needs to be drawn. I consider a double pendulum, which adds an additional line representing the degree of strength and influence of provincial or state executives regarding the budget process.

**Figure 2.3. Who controls the budget process, the executive, congress or governors?**

![Diagram showing governors' control, presidential control, and congressional control in the budget process.]

Source: author’s own elaboration.

After an analysis of the cases, I will show in the concluding chapter how Argentina and Mexico fit, at different points in time, on the pendulum.
Formal and Informal Institutions

In addition to formal institutional configurations, every country has informal institutional mechanisms that contribute to the generation of certain policy outcomes. But the very nature of informal institutions (unwritten, socially communicated, and unofficially enforced), makes them hard to quantify, systematize, and even to study (Helmke and Levitsky 2006). These institutions are difficult to locate and understand without an in-depth case-study analysis.15

Besides environmental factors (political context and economic constraints), scholars have typically turned to formal rules to explain executive-legislative relations and control over the budget process. With these explanations as a starting point, my intention is to broaden the scope of intervening factors by focusing on informal institutions (control over nominations and political careers, clientelism, delegation of authority to the executive, and tactical use of economic data projections), which are in their own right fundamental arrangements that account for control over the budget.

Throughout the course of this study, I use Helmke and Levitsky definition of institutions as “rules and procedures that structure social interaction by constraining and enabling actors’ behavior” (2006, 5).16 Institutions arrange power structures and influence

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15 See for Argentina, Braun, Díaz Frers, et al. (2006a); and for Brazil, Alston and Mueller (2005), and Pereira and Mueller (2004).
16 This definition has been constructed by Helmke and Levitsky (2003, 2006), using baseline concepts from North (1990, 3-4), Knight (1992, 2); and Carey (2000, 735). All of them take as baseline Huntington’s (1968, 12) definition of institutions as “stable, valued, recurring patterns of behavior” that influence actors’ conduct.

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policy outcomes; they are a means to structure and limit conflicts and advance agendas. I will refer to institutions, (institutional) arrangements, (institutional) mechanisms, and rules, interchangeably.

The main difference distinguishing informal from formal institutions is that the former are taken to mean “socially shared rules, usually unwritten, that are created, communicated, and enforced outside officially sanctioned channels” (Helmke and Levitsky 2006, 5). In contrast, the latter are normally written norms that are created, agreed on, communicated and enforced through official channels. Formal and informal institutions interact in a dynamic way. Both types have unintended effects as well as those intended. Vacuums in formal institutions can modify or give rise to informal rules. Also, informal institutions may precede and shape formal ones, help them maintain or change their effects, or make them work in more or less efficient ways (Meyer 2006). In this study, institutions are conceptualized as variables that interact to shape and channel power relations, which have an effect on the control over the budget.17

As an example, patronage, de facto corporatist arrangements, illegal financing, and coercion of media are considered informal institutions (Meyer 2006). In electoral terms, a formal institution is the voting mechanism and procedure established by law (a person can vote only once for each office in an election, and the vote can be electronic or a paper ballot); an informal institution might be vote-buying, or exerting coercion to make people vote for a certain candidate (Brusco, Nazareno, et al. 2004; Pfeiffer 2004; Schedler 2004).

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17 Historical Institutionalism and rational choice approaches help establish informal institutions as product of actors’ rationality and path-dependent processes, but they also address them as ways to structure power relations (Helmke and Levitsky 2006; Meyer 2006; Pierson 2006).
I consider two sets of independent variables. The first are formal rules, which include macro-institutional arrangements (electoral rules, electoral cycles, federal structures, party systems, powers of the president, and powers and organization of congress), and micro-institutional rules specific to the budget (those that guide the formulation, approval, execution, and audit of the budget). The second, informal arrangements are divided into the macro-institutional type (control over nominations of candidates and political careers, and clientelism), and those specific to the budget (delegation of powers to the president, and use of economic data for budget projections) (See Appendix I, Table 2, for a comprehensive scheme of the two sets of institutions.)

Helmke and Levitsky (2006) develop a typology of informal institutions based on the effectiveness of their formal counterparts and the convergence of the effects produced by both types of institutions. This heuristic, however, does not necessarily explain the interaction effect that one informal institution has when combined with a certain set of formal rules in terms of policy-making, nor does it specify the entrenched causal effects, in terms of actors’ power resources, that can be found within that interaction. For example, in a federal political system, the actor who controls party nominations – the president, governors, party leadership, or party blocks in congress – can informally augment his formal/legal influence in congressional votes. In his work on Central and Eastern Europe, Meyer (2006) also develops a typology, distinguishing informal institutions along two axes: if they are democratic or anti-democratic, and if they are legal or illegal. Although those authors bring together a valuable series of case studies,

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18 To maintain parsimony in this study, because of the huge dimension of the subject, and its measuring difficulties, I will not include “corruption” or “fair share rule” as variables; they will remain for future research.
19 This tendency is observed in both Argentina and Mexico.
there remains much work to be done in pursuit of comparative analysis that can ultimately contribute to the construction of a more comprehensive comparative theory. Following both typologies, I define the informal institutions analyzed in this dissertation.

Clientelism

Clientelism is mostly practiced through exchanges between governments and parties based in the support of lower social strata (Kitschelt and Wilkinson 2007), as patrons, and corporatist sectors, targeted groups of individuals, and political actors, as clienteles. This occurs through the distribution of party and state resources, either by negotiating collective benefits, using political machinery, or enacting assistance programs to allocate side-payments (from jobs and candidacies, to material goods and services). Side-payments can consist of various actions: by distributing goods and services to people, by granting access to state-sponsored assistance programs, by giving jobs or advantages in career-building, by nominating candidates and putting names in party-lists. Each mechanism targets specific groups with measures designed to win their support most effectively (Auyero 2000).

Control over Nomination of Candidates and Political Careers

Control over nominations and political careers is a specific form of clientelism addressed throughout this dissertation as one of the main informal institutions that helps the president and governors hold important levels of control over the budget. Two dimensions of this variable are crucial: what assets a person needs in order to be a potential candidate and pursue a political career, and who is in charge of determining
candidacies and careers. Granting that an individual who wants to run for office fulfills the requirements to do so, I focus mainly on who holds control over nominations and who controls the future political career of a legislator or politician. Depending on the type of electoral rules, nomination of candidates can be determined formally by a political organization, or informally by political bosses, party leaders, governors, or the president. In that same sense, the future political career of a legislator or politician can be decided not only by the formal rules, but also by their political leaders, even if the rules are not formally established.

**Delegation of Powers to the Executive**

Delegation of authority can take place in different arenas and involve different actors, I focus on the faculties or powers that Congress can give to the executive to make decisions or take action in matters that otherwise would be in charge of legislators (Huber and Shipan 2002). Delegation can take various forms: it can be practiced through legal mechanisms as emergency decrees (Carey and Shugart 1998; Negretto 2004), through a tacit acceptance of executive actions that are beyond the president’s scope, or by explicitly giving extraordinary faculties to the executive to act in matters formally reserved to Congress (Kiewiet and McCubbins 1991; Epstein and O’Halloran 1999; Weldon 2002; Hallerberg and Marier 2004).

**Use of Economic Data for Budgetary Projections**

During the formulation of the budget, and before establishing expenditures ceilings and the total amount of resources available for next fiscal year, the executive
makes economic data projections to establish the amount of revenue that will be translated into available spending. This process is internal to the executive; once the expenditure ceilings have been established, a pre-consultation may begin with legislators, governors, and non-governmental actors. In certain cases the executive, through the agency in charge of macroeconomic projections and budgetary matters, can make a tactical use of annual estimations by under or overestimating tax collection, macroeconomic indicators like growth and inflation, and commodity prices. These strategic overestimations may be made to project an international image of stability, while underestimations can be used to generate an eventual surplus that can then be allocated on a discretionary basis (Abuelafia, Berensztein, et al. 2006; Spiller and Tommasi 2007).

**Actors’ power resources**

This dissertation incorporates three power resources into its analysis: agenda-setting capacity, information control, and political control. Each of these is the result of the combined effects of formal and informal institutions and practices, both those pertaining to the macro-institutional structure, and those pertaining to the budget-related one. Each actor – the executive, Congress, and governors – increases or decreases its leverage according to these factors, and exerts varying degrees of control over the budget process also according to its own resource availability and use. The ties with other actors are also intervening factors that can secure certain power resources. The executive, the legislature, and governors, can use their relationship with political parties, unions, IFIs,
bureaucracy and businesses, to effectively exercise and even increase their formal and informal powers.

**Agenda-setting Capacity**

The capacity of one actor to set the agenda in a political context or a policy matter depends on the formal-legal attributions he has, and the informal mechanisms that give him *de facto* power to do so. Agenda-setters are normally empowered by law to conduct a political or policy process in a determined manner and timing. In terms of the budget process, this is stipulated by 1) the laws governing the political system, 2) the laws conducting the budget process and, 3) the informal powers of the actors involved in the process.

The capacity to set the agenda gives actors an advantage in terms of which issues will be treated, in what order, and at what exact time, blocking or leaving behind other issues that might be more relevant or better suited for competing actors. In other words (taking as an example the legislative process) agenda control has a direct connection to political power: “whoever controls the agenda can engineer voting outcomes to his or her own advantage, and thus gain power over policy.” (Moe 2006, 34)

**Information Control**

Control over information can be directly linked to asymmetries in executive-legislative relations. The executive normally holds greater information control and has a better capacity to aggregate knowledge and policy expertise, especially in countries in which legislatures are not particularly strong (Carey 2006; Londregan 2007). Control over information also has to do with delegation from one actor to the other. If one actor
lacks the same capacity for information production and management, it has to delegate responsibility, and control, to the more powerful actor to provide that information. The fact of one actor, the executive, having a more ample degree of technical capacity and controlling greater levels of information, increases policy influence as a smaller number of actors are empowered to tackle problems and specific situations as they arise (Tsebelis 2002; MacIntyre 2003)\(^{20}\).

The actor holding greater control over information in a specific matter will have more influence in the decision-making process. That institutional actor will have an advantage over others not only because he will know more, and he will be able to use that information, but because others will be obliged to rely on its data and information to make their own decisions (Moe 2006).

**Political Control**

Political control\(^{21}\) is the capacity of one actor to determine or influence the actions of another actor in the political arena. It is usually related to the structure of the political system and its institutional design (federalism, electoral rules and cycles, powers of relevant actors, party systems, etc). These features have been studied as the foundations of (political) power relations among actors – the president, the legislature, the judiciary, and governors (Lijphart and Aitkin 1994; Mainwaring and Scully 1995; Haggard and McCubbins 2001; Morgenstern and Nacif 2002; Gibson 2004).

\(^{20}\) McIntyre constructs a continuum in which on the one extreme is policy decisiveness, and on the other side is policy delay, gridlock and immobilization (2003). Tsebelis' (2002) veto-player explanations also helps understand these factors by stating that to a greater degree of authority concentration (characterized also by greater technical capacities and information), decisiveness will be favored, although policy stability will be diminished.

\(^{21}\) Political control should be differentiated from other types of control, such as bureaucratic or economic. Even if the three types of control are interrelated at some point, and one can reinforce the others, we focus mainly on political power. As developed by Dahl (1957), power is the ability of A to get B to do what A wants whether or not B wants the same thing.
Informal institutions can be determinant for advancing the degrees of political control that actors hold, for example, clientelistic ties and the capacity to influence nominations of candidates and careers are useful instruments to exert political control. Other interests are also relevant, for a president, governor, or legislator, to have the support of businesses or industry, the international and national financial community, or unions, also increases their power. This will be addressed later in more detail.

**Economic context**

Economic factors are linked to political phenomena and to policy-making processes (Przeworski 1991; Haggard and Kaufman 1995, 2008). Rodríguez and Bonvecchi (2006) correlate economic growth, financial stability and low inflation rates to a more active role of the legislature in the approval of the budget. On the other hand, in unfavorable economic contexts, elevated uncertainty about economic health or its solidity makes the budget formulation and approval phases unstable, with low participation of Congress. In these cases, “it is during the execution where the effective consistency of public spending is seen” (Rodríguez and Bonvecchi 2006, 107). During economic downturns the executive typically has higher degrees of power to reallocate and adjust expenditures during the fiscal year.
Political context

Political variables are determinants of each actor’s role in the budget process. Three variables are underlined as relevant: first, the president’s party contingent in Congress, whether it has a majority of seats in Congress, or a divided-government situation (Casar 2001; Jones 2001; Weldon 2002; Rodríguez and Bonvecchi 2006; Uña 2006; Lehoucq, Negretto, et al. 2008); second, the control of governorships by the president’s party (Eaton 2005; Jones and Hwang 2005a; Spiller and Tommasi 2005; Langston 2010; Selee 2011); and, third, party fragmentation and discipline (Jones 2005; Rodríguez and Bonvecchi 2006). Overall, with a unified government situation, where the president’s party holds control over a majority of governorships, and parties experience low levels of fragmentation, we should expect to see a more reactive (or even inactive) Congress than in the opposite situation.

THE CAUSAL MODEL: CHANGING DYNAMICS OF BUDGETS AND INFORMAL INSTITUTIONS

In a democracy, negotiation and conflict are typically present in the production of a budget. The question is who exercises the most leverage according to the institutional and political configuration, actors’ involvement, and the structure of their power relationships.

Control over the budget is shaped by:

1) Power resources of key governmental actors (i).
2) The formal framework (ii) regulating the political system and the budget process.

3) Economic constraints (iii), as actors are forced annually to reckon with scarcity or abundance of resources.

4) Political context (iv), political composition of Congress and governorships, and party fragmentation.

**FIGURE 2.4. THE CAUSAL MODEL**

Source: author’s own elaboration.

Power resources of key governmental actors, or the distribution of power between competing branches and levels of government (i) is the result of:
1) The interplay of formal (ii) and informal (v) institutions, and

2) Power resources of non-governmental actors (political parties, unions, International Financial Institutions (IFIs), and businesses) (vi).

The Causal Model (Figure 2.4) also shows the factors that might trigger change in informal institutions:

1) Changes in formal institutions (ii), which have a reciprocal relationship with informal rules.

2) Economic constraints (iii).

3) Political context (iv).

Informal institutions can be introduced, modified, formalized or eliminated. Because of the rigidity and enforcement of formal rules, informal ones may experience changes more rapidly as there are adapted to new circumstances. But, in some cases, informal institutions’ deep roots in society or in actors’ behavior may make them even more rigid than formal rules. Although institutional analyses have focused on rapid, distinguishable and “critical-juncture” changes, both formal and informal institutions, may also constantly evolve through less noticeable “slow-moving processes” (Pierson 2003). Some changes can be quite rapid while others may not be perceptible through short periods of time; those are typically associated with path-dependent processes.22

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22 Helmke and Levitsky assert that “the emergence of informal institutions may be explained as a historically contingent, and ultimately path-dependent process… the (often unintended) consequence of a particular historical experience that creates certain socially shared expectations” (Helmke and Levitsky 2006, 21). The authors have associated the velocity of their changes with the nature of their genesis. They have identified top-down created informal institutions with a faster-changing process, while bottom-up ones tend to have slower transformation processes.
“Institutional change” will be treated throughout this research as an independent variable. Although it can be also treated as a dependent one,\textsuperscript{23} I will mainly focus on formal and informal institutional change as an explanatory variable to account for actors’ power resources and for their control on the budgetary process. Nevertheless, some relevant examples of institutional change will be given.

As Mahoney and Thelen (2010) point out, most institutional analyses have treated institutional change as an exogenous factor, privileging the “stability” and “continuity” of institutions over “transformations” or “change” (Mahoney and Thelen 2010). In formulating an explanation of how institutional emergence and development works, for both formal and informal rules, Knight sees it as “…a contest among actors to establish rules that structure outcomes to those equilibria most favorable to them” (Knight 1992, 126-127). For Knight, institutions are a “by-product” of the transformations of a society, its conflicts, and the disputes among actors.

The center of attention of this piece is on explaining the balance of power among actors and its impact on the budgetary process. The next step is to establish who holds control over informal institutions, and the influence they have on budgetary control. Figure 2.5 gives a broad description of this matter, which will be expanded in the next sections regarding Argentina and Mexico.

\textsuperscript{23} Change in informal mechanisms (taken as the dependent variable) can be caused by a series of factors such as formal institutional design, political context, economic and financial crises, and international pressures.
Figure 2.5. Control over Informal Institutions and Actors’ Power Resources

Who controls them?

- **Executive**
  - If the Executive has control over either or both, then the president’s power is enhanced.
  - The actor who has control over clientelism will secure votes and support; at the same time that actor will be constrained by the amount of resources available for exchange. The executive, individual legislators, governors, and political parties can have extended clientelistic networks, and they usually benefit a single patron, but depending on who is in power, their relationship to the parties, and the linkages between ex-leg, ex-gov, and leg gov, these networks can also be benefit several actors at a time.

- **Congress**
  - Congress normally has no control over nominations and/or political careers.

- **Governors**
  - If Governors have control over either or both, then governor’s power is enhanced.

- **Political Parties**
  - a) If a Political Party has control over either or both, then the president’s power is enhanced if he is the leader of the party; if not, the leader gets more power.
  - b) If a Political Party has control over either or both, then governors’ power is enhanced if they are the leaders of the party; if not, the leader gets more power.

Delegation is mostly done from Congress, Governors, and Political Parties to the national Executive. It can either be to the President, the Minister or Secretary of Finance, or to the Chief of Cabinet. In any case, if delegation of powers is given and used, it will enhance the President’s control over policy-making, due to the hierarchical structure of the Executive. Delegators can use it to attain more bargaining strength. As a currency

Although the data for economic projections might be produced both from the Executive (Ministry or Secretary of Finance mainly) and Congress (Budget and Revenue Committees)...

a) In unified government situations there tends to be less questioning to the Executive’s proposal
b) In divided government situations there tends to be more questioning and arguing

Source: author’s own elaboration.
In a context of no immediate reelection or with low reelection rates, what we see is that these informal institutions will tend to make members of Congress relatively powerless, or empower them as agents, (that is, clients) of others, which may increase their leverage (although they will still have to respond to a patron: the president, a governor, or political party leadership). Presidents and governors leverage informal institutions to enhance their influence over the budgetary process and the corresponding allocation of resources.

In the following chapters I analyze formal institutional designs in Mexico and Argentina. Subsequently I enquire more closely into the informal mechanisms embedded in these countries’ budgetary processes, as well as those pertaining to their political systems as a whole.
CHAPTER 3. ARGENTINA: INSTITUTIONAL ARRANGEMENTS

INTRODUCTION

This chapter analyzes the institutional configurations structuring the Argentine budget process and the actors involved in it. An examination of formal and informal institutions pertaining to the political system (macro-level), and corresponding specifically to the budget process itself (micro-level), reveals a variety of power resources available to national-level executives and legislators, and provincial governors. These resources (agenda-setting power, control over information, and political control) are the mixed outcome of the formal institutional design features and the informal institutions addressed in this dissertation. Regarding the legal or formal framework, I delineate the structure of the electoral and party systems, federal arrangements, powers and configuration of the three main actors, and fiscal and budgetary rules. To get a full picture of the workings of the budget process and actors’ real powers, I also analyze informal institutions, mainly clientelism, informal rules governing the nomination of candidates and subsequent control over legislators’ careers, delegation of power to the president, and tactical use of economic data for revenue projections. These resources allow various actors considerable advantage and room for maneuver in achieving their goals.

From the return to democracy in 1983 to the mid 2000s, Argentina’s political structure has been re-configured on a periodical basis, having as watersheds the 1994
constitutional amendments, the normally rough transitions between presidential terms, the impact of the Mexican Tequila economic crisis of 1995, and the 2001 economic and political crisis and aftermaths. These re-arrangements have been rooted in the economic cycle (related to export booms and crisis situations), political contexts (situations of unified or divided government), and the roles that the successive executives, governors, and legislators have played within those. Combining the effects of the formal framework with the informal rules gives us a sense of governmental actors’ power structures and resources. I also take into account the resources and impact of other relevant actors (including political parties, unions, businesses, the bureaucracy, and international financial institutions) when they interact with the main actors under consideration.

The country’s presidency, formally, has traditionally had significant degrees of power in comparison to congress (Mustapic 2002; Smith 2005; Smith 2009). The centralization of informal mechanisms during the Menem and Kirchner administrations, when the Peronist party controlled a majority of provinces and a majority of seats in Congress, has enhanced presidential power in that respect. Nonetheless, during the last years of his second term, Menem faced a fragmentation process within the PJ that moved power resources towards provincial governments (Eaton 2005). Due to a lack of control of provincial governorships, hence control over informal institutions, the UCR president Fernando de la Rúa was constantly blocked by Congress (Levitsky and Murillo 2005a), proving the importance of those types of institutional arrangements for governability. Through this chapter and the following one, we will see that Nestor Kirchner’s

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1 The impacts of the Mexican crisis hit Argentina hard, dropping GDP growth and increasing inflation and unemployment. The Argentine crisis of 2001 had a more severe impact on the country economically, socially, and politically. The details of these turmoils will be given in Chapter 4 on Argentine economic and political contexts, and the ramifications for budget institutions.
centralization of power resources made him the most dominant president since the return of democracy in 1982. For example, it was during Kirchner’s presidency that the passage of the Superpowers Law (Ley de los Super Poderes) in 2006, gave the executive (via the Chief of Cabinet) the ability to amend the budget during its execution without congressional approval.

The executive also enhances its power resources through delegation of powers by congress and special decrees such as Necessity and Urgency Decrees (Decretos de Necesidad y Urgencia, DNUs) even when crisis situations have passed. He also benefits from under or over estimating revenue projections, controlling or miscalculating inflation indicators, and tactically distributing the expenditures quotas to agencies along the fiscal year. Governors benefit from certain informal rules (control over nominations and political careers, and other forms of clientelism), their control over party structures at the provincial level, the fiscal tax-sharing system, and district malapportionment. They represent a significant counterweight to the president, relying mostly on their political control. Legislators, in turn are the pawns of both executive levels, without a significant independent control over resource distribution; their dependence on party leadership, and low reelection rates in congress, which inhibit specialization and the development of technical expertise, prevents their amassing greater power. Governors tend to use their national-level legislators as political brokers to demand greater amount of resources from the central government (Valenzuela 1977; Jones and Hwang 2005a). This situation not only affects the budget process, it also reconfigures the traditional view of executive-legislative relations, introducing governors as a third important actor.

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2 Malapportionment refers to small provinces’ over-representation in congress due to electoral rules.
Other actors play a relevant role as well, and the relationships that the president, governors, and legislators establish with these actors can influence their power resources. Political party structures reinforce the role of legislators as brokers, and the strength of the president and governors as political bosses. They also are an important link in clientelistic networks. Corporations and unions can provide important links as well, but the degree to which presidents can control or influence these networks varies. Bureaucracy remains an actor responsive to the Chief of Government with small degrees of autonomy (Spiller and Tommasi 2007). International Financial Institutions have diminished their relevance after Argentina defaulted on the external debt payments in 2002, during the economic crisis that left the country without liquidity. But beforehand, during Menem’s administrations, they were key players, directing economic, monetary, and fiscal policies, and directly impacting presidential policies.

This chapter on Argentina’s political and budgetary processes follows a general debate on Argentine politics relative to its quality of democracy, which captures political institutions, their effects, and ultimately the budget process. One posture states that the country has mostly been a “delegative democracy” (O’Donnell 1994). Argentina has been known for its “hyper-presidential system” (Mustapic 2002; Smith 2005; Smith 2009), characterized by powerful executives who possess substantial formal and informal institutional resources. The other one asserts that “Argentine institutions matter” (Jones 2001), meaning that Congress is not merely a rubberstamp of the executive’s mandates,

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3 Delegative democracy has been identified by Guillermo O’Donnell in recent electoral democracies (e.g., Argentina, Mexico, Brazil, Peru, Bolivia, Philippines, Korea) that “are not consolidated (i.e., institutionalized) democracies, but they may be enduring. In many cases, there is no sign either of any imminent threat of an authoritarian regression, or of advances toward representative democracy… There is an important interaction effect: the deep social and economic crisis that most of these countries inherited from their authoritarian predecessors reinforces certain practices and conceptions about the proper exercise of political authority that lead in the direction of delegative, not representative democracy” (1994, 160).
but asserts its agency. This dissertation supports the former: Argentina’s formal institutional context gives important degrees of control and power to the executive, which are further augmented by informal mechanisms; counterweights to executive power are not located within the legislature, and there is little balance of powers. Instead of congress, provincial governors have positioned themselves as the president’s counterweight. While members of Congress may wield some influence in the policy-making process and the political sphere, they usually act as delegates of the president, governors, or other party bosses. The question worth asking is about the representativeness of congressmen: do they represent their constituencies’ interests or their political bosses’ interests?

Not only has there not been a reduction or decentralization in the president’s control over informal institutions; but the recurrent use of informal practices has been legalized in some cases. With the return of the Partido Justicialista, a turn back to the centralization of informal institutional control in the presidency has occurred. This has left other actors, particularly legislators, even more dependent on the president and their governors.

The chapter is divided as it follows: the first section describes the country’s main institutional design characteristics and informal mechanisms at the macro-level (political system). This includes an account of the main governmental actors (the executive, Congress, and governors) and other actors related to them and to the budget process, including political parties, unions, businesses, the civil service/bureaucracy, and international financial institutions (IFIs). The following segment looks at informal institutions; I focus on clientelistic practices and on the power to nominate candidates and
to influence politicians’ careers. The second part accounts for the formal budgetary process, as well as the informal mechanisms imbedded within it, all of which constitute the micro-institutional configuration. The last section comprises some concluding remarks on the power structure and resources of the executive, the legislature, and governors.

ARGENTINA’S MACRO-INSTITUTIONAL CONFIGURATION: THE POLITICAL SYSTEM

Argentina’s Constitution was reformed in 1994 through a bipartisan agreement between the Justicialist Party (PJ) and the Radical Civic Union (UCR). The resulting legal framework is sketched out over the following pages:

The Executive

The president and vice-president of Argentina are elected on the same ballot every four years, through popular vote, with the national territory as a single district. The Constitution allows for one immediate reelection, and for unlimited non-consecutive terms. The president and the vice-president can be impeached by a vote of 2/3 of the members present for voting of the Lower House.

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4 If none of the candidates reaches at least 45 percent of the total votes in the first round, or 40 percent of the votes with a difference of minimum 10 percent from the runner-up, a runoff election (two-round voting, second ballot, or ballotage) takes place. Before the Constitutional reform president and vice-president were elected for a 6-year term, through an electoral college, and with no immediate reelection.
From the main two typologies of formal presidential powers, the Argentine executive has all types: legislative and non-legislative, proactive and reactive (See Table 3.1). The most important legislative-proactive powers are: the introduction of legislation to congress; the exclusive introduction of the budget proposal; and issue of standard regulatory decrees and special decrees. The most frequent executive decrees are the ones delegated by congress and the Urgency and Necessity Decrees.

The executive does not have explicit agenda-setting powers, except for the introduction of legislation (including the budget proposal). The legislative-reactive powers that make the Argentine president such a powerful actor are the use of veto, either totally - with override requiring 2/3 of Congress - or partially on bills passed by Congress (line-item veto).

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6 For a review on constitutional decree authority, see Negretto (2004). The author focuses on Constitutional Decree Authority (CDA), following Carey and Shugart’s work (1998, 13), which is the “constitutional capacity of an executive to issue decrees of legislative content without a previous delegation by the legislature” (Negretto 2004, 535). These are differentiated from administrative and regulatory decrees, which makes DNUs fit into the CDA category.

7 Before the 1994 Constitution amendment, the president had only the power to veto total legislation.

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### Table 3.1. Formal Powers of the President

<table>
<thead>
<tr>
<th>Type of Power</th>
<th>Legislative</th>
<th>Non-legislative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactive</td>
<td>-Introduction of legislation.</td>
<td>-Use of referenda (non-binding).</td>
</tr>
<tr>
<td></td>
<td>-Exclusive introduction of budget proposal.</td>
<td>-Appointment and dismissal of cabinet members.</td>
</tr>
<tr>
<td></td>
<td>-Standard decrees for certain types of legislation.</td>
<td>-Appointment of Chief of Cabinet.</td>
</tr>
<tr>
<td></td>
<td>-Ample Emergency decrees (DNUs).</td>
<td></td>
</tr>
<tr>
<td>Reactive</td>
<td>-Veto, total and partial.</td>
<td>---</td>
</tr>
</tbody>
</table>
With respect to powers that are proactive, but non-legislative, the president can call for referenda (though these are non-binding), and appoint and dismiss members of his cabinet without Congressional confirmation. The case of the Chief of Cabinet of Ministers (Jefe de Gabinete de Ministros, JGM) is different. The president can appoint the JGM but the legislature can dismiss him through a non-confidence vote of the absolute majority of both chambers. The powers of the Chief of Cabinet are ample: he is in charge of the administration of the country and has a prominent role in implementing the executive branch budget. His budgetary powers include fixing budgetary ceilings for each expenditure category, the introduction of the budget proposal (to Congress), and the execution of the approved budget. The Chief of Cabinet can be summoned at any time by either or both Chambers of Congress and is obliged by the Constitution to appear before Congress once a month in order to give a report of the state of the country’s administration. Along with the Minister of Economy, and the Minister of Interior, the JGM is considered one of the most powerful people in the executive branch after the president. The Ministry of Economy is the most powerful agency within the executive, particularly regarding budgetary matters. Finally, the National General Audit office (Sindicatura General de la Nación, SIGEN), the internal control entity of the executive branch, functions as the control and oversight organ in charge of revising public finances, and fiscal transparency.

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8 In 1994 the figure of Chief of Cabinet was created. The Radicals proposed it as a semi-parliamentary tool to diminish presidential control by conferring the new figure administrative powers that would make him act as the head of the government, giving Congress the capacity to remove him.

9 This is done along with the Ministry of Economy.
**Congress**

Two chambers form Argentina’s national Congress: the Senate and the Chamber of Deputies.\(^\text{10}\) The Upper House is formed by 72 members, 3 senators from each province and the Federal Capital, Buenos Aires City (*Ciudad Autónoma de Buenos Aires*), with the third seat always belonging to the minority party.\(^\text{11}\) Senators are elected through direct popular vote for a 6-year term.\(^\text{12}\) One third of the chamber is renewed every two years. Even though they can be reelected indefinitely, the average reelection rate is quite low.\(^\text{13}\) According to Jones (2008), in 2003, only 17 percent of senators were reelected. The vice-president is the president of the Senate but he does not participate in the debates or votes, except in case of a tie vote.

The Lower House has 257 deputies elected through a proportional representation method, using the D’Hont formula, in multimember districts. Members are elected from closed-party lists for 4-year terms, and one half of the chamber is renewed every two years, with each district renewing half of its legislators. Deputies, as senators, have no term-limit reelection. Nevertheless, similar to the Upper House’s members, reelection rates are low compared to other countries. From 1983 to 2006 the median reelection rate was 23 percent, the lowest rate in democracies that do not prohibit immediate reelection (Jones 2008).

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\(^{10}\) Currently they have one period of sessions that runs from March 1 to November 30, which can be extended (extraordinary sessions) to address issues introduced by either of the chambers or if the president calls for them. Before the 1994 Constitutional reform, there was also one period, but it lasted 5 months.

\(^{11}\) Argentine legislation stipulates that no political party can have more than two seats in the Senate per district.

\(^{12}\) Prior to the 1994 amendment, senators were elected for a 9-year term through the provincial congresses and were allotted only two posts per district.

\(^{13}\) Before 2001, members of the Senate continued to be elected by the provincial legislatures and by an electoral college in the case of the Federal Capital.
The 24 electoral districts (23 provinces and the capital district) receive a certain number of deputies depending on their population. There are two restrictions on this formula: “(1) that no district receives fewer than five deputies, and (2) that no district receives fewer deputies than it possessed during the 1973-76 democratic period” (Jones 2002, 148). As result of those rules, Argentina stands at the top of malapportionment\(^{14}\) indexes due to the overrepresentation of small (less populous) provinces (Samuels and Snyder 2001). The six provinces with fewest inhabitants, which represent 3.9 percent of the total national population, have 11.7 percent of the seats in the Chamber of Deputies and 25 percent of Senate seats.\(^ {15}\) Contrary to those six provinces, the most populous ones are underrepresented, the extreme case being the province of Buenos Aires, which with almost 39 percent of the total inhabitants of Argentina holds 27.2 percent of the Legislature’s seats. In Samuels and Snyder’s research (2001), the mean lower chambers’ malapportionment is 0.07, while the mean in upper chambers is 0.21, and Argentina’s index is 0.14 (ranked in a high number twelve in a sample of 78 countries) and 0.48 (the highest of all the countries) respectively. Malapportionment becomes significant as funding tends to flow disproportionately to lesser-populated states, which tend to be Peronist in the Argentine context.

Standing committees are among of the most important units of legislative organization (Spiller and Tommasi 2007). They have a gate-keeping power to decide which legislation is to be considered, and the principal figure within them is their president. As mentioned by all interviewees, among the most relevant committees, the

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\(^ {14}\) Malapportionment is defined as “the discrepancy between the shares of legislative seats and the shares of population held by geographical units.” (Samuels and Snyder 2001, 652)

\(^ {15}\) For detailed analyses of the consequences of this overrepresentation in Congress, see Gibson, Calvo, and Falleti (1999), and Calvo and Murillo (2005).
Budget and Treasury Committee (Comisión de Presupuesto y Hacienda) stands out.\textsuperscript{16} A former public official, who preferred not to be identified by name, indicated that within the Budget Committee of the Lower Chamber, the president acts as liaison between all actors involved in the budget process while the document is being discussed in Congress. The opposition leader within the Committee is also a crucial figure, because he coordinates the opposing party and its postures.\textsuperscript{17}

The most relevant attributes of Congress are its capacity to call for binding referenda, their responsibilities and rights regarding the budget process, fiscal dispositions, and the revenue-sharing policy known as the Coparticipation Law (\textit{Ley de Coparticipación}) – a tax-sharing agreement between the national government and provinces. \textit{Coparticipación} is one of the most important tax-sharing agreements in the Argentine federal system. It is the “process by which some of the taxes collected by the central government are reallocated to the provinces” (Spiller and Tommasi 2007, 97).\textsuperscript{18}

The National Audit Office (\textit{Auditoría General de la Nación, AGN}), the Congress’ internal organ for reviewing public accounts, gives to that legislative organism control and oversight on the use of public resources. The AGN works as an integral auditing mechanism of all public organisms.

\textsuperscript{16} Together with the Budget and Treasury Committee, Foreign Affairs and Agriculture are the most valued (Spiller and Tommasi 2007). This assessment has been sustained by all interviews conducted by the author. The Budget Committee was the most common response to the question “What are the most prestigious/desirable committees?” Joaquin Alperovich, in an interview on August 2009, said that one explanation for this fact is that all the legislation initiatives created by a member of congress that have budgetary impact have to go through this committee before their analysis and vote.

\textsuperscript{17} Interview with a former public official of the Ministry of Economy, conducted on July 21, 2009.

\textsuperscript{18} The law that regulates this agreement dates from 1988, and has barely been updated since. The system tends to redistribute resources in an unequal way, favoring small and low-density provinces in large part because of their overrepresentation in Congress. For further details see Cetrángolo (2004).
Federalism and Provincial Governors

Argentina has 23 provinces and a Federal Capital, the City of Buenos Aires, which after the 1994 constitutional amendment became autonomous (as the rest of the provinces previously were), democratizing the election of its governor.\textsuperscript{19} Provincial governors are elected through direct popular vote every 4 years employing a simple plurality formula with the exception of a few provinces. While in 1983 all of the provinces held elections at the same time that the ones for president and vice-president, in 2003 that number had decreased considerably (Jones 1997). Provincial constitutions have been amended to allow the change of elections’ timing. Most provinces hold elections non-concurrently with the national government, which as Shugart and Carey (1992) mention, augments governors’ leeway.\textsuperscript{20} Furthermore, when elections for governors are held after presidential elections, the power of the governors increases even more due to the coattail effect.

During the 1980s and 1990s many of the provinces rewrote their constitutions to allow for continuous reelection and, in many cases, abolish term-limits.\textsuperscript{21} As a result, governors have become like local bosses that counterbalance the federal executive more than does the Congress, and that replicate the same imbalance of power between the national executive and the legislative branches at the provincial level (Eaton 2005). Governors are the most significant provincial-level actors. They are characterized by their

\textsuperscript{19} The official title of the City of Buenos Aires’ governor is Chief of Government, but it is comparable to the other 23 popularly elected provincial executives.
\textsuperscript{20} Although Shugart and Carey’s book (1992) focus on the electoral cycles of presidential and legislative elections, the same logic can be applied to the other important veto actors, governors.
\textsuperscript{21} By 2003, all but six provinces had constitutionally permitted the reelection of their chief executive.
political and administrative autonomy (Jones 2005), and are the patrons in clientelistic relationships. They hold powers similar to the national executive within the province, while fiscal arrangements with the national government and provincial malapportionment allow them to extend their influence in national politics.\textsuperscript{22}

In the Argentine case, governors control extensive resources although the tax collection of provincial governments is low. From the total spending of the national public sector, provinces spend 50 percent but they finance only 35 percent of that spending, with the gap made up for by transferred resources from the central government (Spiller and Tommasi 2005).

Other actors: Political Parties and the Party System, Unions, Businesses, Bureaucracy, and IFIs

In addition to the main political actors described above, plenty of other minor players impact the political process in Argentina. They aggregate political interests and representatives (political parties), have representatives in congress (unions), exert the approved budget spending (bureaucracy), put pressure on economic policies and distribution of resources (international financial institutions and businesses), and all maintain key ties to the executive, the legislative, or governors.

\textsuperscript{22} These categories have been taken from Smith (2005), who describes these features as the most relevant ones for examining the power that subnational governments may have in a country. To these can also be added the sustainable democracy that has characterized Argentina since 1983 (Eaton 2005), and malapportionment as described in the preceding section.
Political Parties and the Party System

Two major political parties have dominated Argentina’s electoral scene for more than 50 years: the Radical Civic Union (Unión Cívica Radical, UCR), also known as the Radical Party, and the Justicialist Party (Partido Justicialista, PJ), also known as the Peronist Party. Some other parties and political coalitions have had moments of success but they tend to disappear after one election cycle, or fall victim to periodic crises. There are also provincial parties that have held seats in the national Congress. The effective number of parties has varied from 2.7 in 1993 (Mainwaring and Scully 1995) to 3.18 in 2005 (Jones 2005; Stein, Tommasi, et al. 2005) based on the Laakso and Taagepera index; the UCR and the Peronists have remained constant players, with other parties appearing and disappearing within the system.

The PJ and UCR have exerted most of the state-level dominance, while also maintaining a continuous presence nationally. The PJ claimed an average of 61.8 percent of the provincial executives from 1983 to 2007, and the UCR has placed second with an average of 23.3 percent (Spiller and Tommasi 2008, 91) (See Table 3.2). In a demonstration of the relevance of the subnational arena to national Argentine politics, all of the PJ and the UCR’s presidential candidates have been governors at least one time. Regarding national representation in Congress, from 1983 to 2003, the PJ held an average of 55.2 percent in the Senate and of 45.4 percent in the Lower House. The UCR held,

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23 For details on the political parties history see McGuire (1995), Vanden (2006), and Jones (2005a).
during the same period, an average of 30.3 percent in the Senate and 31.9 percent in the Chamber of Deputies (See Tables 4.1 and 4.2 in Chapter 4).

**Table 3.2. Percentage of control of governorships by party**

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<tbody>
<tr>
<td>Partido Justicialista</td>
<td>54.6</td>
<td>77.3</td>
<td>60.9</td>
<td>58.3</td>
<td>62.5</td>
<td>66.7</td>
</tr>
<tr>
<td>Unión Cívica Radical</td>
<td>31.8</td>
<td>9.1</td>
<td>17.4</td>
<td>25</td>
<td>29.2</td>
<td>25</td>
</tr>
<tr>
<td>Others</td>
<td>13.6</td>
<td>13.6</td>
<td>21.7</td>
<td>16.7</td>
<td>8.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Total number of seats</td>
<td>22</td>
<td>22</td>
<td>23*</td>
<td>24**</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>(governorships)</td>
<td></td>
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*In 1990 the national territory of Tierra del Fuego achieved provincial status.

**In 1994 the Federal Capital started electing its Chief of Government.

Source: Levitsky and Murillo (2005a), and author’s own elaboration.

Of the two main parties, the Peronists have attained a greater degree of electoral success and have managed to better control provincial posts over the time. They have also positioned themselves as a more efficient opposition party. Calvo and Murillo (2005) show the PJ's comparative advantage for governing Argentina when they control the executive, and for sustaining the party machinery when they are a minority party. Moreover, the elevated degree of malapportionment in congress has diminished the UCR’s electoral and policy resources: while the electoral districts in which the Radicals are the leading political force tend to be substantially underrepresented, the Peronists tend to be overrepresented by virtue of governing smaller provinces and districts with proportionally more seats in congress than the larger ones.
The main features of the Argentine party system can be synthesized using Jones’s (2005) indicators of Latin American party systems. For this study conducted in 2005, the most relevant characteristics are that confidence in and legitimacy of political parties is low (12 and 21 respectively, while the mean for the region is 19.33 and 28.39), they are not highly institutionalized (Argentina ranks 62 on a scale from 1 to 100) and have a low programmatic character, relying instead upon clientelistic appeals). Ideological polarization is very low, as is party discipline. Centralization of power in political parties, also known as party discipline, is also low. A complete explanation of these indicators will be given in Chapter 4.

Unions

Labor unions have had an important degree of influence in determining electoral results and in passing legislation in congress along the last 50 years in Argentina. Traditionally, unions have been linked to the PJ, although those linkages were mostly informal. They have had their own representatives in congress. Corporativism has been, along with social movements, the reason why some authors have described Argentine politics as with strong tendencies towards “movementism.” The main relevant unions,

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25 To see a brief description of what these indicators mean see Scartascini’s work (2008). For detailed studies on the literature and construction of these indicators see: on effective number of parties Laakso and Taagepera (1979); on party institutionalization Mainwaring and Scully (1995); on party fragmentation Lijphart (1994); on party discipline see Morgenstern and Nacif (2002); on party nationalization see Jones and Mainwaring (2003), and on programmatic character of party system see Kitschelt (2000, 2010).

26 Jones (2005) study on political parties and party systems in Latin America included 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Sources: Mustapic (2002), Jones (2005), and Stein, et al. (2005)

27 McGuire describes “movementism” as a tendency of both Peronism and Radicalism to see themselves as “hegemonic movements” rather than parties. The characteristics of “movementism” are: 1) movements seek national unity with fading opposition, 2) movements tend to establish and retain power by the most expedient means at hand, not necessarily elections, and, 3) movements tend to exalt their leaders, giving them great programmatic flexibility (1995, 200).
which lay claim to the majority of organized labor in the country, are the General Confederation of Labor (Confederación General del Trabajo de la República Argentina, CGT) and the Central of Workers (Central de Trabajadores de la Argentina, CTA).

**Businesses**

Businesses are, as noted by Deputy Claudio Lozano and former minister Juan José Llach,²⁸ strong economic agents (principally formed by entrepreneurial corporations, associations, banks, industrial sector, and agricultural sector) who have reconstructed, since the return of democracy in 1983, a strong lobbying capacity. They normally push for more subsidies, fiscal exemptions, and a better development of their sectors. Businesses represent not only economic power, but political power as well, through the increasing participation of businessmen in electoral competitions and in governmental posts.²⁹

**Bureaucracy**

Argentine bureaucracy is not studied in detail mainly because it is catalogued by Spiller and Tommasi (2005) as not really independent, nor accountable, and with low degrees of professionalization. These characteristics help the executive impose controls over it, diminishing its strength.

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²⁸ Interviews conducted In Buenos Aires on August 3, 2009, and July 28, 2009, respectively.
²⁹ One of the best cases is the election of Mauricio Macri, a highly successful businessman (previously president of the dynamite soccer club Boca Juniors) to the position of Chief of Government of Buenos Aires City, who is a very successful businessman. Macri has built a successful career in public life, and was reelected for a second time to govern the Federal Capital in 2011.
**International Financial Institutions (IFIs)**

Until 2003, International Financial Institutions played a key role in Argentina’s internal politics, using access to credit as leverage. In exchange for loans, these actors stipulated a regime of deficit control and sound budgetary practices. Starting during Duhalde’s presidential administration, their influence decreased as the debt default cut these strings of conditionality. But as mentioned during some interviews, some of the international pressures disappeared except for focus on the maintenance of a fiscal and a commercial surplus.\(^{30}\) These requests, fundamental for the International Monetary Fund (IMF), were always previously negotiated before the approval of the budget, meaning that the annual budget in Argentina followed pre-consultation processes with the IFIs.

**The Informal Institutions of the Argentine Political System**

The 1994 constitutional amendments changed the way Argentine politics worked. Those modifications had intended and unintended outcomes, and the expected results seem to diverge even more from expectations when one considers the role of informal institutions.

**Clientelism**

Successive national administrations in Argentina have all distributed state resources in the form of targeted assistance programs. Party machineries also establish

\(^{30}\) Interviews conducted on August 2009, with Congressman Claudio Lozano, and with former official Oscar Cetrángolo.
mechanisms of exchange in more direct ways, such as vote-buying, distribution of jobs and political posts, goods and services, and sometimes even direct cash payments. Provincial governors employ the same clientelistic measures through their provincial social programs, their national or provincial parties’ machinery, and through their national and provincial legislators.

Political leadership is grounded on patronage, pork barrel politics, and some other forms of clientelism (Jones and Hwang 2005a, 123; Levitsky and Murillo 2005b). Together with charisma, economic resources, and bargaining abilities, these practices are essential for electoral success, both at the provincial and national levels (125).

Members of congress also make use of clientelistic practices to approach their constituency; this of course is important for the possibility of reelection, but is more important because legislators seek to advance their political careers after their terms in congress are over, gaining leverage to work as direct representatives of their president, governor, or another political boss.

All of those actors, at some point, make use of their parties’ machinery to reach to clienteles. Jones and Hwang (2005c) portray pork barreling and clientelism as important for success in general elections, but indispensable in primary elections. These factors have the same anticipated reaction effect on potential intraparty challengers that a large campaign war chest has in the United States; it causes them to desist from any attempt to defeat the party boss (Jones and Hwang 2005c, 3).
The PJ and the UCR, practice patronage politics (Jones 2005), but the PJ is more effective in using those informal resources to increase its vote share and political leverage (Calvo and Murillo 2005). Levitsky (2007) traces the path of the Justicialist Party from a populist union-based political organization to one based on patronage and machine politics during the 1980s and 1990s. The PJ left behind informal practices that had helped sustain unions and embraced the distribution of side-payments based on state resources (jobs and material goods) to target different groups. As this shift took place, political brokers and party leaders at the provincial and local levels became more important, consolidating the machine politics model (Jones and Hwang 2005a, 123), and centralizing it in the governors and the Peronist presidents.

**Nomination of Candidates and Political Careers**

The most important factors for a person aspiring to a political candidacy at the national or provincial level are financial and material resources, and political influence (Jones 2008). These ultimately contribute to the patron-client relationship between elected leaders and their constituents, and between the party leadership and candidates or elected authorities as well, lowering the importance of ideology and representation of voters’ interests. More than demonstrating their capability to meet the needs of the electorate, candidates need to fortify their links with party leaders.

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31 This shift was made in order to regain and diversify voters (consolidating urban-based networks and broadening the middle-class constituency), to sustain coalitions and political support, and to find backing for the neoliberal economic transformations during President Menem’s terms.

32 Charisma is also considered an important factor in the Argentine system, long prone to caudillismo, although some scholars separate it, together with ideological party identification, from “machine politics.” Three of the interviewees, Jesús Rodríguez, Marcos Makón, and Juan Llach underlined that “personal charisma and personalities” influence the degree of power that an agency might have in the Argentine political and policy game.
Party leadership can be exercised by legal statute (i.e. following the internal rules of the party to be elected) or *de facto*; historically, it has been the latter. Nominations are controlled and regulated at the national level by the president or leader of the opposition, or by other prominent leaders, some of whom may hold no official position within the party other than that of internal power broker. Even if internal elections for the selection of candidates are legally regulated, most parties try to avoid the confrontation derived from them. Either a decision on who will be in the list, and in which order is made autocratically, by a single party leader, or determined by complex negotiating processes among party leaders and other influential actors. This helps keep elected legislators loyal to those who put them on the party lists, especially if the party leader is the president or a governor up for reelection. Not even powerful Peronist presidents such as Menem and Kirchner, have been able to govern without continuous negotiation with the governors, because governors maintain firm control over the nominations of their provincial legislators (Levitsky and Murillo 2008). At the end, the nomination process keeps being decentralized to the provinces, and it seems that from 1994 to 2006, that did not change.

Representatives are elected from written closed lists put forward by three main actors: national party organizations, provincial party organizations, and, in the least of the cases, rank-and-file party members (Eaton 2005). The usual practice is that provincial party leaders, particularly the powerful provincial governors, negotiate the final list in order to avoid primaries (Jones 1997). Spiller and Tommasi (2007) assert three avenues for establishing who holds the party leadership. In the cases where the nominating party controls the governorship, the governor is normally the dominant leader of the provincial-level party. In the provinces where the nominating party does not hold the governorship,
a single individual (a powerful political leader) regularly controls it, but there tend to be more intraparty challengers. In cases where the nominating party does not control the executive and where there is not a single person identified as leader, a small group of influential people typically dominates the party the party (Spiller and Tommasi 2007, 76).

Governors typically function as local bosses who control and dominate the internal party processes and, as a consequence, also control the agenda and behavior of legislators in both houses of congress (Jones and Hwang 2005a). Provincial-level politics, then, is vital in determining who gets a seat in the national Congress, and whose career advances there.

Inside Congress a similar dynamic prevails. Prestigious committee chairmanships are normally decided by the Directive Board (*Mesa Directiva*) in negotiation with political party representatives, who have already reached agreements with local political bosses, and party leaders, and in many cases with the president. In these cases, having expertise in the committee’s subject matter represents one of the requisites, but having the right political connections with the party leadership or local leader is the other.
THE ARGENTINE BUDGET PROCESS

The Public Sector

The National Public Administration (Administración Pública Nacional, APN) comprises the central administration, decentralized organisms, and social security institutions. The central administration is formed by the different organisms of the National Executive Branch (Poder Ejecutivo Nacional, PEN). The decentralized organisms are autonomous; although their functions are specified by the central administration, they have their own financial resources.33

The entire financial administration also includes public enterprises and state societies, fiduciary funds (or endowments), and other public entities.

Scope of the Argentine Budget: Focusing on Annual Expenditures

Argentina’s federal budget includes annual programmed revenues and expenditures of the National Public Administration (APN). The revenue chapter of the APN is formed by taxes and non-tax revenue. Although the focus of this research is on the expenditure side of the budget, discussion of the revenue side is vital because

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33 One example of a decentralized organism is the National Administration for Social Security (Administración Nacional de la Seguridad Social, ANSeS), which is the organism in charge of administering, at the national level, social plans relative to pensions, unemployment, economic support to families and different groups of people beneficiaries of state assistance.
contrary to expenditures, which are based on spending ceilings, revenues cannot be exactly calculated ex-ante. Annual revenues can only be estimated, and there can always be unexpected changes to these estimates (stemming from fluctuations in the prices of commodities, changes in tax laws, etc), differences in projected income, or intentional miscalculations.

**Figure 3.1. Tax and Non-tax Revenue in Argentina, 1993 - 2004**

![Graph showing tax and non-tax revenue in Argentina from 1994 to 2006.](image)


Figure 3.1 shows that in Argentina, 90 percent of the total revenue comes from taxes, and the other 10 percent comes from capital gain and other non/tax income. This reveals the taxation capacity of the Argentine state.
As Figure 3.2 reveals, more than half of tax revenue comes from indirect taxes, which are associated with regressive policies. One example of this is the 21 percent VAT (Value Added Tax) over goods and services. Starting in 2001 there has been an increase in direct taxation (e.g. banking taxes), which has been accredited to the increase on poverty and the need to look more at progressive taxation policies.

Annual expenditures are categorized according to specific budgetary classifications. In this study I focus on functional classification (see Figure 3.3) because it provides a comprehensive look at how resources are allocated, and is easily comparable to the Mexican budget.
In contrast to other budget laws, the Argentine framework only accounts for a part of public spending. Partially because provinces make use of a significant amount of resources collected by the central government, via the Coparticipation agreement and other automatic transfers not included in the annual budget law, the annual federal budget bill approved by Congress accounts only for an average of 50 percent of consolidated public spending. The other 50 percent of total spending is left outside the budget law approved by Congress. As shown by Abuelafia, et al. (2005; 2006; 2009), municipal and provincial expenditures, along with public enterprises, fiduciary funds or endowments, and some other organisms, are left outside the National Administration Budget Law. The
rationale behind this is to depoliticize certain spending items, maintaining them outside of the annual discussion of expenditures.\textsuperscript{34}

Fiscal transfers to provinces are allocated outside the budget law and established by the Tax Sharing Agreement already mentioned in previous pages. The main expenditure items that used to be included in the budget law and that have been left outside during the 2000s are some entities of the National State (AFIP, PAMI, INCAA)\textsuperscript{35} and around 20 public enterprises and societies, although their annual spending needs to be approved by the executive.

Fiduciary funds or endowments, integrated totally or majorly by state resources or goods, are also left outside the budget law; they do not have to be approved by Congress, as stipulated by Law 24,441 on National State Funds (\textit{Fondos del Estado Nacional}).\textsuperscript{36} These funds manage resources related to provinces and to specific sectors. Since the passage of Budget Law 25,565 in 2002, public entities and fiduciary funds’ budgets have to be approved by the executive, and then sent to Congress for its knowledge, but not for its approval. Although these entities are autonomous and manage their own resources and annual budgets, they are required to submit that information to the Ministry of Economy for its review and approval.

\begin{footnotesize}
\begin{itemize}
\item[34] This fact was noted by two public officials interviewed in Buenos Aires in July 2009.
\item[35] AFIP stands for Federal Administration of Public Income (\textit{Administración Federal de Ingresos Públicos}); PAMI stands for Comprehensive Medical Attention Program (\textit{Programa de Atención Médica Integral}), which manages the public health insurance serving retirees, the indigent, and war veterans; and, INCAA stands for National Institute of Cinematography and Audiovisual Arts (\textit{Instituto Nacional de Cine y Artes Audiovisuales}).
\item[36] Some of these fiduciary funds or endowments are the Fiduciary Fund for Provincial Development (\textit{Fondo Fiduciario para el Desarrollo Provincial}), the Fiduciary Fund for Social Capital (\textit{Fondo Fiduciario de Capital Social}), and the Fiduciary Fund for the Infrastructure and Transport System (\textit{Fondo Fiduciario para el Sistema de Infraestructura y Transporte}).
\end{itemize}
\end{footnotesize}
The rigidity of the budget (according to Uña (2006), spending committed by law or by previous agreements represents around 80 percent of the total spending in the annual budget law) means that there is little room for maneuver in the fiscal year. The national executive mostly dominates that space, and as Abuelafia, Berensztein, et al. (2005) put it, the real discretionary level in the budget is not that significant. In a study to measure the degree of discretionality that the budget encompasses, Abuelafia, Berensztein, et al. (2005)\(^\text{37}\) explore the relationship between changes in expenditures and changes such as GDP growth, employment, debt and inflation, and structural breaks caused by the shift to dollar parity in 1991. The main question to be answered is “to what extent do governments actually decide on public expenditures?” They use data from 1980 to 2003, and those deviations from the regressions (trend) are taken as proxies for degree of discretion. The authors find that starting in 1991, a significant decrease on the level of discretion has taken place. They test their main hypothesis about the correlation between the tax level and the discretion level of the budget and find that for a 1 percent increase in tax collection (as percent of GDP) there is a 2.5 percent increase in the degree of discretionality. But what is most important of their findings is that the actual level of discretionary spending in the budget is not a significant one because most of the expenses are already compromised through their rigidity. So, “when the topic of ‘who decides on public expenditures’ is discussed in the context of the federal budget process, it refers to who decides on the allocation of the discretionary fraction of public spending that passes through the budget process” (Abuelafia, Berensztein, et al. 2009, 33). In other words, we first see some big political agreements that establish which pots of money are excluded

\(^{37}\) Their research was based on a methodology developed by Abuelafia, Braun, and Díaz Frers (2004).
from annual review, and then, the ongoing political agreements about how the remaining discretionary spending will proceed.

**The Formal Budget Process**

The Argentine budget process is regulated by the National Constitution, the Financial Administration Law, the Permanent Law Complementary to the Budget, and the State’s Reform Law. The budget process functions, at least in principle, as follows the typical budget cycle, which I delineate in more detail below.

**Formulation**

During March through May, the National Budget Office (Oficina Nacional de Presupuesto, ONP), part of the Treasury Secretariat (Secretaría de Hacienda) within the Ministry of Economy (Ministerio de Economía, Mecon), formulates the aggregated budget policy and the expenditure ceilings for all agencies. The ONP also establishes the annual calendar of the budget process, which is signed by the Ministry of Economy.\(^{39}\)

All the line ministries are in charge of creating their preliminary budget proposals (antepronectos de presupuesto) by estimating the resources they will receive and

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\(^{38}\) In 1992 the Financial Administration Law (Ley de Administración Financiera y de los Sistemas de Control del Sector Público Nacional, or Ley No. 24.156) was approved, regarding the organization and regulation of the budget system, the treasury, public credit, and public accounts.

\(^{39}\) The ONP has a staff of 90, of whom which 20 have administrative duties, 15 do budgetary evaluation, 20 statistical analysis, and the other 40 are divided in 3 thematic directors, 6 sector coordinators, and the rest are analysts. The ONP does two types of analysis, the micro (technical criteria) and the macro (budget restrictions and aggregated data). The office is also in charge of drafting the articles of the executive’s budget proposal.
allocating these resources among their programs. Each agency within a ministry conducts its own internal process, normally coordinated between the ministry’s budget office and the agency’s head, and then revised by the corresponding line ministry. These preliminary proposals go back to the ONP, which aggregates requests and accommodates or changes them according to expected revenues and economic programmatic lines for the next fiscal year. As soon as the preliminary proposals (anteproyectos) are in the ONP, the process of putting them together returns to the Mecon and becomes a wholly internal process to that ministry again.

No later than June 30th, the Chief of Cabinet (JGM) sends to Congress the advances of the complete preliminary budget proposal and its main guidelines. From this point on, until September, the preliminary version of the budget is actualized and adjusted within the Mecon, revised by the line ministries, the JGM, and ultimately the president. The final version is turned in by the JGM to Congress no later than September 15th. Also, the discussion – internal to the executive (among the Minister of Economy, the Chief of Cabinet, and the president) – regarding the pluriannual budget takes place. The amounts assigned to this pluriannual budget are not really significant and concern multiannual (as its name indicates) programs that have been agreed with congress since their beginning. These plans also serve as a compendium of macroeconomic indicators and IFIs requirements.

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40 Pluriannual budgets were instituted in the 1999 Fiscal Solvency Law. These three-year plans encompass information regarding revenue forecasts, expected expenditures, investment programs, IFIs’ programs, and the description of macroeconomic and fiscal variables used. Although the idea was sound in theory, multi-year forecasts have proven less helpful than expected due to the country’s instability and economic crises, its dependence on commodities, and the difficulty of establishing inter-temporal agreements among actors (Spiller and Tommasi 2007), all of which have hindered their implementation. See Abuelafia, Berensztein et.al. (2005).
Approval

The internal procedure that Congress follows to approve the budget is the same as for any other piece of legislation introduced by the executive. The budget proposal goes first to the Chamber of Deputies, and it is immediately sent to the Budget and Treasury Committee, which is in charge of elaborating the first dictum. The Committee, as well as the Chamber as a whole, is entitled to modify and adjust any part of the proposal, with a previous discussion and an agreement of the majority of the members. The Budget Committee has the right to interrogate the proposal by summoning members of the executive branch, or by sending written inquiries via the JGM’s office. The Committee prepares a majority report, as well as a minority report in the event of disagreement. The proposal is then reviewed by the Secretary of the Presidency of the Lower Chamber and by the Committee of Parliamentary Labor (Comisión de Labor Parlamentaria), who schedule the presentation and call a floor vote. In the plenary session, normally the Budget Committee’s chair presents the majority report, and then some other member does the same with the minority report. Discussion and debate on national politics and the budgetary execution and actions taken place through the last fiscal year is conducted. If the proposal passes the subsequent floor vote, each individual article is voted on.41

Legislators can introduce modifications to the articles or propose new articles to be included in the bill. The happiness list (planilla de la felicidad)42, one of the tables

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41 If the bill in general does not pass, it goes back to the Budget Committee.
42 There are three tables in the public works chapter of the budget law: the regular list, which establishes the works to be done during the fiscal year; the retroactive list, which incorporates all the public works from previous fiscal years which have been under-executed or suspended, and that will become valid again; and, the happiness list, which incorporates the public works without a feasibility study regardless of the Public Investment System, and is the only one without assigned resources. The PJ legislators named the happiness list (Rodríguez and Bonvecchi 2006). See Article 15 of Law 24156.
contained in the public works chapter of the budget law, is a specific expense account table in which legislators can introduce all their desired projects that do not have corresponding funding assigned. Some authors note that this may effectively allow legislators to present projects to their voters, only to later blame the executive for not giving the resources to implement them (Rodríguez and Bonvecchi 2006; Uña 2006). An interview with Joaquín Alperovich, who has been Chief of the ONP for several years, says that the hapiness list functions as a sort of “letter to Santa Claus,” in which legislators include all the things that they want to ask for from the federal government, despite knowing that they may not be executed.

After the budget proposal is approved in the Lower Chamber, it goes to the Senate for its approval, where it follows the same process as in the House. If the Upper Chamber does not make any modifications to the project, it goes back to the executive. If it decides to amend the budget proposal approved by the Chamber of Deputies, it goes back to the lower house to be discussed and voted on again, before being returned to the Senate.  

When the president receives the approved budget, he has two options: either he ratifies the bill and promulgates it for its implementation, or he vetoes it. He may veto it completely or partially, and Congress can overrule a presidential veto (voting first by the Lower Chamber, and subsequently in the Senate) with a 2/3 majority. No later than January 1st Congress has to pass the Budget Law, if by the deadline there is no approved

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43 The real discussion on the budget, between the Chamber of Deputies and the Senate takes place when the proposal is being reviewed by the Lower Chamber, as mentioned by three interviewees, Daniel E. Eleit, Marcos Makón, and Joaquín Alperovich.

44 In an interview with Daniel Eleit, he mentioned that the power of veto is seen as a self-censorship mechanism for other actors, meaning that the president uses the threat of a punitive (and closely-targeted) line-item veto to discipline lawmakers. Interview conducted in July 02, 2009.
budget bill, the budget from the previous fiscal year will be enacted (a possible option for the reversion point). After the Budget Law is passed the president can endorse line item vetoes.

45 Authors studying the budget process address the relevance of the reversion point (Weldon 2002). As Santiso describes it, “The reversion point refers to the levels of spending and revenues that would occur in the absence of an agreement over the budget, in other words it describes what happens if parliament does not approve the budget on time.” (Santiso 2005, 6)
Figure 3.4. Argentine Budget Approval Phase, as of 2006

1. Executive’s Budget Proposal submitted to Congress (No later than September 15)
2. Chamber of Deputies
3. Expenditures Budget Proposal sent to Budget Committee
4. Floor Vote
5. Senate
6. Senate’s Budget and Treasury Committee
7. Floor Vote
8. Budget Bill promulgated by the president (no later than January 1)
9. President ratifies
10. President vetoes
11. Approved
12. Changes Introduced
Execution

The Chief of Cabinet and the National Budget Office decide on the allocation of expenditures to all governmental agencies. The ONP is in charge of establishing a quota system (the ONP makes the funds available to each agency every three months) for distributing the assigned resources to each entity, leading to a quarterly pace of disbursement of budget resources, and of submitting quarterly reports on budget execution. The different governmental agencies distribute funds to their programs, supervising their execution and informing the Chief of Cabinet and the Ministry of Economy on their progress; these actors in turn have the responsibility to deliver their reports to congress periodically. Congress is the only actor that can introduce modifications to an approved budget bill when related to total expenditures and total authorized debt level, to the economic classification of expenditures, or to the function and objective of those. The executive can only modify total expenditures in case of an emergency, and with proper notification to congress. The executive can, however, reallocate the budget within or across agencies via several legal instruments.\(^\text{46}\)

\(^\text{46}\) See table 3.1.
In 2006 Congress passed an amendment to the Financial Administration Law (Ley de Administración Financiera, LAF) through that year’s budget bill. It was called, colloquially, the Superpowers Bill (Ley de los Superpoderes). The modification of article 37 of the LAF consisted of giving faculties to the Chief of Cabinet to “arrange the budget, restructuring what he considers necessary within the total amount approved in each budget bill, comprising those modifications relative to current expenditures, capital expenditures, financial applications, and distribution of objectives [governmental administration, defense, security, social and economic services, and public debt].” The modification of total expenditures and debt, expenditures relative to intelligence and reserved expenditures (gastos reservados) remain exclusive to Congress. (See Appendix VI, and Article 1 of Law 26.124, published on August 8, 2006)

This change meant the formalization of an already used informal mechanism since the mid 1990s of the executive to modify the budget during its execution, without Congress approval. The ample faculties given to the Chief of Cabinet included also another exemption to the LAF: modifying the budget to increase current expenditures to the detriment of capital and financial expenditures. Balance of powers was formally altered in favor of the executive.

The executive sent the Superpowers Law initiative to the Upper Chamber first, where it was approved by 37 votes in favor (PJ), and rejected by 6 votes (small opposition parties.) All the UCR senators left the floor before the voting procedures began. After the proposal was approved in the Senate, it was discussed in the Chamber of Deputies. The first agreement was done in the Budget Committee, where the PJ had majority. The executive’s proposal was approved without changes, and against the arguments of opposition parties, who objected that the law would upset the balance of powers and convert Congress a rubber-stamp for President Kirchner. The Lower House approved the superpowers provision with 135 votes in favor (PJ and smaller parties) and 91 votes against it (UCR, ARI, and PRO.)
Based on Carey and Shugart’s (1998) study on executive’s decree authority, Negretto (2004) explains that in Argentina legislators might authorize the use of delegation of authority to the executive if they are locally-oriented and if they want to avoid confrontation with a president of their own party, as a way of maintaining party discipline. Along the same lines, an analysis about delegation of powers in Brazil, conducted by Pereira, Power, et al. (2005), sheds light on why the president prefers to use extra powers instead of following the standard legislative process to pass a legal provision. The authors test two different hypotheses, one grounded on delegation theory and the other one in unilateral action theory, which differ on whether the president is more willing to use delegation of powers or special decrees depending on his party contingent in Congress and on his popularity with the voters. Pereira, Power, et al. do not find sufficient evidence to support or exclude either one of the tested theories, due to the fact that each president’s characteristics and contexts may be determinant for how they decide to use special powers. Following both these works, it seems that delegation of powers to the president in Argentina has been recurrent, notwithstanding the economic situation, composition of Congress, or the president’s political affiliation. This leads us to say that Congress seems constantly reactive to the executive’s will, and that having a majority in Congress may guarantee the recurrent use of delegatory measures.

Audit

There are two parallel mechanisms of control, one internal to the executive, and the other external and supervised by Congress. Control over the executed budget is carried through by the executive’s Nations’ General Audit (SIGEN), as an internal coordinator of government agencies, their programs, activities, procedures, and programs’ impacts. Each agency has internal auditing units that report to the SIGEN, which in turn, along with the line ministries, report to the president. Congress accounts for these tasks through the National Audit Office (Auditoría General de la Nación,
AGN), which is the technical unit in charge of the ex-post control of the budget execution, and of the annual report of public accounts that the executive submits to Congress at the end of every fiscal year (Cuenta Pública or Cuenta de Inversión).47

The Informal Institutions of the Argentine Budget Process: Delegation of Powers and Estimation of Economic Data

The budget process has two most relevant informal rules. Even though there are formal dispositions for the legislature to delegate powers to the executive, and for the president to produce special emergency decrees, both of these mechanisms are used in excess of the spirit and letter of the law, and the lack of compliance with the legal framework renders them essentially informal (or extra-legal) mechanisms. A similar effect occurs with the estimation of economic data for revenue projections. While this is a formal capacity of the executive within the legal budget formulation phase, its continuous miscalculation since 1997 can also be understood as a semi-informal mechanism to enhance its powers. Both informal practices enhance the discretion and decision-making power of the federal executive when it comes to executing the approved budget, especially for readjusting appropriations without the intervention of congress.

Delegation of Powers

By law, congress is the only institutional actor entitled to modify total expenditures, the total debt level, and expenditures’ classifications, functions, and

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47 Both agencies, the SIGEN and the AGN, where created through the Financial Administration Law of 1992.
objectives, but in practice it has been the executive who has made use of this faculty. The Chief of Cabinet, who by the express delegation of Congress in the budget law or in a particular bill, or by the use of emergency decrees, has been frequently *authorized* to modify the budget without the formal restrictions (Abuelafia, Berensztein, et al. 2005). There are three types of delegation to the executive that can occur: special Necessity and Urgency Decrees (DNUs), transitory articles in a bill or in a budget law, and a tacit (non-urgency) delegation of authority.  

Even if DNUs are considered a form of “constitutional decree authority”, their excessive and extra-legal use can be considered as informal due to the authority given to the executive for bypassing Congress. DNUs have been used since 1983 as informal, but legal, mechanisms. They were formally recognized and included within the 1994 Constitution, stating that “legislative powers shall not be delegated to the Executive Power save for issues concerning administration and public emergency, with a specified term for their exercise and according to the delegating conditions established by Congress” (Constitución de la Nación Argentina 1994). In practice, when faced with an emergency or crisis situation the legislature is prone to delegate policy-making authority

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48 Delegation of powers from governors to the executive or to legislators, ad the delegation of authority of the president to his cabinet, have also been studied, affording insight into the issue. See (Kiewiet and McCubbins 1991), (Morgenstern and Nacif 2002), (Scartascini, Stein, et al. 2010), on delegation to the minister of finance, and on delegation to the executive from congress (Hallerberg and Marier 2004).

49 Gabriel Negretto says that Constitutional Decree Authority (CDA) “effectively enhances the ability of executives to introduce policy changes that legislators might not have initiated and might not have approved in the absence of this instrument” (Negretto 2004, 532). It threatens the legislature’s participation in the policy process, even if the formal statutes do not reflect this. CDA is “the constitutional capacity of the executive to issue decrees of legislative content without a previous delegation by the legislature” (535). See also Carey and Shugart (1998).

50 Translation taken from Rose-Akerman et al. (2010).
to the president, allowing him to use and reallocate public funds from the budget as he wishes, which enhances his discretion and reduces the power of Congress in this matter.\footnote{Negretto (2004) talks about the possible explanations for congress to willingly delegate its powers to the executive.}

DNUs are to be issued only by the executive (with the signature of the Chief of Cabinet and all of the cabinet members) in extraordinary circumstances of emergency that make it impossible to enact normal constitutional statutes. DNUs cannot be related to taxation, criminal issues, or the electoral and party systems. The constitution stipulates the formation of a Bicameral Congressional Commission, based on the political parties represented in both chambers, which has ten days to review the legal disposition and establish its opinion for its consideration in the plenary. DNUs have been criticized on several grounds: first, in constitutional terms; second, on the fact that an emergency situation is always determined by the executive; third, that if congress fails to give an opinion about a DNU, it is considered as a tacit acceptance of it; last, about the type and frequency of use presidents have given to them (Negretto 2004; Rose-Akerman, Desierto, et al. 2010). Although the 1994 Constitution institutionalized and regulated these decrees, it left pending a statute to regulate the legislative role in this matter. This statute was not enacted until 2006, when the Bicameral Commission required by Law 26.122 to review those decrees was finally formed in October of that year. Significant loopholes and legal contradictions still exist with respect to regulation, transparency, and oversight of
Exemplifying this, Carnes and Zarazaga (2007, 2) claim that decree power has become since the 1990s so significant, that the term governing by *decretazo* has become “a popular shorthand to describe the rule by decrees that seem to circumvent the Congress.”

The inclusion of transitory articles in the budget bill or in other laws has also produced mechanisms for the executive to enhance its power during the execution of the budget. These articles expressly delegate authority to the executive to reallocate resources without legislative approval. Moreover, annual budget bills often modify the Budget Organic Law (Santiso 2006).

The last informal technique of delegation is a tacit one. Starting in 1997, congress has permitted the executive to make exceptions of some of the Financial Administration Law’s disciplinary restrictions, including article 37, which states that only congress can make and approve significant changes to the total approved budget (Santiso 2006).

**Misestimating Revenue Data Projections**

During the formulation of the budget, preceding the establishment of expenditure ceilings, and before the total amount of resources available for the next fiscal year is

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52 Rose-Akerman et al. point out that the statute has three problems: “a vote of both Houses is required to reject the decree, allowing a DNU to be approved by the positive vote of only one of the Houses, and thus making it harder for the legislature to reject a DNU than to approve a law according to the formal procedure established in the Constitution; a DNU is tacitly approved so long as Congress has not acted, which infringes an express constitutional rule forbidding tacit approval; [and that] the statute does not provide a time limit for the DNUs, and thus allows emergency decrees to stay in force even after the emergency has passed” (Rose-Akerman, Desierto, et al. 2010, 9). On this issue see also Carnes and Zarazaga (2007).
known, the executive makes economic data projections to establish the amount of revenue that will be at its disposal to allocate. While in theory this is an objective technical tool, in practice, “there is a systematic strategic use of macroeconomic forecasts which are developed by the Secretaría de Política Económica and the Secretaría de Hacienda [of the Ministry of Economy]” (Abuelafia, Berensztein, et al. 2005, 19) As the works of Abuelafia et.al. (2005; 2006; 2009) and Uña (2006) show, the forecasts made by the executive are not opened to external reviews, nor does Congress perform an analysis to which it could be compared. They also differ from private and market expectations and estimates.\(^{53}\)

Government uses these rough estimates to manage expectations as well as to leave some room for maneuvering with public expenses during the execution phase of the budget. This, together with the delegation of powers and use of special executive decrees, enhances the executive’s leeway in managing and allocating resources to preferred provinces, programs, or interest groups, and allows the executive to increase its negotiating power relative to other actors, bolstered by its discretion with the use of public moneys.

As a result of the dubious forecasting outlined above, at the approval stage, the legislature works with doubtful data, receiving a budget proposal “with income and spending levels quite different from the real levels that will be executed later on by the executive” (Spiller and Tommasi 2007, 59). Presumably, it makes it much more difficult

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\(^{53}\) The National Statistics and Census Institute (Instituto Nacional de Estadística y Censos, INDEC) has been harshly criticized by opposition parties, private firms, universities, International Financial Institutions, and the national and international media, for creating and forging data related to inflation. The critics began in the 2007 presidential campaign in which Nestor Kirchner’s wife, Cristina Fernandez de Kirchner ran and won the presidency. The main critics depict the INDEC as a governmental instrument to create the impression that inflation indexes are much lower than in reality. See (Serra 2007), La Nación (2011), and La Razón, Sep 21, 2011.
for Congress to accomplish goals independently and to make decisions based on reality, while it increases the executive’s room for patronage, fostering clientelistic ties, and generally distributing resources in a discretionary way.

In addition to this, the quota system used to make the funds available to all agencies of government adds to the executive’s power because the president, the Chief of Cabinet, and the Mecon, can decide to distribute funds through a discretionary (and political) merit-based system. There is no formal requisite to make resources available in standardized amounts for all agencies or provincial governments, which serves as a complementary mechanism of allocation when resources have been over or under estimated. Two interviewees emphasized that during the budget execution phase, the Mecon maneuvers the quota system constantly; by deciding who gets its complete trimestral quota, and who only receives a part, the Mecon holds a great deal of power.54

**CONCLUSIONS**

The formal and informal institutions and other actors’ roles portrayed above set the bounds of the executive’s, legislators’, and governors’ power resources (See Table 3.3). The most significant resources are: agenda-setting capacity, control over information, and political control.55

The executive has strong formal powers that make him the most powerful actor in the system. There have not been significant changes to the overall legal framework, nor to the regulations governing the budget process from 1994 to 2006; the subsequent

54 Interviews conducted with Juan Llach and Marcos Makón on July 28, 2009, and July 2, 2009, respectively.
55 For a detailed explanation of power resources, see the first two chapters of this dissertation.
Superpowers Law, which has applied to the 2007 budget forward, has changed the legal landscape only to add to the powers of the president. But in the 1994 – 2006 period, the informal institutions have suffered a change: patronage networks, and nomination of candidates and control over legislators’ careers went from being managed by provincial governors and the president, to being centralized in the executive at the national level. Still, PJ administrations function differently from UCR administrations; the former hold more influence over informal mechanisms and also make a more efficient use of legal dispositions in terms of favoring them (this will be addressed in more depth in Chapter 4, on Argentine changing contexts and the budget process). Therefore, the president’s agenda-setting capacity is greater in periods of PJ administration and congressional majority.

Legally, both within the wider government, and in the course of the budget process, the executive is empowered with high degrees of information control, mainly as a result of its formal function as information producer and its advantages in technical capacity. The Ministry of Economy, its Secretaries, and the ONP, hold a concentration of technical expertise related to economic and fiscal issues and to budgetary matters in all stages of the budget process. The Ministry of Economy in particular, as Pablo Guidotti and Marcos Makón noted in 2009, has tremendous institutional capacity. In addition, the production of economic data projections, which can be used to manipulate the execution of the budget, further enhances the executive’s control over information.

The political power of the president varies according to which party has the most governorships and the majority of seats in Congress. It also varies depending on the personal characteristics of each president and the quality of his relationships with other

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56 Interviews conducted in July and August 2009.
actors.\textsuperscript{57} As we will see in the next chapter of this study, all these factors favor Peronist presidents (Samuels and Snyder 2001; Calvo and Murillo 2005; Spiller and Tommasi 2007).

Legally, Congress is empowered with strong agenda-setting powers, but in reality, it has remained a reactive legislature (Jones and Hwang 2005a; Lehoucq, Negretto, et al. 2008). Legislators serve only as rubberstamps of their political bosses, bargaining for them without introducing substantive ideas of their own. In legislative procedures, the majority-party leadership “uses its majority status (especially negative and positive agenda control) to dominate the legislative process, excluding legislation it believes may pass despite its objection, as well as implementing legislation it desires” (Jones 2008, 72). Many of the negotiations over the budget are not necessarily made in the congressional arena; instead they are left outside the approval phase, and when the budget proposal is sent to the Chamber of Deputies, it has already been “ironed” \textit{(planchada)}, that is, discussed and agreed upon during the formulation stage or by prior commitments and agreements between the national and provincial executives, leaving the legislature to make a few minor adjustments (Braun, Díaz Frers, et al. 2006a; Uña 2006; Abuelafia, Berensztein, et al. 2009).

Congressional control over information is low, as congress lacks formally qualified offices with the technical capacity to produce detailed and accurate information. The main restrictions preventing it from developing independent information are the

\textsuperscript{57} In the interviews conducted during 2009, Juan José Llach, Jesús Rodríguez, Pablo Guidotti, and Joaquín Alperovich mentioned the importance of the personal characteristics of the president, the JGM, and the minister of Economy, for establishing relationships among them and with other actors.
absence of a budget office within the legislature,\textsuperscript{58} as well as members’ low reelection rates, high rotation, and their dependence on political bosses, which hinder their specialization and professional development (although budget committee members do tend to be a bit more experienced and qualified). Only two elements give Congress some, still insufficient, information control in the budget process: the General Audit Office (AGN), which is the independent organ in charge of revising annual public accounts, and the strength of the Budget Committee.\textsuperscript{59} Substantive committees may also provide data on their own topics of specialization. Committees’ presidents, congressional party leaders, and members of the directive board of each Chamber (mesa directiva), hold important pieces of information, and their long-term careers give them political leverage to demand whatever information or technical assistance they consider necessary.\textsuperscript{60} Legislators end up relying on congressional leaders’ access to knowledge, assistance, and information, depending on their political relationships with other actors, especially with the executive and governors.

Finally, members of congress have limited political control. Although they are not subject to term limits, allowing them in theory to autonomously retain their seats if their constituency decides so, the formal configurations of the Argentine political system and Congress’ legal arrangements poorly empower individual legislators to exercise

\textsuperscript{58} As contrasted to the budget offices in the US and Mexican legislatures, in Argentina there has not been an agreement permitting its creation. Although the topic has been on the agenda for some time, the project has not been carried through. See the works of Abuelafia et al (2005), and Uña (2006), and the compiled works by CIPPEC (Braun, Díaz Frers, et al. 2006a), who discuss the issue and explicitly recommend the creation of a congressional budget office.

\textsuperscript{59} In an interview with Deputy Lozano conducted on August 3, 2009, he said about the Budget Committee that “the Budget Committee functions to provide an exit to the bill proposals that need resources for their implementation,” and then adds, “there is no institutionalized parliamentary routine.”

\textsuperscript{60} One of the figures distinguishing committees’ presidents from members is their higher degree of expertise (technical and/or political). Political parties usually put their most prominent men in charge of presidencies (which are the speakers of committees), due to their influence and negotiating power. Interviews conducted with a former public official in Buenos Aires, in 2009.
independence and respond directly to their constituencies. Legislators have low political control over others, and are subordinates of their political bosses. All the factors analyzed above contribute to this: the multiparty system, closed-party lists, low reelection rates, low degrees of specialization and professionalization, insufficient congressional technical organs, a lack of permanent staff, and legislators’ dependence on national and provincial political bosses.

In reality, several interviewees mentioned that when a budget proposal gets to Congress, it has already been discussed and agreed upon by many actors behind the scene, leaving little room for maneuvering. So, the changes to the budget proposal that are typically realized in Congress are mostly items planned beforehand – there are unregistered pre-negotiations among actors – or lines that may not be executed during the fiscal year. In the end, legislators devote little energy to developing policy expertise, influencing policy, or providing constituency services (Jones 2008, 72).

Governors maintain strong agenda-setting capacity derived from their non-concurrent electoral cycles, reelection rules which favor them and disadvantage legislators, federal fiscal agreements (tax-sharing law) and malapportionment, which tends to favor the less developed and less populous provinces under PJ control. That power resource is increased by their control over nomination of candidates and control over politicians’ careers, and other forms of clientelism. At the budget cycle level, governors can make use of their bargaining strength relative to the national executive (the president, the Ministry of Economy, and substantive ministries) to advance their agenda. The use of their national legislators is crucial during these negotiations, because the

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61 See the happiness list discussed in this Chapter.
62 Although this one is not an institution, but the product of combining institutional arrangements.
exchange of votes for a certain policy pushed by the executive is useful currency for obtaining more resources from the annual budget. Unfortunately, negotiations made in the dark and outside the formal channels, are terribly difficult to follow and measure. Nevertheless, the interviews conducted for this research have established the importance of these negotiations.

In national terms, comparing governors to the executive, and sometimes even to national congressmen, they are the least knowledgeable of all significant actors, often lacking a global and aggregated vision. In other terms, "provincial governors are crucial players in national politics and policymaking, but have only a secondary interest in national public goods (such as macroeconomic stability), in the quality of national policies, and in investing in institutions (such as a professional congress, or a stronger civil service) that might improve the quality of policies" (Spiller and Tommasi 2005, 56). The main interests of governors are federal fiscal arrangements; they are primarily focus on their province.

As Jones and others (2002; Jones and Hwang 2005a; 2008) assert repeatedly in their works on Argentina, politics in this country are done at the provincial level, and governors are key actors in political processes, at the municipal, provincial, and national levels of government. This may vary if a powerful president takes away some of governors’ control on informal institutions, as has been the case of Kirchner. In the case of Justicialist governors, their power is enlarged because of their more efficient use of resources in pork distribution to their long-standing clienteles, association with unions, and vote-buying, in comparison to the UCR governments, and because malapportionment magnifies their influence in the legislature (Calvo and Murillo 2005). As in the case of
the executive and congress, it is informal mechanisms that give governors the largest amount of political control over others (the executive branch, congressmen, political parties, etc). Specifically, a clientelistic form of control over nominations and political careers augments governors’ leverage at the provincial and national scenes. In Jones’ words, “the goals of the provincial-party bosses are best served by distributive policy, since their hold on power is based primarily on patronage, pork, and clientelism” (Jones 2008, 71).

In sum, Argentine presidents are formally strong actors that have increased their strength by controlling informal institutions both at the political system and budgetary system levels. The mix of formal and informal institutions also renders governors as powerful actors, but their power resources have changed over time. Legislators, on the other hand, do not effectively use the formal mechanisms with which they are provided to be a real counterbalance to the president. Moreover, informal institutions make them the least powerful actors of the three.

The next chapter delves into the presidential terms during the 1994 – 2006 period in Argentina and the corresponding changes on presidential control over the budget. It shows how control over some informal institutions has shifted hands, as the result of economic and political crises (the aftermath of the Mexican devaluation crisis of 1994, the recession beginning in 1998, and the 2001 turmoil in Argentina), the changing composition of congress, and the variations on party fragmentation.
<table>
<thead>
<tr>
<th>Actor</th>
<th>Formal Institutional Design (Macro / Political System)</th>
<th>Formal Institutional Design (Micro / Budget Process)</th>
<th>Relationships with Non-Governmental Actors</th>
<th>Informal Institutions (Macro / Political System)</th>
<th>Informal Institutions (Micro / Budget Process)</th>
<th>Resulting Power Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>- One consecutive reelection, non-consecutive ones - 4-year terms - Powers to: initiate legislation, introduction of budget proposal, use of ample emergency (DNUs) decrees, total and partial (line-item) veto, use of non-biding referenda, appointment of Chief of Cabinet</td>
<td>- Formulation of proposal - Total and partial veto - Distribution of trimestral quotas - Internal audit - High technical capacity and information production - Use of delegation of powers and Necessity and Urgency Decrees</td>
<td>Strong ties to political parties, unions, businesses, bureaucracy, and IFIs</td>
<td>Clientelism and Control over Nominations and Political Careers</td>
<td>Delegation of Powers and Use of data for Revenue Projections</td>
<td>Agenda-setting capacity: from high (before 1997) to medium (between 1997 and 1999), to low (from 1999 to 2001), to high again (from 2002 onwards) Information control: high Political control: from high (before 1997) to medium (from 1997 to 2001) and high (after 2001)</td>
</tr>
</tbody>
</table>

**Table 3.3. Actors' Power Resources in Argentina**
## CONT. TABLE 3.3. ACTORS’ POWER RESOURCES IN ARGENTINA

| Congress | - PR closed-lists  
- No term-limit consecutive reelection  
- Senate: 6-year term  
- Deputies: 4-year term  
- Override vetoes | - Both chambers need to approve revenues and expenditures  
- No congressional budget office  
- Faculties: analyze and amend the budget, review of public accounts | Strong ties to political parties, unions, and businesses | Closed relationship with clientelistic structures, as links between their political bosses and clienteles. Favored by their own clienteles, linked to their party’s clientelistic structure. Enhanced when legislators are from PJ.  
Nominations and career paths depend on their political bosses (the president, governors, and political parties’ leadership). | Agenda-setting: low  
Information control: low  
Political control: low |
|---|---|---|---|---|
| Governors | - Unlimited terms of reelection (depends on specific provincial electoral rules)  
- Control of economic resources  
- Dependence on federal transfers | - No legal role  
Strong ties to political parties, unions, businesses, provincial bureaucracy, and IFIs | Control of clientelistic structures at the provincial level, and at the national level through their parties. Enhanced if PJ controls governorships.  
Control on nominations and careers of their national legislators, even if their party is the same as the president’s party. | Agenda-setting: medium  
Information control: low at the national level  
Political control: high |

Source: author’s own elaboration.
CHAPTER 4. THE ARGENTINE BUDGET: THE INCREASING CONTROL OF THE NATIONAL EXECUTIVE

INTRODUCTION

The present chapter analyzes the Argentine budget process, following a contextual/historical rationale. I bring together and analyze three factors, introduced in Chapter 3, that have influenced each year’s budget approval to, in most cases, favor the president: the economic constraints, the political situation, and the various actors’ power resources. Based on budget data collected from 1994 to 2007, and on the interviews conducted, these three sets of variables will serve to explain changes in the president’s control over the budget. These changes are signaled by the overall behavior of annual expenditures, the degree of changes made in Congress to the executive’s budget proposal, the modifications made by the president to the approved budget during its execution, and the pace of the Congressional discussion of the budget proposal. The main explanatory variables that have been hypothesized to explain who controls the budget process are: economic stability, majority of the president’s party in Congress and degree of party discipline, the president’s party control of governorships, the capacity of each president to modify the budget during fiscal year, and the sum of a given actor’s power resources. The timeline is divided into three periods: Menem’s second term (1995-1999); De la Rúa’s government (1999-2001), the 2001 crisis and Duhalde’s interim presidency (2001-2003); and Kirchner’s administration (2003-2007).

Throughout the following pages, we see that Congress’ intervention in modifying the executive’s budget proposal has been weak, and ineffectual, that the practice of
delegation of powers to the executive has been steadily increased for adjusting current expenditures and its use of them, and legislators’ reactive attitudes taken toward agreements concluded between their political bosses: executives at the national and provincial level. I show that increasing presidential powers and control over public spending is favored by emergency situations and the corresponding use of emergency measures, a loyal majority in Congress, availability of resources in times economic growth, and agreements with governors.

Governors have been key actors for most of the time period analyzed, and although during Kirchner’s term they lost power, their strength continues to be relevant, and presidents need them in order to govern. For this reason a president who has the support of provincial governors is usually afforded more political stability and leeway. Governors have been taking the balancing role that Congress is supposed to fulfill vis à vis the executive. According to the literature (De Luca 2004; Eaton 2005; Jones and Hwang 2005a) and some of the interviewees, Peronist governors are the most influential provincial executives both with a PJ and a UCR president. The influence of governors is based on the clientelistic networks they control, on their control over nominations of candidates to Congress and their political careers, and on the higher territorial control of the country. Within this general framework, some nuance exists: a more disciplined party system (i.e. with Kirchner) makes them more dependent on the president’s will to give them more resources, while a more fragmented party situation enables governors to exert more pressure on the president (e.g., in the cases of Menem and De la Rúa.)

As explained in Chapter 3, legislators are generally responsive to their political bosses: the president and governors, who control greater power resources via both formal
and informal mechanisms. The three power resources addressed in Chapter 3 – agenda-setting capacity, control over information, and political control – can be enhanced by some contextual factors: if the president is a member of the Justicialist party or the UCR, if there is an expansive economic cycle, if the president’s party has a majority in Congress and party discipline is high, if he is supported by governors, and the president’s use of his capacity to unilaterally change the approved budget.

This chapter argues that during economic crises (the aftermath of the Mexican devaluation crisis of 1994, the recession beginning in 1998, and the 2001 turmoil in Argentina), and unified government situations with low party fragmentation, the president acquires higher degrees of influence in the budget process, leaving Congress as a mere rubberstamp body. But from those three factors (economic context, composition of congress, and party discipline), the first one is the least influential. A president can have a flourishing economy and exert control over the budget if the other two conditions are given (as in Kitchener’s case). The increment on the executive’s influence is shown by the variation of modifications to the budget during its implementation.

Following the works of Rodríguez and Bonvecchi (2006), Abuelafia, Berensztein, et al. (2005), and Uña (2006), this chapter is grounded in an academic discussion about the quality of budgetary institutions and processes, and the balance of powers reflected in them. A statement of theory on Argentine politics and public finances represents the starting point of this discussion: the sequels of Argentina’s political and economic instability and recurrent crises during the Twentieth Century can be found in the poor quality of its budgetary institutions (Alesina and Perotti 1995; Haggard and Kaufman 1995; Alesina, Hausmann, et al. 1996; Hausmann 1998; Sanguinetti 2002). The
adaptability of these institutions has been the result of a constant need to react to crises rather than follow a stable repetitive path during normal circumstances. Argentine institutions in general are categorized as weak (Levitsky and Murillo 2005a). Instead of a strong set of institutions that regulate and give stability to the budgetary process, Argentina’s are largely adaptable in problematic situations, reflecting a common tradeoff in public policy decisions: flexibility at the expense of stability (Haggard and McCubbins 2001; MacIntyre 2003).\(^1\) Path dependency has only reinforced these patterns (Levitsky and Murillo 2005b). Even at times when some efforts to professionalize the budget process have been made, reforms have ultimately been superseded by crisis situations, the imperative to respond to these crises with emergency measures and rapid changes, and a lack of long-term commitments to enforce and sustain viable regulations (Spiller and Tommasi 2007). These circumstances have been taken as windows of opportunity by the executive and governors to expand their powers.

This chapter begins with a brief account of how the economy has impacted expenditures during the period studied. Afterwards, three stages are briefly described: Carlos Menem’s second term (1995 – 1999), Fernando De la Rúa’s government and the subsequent crisis years presided by Eduardo Duhalde (1999 – 2003), and Néstor Kirchner’s administration (2003 – 2007). For each administration, I discuss the economic and political contexts within which changes to the legal framework regulating the budget process occurred. These historical episodes also include the annual budget processes and their characteristics. Within the budget cycles, I elaborate on the analysis of descriptive

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\(^1\) The core issue in “flexibility versus stability” in public policies is that the first allows for rapid change and adaptability to changing circumstances, while inhibiting durability, whereas the second one promotes continuity of policies while hindering the possibility of change when needed.
data that measures the changes from the budget proposal to the approved budget bill, on to the executed budget, and finally discuss the period of time that it took Congress to approve the budget. The conclusion brings together the main findings from the Argentine case; the hypotheses generated are tested in the conclusion of this dissertation.

THE ECONOMY AND ITS IMPACTS ON PUBLIC SPENDING

From 1994 to 2006, Argentina had a complicated economic trajectory with significant variations in terms of growth, inflation, and unemployment. As shown in Figure 4.1, in 1995, 1999, 2001 and 2002, the country experienced a significant drop in its annual GDP. These decreases were caused by the impacts of the December 1994 Mexican devaluation crisis (also known as the Tequila crisis), the recession that Argentina went through starting in 1998, and the economic debacle of 2001 and its aftermaths.
Together with the decline of the economy, we can see increases in unemployment rates, especially in 1995, and the 2001 – 2003 period. External debt increased steadily beginning in 1994, signaling the constant acquisition of debt by presidents Carlos Menem and Fernando de la Rúa, and a sharp uptick in the accumulation of debt during the 2001 – 2003 crisis. Inflation stayed stable due to the Convertibility Law (*Ley de Convertibilidad*) of 1991 that established the parity of the Argentine peso with the US dollar.\(^2\) Inflation rates rose rapidly after Argentina eliminated the convertibility regime and devalued the peso in 2002.

At the aggregated level, Figure 4.2 shows that executed expenditures included in the figures for annual budget growth as percentage of the GDP have been slightly greater

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\(^2\) The Convertibility Law was a monetary measure taken by the Minister of Economy, Domingo Cavallo, during Carlos Menem’s first presidency (1989-1999). It was one of the economic tools used to relieve the inflation crisis of Raul Alfonsín’s government (1983-1989).
during crisis situations and recession moments (1994 to 1996, and 1998 to 2003). During the last period (2003 to 2007) where GDP growth rate was maintained over 8 percent constantly, public spending rose steadily. Two explanations may account for this: the inflation of that period (which topped 8 percent in every year except 2004, according to official statistics), and the availability of funds from commodities revenue gave the Argentine government an important flow of resources. These two explanations are congruent with the economic policies of President Kirchner’s administration (2003 – 2007), in which public spending was increased and the government’s role in the economy expanded.3 (See Appendix V, Figure 1)

![Figure 4.2. Argentina’s Executed Budget Expenditures as Percentage of GDP and GDP Growth Rate, 1994 – 2007](image)

Source: data from the World Bank and the Ministry of Economy, author’s elaboration.

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3 Levitsky and Murillo explain this in a synthetic way: “Kirchner also pushed through a social-security reform that extended access to unemployed and informal-sector workers, thereby bringing more than a million new people into the system. Investment in public works increased more than fivefold under Kirchner, producing a major expansion in housing and infrastructure, while funding for public education and scientific research rose considerably” (2008, 17).
Overall, expenditures look fairly constant over time, even if we take out debt service and look at primary spending alone. Until 2003, expenditures increased in times of economic instability and low GDP growth. After 2003, with a steady GDP growth of more than 8 percent, public spending began increasing year after year. Although the spending level stays constant as a percentage of GDP, analysis of the amounts documented for each budget phase per year reveals some differences between years and sectors. In the following sections I center on each presidential term to look at how economic stability, political contexts, and actors’ power resources affect the budget, in the executive’s proposal, the approved bill, and the annual execution.

**ACCOUNTING FOR VARIATIONS IN THE EXECUTIVE’S BUDGET PROPOSAL AND THE BUDGET EXECUTION**

To show changes in presidential control over the budget process, I use three indicators: the changes introduced and approved by Congress to the executive’s budget proposal, the changes made by the executive during the budget implementation phase, and the number of days Congress took to pass the budget bill. The first indicator demonstrates the capacity of legislators to effectively influence public spending, the role that governors play, and the president’s strength to carry out his agenda. The second indicator shows the executive’s faculty to restructure and adjust budgets in the implementation phase. The third indicator should show yearly differences in the time required for negotiation of the budget inside Congress. An examination of each year’s budget cycle draws on existing analyses, news media coverage, and interviews. Two caveats must be mentioned: first, sources agree that considerable bargaining takes place
during the formulation stage of the budget, and that this is mainly done between the executive and governors in informal arenas; and, second, the possibility to amend the budget bill during its execution indicates that the approval phase is not even remotely definitive. The executive may introduce modifications to the implementation of the budget with the approval of legislators, although the executive usually does this unilaterally, and sometimes it is negotiated with governors and party leaders in Congress.

The budget varies over time in its overall amount, as well in allocation of resources to specific functions of the government. I account for those variations using three variables: the stability and growth of the economy, the political context of the country (composition of Congress and governorships, and parties’ fragmentation), and actors’ power resources (as described in Chapter 3).


President Menem first took office on July 8, 1989, in the middle of a high inflation crisis that led him to be inaugurated before the mandated date (elections were also called earlier than the stipulated date). He amended the Constitution in 1994 to shorten presidential terms to four years and to allow one consecutive reelection. He ran in 1995 again, winning with 44.9 percent of the votes. (See Appendix II, Table 1)

**Economic factors: from stability to the impacts of international crises**

During his second term, from 1995 to 1999, president Menem’s orthodox economic policy remained the same as under his first mandate. His term was marred by
strong allegations of corruption in the national and international media, while the impacts of the 1994 Mexican Tequila crisis were deeper than expected, and the beginning of a recession in the fourth quarter of 1998 ended the illusion of Argentina “becoming a part of the first world.”\textsuperscript{4} Argentina had exited a propitious macroeconomic situation based on the expansionary economic cycle and commodity prices.

Menem’s economic and fiscal policies had brought Argentina to a stable economic situation and a budgetary equilibrium (balanced budget), largely through the good effects of the Convertibility Law of 1991. The Convertibility Law lowered inflation indexes, combined with the liberalization of the economy.\textsuperscript{5} Also, the revaluation of the Argentine peso and its new stability gave the executive and congress new incentives to cooperate under a longer time horizon in terms of the budget. Both these actors, and the governors, agreed on the need to project to investors and IFIs the image of a country in better shape than in the preceding decade (Rodríguez and Bonvecchi 2006; Spiller and Tommasi 2007). Argentina’s good image served to attract more foreign investments and loans. But just before Menem was reelected in 1995, the devaluation of the Mexican peso of 1994 led to a recession during 1995 and 1996. Argentina’s GDP decreased in 1995 by 2.80 percent. While in 1996 it began to recover, and in 1997 reached almost 9 percent, by 1998 the effects of the Southeast Asia economic crisis were felt and GDP growth would not even reach 4 percent that year. A recession was declared and the two following years saw declines in GDP growth and an increase in unemployment.


\textsuperscript{5} One of the things achieved by the Convertibility Law was the prohibition of financing treasury disequilibrium (deficits) by issuing money without existing international reserves in the Central Bank. This lowered inflation and made the budget much more balanced in its formulation, approval, and execution.
While the external debt had risen from 34 percent of GDP in 1994 to 54 percent in 1999, the prices of commodities and agriculture had fallen, leaving the country with less capacity to collect revenue and a higher external debt to cover.

As should be clear, Argentina’s situation at the end of Menem’s administration was hardly optimal. During his years in government, starting in 1989, the public debt had increased by 123 percent, from US$ 65.3 to 146.2 billion, demonstrating the poor management of public resources, high levels of government corruption, and miscalculations of the privatizations and other economic measures. Unemployment rose from 9.3 percent in 1990 to 14.5 in 1999, with some years in that decade seeing unemployment at 18 percent.

**Political situation and actors’ power resources: from hegemony to fragmentation**

Since winning the presidency, Menem positioned himself as Peronism’s leader. He created significant ties with governors, who traded their support for prerogatives to regain control over economic and political resources, in constant *quid pro quo* negotiations.

In his second term, the power went back to the provinces (Eaton 2005). Governors, especially the ones from the president’s party (who held 58 percent of the provinces, see Table 3.2 in Chapter 3), increased their strength and power in the last years of Menem’s mandate. This is explained by two phenomena: first, the regional Peronist

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6 Although in 1999 Menem sought reelection, he failed because too many political and popular forces opposed his changing the Constitution again to seek a third term.

7 Source: INDEC.

8 In terms of the balance of powers, the president was highly criticized for turning the judiciary into a rubberstamp of his decisions (by introducing more members and appointing biased judges).
force, which had helped the executive to pass his legislation and maintain his economic policy through the bargaining of votes in congress and political support for resources (automatic transfers and pork distribution), turned against him in the recession, when he could no longer deliver extra resources to distribute to the provinces. At the same time the announcement of Peronist governor Eduardo Duhalde’s commitment to run for president in 1999 divided the PJ. Menem no longer appeared to be the PJ’s sole leader; governors gained strength, and augmented their boss-like capacities, beginning to cultivate their own Peronist currents and candidates for Congress, regardless of the president’s wishes. They gained much more influence in lobbying for more resources in the annual budget, partly because their power resources had been strengthened through clientelistic measures and the centralization, in their hands, of nomination procedures. The contracted economy played a fundamental role in others’ demands on the government, and the incapacity of the government to fulfill them. In a nutshell, the president was weakened while provincial governors were strengthened.

The PJ had turned into a center-right party under Menem’s leadership, and it was suffering from fragmentation (Rodríguez and Bonvecchi 2006, 123). Menem began to look to a second immediate reelection, and in the meantime the opposition parties united against that possibility, in favor of new economic and social policies to help counteract the economic recession, and in the interest of ending the PJ’s hegemony.

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9 Eduardo Duhalde became one of Peronism’s stronger leaders while governing the Province of Buenos Aires. He had served as vice president the first two years of Menem’s first term, before running for governor.
10 See Gibson and Calvo (2000) for a detailed description on the president’s use of discretionary funds for less developed provinces to assure Menem’s reforms. See Eaton on how power went back to provincial governors during Menem’s second mandate (Eaton 2005)
The re-alignment of political forces had created a new front against the PJ. The Alliance for Work, Education and Justice (Alianza para el Trabajo, la Educación, y la Justicia, popularly known as the Alianza), was the result of a political merger between the newly formed Frepaso party, Solidary Country Front (Frente País Solidario)\textsuperscript{11} and some candidates of the UCR. It obtained 37 percent of congressional seats in 1997, and together with other opposition parties held the majority of the Chamber. The Senate continued to be dominated by the PJ, which performed well in the 1995 and 1998 elections with 55.5 of the seats. The PJ has consistently had an absolute majority in the Senate between 1992 and 2007.

\textbf{Table 4.1. Composition of the Argentine Senate, 1992 - 2009}

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<thead>
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</thead>
<tbody>
<tr>
<td>Partido Justicialista (%)</td>
<td>58.3</td>
<td>55.5</td>
<td>55.5</td>
<td>56.9</td>
<td>55.5</td>
<td>56.9</td>
</tr>
<tr>
<td>Unión Cívica Radical (%)</td>
<td>22.9</td>
<td>29.2</td>
<td>30.6</td>
<td>30.6</td>
<td>29.2</td>
<td>18.1</td>
</tr>
<tr>
<td>Others (%)</td>
<td>18.8</td>
<td>15.3</td>
<td>13.9</td>
<td>12.5</td>
<td>15.3</td>
<td>25</td>
</tr>
<tr>
<td>Total number of seats</td>
<td>48</td>
<td>72</td>
<td>72</td>
<td>72</td>
<td>72</td>
<td>72</td>
</tr>
</tbody>
</table>


*Note: parties listed held at least 3 seats in at least one legislative period. From 1995-2001, two seats from Catamarca were never occupied because of a political dispute. For similar circumstances, from 2001-2003, a seat from the Capital Federal and a seat from Corrientes were never occupied. In 1992 the Senate grew from 46 to 48 members because of the creation of the province Tierra del Fuego. In 2001, the Senate election became biennial instead of triennial.

As can be shown in Tables 4.1 and 4.2, the beginning of Menem’s second presidential term was a period of hegemony, with a unified government situation in the years immediately following his inauguration (1995 – 1997). However, the Peronists went from having 51.4 percent of the seats in the Chamber of Deputies in 1995 to facing

\textsuperscript{11} The Frepaso was formed in 1994 by the Frente Grande, the PAIS (Política Abierta para la Integridad Social), the Unidad Socialista (which was formed by the two socialist parties: Socialista Popular and Socialista Democrático), and the Partido Demócrata Cristiano.
a great loss in the 1997 elections, only winning 39.4 percent of the seats up for election.\footnote{See the electoral rules for Congress described in Chapter 3. Data from the National Electoral Direction, Secretary of Institutional Affairs, Ministry of Interior of Argentina.}

This left the PJ with a total of 46.3 percent of the House’s seats for the 1997 – 1999 period.

**Table 4.2. Composition of the Chamber of Deputies, 1993 – 2007**

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</tr>
</thead>
<tbody>
<tr>
<td>Partido Justicialista (%)</td>
<td>48.2</td>
<td>51.4</td>
<td>46.3</td>
<td>38.9</td>
<td>44.4</td>
<td>47.5</td>
<td>57.9</td>
<td>59.5</td>
</tr>
<tr>
<td>Unión Cívica Radical (%)</td>
<td>32.3</td>
<td>26.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partidos de Centroderecha y Provinciales</td>
<td>10.9</td>
<td>8.9</td>
<td>10.9</td>
<td>12.8</td>
<td>10.9</td>
<td>10.5</td>
<td>8.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Partidos de Centroizquierda</td>
<td>5.8</td>
<td>1.2</td>
<td>8.6</td>
<td>8.6</td>
<td>13.2</td>
<td>12.1</td>
<td>9.3</td>
<td></td>
</tr>
<tr>
<td>Frepaso (%)</td>
<td>10.1</td>
<td></td>
<td>41.2</td>
<td>39.7</td>
<td>34.2</td>
<td></td>
<td></td>
<td>1.6</td>
</tr>
<tr>
<td>Alianza (%)</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>ARI (%)</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Others (%)</td>
<td>2.7</td>
<td>1.6</td>
<td>1.6</td>
<td></td>
<td>1.9</td>
<td>4.3</td>
<td>3.9</td>
<td>8.2</td>
</tr>
</tbody>
</table>

Source: National Electoral Direction, Secretary of Institutional Affairs, and Quantitative Data Bank Division of the Ministry of Interior, and Centro de Estudios Nueva Mayoría.

Notes: (1) The percentages listed are from the composition of September 2001, one year before the Alianza summed 47 percent of the seats. (2) Although the Lower Chamber has elections every two years to renew half of its seats, the 2001–2002 and 2002–2003 periods are divided due to the realignment of forces caused by the December 2001 crisis, and the breaking off the Alianza (UCR and Frepaso). (3) A fraction of Peronist legislators ran and got elected through a PJ dissident fraction in the 2003 election, accounting for 15 seats in the Chamber of Deputies that are counted within the Peronist party in this table.

Legislators either responded to the president or to their governors or political party’s bosses. With growing opposition, both inside and outside its political party, we should expect to see a decrease in President Menem’s control over the budget. As we will see, however, that did not occur as he managed to obtain the votes to pass his budget proposal unaltered.
Menem’s second term: unaltered executive’s budget proposals

During the 1995-1999 period, budget regulations went through a significant change. Law 24629 was reformed in 1996, giving Congress greater access to information and opportunities for meaningful participation in the budget. The most consequential of these reforms were the obligation of the executive branch to present to Congress quarterly reports on budget execution and a requirement for the presentation of a preliminary budget proposal no later than June 30. Still, these measures fell short of making Congress a genuinely stronger actor (Jones and Hwang 2005a). Starting with the approval of the 1995 budget, the executive was given special powers delegated by congress, increasing his authority to adjust and restructure spending during the fiscal year. Legislators, for their part, introduced some minor changes to the budget proposal during the period, but also created a new mechanism called the “happiness list” (*planilla de la felicidad*). The “happiness list” consists of public works that do not have a source of funding, but that receive funding if extra resources become available during the fiscal year. Legislators can then show these proposed projects to their constituencies as efforts to stand up for them and bring pork to their districts. The projects included in this list are public works, categorized as pork, and would, if completed, have direct impact on legislators’ districts and provinces. The happiness list also benefits governors with their constituencies, just as happens with legislators. Voters normally do not know that the items included in the happiness list had never had funds for their implementation, so their leaders (legislators and governors) can blame the federal government for not having

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13 More research is needed on the happiness list. Due to availability of information, this dissertation does not cover a detailed analysis on the subject, but generally the items included in the list do not get funding. See Chapter 3 for more information on the happiness list.
given the resources to their projects, thus gaining political capital in their districts. Governors or legislators who are loyal to the president receive support by the executive through this mechanism, guaranteeing in turn votes in favor of other laws.\textsuperscript{14}

Despite the political opposition to the president, at the aggregate level, there were almost no changes made to the budget proposal in Congress in 1995-1999. Figure 4.3 is a depiction of how the budget sent by the president to Congress has varied in the approval phase.

\textbf{F\textsc{igure} 4.3. Percentage of changes introduced to the Budget Proposal in Argentina, 1994 – 2007 (Total Requested Spending)}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure43.png}
\caption{Percentage of Changes introduced to the Budget Proposal, Argentina}
\end{figure}

Source: data from Budget Proposals sent to Congress and Approved Budget Bills, Ministry of Economy Library and ONP documents, author’s elaboration.

In the discussion of the 1994 budget, during 1993, the PJ had almost an absolute majority in the Chamber of Deputies (48.2 percent), and the agreements made with

provincial parties led to the approval of the budget bill with 0.0 percent of changes on the overall amount. At the program level, only the legislature’s budget and the budget for housing and urbanism were increased by 5 and 4.9 percents correspondingly, while some cuts were made to social assistance, communications, and other items. For the 1995 budget 0.2 percent of changes in money amount introduced by Congress in total spending were approved. The Budget Bill was passed before the Mexican crisis of December 1994, so in order to adjust to the financial repercussions of the “Tequila” crisis, Congress delegated special powers to the president in 1995 to adapt the budget to the changed circumstances.

Corresponding to the increased power of the president to adjust the budget during its execution, Congress made use of two mechanisms to find agreements and pass the budget with few changes in total spending: using the happiness list to placate their constituents while negotiating over a few carefully chosen budget items on a strategic basis. It was at this point that the majority of PJ legislators in Congress, and in the Budget Committee, created the previously discussed _planilla de la felicidad_ as one of the appendices to the bill.

Legislators managed to reorganize some items, but this does not necessarily correspond to their own initiatives; rather, these changes favored some legislators, but also certain governors, and some executive agencies.\(^1\) In the 1994 and 1995 fiscal years, some items included in the happiness list were passed, benefiting PJ legislators and provinces through fiscal credits for industrial promotion, and UCR legislators through

\(^1\) Some of the items that were modified along Menem’s second term were Congress expenses having yearly increases of over 3 percent, except for 1998, in which there were cuts, Health (9 percent in 1995), Social Assistance (18 percent in 1997), Agriculture (more than 30 percent both in 1996 and 1997), Housing and Urbanism, Energy (23 percent in 1997), and Industry (18 percent in 1997).
increased funds for health (an increase of 9 percent on science and technology, which UCR legislators typically supported). A pattern of increasing the items on the happiness list began to appear, regardless of whether those items would come to fruition or would only serve to convince voters that their representatives were making an effort to bring more resources. Line ministries lobbied for increased funding to social policy instruments (Rodríguez and Bonvecchi 2006). Infrastructure and tax credits for productive activities were negotiated between the national and provincial executives, and “legislators operated as guarantors of the agreements” (Rodríguez and Bonvecchi 2006, 119).

In the 1996 budget bill, a few minor changes were approved (increasing total spending 0.5 percent, increasing by almost 8 percent Congress’ spending, 17 percent science and technology, and agriculture by more than 30 percent.) These adjustments favored mainly legislators, as more money flowed to Congress, and governors, who benefited from spending on agriculture. The 1997 budget constitutes the only exception in Menem’s second term, having passed by the legislature with 2.3 percent of modifications. These changes correspond mainly to an agreement, signed between the executive and governors after the proposal had been sent to Congress, to increase social security and social assistance by a combined total of 22 percent (Abuelafia, Berensztein, et al. 2006). Also, some economic services items were increased by more than 15 percent each (energy, fuel, and mining; agriculture; and industry) by reducing spending on bonds, labor, water and services, commerce and tourism, and the environment. This budget reflects the increasing pressure applied by governors to the national government, as with
an economic growth of 5.5 percent in 1996 and 8.1 percent in 1997, all the changes to the budget were made to benefit the governors.

Delegation of special powers to the president continued in course of the 1996, 1997, and 1999 budgets, now incorporating articles in the bills to allow the president to adjust spending during the fiscal year of its execution. This occurred even though in 1996 and 1997 the economy had started to stabilize again. The executive justified asking for special powers and issuing Necessity and Urgency Decrees due to the need to adjust public spending to the new financing conditions established by the Southeast Asia crisis (Oviedo 1997; Rodríguez and Bonvecchi 2006; Uña 2006). This delegation of powers established the executive’s capacity to re-allocate funds within the total approved expenditures, always complying with Article 37 of the Financial Administration Law, and without decreasing debt service and treasury obligations.

When the budget was negotiated for 1998 and 1999, Menem’s party had lost the absolute majority in the Lower House. Nevertheless, Congress made no amendments to the executive’s budget proposal on the overall amounts, an outcome explained by the lack of resources due to the crisis, and concomitant economic austerity, faced by the country at that time, a reality that induced even congressional opposition to comply. In the 1998 budget negotiations, Congress agreed to reduce its own spending by -3.9 percent, which was increased again in the 1999 budget by almost 9 percent. Together with that increase, governors and legislators gained a 9.1 increase in housing spending, a fact explained by

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16 This Article specifies that only Congress can adjust the total approved budget expenditures, public debt, credit transfers between functions and finalities, and modifications between current costs and capital costs. 17 In 1996, the delegation of powers was included in Law 24629 passed in February. For the 1997, 1998, and 1999 cases, it was included in the budget bill as specific articles. See Article 29 of Budget Bill for 1997 (Law 24938), Article 16 of Budget Bill for 1998 (24764), and Articles 27 and 61 of the Budget Bill for 1999 (Law 25064).
the importance of an upcoming electoral year (1999). From 1994 to 1999, the UCR raised constant objections in debates over the president’s economic policies, but finally reached agreements with the PJ, without introducing significant changes. Menem’s term shows how the scarcity of resources or economic reality, trumps political shifts.

The year 2000 saw the last budget of Menem’s administration formulated and presented to Congress (although presidential elections took place in October of 1999 and by the date of approval, Fernando de la Rúa had already been inaugurated as president). It was approved with 0.0 percent of modifications in total spending, although some specific items were modified to secure the salaries of the legislature and governors, and their clienteles after Menem left office. Increases were made to Congress’ own budget (19 percent), and to labor, housing, water services, and energy and mining (by more than 30 percent). The deteriorated state of public finances in Argentina made President de la Rúa ask for a broader delegation of powers from Congress. This was effectively granted by legislators, removing the constraints on budget restructuring imposed by Article 37 of the Financial Administration Law, and authorizing the executive to “reduce expenses in the needed way to guarantee the fulfillment of the fiscal deficit limit established in Law 25152 on the Regulation of Public Resources Administration.”18 This was a step further in augmenting the president’s leeway while diminishing substantially the role of the legislature. In Rodríguez and Bonvecchi’s words, “the combined effect of the amplified delegation of powers and the budgetary balance mandate was the circumscription of Congress’ role to the previous legitimation of the executive’s decisions during the budget execution” (2006, 122). The approved budget depended on the executive’s decisions

18 See Article 20 of the Budget Bill for 2000 (Law 25237)
afterwards, which in light of his powers of amendment during the budget execution would be greater in 2000 than in 1999.

**FIGURE 4.4. CHANGES TO THE APPROVED BUDGET DURING ITS EXECUTION (TOTAL SPENDING), 1994 – 2007**

Figure 4.4 shows the changes to the Approved Budget during its execution on a yearly basis. Since the 1994 budget, public spending was modified year after year, in most of the cases by the executive, corroborating the importance of delegated powers, the use of special decrees, and the impacts of emergency situations. This renders the formal approval phase of the budget less important, confirming what several authors have agreed upon (Braun, Díaz Frers, et al. 2006b; Rodríguez and Bonvecchi 2006; Uña 2006; Spiller and Tommasi 2007; Abuelafia, Berensztein, et al. 2009), not only that the role of
Congress is minimal and reactive in Menem’s second term in office, but that negotiations over the budget are inevitably extended to the execution stage. Menem operated within a 5 percent band of adjustments. Surveying media coverage of this topic has led me to conclude that the extended bargaining takes place between governors and the executive, and legislators act as rubberstamps of their bosses, following their informal agreements.19

**Fernando De la Rúa’s interrupted presidency, the 2001 Crisis, and Eduardo Duhalde’s interim administration (1999 – 2003)**

The Alliance for Work, Education and Justice (*Alianza para el Trabajo, la Educación, y la Justicia*) won the 1999 presidential elections with 48.4 percent of votes cast, and 39.7 percent of the Lower Chamber seats. The composition of the Senate stayed practically the same (See Tables 4.1 and 4.2). Citizens’ expectations about the new administration quickly sank to despair as the new government, headed by Fernando de la Rúa (UCR) as president, and Carlos “Chacho” Álvarez (Frepaso) as vicepresident, could not manage the country’s unstable situation, leading to the December 2001 crisis.

**The inevitable crisis and getting back on track**

The Alianza’s failure can be attributed to four main reasons. First, the economy had fallen into a recession since 1998. Second, by continuing with the same inflexible economic policy - the fixed rate of the Argentine peso through the Convertibility Law, and the neoliberal measures that had a decade ago pulled the country out of another crisis

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19 See Uña (2006).
- the government had no tools to adapt to the new situation. Third, social needs like poverty and unemployment had grown significantly during the previous decade, and with an increased public debt and meager public finances, De la Rúa’s government was unable to make improvements and address the problems faced by Argentines. The fourth impediment was the lack of support that a non-Peronist president received from the still powerful Peronist provincial leaders. As Eaton puts it: "De la Rúa's inability to reach a deal with Peronist governors over the obligations of the federal government was a key sign of his inability to govern the country" (Eaton 2005, 108).

The Argentine economy contracted continuously in 1999, 2000, and 2001, registering a GDP growth of -3, -1, and -4 percent respectively. Unemployment rose from 14 percent in 1999 to 18 percent in 2001. The external debt continued to grow, reaching 62 percent of GDP. The only thing that remained static was inflation, due to the policies implemented in Menem’s first term that were still in force. To this picture, one can also add commodity prices: while oil and energy prices were increasing slightly, agriculture prices (wheat and soy in particular) had fallen, impacting the country’s exports and revenue sources.

The real crisis started one year after the Alianza took office. The uncertainty of the market and the lack of trust of IFIs and international investors prompted capital flight, only aggravating the instability. The economic turmoil and the inability of the government to ameliorate the harsh conditions finally triggered popular uprisings. In late

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20 The Alianza had been elected on a transparency and anti-corruption platform, so when a huge scandal of bribing legislators came into light, and the government did not address or investigate it, the vicepresident resigned. Argentina’s institutions where once again questioned both by the national and international community (Juri 2000; Krauss 2000).
21 Rumors of an imminent devaluation spread, along with the need to restructure the debt, and Argentina’s country risk began escalating. For a detailed explanation of the aftermath of Álvarez’s resignation, see Granovsky (2001).
2001, entering the fourth consecutive year of the recession, and with the government having implemented tight austerity measures that pinched the population severely, public demonstrations and riots against De la Rúa’s administration started, leading finally to his resignation.

In December 2001, the crisis was just starting. An interim president, Adolfo Rodríguez Saa, took office for a week, after which De la Rúa’s previous rival in the presidential election, the Peronist Eduardo Duhalde was named president. In 2002, GDP fell 11 percent. The government’s decision to abrogate the Convertibility Law that led the Argentine peso to devalue almost 70 percent was followed by a 25 percent inflation rate in 2002, and a corresponding growth of the external debt to 153 percent of GDP. Poverty also climbed from 38.3 percent of the population in October 2001 to 57.5 in the same month of the following year. Argentina was in the worst economic condition since the Debt Crisis of the 1980s, but the worst was past. Duhalde confirmed the default of most of the external debt, and the devaluation of the peso fostered exports, allowing industry and the wider economy to begin to recover. By 2003, GDP grew almost 9 percent, and an agreement with the International Monetary Fund to renegotiate the debt helped rehabilitate confidence in the government and the country.

The demise and reorganization of political forces

At the national level, party fragmentation defined this period in Argentine politics. After the vice president resigned in October 2000, the division of the Alianza, into its

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original constituent parties, the UCR and Frepaso, became obvious. This complicated the situation for De la Rúa, who could not even count on a stable contingent of legislators and governors from the alliance that brought him to power.

In the midterm October elections of 2001, the vote share for the Alianza fell. They only won 23 percent of the seats up for election, while the PJ won 37.4 percent. This left the PJ with a 44.4 percent of the seats in the Chamber of Deputies, while the Alianza held 34.2 percent. Null and blank votes were higher than ever, reaching 20 percent of the total vote. At the provincial level, the PJ increased its control from 58.3 percent during the 1995–1999 period, to 62.5 percent during the period from 1999 to 2003.

Levitsky and Murillo have maintained that De la Rúa never recovered from the 2001 electoral results, and public anxieties about the economic situation triggered a massive social mobilization with the slogan “throw them all out” (*que se vayan todos*) (Levitsky and Murillo 2003). Ultimately, the president resigned on December 20, 2001.

Things did not show immediate signs of improvement after De la Rúa’s resignation, as PJ political bosses quarreled among themselves over the presidential seat, further dividing the parties. By the last days of December 2001 governor Rodríguez Saá held the presidency on an interim basis, necessitating the selection of another president. A debt default and another social uprising marked Rodríguez Saá short role as president; he resigned on December 30. Congress selected Eduardo Duhalde on January 2002 but not without a significant division of Peronism, between Duhalde and former president

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23 See newspapers La Nación, Clarín, and Página 12, editions of October 6, 7, and 8, 2000.
24 It consisted on public rioting, *piqueteros*, and attacks to politicians on the streets.
25 After the government enforced a restriction on money withdrawal from banks, referred to as the “little pen” (*corralito*), uprisings and public demonstrations of discontent began, led in part by middle-class citizens who marched through the street banging pots and pans (*cacerolazos*). These demonstrations resulted in governmental acts of repression resulting in almost thirty deaths.
Menem, and also among different provincial governors. Duhalde was determined to reunify the PJ, partly against Menem, through the support of candidates that were not Menem’s allies (Rodríguez and Bonvecchi 2006; De Luca 2008).

The perceived lack of credibility of the government, political leaders, and all the political parties, aggravated the massive deficit of trust in democratic institutions. Political parties were discredited as they had demonstrated that "...new challenges actively exploited their [PJ’s and UCR’s] inability to adapt to the new political culture, which further discredited them both. Their reluctance to renovate their leadership in the face of corruption charges, their practice of financing their cadres with public funds, and their concentrated efforts toward self-interested political reproduction within their organizations all increased the gap between the parties and the new citizen demands" (Torre 2005, 173).

From 2002 to 2003, the composition of the Chamber of Deputies consisted of 47.5 percent of the seats for the PJ, 24.5 percent for the UCR, and the rest for small parties. The collapse of the convertibility regime and Menem’s economic policies, and the fall of De la Rúa’s government at the end of 2001, further increased the fragmentation of the party system (Torre 2005). The Alianza had been dismantled and the PJ was divided in a multiplicity of factions. Duhalde had to step down before the end of his term because of intense political pressure to call for elections on April 2003. In the run for president, Duhalde gave his support to the PJ candidate running against Menem, Néstor

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26 The governors of Buenos Aires, Córdoba, Santa Fe, San Luis, and Santa Cruz all wanted to be named as successors.
27 See Levitsky and Murillo (2003), who say that “The intensity of social protest and widespread perceptions of chaos triggered talk—for the first time in more than a decade—of military intervention.” (155).
28 As noted in Table 4.2, the 2001 – 2003 legislative period is in fact divided in two to show the re-accommodation of political forces generated after the crisis.
Kirchner, the governor of Santa Cruz, who would subsequently become president. What we see next is greater Congressional influence in modifying the executive’s budget proposal in 2002 and 2003, mainly as a consequence of the country’s instability.

The budget process: the reflection of an unstable Argentina

Congress approved a new law governing the budget and public finances in September 1999. The Fiscal Solvency Law (*Ley de Solvencia Fiscal*) stipulated the creation of a countercyclical fiscal fund and a pluriannual budget to render policy-making more stable, and to sustain economic and fiscal policies over time.\(^{29}\) The Fiscal Solvency Law aimed to regulate the payments of the external debt and to balance the national budget by 2003. It also established limits for the fiscal deficit and the growth of expenditures, and created transparency mechanisms. In short, this Law aimed for fiscal discipline and higher levels of control over public money. As shown by Abuelafia et al. (2005), in the first year the deficit limits did not hold, and by 2001 the annual budget bill even modified the targets and extended from 2003 to 2005 the date of when a balanced budget should be reached. The executive claimed to disregard the regulation because the state of public finances was too dire to achieve the Fiscal Solvency Law’s goals.

Although Menem introduced to Congress the budget proposal for 2000, and the legislative body approved it with no changes in the overall spending, it was the new president, De la Rúa who had to implement it. With the expanded delegation of powers that Congress gave to the executive in the 2000 budget, the president was empowered to

\(^{29}\) Law 25152 was approved before the October elections as an initiative sent to Congress by President Menem during 1998, but it first took effect during De la Rúa’s administration.
adjust the current budget. De la Rúa did make amendments to the budget, augmenting total spending on top of the 2.2 percent increase approved by Congress. A similar delegation of powers was included in the budget for 2001 approved by the legislature. The changes introduced to the proposal for the 2001 budget reached 1.2 percent (highly increasing items that favored the provinces: e.g., housing and urban planning by 10 percent, communications over 50 percent, transportation by 8 percent, agriculture by 18 percent), and the executive trimmed total expenditures by 7.6 percent during the execution phase, in an attempt to respond to the economic and financial situations (See Figure 4.4.). To reach that goal, the executive made cuts in many items, including some relevant to provinces, legislators, and the central government.

The budget passed for the 2002 fiscal year is a peculiar one. Only the budget text, without the specific tables containing resource distribution, was sent to Congress on September 2001, with these tables being sent only after the elections were held in October. The economic projections for revenues and expenditures were immediately criticized as unrealistic (GDP was expected to grow by 6 percent during 2002), with both the UCR and PJ deputies presenting their doubts in Congress. Nonetheless, analysis of the 2002 budget continued to be delayed, and a new budget proposal was only submitted for legislative approval in February of 2002, once Duhalde had come to power with a new government. The second adjusted proposal was approved and promulgated in March of that same year. This was the only occasion in which a budget, in the time frame analyzed, was not approved on schedule, due to special circumstances (See Appendix III, Table 1). For the first time in the period covered in this study, changes of 5.7 percent

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30 The executive cut most budget items in order to increase debt payments by 6.5 percent.
31 See Articles 19 and 93 of the Budget Bill for 2001 (Law 25401).
were made to the total requested expenditures. That budget was adjusted mainly in response to Argentina’s crisis and the rapidly changing economic conditions between February and March, so this should not imply that Congress is a proactive actor. Instead, the executive, in agreement with governors, decided on that adjustment in an attempt to ameliorate the financial and economic situation. Because the budget was approved in March, the changes during its implementation were only of a 0.5 percentage decrease, as shown in Figure 4.4. This budget also brought the executive back in line with the constraints on modifying the budget, which are stipulated in Article 37 of the Financial Administration Law.

By the 2003 budget, the powers delegated to the executive captured in the budget bill were reinstated, speaking to yet another emergency situation in a still unstable economy. Legislators continued to play only a marginal and ratifying role, and the relevance of the provincial arena was once again demonstrated. Throughout this period, and in the midst of a terrible crisis, in Eatons’ words, "in demanding the extension of the revenue guarantee, legislators even proposed giving the president additional discretion over the budget in order to make the necessary cuts that would enable the federal government to continue to meet its obligations to the provinces" (2005, 101). Delegation of powers also functioned as a coordination mechanism to articulate and organize the fragmented visions of a multiplicity of actors. The 2003 budget was the only one throughout the time frame covered in this dissertation to be reduced by Congress. A decrease of 6.7 percent was applied to the total spending in the budget proposal (See Figure 4.5).
The cuts introduced by Congress correspond to the economic turmoil of that year. Congress introduced the majority of changes (5.4 percent) in accordance with the executive to eliminate a discretionary fund for the next president. The rest, another 1.3 percent, was a reduction of debt service payments. In order to keep adjusting public finances, the executive made use of its delegated powers and cut an extra 8 percent during the implementation of the 2003 budget.

As we can see during this period in Argentina, economic turmoil, and the fragmentation of political parties seems to strengthen Congress, but even more so the
governors, when there is a PJ legislative majority. In a sense, the president needs the other two actors to weather the storm.

Néstor Kirchner’s administration (2003 – 2007)

The 2003 elections took place in April. The two Peronist candidates were the front-runners, Kirchner and Menem. Néstor Kirchner, Duhalde’s candidate, was elected president with only 22.2 percent of the vote. He was able to skip the runoff election because in the first electoral round Carlos Menem (who had won 24 percent of the votes) resigned his candidacy. Those elections were a demonstration of the resurgent strength of Peronism (Levitsky and Murillo 2003). Although the PJ was divided, it effectively trampled all other political forces, with Peronist candidates finishing first and second in the election.

Some scholars compare Menem’s first years to Kirchner’s term, although with quite different ideological and policy preferences: the accumulation of power in the executive, the implementation of abrupt and controversial public policies, and the rapid rise to the heights of popular support are some of the shared characteristics of these two presidents (Levitsky and Murillo 2005a). Also, Kirchner’s term was characterized by the loss of strength of provincial governors, and the realignment of legislators towards the executive’s preferences and decisions.

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33 Both main runners, Menem and Kirchner, were Peronists, but they ran in alliances with different Peronist factions and political associations. This election confirmed what was already suspected to be true of the PJ: its changing discipline, and the lack of sustainable intraparty rules and procedures. The nomination process was a disaster, an open power struggle that ended with the resolution to let three candidates run for the presidential post.
Reaching and sustaining economic growth

The economic good fortunes of Kirchner’s presidency were based on export-led growth. GPD grew at an average of 8.8 percent per year during the 2003 – 2007 period. Soybean, wheat, oil and energy prices rose significantly, and with the help of a competitive Argentine peso exchange rate, the country reported significant increases in its exports. (See Figure 4.1 in this chapter, and Figure 1, Appendix V.) Private consumption increased, and unemployment (8.5 percent in 2007), and poverty rates (which fell from 50 to 27 percent in 2007) were ameliorated.

The president augmented public spending, focusing on social and economic services (especially housing, social assistance, education, and infrastructure and transports). On the negative side, however, prices began to rise again, and inflation rates were not controlled. The government opted to manipulate statistics: its report on inflation was 13.4 percent for 2003, 4.4 percent for 2004, 9.6 percent for 2005, 10.9 percent for 2006, and 8.8 percent for 2007. At the end of 2006, lack of credibility of the INDEC’s (National Statistics and Census Institute)\(^{34}\) numbers led IFIs, academic institutions, and consulting firms to investigate and create their own inflation indexes, which have all been consistently higher than those given by INDEC. Starting in 2007 and subsequent years, inflation as estimated by the private sector has reached 25 percent.\(^{35}\) Inflation’s impact on Argentina’s international competitiveness was limited by favorable currency conditions and high commodity prices, but the increasing cost of living began to be obvious to the Argentine people (Levitsky and Murillo 2008, 27). Primary spending (expenditures

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\(^{34}\) As noted in Chapter 3, the INDEC (Instituto Nacional de Estadística y Censo) is the governmental agency in charge of economic statistics. It has been largely criticized by IFIs and Argentine universities and private consulting firms on the data that they have been announcing.

\(^{35}\) See http://www.economist.com/node/21548229
without debt service) also increased, part of which is explained by the rise of inflation, but also by the increase in expenses as a governmental policy. While expenditures accounted for 13 percent of GDP for the 2004 budget, they rose to 14.1 percent of GDP for the next budget, and 15.4 percent of GDP for 2007. Kirchner’s reluctance to acknowledge or to accept the dangers posed by increasing inflation meant that his budgets did not reflect inflation data when macroeconomic projections were factored into the budget.\footnote{Although more problematic inflation (over 25 percent) was detected in 2007, this analysis reaches only to 2006. Nevertheless, proposed expenditures did not show the exact increase ratio of high inflation, for two reasons: first, the government spends too much time and effort hiding the true extent of inflation in Argentina from citizens, to publicly assume acknowledge it in the annual budget projections; and second, to make expenditure calculations based on real inflation rates would send disturbing signals to national and international markets and aggravate the situation further.}

At the same time that INDEC was publishing dubious numbers on inflation rates, the government also manipulated economic data for revenue projections, creating a “cushion” with which to expand spending during budget implementation. Table 4.3 shows the projected GDP growth by the government in its budget proposal, and the real GDP growth for 1994 - 2007.

**Table 4.3. Projected and real GDP growth in Argentina, 1994 – 2007**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PROJECTED GDP GROWTH (%)</th>
<th>REAL GDP GROWTH (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>6.5</td>
<td>5.8</td>
</tr>
<tr>
<td>1995</td>
<td>6.5</td>
<td>-2.8</td>
</tr>
<tr>
<td>1996</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
<td>1997</td>
<td>5.0</td>
<td>8.1</td>
</tr>
<tr>
<td>1998</td>
<td>5.8</td>
<td>3.9</td>
</tr>
<tr>
<td>1999</td>
<td>4.8</td>
<td>-3.4</td>
</tr>
<tr>
<td>2000</td>
<td>3.5</td>
<td>-0.8</td>
</tr>
<tr>
<td>2001</td>
<td>3.7</td>
<td>-4.4</td>
</tr>
<tr>
<td>2002</td>
<td>-4.9</td>
<td>-10.9</td>
</tr>
<tr>
<td>2003</td>
<td>3.0</td>
<td>8.8</td>
</tr>
<tr>
<td>2004</td>
<td>4.0</td>
<td>9.0</td>
</tr>
<tr>
<td>2005</td>
<td>4.0</td>
<td>9.2</td>
</tr>
<tr>
<td>2006</td>
<td>4.0</td>
<td>8.5</td>
</tr>
<tr>
<td>2007</td>
<td>4.0</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Source: Budget proposals and World Bank Database.
Starting in 2003, a trend emerges: GDP growth was systematically underestimated, generating extra resources to distribute along the years. The president used these resources discretionarily as a tool to guarantee other actors’ compliance. Another issue was public debt, which, despite decreasing since the 2001 – 2002 crisis, still stood at 50 percent of GDP, as high as when the recession of 1998 started. On the balance, though, the Argentine state had, once again, resources to distribute.

Return to Peronist Hegemony

The elections of April 2003 showed the continued strength of the PJ, even fragmented, and the breakdown of the UCR (Calvo and Murillo 2005), and the composition of Congress during the 2003 – 2007 period confirmed what was happening to the parties, and the strength acquired by Peronism. The PJ had 57.9 percent of the Deputies seats from 2003 to 2005, and it went up to 59.5 percent during the 2005 – 2007 period. Opposition parties had little representation in the Lower Chamber. The UCR had its lowest percentage of votes since the return of democracy in 1983, accounting for 17.9 percent of seats after the 2003 election, and declining by more than two percentage points by 2007. 37 The dominance of the Peronist Party was also evident in the provinces, with 66.7 of the governorships controlled by that party. 38

37 See the description made by Levitsky and Murillo about the re-composition of the political party system, the dismay of the leftist parties, and the re-accommodation of their leaders within the political realm, as well as the fractioning of PJ (Levitsky and Murillo 2003, 156).
38 The PJ had not controlled so many provincial governments since the early 1990s. See Table 3.2 in Chapter 3.
A small fraction had separated from the PJ, following the secession of former governor and temporary president Adolfo Rodríguez Saá. From the UCR, formerly allied to the Frepaso, fractions from the right split in favor of a former Ministry of Economy, Ricardo López Murphy; while others on the left supported a former deputy, Elisa Carrió.

The president’s ability to find allies was also reflected in a particular phenomenon, as the fragmentation of political parties favored his political maneuvers to gain support from different politicians. Notwithstanding the competition for the presidency among the PJ’s leaders and contenders in the 2003 elections, after Kirchner took office he began creating a united front. Levitsky and Murillo underline that under his presidency, five of the six provinces governed by the UCR rejected the Radical leadership and backed the new national government, earning the label *K Radicals (Radicales K)* (2008). Bearing in mind the relevance of provincial governors in policy making and the control they have over nominations and political careers of legislators, this translated to key support for Kirchner in Congress.

In sum, "... after breaking with Duhalde, Kirchner was still backed by Duhalde's supporters in the Peronist landslide victory in the legislative elections of 2005, thus establishing Kirchner as the undisputed new leader of the Peronists. Ultimately, pragmatism and opportunism combined with the fluidity in the structure of the PJ allowed this almost immediate transfer of personal loyalties from one leader to another" (De Luca 2008, 211).

Holding the leadership of the PJ and the presidency of the country, with a favorable economic context and liquidity to distribute resources to the provincial and local arenas, Kirchner returned to a situation reminiscent of Menem’s first term: he
concentrated power resources *vis à vis* the provinces. But the strength of Argentine governors as political bosses has always been such that even powerful presidents like Menem and Kirchner have to negotiate with them (Levitsky and Murillo 2008). During this term, the governors’ dependence on public resources and transfers increased.

Finally, Argentines perceived Kirchner as the president that was fighting the battles others had failed to fight (i.e., Menem and De la Rúa), not only in the economic realm, but also in the political and social ones. His approval ratings went up to 75 percent after he confronted the military, imposed price controls, and stood up to the IMF when renegotiating the debt payments. Proof of the president’s approval lay in his electoral victory of 2005 and the subsequent victory of his wife, Cristina Fernández de Kirchner, as president in 2007.39

**The budget: explaining changes to the approved budget bill**

Even if macroeconomic indicators started to stabilize, and GDP growth resumed, the Argentine state continued to announce emergency situations throughout 2003 – 2006. The budgets in those years were all formulated, negotiated, and implemented as if the economic situation was the same as 2001–2002, with the key difference of more flourishing revenue resources to distribute, enhanced by a continuous, deliberate,  

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39 For the news media coverage see http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aFHs6wHOB6JI&refer=latin_america, and the explanation given by Levitsky and Murillo: “Whereas de la Rúa appeared constrained to the point of paralysis, Kirchner sought to expand the government’s (real or perceived) room for maneuver by launching high-profile battles against the very entities that were seen to constrain his predecessors: the military, the IMF, bondholders, and foreign and domestic capitalists. Although the economic merits of some of these initiatives (such as price controls or paying off the IMF debt in full) were open to question, the political consequences were clear and important: Argentines perceived their government as having responded to public demands, and consequently their support for Kirchner, optimism about the future, and support for democracy all rose considerably.” (2008, 22)
underestimation of economic projections, as shown in Table 4.3. Kirchner used his extra power to distribute resources and gain more supporters, while relegating those who were against him. According to that, three of the interviewees said that beginning in 2003, the budget process was characterized by the underestimation of resources, the delegated authority to the executive, and the discretionary allocation of resources, and multiple newspapers and magazines agree with this account.40

Congress passed the budget for the fiscal year of 2004 with no modifications and included in the draft an explicit delegation of powers. The media saw this as the first triumph for the new president.41 The executive increased total spending during the fiscal year by 7.6 percent. These increases were attributed to the underestimation of macroeconomic indicators, particularly the calculation of 4 percent GDP growth for 2004.

With the budget process for 2004, a new trend began: Congress approved budget bills with almost no changes (both in the overall amounts and in the specific items) from the executive’s proposal throughout 2004-2007, surpassing the honeymoon situation that Menem had experienced during his best years. Meanwhile, significant increases were made to the approved budget bills during their execution (See Figure 4.4). The executive significantly increased spending in the implementation of the budget, by 7.6 percent in 2004, 12.0 percent in 2005, 13.0 percent in 2006, and 17.4 percent in 2007. To illustrate in a more disaggregated level, Figures 4.6 and 4.7 show the changes introduced by Congress to the president’s budget proposals and the changes between the approved budgets and the actual execution of public spending, by purpose (government

40 Interviews conducted with Juan José Llach, Oscar Cetrángolo, and Claudio Lozano, in Buenos Aires, in 2009.
administration, defense and security services, social services, economic services, and public debt.

**FIGURE 4.6. CHANGES MADE TO THE EXECUTIVE’S BUDGET PROPOSAL, BY FINALITY (1994 – 2007)**

Source: Data from the Budget Proposals and the Approved Budget Bills, author’s own elaboration.

**FIGURE 4.7. CHANGES MADE TO THE APPROVED BUDGETS, BY FINALITY (1994 – 2007)**

Source: Data from the Approved Budget Bills and the Executed Budgets (Public Accounts), author’s own elaboration.
Three main factors account for this new trend in budgetary politics. First, the recurrent underestimation of GDP growth, and therefore of revenue growth, generated extra available resources to be distributed during the fiscal year by the executive. In all the budget proposals for those years, the projected growth rate was around 4 percent, while Argentina grew at 9 percent annually.

Second, the executive, via the Chief of Cabinet, received an ample delegation of powers contained in the budget bills of 2004 and 2005, without abiding by the spirit of Article 37 of the Financial Administration Law.\(^{42}\) Opposition parties in Congress systematically criticized and voted against these measures, but the Peronist majority was sufficient to pass them over these objections. Also, for the 2004 budget, some UCR legislators left the floor of Congress before the voting process began: this was interpreted by analysts and reporters as the sign of an agreement between the president’s party and the Radicals, to facilitate the incorporation of delegated powers without actually voting in favor of them.\(^{43}\) The 2006 budget did not give the executive special delegated powers. By then, not only UCR legislators but PJ deputies as well opposed the measure, arguing that the emergency period of the country had passed and that the executive had acquired significant discretion. Nevertheless, in August 2006 the political capital accumulated since the beginning of Kirchner’s administration was used in getting the Congress to pass the so-called Superpowers Law with 134 votes in favor and 91 opposed. This law is actually a modification to Article 37 of the Fiscal Administration Law, giving permanent


discretionary faculties to the Chief of Cabinet to modify expenditures without the need of approval by congress. Specifically, the executive can restructure resource allocations, transferring them from one function to another, from current expenditures to capital costs, and from one agency to the other. The only faculties reserved to congress are the modification of total spending amounts, debt payments, and security and intelligence resources. This can be seen as the formalization of a process ongoing since 1999: the delegation of special powers to the executive. After this law was passed, the executive used this new legal framework to accommodate and adjust the budget and to distribute additional resources generated by “unanticipated” revenue increase. This mechanism eliminated the need to incorporate explicit delegation of powers in the budget bills of 2006 and 2007, because the expanded faculties had been made permanent. After the passage of the 2006 reform, the executive began using more administrative decisions and decrees to introduce changes to the current budgets, and relied on fewer Necessity and Urgency Decrees (DNUs) than the years before.

Third, in the 2004-2007 budgets, the happiness list was the mechanism through which the PJ coordinated all of its members’ and allies’ preferences to negotiate and pass the budget bill. To this was added the incorporation of some public works, previously included in the list, into the core budget’s articles in order to secure them against future reductions in funding. The president continuously vetoed these articles, and very few received pushback from Congress, again demonstrating the use of the list as a signaling mechanism from legislators to their constituency. Rodríguez and Bonvecchi (2006) mention that even when the executive increased its discretion in the allocation of resources, the happiness list continued to work as a cooperation mechanism between
legislators and the executive because the electoral connection (Mayhew 2004a) does not end. Provincial governors can carry out transactions with the national executive in honoring the happiness list’s promises in exchange for votes and their legislators’ passiveness in Congress (Rodríguez and Bonvecchi 2006, 126).

In sum, Kirchner’s administration marks the return of a hegemonic government, one that not only could count on the agreements made with PJ’s provincial leaders and their legislators, but also with some of the opposition governors. The once-again diminished role of Congress is illustrated by its almost non-existent influence during the budget approval process, and through the three factors noted in the paragraphs above.

I turn now to consider the amount of time devoted by Congress to the consideration of the proposed budget. Figure 4.8 shows the number of days devoted to congressional determination of the budget and the percentage of changes enacted.\footnote{For further details on the budget bills from 1994 to 2007, see Table 1, Appendix III.}
Figure 4.8 shows that longer time analyzing and discussing the budget in Congress might be caused by inefficiency, or that legislators may let time pass while adjustments to be incorporated to the budget are being made by other actors. What is noted is that there is no direct relationship between the number of days that the budget proposal stays in congress, and the percentage of changes to it.
Although through the *Coparticipation Law* a lot of resources are directly transferred to the provinces without being included in the budget, there are some budget items that are executed in the provinces, like housing and urban development, communications and transportation, agriculture, and industry. These expenditure items constitute either public works or investments that benefit the provincial sphere through spending agreements with central government ministries.

No public data on the governors’ negotiations over the budget is available, but interviews serve as sources to account for the governors’ role in the allocation of public resources. Putting together the interviewees’ comments and the existing literature, we can say that governors conduct negotiations directly or through their legislators. Governors ask for extra resources to the line ministries, the Mecon, the Chief of Cabinet, or directly to the president, while legislators enforce those negotiations. Governors exchange their legislators’ votes on future or pending issues and exchange their own support to the president’s policies while augmenting the pork received in the province. They are even willing to delegate powers to the president in order to guarantee more money for their provinces.

PJ governors are normally the most influential because of their greater political control of the provinces, the traditional alliance with unions and clienteles, and the overrepresentation of less populous (PJ) provinces in the national Congress.

In Argentina, governors went from being very strong actors in Menem’s second term, to losing some of that power to the president in Kirchner’s administration. Provincial executives see their influence over the budget diminished when resources are abundant and when the president has a strong political support.

The 1995 to 2003 budget processes show that in times of economic difficulties, with weak discipline in the president’s party, and a growing opposition, governors can push for more resources. Contrary to that, the budget processes during Kirchner’s term reveals that a flourishing economy, high party discipline, and a disarticulated opposition give greater leeway to the president.
CONCLUSIONS

This chapter illustrated the evolution of arrangements in which Argentina’s executive branch has increased its control over the budget process at the expense of Congress. That control was partly based on presidents’ relationships with governors. These ties can be either of support or subordination, depending on the president’s political party, parties’ fragmentation, and availability of resources, with abundance giving more power to the executive and scarcity making it constrain its resources and corresponding distribution. But the key arena where the struggle for control of the budget plays out is in Congress, and it is here that presidential dominance manifested itself: with the exception of the 2002 and 2003 budgets (post crisis years), Congress rarely introduced modifications to the budget proposal sent by the executive. Three main reasons explain the legislature’s failure to assert its constitutional prerogatives: economic constraints, political contexts, electoral rules, and the president’s power resources.

Most of the years treated in this dissertation were characterized by unfavorable economic situations. In 1995 and 1996, Argentina suffered constraints as result of the Mexican devaluation crisis of December 1994, and faced a drop in GDP and a recessionary period; in 1998 the country entered a recession again, with its credit drying up, leading to the economic and political debacle of 2001 – 2002. Only in 2003 did the economy begin to stabilize, and finally in 2004 Argentina began a favorable economic period of continued growth, which was maintained throughout Kirchner’s administration. While during Menem’s second term and De la Rúa’s short government inflation rates were low (constrained by the Convertibility Law), GDP fell continuously. Contrary to
that, Kirchner’s administration had a favorable annual GDP growth of more than 8 percent on average, but inflation rates were persistently high.

Argentina’s booming economy in the years after Kirchner came to power gave the executive a bigger bag of resources to distribute. These side-payments were mainly carried out as discretionary agreements with provincial governors, as the government manufactured budget surpluses by strategically underestimating resources after 2003, and subsequently allocating the “surplus” through the delegated powers given by Congress and Necessity and Urgency Decrees (DNUs) during the fiscal year. Only the budgets of the crisis years represent increases of more than 5 percent, but as I have noted, these responded to rapidly changing circumstances and were carried out in collaboration with the governors.

Inside the executive branch, some interviewees mention that in times of economic recession the executive agency that augments its power most is the Ministry of Economy. In expansionary times, as with president Kirchner, the Chief of Cabinet becomes more relevant. This is a function of the availability of resources and the latitude to take more political decisions around their distribution, as opposed to the often necessary constraints imposed by the Ministry of Economy during difficult economic times.

We have seen how having a majority in Congress normally helps the president to pass his budget proposal without changes. But we also see that this is only possible under certain circumstances: a low degree of party fragmentation and availability of funds. Formal electoral institutions, specifically having a proportional representation (PR)

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45 As mentioned by an interviewee that preferred to remain unknown, the bag of resources was agreed upon and planned before the submission of the budget proposal to Congress, so any redistributions made were under the Ministry of Economy’s supervision.
46 Interviews with Former Minister Marcos Makón, and another interviewee who preferred to remain unknown.
system with closed ballots, reinforce party discipline. Availability of resources helps maintain party discipline by virtue of having more pork to distribute and sustain political support.

Menem’s and Kirchner’s actions in office were similar in certain respects. Both diminished the role of Congress and accumulated high levels of discretion and control of public expenditures. But Menem governed his second term with a divided PJ and strong governors, while Kirchner formed a united front that not only included the Peronists but also some Radicals, and weaker left-wing governors. This feat seems to have allowed Kirchner to maintain his hold on delegated powers; first, by writing them into the budget law (as did Menem, De la Rua, and Duhalde), and then by making them permanent with the Superpowers Law.

We saw in the previous chapter how the president and legislators have agenda-setting capacity when it comes to the budget process. Legal dispositions encompassing the budget are strictly adhered to in terms of timing (except in the 2002 budget), and the bills are in fact well structured, giving the executive (especially the Ministry of Economy) and Congress (especially the Chamber of Deputies) an explicit framework and an ample schedule within which to act. On paper, although formulation and execution are mostly dominated by the executive branch, the approval stage and, to a certain extent, the audit, should be dominated by Congress. In this chapter we have seen that there is no causal relation between the time Congress takes to approve the budget and the number of modifications introduced into it. This reflects two things: that significant negotiations take place throughout the formulation of the budget, and that Congress’ influence is not relevant for the ultimate approval of the budget. Governors have less agenda-setting
power, mainly because they do not have the legal standing, although they can persuade the president or their national legislators to influence the timing of the budget process. Agreements made between the executive and governors, though informal, are the true guidelines of negotiations.

Control of information is centralized in the executive branch, again in the Ministry of Economy. The executive’s technical capacities enhance the information asymmetries between that branch of government and the legislature. The lack of a congressional budget office also makes the legislature a weaker actor, obliged to rely mainly on the information and political lines that their bosses give them.

Finally, political control is concentrated in the national and provincial executives. This is true not only for the formal arrangements regulating the Argentine political and budgetary systems, but also for the control of clientelistic practices, nomination of candidates and influence over politicians’ careers that the national and provincial executives hold as political bosses. The excessive use of DNU’s and delegation of powers in contravention of the spirit of these institutions as emergency measures, and the habitual tactical underestimation of macroeconomic projections, give the executive branch a disproportionate degree of power in terms of determining public spending. The use of DNU’s to bypass Congress (Ferreira Rubio and Goretti 1998) is the most striking example of the delegation of power by provincial leaders, via Congress, to the president (Jones and Hwang 2005a, 116).

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47 As noted previously, Argentina’s formal arrangements tend to make the entire system prone to low reelection rates and low professionalism throughout, while also inducing a high turn-over in Congress.
Legislators act more as political tools, and guarantors of agreements between the national executive and governors (their party bosses), than as independent actors; they lack political resources and are typically not responsive to their constituency. In other words, “the principal role of these legislators is to provide the votes on the floor (and in committee) that the provincial-party bosses employ as a form of currency in their constant negotiation with the national executive branch designed to obtain the maximum amount of resource transfers to their province” (Jones 2008, 75).

At the micro-level, some findings are also relevant. In the interviews conducted, all of the interviewees were asked the following question: what are the most debated and important topics within the budget? They gave answers that were dominated by the following topics: external debt, education, transports, communications, infrastructure, social assistance, social security, water and energy, and bonds. After analyzing each year’s budget, by function (governmental administration, defense and security, social services, economic services, and public debt), and their corresponding functions, I found that only the sections dealing with communications, public works, infrastructure, social assistance, and bonds, have undergone significant modifications in more than 5 years of the 14-year period, but due to the changing economic and political circumstances of the country, no real pattern has arisen yet.

This makes a certain degree of sense in that external debt, education spending, and social security funds are to a large degree mandated and fixed by law, so the money allocated to these areas is only discussed in special circumstances (crisis years).

In sum, the president’s growing power signals that although Argentina continues to have a democratic political system (electorally speaking), its delegative (O'Donnell
1994) nature is notorious. As was discussed in the two chapters on Argentina, delegative democracy has deepened; from 1994 to 2006, we see an increasing unbalance of powers and a largely dysfunctional system of checks and balances, and the centralization of the control over informal institutions in the executive. The budget process provides a clear example of this trend.

The next two chapters address the Mexican case, and follow a similar logic of organization to the one followed in Chapters 3 and 4. In those chapters, it will be illustrated how Mexico has gone through an opposite path than that from Argentina in terms of the budget process and the political system.
CHAPTER 5. MEXICO: INSTITUTIONAL CONTEXT

INTRODUCTION

This chapter analyzes the formal and informal institutions shaping the Mexican political system (macro-level) and budget process (micro-level), as well as the roles played by the president, legislators, and governors within them. Delineating the formal or legal framework – powers and configuration of the executive branch, Congress, and governors, electoral rules and cycles, party system, federal arrangements, and fiscal and budgetary regulations – is insufficient to draw an accurate picture of Mexican politics and policy-making processes. The informal institutions within the political system – clientelism, and nomination of candidates and control over legislators’ careers –, and the informal institutions within the budget process – delegation of powers and tactical use of economic data for revenue projections – can increase or decrease the powers that actors hold. In combination with formal arrangements, informal mechanisms impact the configuration of actors’ power resources – agenda-setting capacity, information control, and political control – which ultimately impact the workings of the budget process and the relationships among actors.

Under the formal rules of Mexico’s 1917 Constitution, the president has not been a powerful actor vis à vis Congress. What truly gave the president the upper hand compared to Congress was the existence of broad meta-constitutional powers (Weldon
produced by a government unified under PRI hegemony. Beginning in 1994, certain institutional modifications began to be introduced, which has caused some of the president’s informal powers to disappear while others have been decentralized to the provinces. These changes were produced by the opening and liberalization of the political and economic systems, followed by the Tequila Crisis of 1994 and a gradual process of transition toward democracy, which in turn led to higher political pluralism, divided government situations, and more controls on the executive in terms of budget-making. Mexican political change has followed a relatively linear democratization of elections and balancing the distribution of power among branches of government. When the PRI lost its majority in the Chamber of Deputies in 1997, followed by the loss of the presidency in 2000, effectively putting an end to the exercise of meta-constitutional informal powers vested in the executive, the discussion became about what type of democratic regime was going to follow, and if the legislature was going to consolidate the strength and power that had slowly begun acquiring since the 1980s. The following chapters on Mexico speak to this debate, with analysis of the budget arena affording considerable insight into the post-2000 reconfiguration of the balance of powers between branches of government.

1 Meta-constitutional powers, in the study of the Mexican political system are described as: hegemonic control of one party (PRI), the president as the head of the party, the recurring mechanism for selecting the next president, high party discipline, and the control of unions and other social actors. See Weldon (2002) and Langston (2006)
2 Since the beginning of PRI rule in 1917, the party maintained hegemonic rule with an absolute majority of seats in both Chambers of Congress until 1997.
3 As explained above, I use the term divided government situation to describe circumstances in which one party controls the executive, and another (or others) control one or two chambers of Congress. Contrary to that, a unified government situation describes a political setting in which the president’s party has a majority of seats in Congress.
4 The contextual factors and circumstances will be approached in detail in Chapter 6.
In 2006 Mexico’s executive and legislature displayed a much more symmetrical relationship than they had in 1994, while governors’ roles in politics and policy-making also increased throughout those years to bring them into greater balance with the national level. Some of the concentrated control that the president once had over the budget process has been weakened; the executive retains considerable agenda-setting powers, a strong concentration of information control, and political power. Still, the presidency is weaker than it once was, and Congress has taken the opportunity to confront this branch and to place checks on its authority. Mexican legislators have gained influence in the formal and informal debates on the annual budget; this can be observed in the higher number of changes introduced to the budget proposal before it is approved, and an increase in the number of days Congress take to debate the budget before approving it. Congress now has greater power to set the agenda and increased access to information. Congress has taken its opportunity to employ its powers to confront a weaker presidency. On the other hand, electoral rules (especially the no re-election rule), and control over client networks, nominations, and careers by the president, governors, and party leaders, are reflected in legislators’ dependence on their political bosses. Governors have taken advantage of the changing political structure to assert their powers more independently and to increase their power resources, especially their agenda-setting capacity and their political control over legislators.

Other actors also hold a high degree of influence on actors’ power resources. Political parties are fundamental for all elected governmental actors, since they function as electoral machines linking officials and office-holders to relevant client groups. The opening of the electoral system brought some change, as Mexico transitioned from a
hegemonic party system where the PRI dominated the electoral arena and exhibited considerable discipline within its own ranks, to a system with intra-party struggles in three main parties.\textsuperscript{5} This, along with the pluralism of the political context, weakened relationships with unions and business groups. Indeed, some unions and business groups swung their support away from the PRI, thereby diversifying the ecosystem of relationships with political parties. The state bureaucracy is traditionally powerful, and factions within it remain focused on holding on to strength and privileges (Velázquez López Velarde 2010). International Financial Institutions (particularly the International Monetary Fund, or IMF, and the World Bank, or WB) have had a significant impact on public policies and the budget, in the sense that the Mexican government has adopted their preferred policies, which has led to a more balanced budget and better accountability rules. The 1980s are referred to in Latin America as the decade of the Debt Crisis, which was followed by the recommendations of the “Washington Consensus” to comply with orthodox economic, fiscal, and monetary policies.

This chapter will speak to the discussion about democratic consolidation and balance of powers in Mexico. To what extent does instituting electoral democracy bring to a presidential system the right balance of powers among branches of government, checks and balances, and the creation and sustainability of effective public policies?\textsuperscript{6} Ultimately the budget process comprises the features of balance of powers and checks and balances, and reflects how they are configured. The change in the budget process is striking: before the period of democratic opening this consisted of internal procedures

\textsuperscript{5} The center Partido Revolucionario Institucional (PRI), the center-right Partido Acción Nacional (PAN), and the center-left Partido de la Revolución Democrática (PRD).

\textsuperscript{6} For a deeper discussion see Farfán (2010) and Velázquez (2010).
within the executive branch, accompanied by occasional discussions in Congress and supplemented by backroom negotiations with other actors; today, however, the budget is an intensely-debated piece of legislation with open participation by a wider array of formal and informal actors. The Chamber of Deputies has become a more active arena with regards to both politics and policy, enabled by several changes to the budget process’ legal framework. As opposed to the Argentine case, Mexico’s constitutional distribution of power has become more balanced and, in the absence of informal mechanisms to control the ruling party’s internal politics, the presidency is not as powerful as it once was.

While the president has effectively lost his historic meta-constitutional powers, the empowerment of Congress has also led to an interesting and unexpected outcome: as Congress has gained power, state governors appear as the real winners because of their ability to use their federal legislators to bargain with the executive. In other words, governors are coming to resemble more and more their Argentine counterparts (Langston 2008, 2010).

The chapter follows the same structure as Chapter 3, which traced Argentine institutional settings. The first part describes the institutional configurations of the Mexican formal political system (macro-structure): governmental actors, the executive, Congress, and governors, and other relevant actors – political parties, unions, businesses, the state bureaucracy, and IFIs. It also analyzes the most relevant informal institutions that influence actors’ powers at the macro-level: clientelism, control over nominations of candidates, and control over legislators’ careers. The second part describes of the micro-
institutions of Mexico’s formal budget process, and some informal mechanisms embedded within it. Finally, I draw some conclusions by addressing actors’ power resources: agenda-setting capacity, control over information, and political control. At the micro-level, relative to the budget process, delegation of powers and the tactical use of data for revenue projections are also used – as in Argentina, but in different ways.

**MEXICO’S MACRO-INSTITUTIONAL CONFIGURATION: THE POLITICAL SYSTEM**

While Mexico still follows the revolutionary constitution laid out in 1917, more than 300 amendments have modified the document in the following years. Below, I outline the distribution of power among branches and multiple levels of government.

**The Executive**

The president is elected every six years through a single round of voting to garner a simple majority (there is not a second-round vote) of the popular vote, in one national district.\(^8\) There is no vice-president and no consecutive reelection is permitted. The Chamber of Deputies can impeach the president with a vote of 2/3 of the deputies.

The Mexican president is not one of the strongest presidents in Latin America, at least on paper. Constitutionally, he has proactive and reactive powers, as well as

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\(^8\) Only three other countries – Honduras, Paraguay, and Panama – follow this single-round simple-majority process for electing the president.
legislative and non-legislative (See Table 5.1).\(^9\) The key legislative-proactive powers of the president include the introduction of legislation to Congress, the exclusive introduction of the annual budget proposal, and the power to issue regulatory decrees and some extraordinary decrees. The power to issue decrees is comparatively restricted; they can only be issued in cases of emergency in order to suspend civil liberties, regarding health issues, and to regulate foreign commerce.\(^10\) This disposition denies the president the use of extraordinary decrees and powers during peacetime (Weldon 1997, 239). Just as in Argentina, the president does not have agenda-setting powers other than the introduction of legislation (including the annual budget).

**Table 5.1 Formal Powers of the President, as of 2012**

<table>
<thead>
<tr>
<th>Type of Power</th>
<th>Legislative</th>
<th>Non-legislative</th>
</tr>
</thead>
</table>
| Proactive    | -Introduction of legislation.  
              -Exclusive introduction of budget proposal.  
              -Standard regulatory decrees.  
              -Restricted Emergency decrees.  
|              | -Appointment and dismissal of cabinet members, except for the Attorney General. |
| Reactive     | -Veto, total and partial, except in the cases where legislative matters are exclusive of one of the chambers of Congress.  
|              | --- |

In terms of legislative-reactive powers, the Mexican chief executive is historically understood to be able to veto legislation either in part or in full, with the exception of bills that are exclusive to one of the chambers.\(^11\) This understanding changed, however, with a 2004 ruling of the Supreme Court of Justice, recognizing the executive’s faculty

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\(^{10}\) These decrees require the approval of Congress, or the Permanent Committee (*Comisión Permanente*) when Congress is not in session. Congress can authorize legislative powers to the president, but only to expedite the resolution of an emergency. See Carpizo (1978).

\(^{11}\) Technically, the Mexican Constitution does not use the term “veto”, but in its article 72 says that the executive can make “observations” to a bill approved by Congress. The Supreme Court has interpreted an observation to be equivalent to a veto.
for vetoing the budget.\textsuperscript{12} Congress can override vetoes with a 2/3 majority of members present; at this point the president cannot veto legislation a second time, and is obliged by the Constitution to promulgate the law and publish it immediately for its enforcement.

With respect to the non-legislative powers, the president can appoint and dismiss cabinet members at his discretion, with the exception of the Attorney General, who is the only cabinet member to require Senate confirmation. Up until 1997, the president also named and removed the mayor (\textit{Regente}) of the Federal District (\textit{Distrito Federal}). In Mexico, there is no figure equivalent to the Chief of Cabinet, although some scholars have equated this to the private secretary of the president, who traditionally functions as a sort of chief of staff and the gatekeeper of the president.\textsuperscript{13} From the executive branch, the three most important Secretariats (\textit{Secretarías}, equivalent to Argentine Ministries) are the Secretariat of Interior (\textit{Secretaría de Gobernación}), Secretariat of Treasury and Public Credit (\textit{Secretaría de Hacienda y Crédito Público}), and the Secretariat of Foreign Affairs (\textit{Secretaría de Relaciones Exteriores}). All secretaries, as well as the heads of parastatals and decentralized agencies, are obliged to appear before Congress when summoned. One of the major changes in relations between the executive, his bureaucracy, and the legislature occurred during Vicente Fox’s administration (2000 – 2006), which saw the concentration in the Secretariat of Interior of the inter-branch relations office, leaving even the ministries of Treasury and Public Credit without a formal institutional channel to negotiate with Congress.

\textsuperscript{12} See the Supreme Court of Justice resolution 109/2004.
\textsuperscript{13} See Ai Camp (2007), full explanation of the president’s private secretary.
The internal control and audit organ of the executive is the Secretariat of Public Function (Secretaría de la Función Pública), which is in charge of reviewing public finances, and monitoring the use and transparency of public resources by all agencies.

**Congress**

Two chambers, the Senate and the Chamber of Deputies form Mexico’s Congress, convening for two sessions each year, from September 1 to December 15 (unless the president was inaugurated that year, in which case the session, for budgetary purposes, runs until December 31), and from February 1 to April 30. When Congress is in recess, the Permanent or Standing Committee (Comisión Permanente) is in charge of legislative matters.\(^{14}\)

As of 2012, the Senate has 128 seats, four from each state and the Federal District (DF). The election method is mixed: 2 senators from each state and the DF are elected by majority, 1 by the first minority, and 32 by proportional representation (PR). They serve for 6-year terms, and the chamber is fully renovated every election concurrently with the presidential election.

The Lower House has 500 seats. There are 300 deputies elected by majority (single-member districts, SMD), called uninominals, and 200 elected by proportional representation (PR) through closed-party lists in 5 national circunscriptions (multimember districts), called plurinominals. All members are elected for 3-year terms and renovated at the same time. There are concurrent elections for all seats occurring

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\(^{14}\) The Permanent Committee is formed by 37 members, 19 deputies and 18 senators, named by each Chamber.
simultaneously; these occur during presidential election years, as well as the mid-term elections.

Members of Congress can be reelected, but not consecutively. Mexico’s system for electing legislators is considered to be disproportional (Molinar Horcasitas and Weldon 2001).\footnote{Its main features date from 1977, when there was no representation of opposition political parties by the PAN or leftist parties, induced then-president José López Portillo to introduce the PR electoral system into the Lower Chamber. Later on, the PR arrangement was also introduced in the Senate. These reforms are seen as part of the political \textit{liberalization} of the country.} A single vote chooses both SMD and PR representatives, because the latter seats are assigned according to the number of seats won by political parties. Mexico ranks fairly low in terms of malapportionment in comparison to Argentina, not even appearing in the twenty most-malapportioned cases for the Lower Chamber (Mexico’s index is of 0.0636, while the mean is 0.07, from 0.01 to 0.26, and Argentina ranks in number 12 with a index of 0.1405). In the Upper Chamber, where the mean is 0.21 (from 0.00 to 0.49), Mexico ranks thirteenth with an index of 0.23, while Argentina is number 1, with 0.4852. This ranking appears reasonable, as systems with SMD will always be less malapportioned than the ones with pure PR, even if the first ones include some PR seats (mixed or hybrid systems).\footnote{Unfortunately, malapportionment has not been addressed and analyzed sufficiently for the case of Mexico, at least in comparison with Argentina. It is definitely a promising topic for social scientists interested in Congress, political representation, law-making, and public policies.}

The Mexican mixed system is fuel for a number of scholarly discussions. For one thing, the representativeness of PR legislators is disputed. Second, Mexico’s case sheds light on how a bicameral system works in terms of malapportionment (Samuels and Snyder 2001, 657). By having PR districts (circunscriptions) with forty seats for the Senate, and because those districts have uneven populations, those seats increase the degree of malapportionment. Moreover, upper tiers are normally more malapportioned,
due to the same amount of seats being allocated to each province, which nevertheless differ in terms of the number of inhabitants to be represented. In the case of the Chamber of Deputies, malapportionment is also significant because PR seats cause a disparity in representation. If it is true that, as argued by Samuels and Snyder (2001), the distribution of faculties and power in both chambers is unequal, malapportionment also varies in terms of significance. In the case of Mexico, and as opposed to Argentina, the Chamber of Deputies is the only one with the power to pass the expenditures budget, while the Senate also holds exclusive attributions of its own over non-fiscal issues (e.g., foreign affairs).

Standing committees hold significant power in their areas of responsibility, with the chairs being especially powerful. Among the most influential and sought-after committees are the Budget Committee (Comisión de Presupuesto) and the Treasury Committee (Comisión de Hacienda) of the House. Together with these, two organizational units need to be mentioned. The Directive Board (Mesa Directiva) of each chamber decides what initiatives are sent to what committee and when. Each party elects their deputies to integrate the Directive Board, and the presidency of the Board is rotated every year. Party fractions’ leaders cannot be a part of the Board. Second, the Political Coordination Board (Junta de Coordinación Política), which is formed by the parties’ leadership in both chambers, is in charge of such key political questions as deciding, in consultation with the national leadership, which members of Congress are assigned to which committees.

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17 Together with those committees, Constitutional Issues, Interior, Justice, and Education are the committees that stand out as politically and administratively more relevant, as mentioned in the interviews conducted with former members of Congress, Marcela González Salas and Ifigenia Martínez, and with two former public officials who preferred not to be named, at Mexico City, January and February, 2009.
On paper, the legislature is the branch of government with the greatest sway in the economic, political-administrative, and social spheres (2002a). Some of the most important responsibilities of Congress as a whole are the approval of the annual budget (expenses and revenues), fiscal dispositions regarding the levy of all taxes, and the approval of the nation’s debt acquisition. In short, “Congress has the power to provide specific direction to policy through legislation and to oversee the policy implementation and regulatory acts of the executive” (Casar 2002a).¹⁸

Some of the aforementioned faculties are the exclusive jurisdiction of one chamber or the other.¹⁹ The approval of the annual budget, the audit and review of the Public Accounts presented by the executive, and the organization and supervision of the Superior Audit Office of the Federation all lie within the exclusive competence of the Chamber of Deputies.

The Superior Audit Office of the Federation (Auditoría Superior de la Federación, ASF)²⁰ was created in 2000 by the Superior Audit Law of the Federation (Ley de Fiscalización Superior de la Federación). It is in charge of reviewing the executed annual budget and the public accounts of the three branches of government, the autonomous organs, the states and municipalities, and every other agent who manages public resources.

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¹⁸ For a complete list of faculties and responsibilities of Congress and of each of its chambers, see the Constitución Política de los Estados Unidos Mexicanos, art 73, 74, and 76.

¹⁹ For example, it corresponds to the Senate to ratify the appointment of the General Attorney.

²⁰ Before 2000, this body was referred to as the General Accounting Office (Contaduría Mayor de Hacienda).
Federalism and State Governors

Mexico comprises 31 states and a Federal District (DF), all of which are headed by a state governor serving a single six-year term and elected by simple majority. In the case of DF, starting in 1997 and by the Constitutional amendment of 1996, the executive authority, named Chief of Government (Jefe de Gobierno), is elected just as any other governor. All states’ electoral laws are congruent with federal legislation, although each state has its own electoral authority. While some gubernatorial elections occur during a presidential election year, most do not.

In the majority of cases, governors are the most important actors in their states, with substantial political and administrative autonomy (Jones 2005). Governors’ power comes from their control over public resources, the no-reelection clause in Congress which increases their leverage over legislators, and their control over informal mechanisms (clientelism) at the state level (Langston 2010).

State governors control significant economic resources, but the still depend on federal transfers for a large percentage of their budgets (Díaz-Cayeros 2004; Langston 2010). A state normally collects an average of only 5 percent of its budget in local taxes. Spending is decentralized, however, meaning that the states have the faculty to allocate their own expenditures. Governors in Mexico need funds, and they concentrate their

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21 Mexico City and the Federal District are the same territory, in which the branches of the government reside, making it most significant for national politics.
22 There are four types of transfers from the national government to the states: revenue-sharing (Chapter 38), unassigned resources transferred to the states for their use, from which governors are only accountable to their state legislatures; earmarked transfers (Chapter 33), from which 75 percent go to pay teachers’ and doctors’ salaries; the budgets spent by federal government agencies that use their monies in highways and roads, credit programs, and public health programs, and others; and, finally, revenue coming from commodities and commerce (principally, the revenue from oil, which from 1994 to 2006 had important and
efforts on increasing them during the annual negotiations of the budget. Diaz-Cayeros (2004, 234) categorizes Mexican federalism as dysfunctional: Mexico is highly centralized in terms of revenues and highly decentralized in terms of expenditures. While the federal government collects 95 percent of all taxes, expenditures are governed by state governments which exercise more than half of total public spending (Díaz-Cayeros 2004).\(^{23}\) Part of the dilemma stems from divergences among states; some generate an important level of revenue and tax-collection (the most important one is the DF, which collects 40 percent of its spending), while more than half of the states do not reach 10 percent. This asymmetry has consequences in terms of negotiation capacity and the final subsidies that states receive in the budget. A weaker tax-collection capacity gives a state less leverage for negotiating with the national executive, but the federal revenue-sharing formula penalizes states with a high tax-collection capacity, as they effectively are forced to subsidize the spending of their low-taxing counterparts.

**Other actors: Political Parties and the Party System, Unions, Businesses, Bureaucracy, and IFIs**

As in any other country, Mexico has a wide range of actors playing important roles in policy-making processes and politics. Political parties stand at the center of politics as powerful machines. Unions have been a fundamental force in the building of contemporary Mexico and continue to be significant in many governmental matters. Businesses, including mass-media conglomerates, have become increasingly influential

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\(^{23}\) The *Sistema Nacional de Coordinación Fiscal* (SNCF) is the legal framework guiding transfers and quotas.
in the political sphere since the liberalization of the economy at the end of the 1980s and beginning of the 1990s. Mexico’s civil service has substantial control over revenue and expenditures, while IFIs have influenced the last two decades of policy-making. All of these actors maintain strong ties to the executive, congress, and governors, and hold considerable leverage for determining who gets what out of the budget.

**Political Parties and the Party System**

Starting in the late 1980s, a political party system began to emerge which consisted of three parties: the National Action Party (*Partido Acción Nacional*, PAN), the Institutional Revolutionary Party (*Partido Revolucionario Institucional*, PRI), and the Democratic Revolution Party (*Partido de la Revolución Democrática*, PRD). Smaller parties have also been active, but have not attained the same weight in terms of followers, voters, and organizational structures. Starting in 2000, all parties have made political alliances (agreements between two or more parties to run together and nominate single candidates) during election seasons. The effective number of parties in the country has varied from 2.2 in 1991 (Mainwaring and Scully 1995) to 2.79 in 2005 (Jones 2005; Stein, Tommasi, et al. 2005), based on the Laakso and Taagepera index.

The PRI has long been the preeminent actor in the Mexican political system, holding the presidency for more than 70 years, along with most of the governorships,

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24 For details on Mexico’s political parties history and evolution, see Ai Camp (2007).
25 The PRI was founded in 1929 as National Revolutionary Party (*Partido Nacional Revolucionario*, PNR), it was then dissolved and reconstituted as the Party of the Mexican Revolution (*Partido de la Revolución Mexicana*, PRM) in 1938, and was again dissolved and finally recreated as PRI in 1946. These modifications also meant, among other things, the incorporation of more social and labor sectors.
municipal presidencies, and the majority of seats in the national Congress until 1997. It functioned as a quasi-state-party for decades, though the eventual loss of some elections began to erode this mode of functioning, first in local and congressional races, and then state and presidential. This was made possible with electoral reforms in 1964 and 1977 that slowly opened and liberalized the system and introduced proportional representation seats in Congress. Nevertheless, the PRI has historically controlled the majority of local and state executives, as well as the congress.

**Table 5.2. Percentage of control of governorships by party**

<table>
<thead>
<tr>
<th>Year</th>
<th>PRI</th>
<th>PAN</th>
<th>PRD</th>
<th>Total number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>93.5</td>
<td>6.5</td>
<td>0.0</td>
<td>31</td>
</tr>
<tr>
<td>1995</td>
<td>87.1</td>
<td>12.9</td>
<td>0.0</td>
<td>31</td>
</tr>
<tr>
<td>1996</td>
<td>87.1</td>
<td>12.9</td>
<td>0.0</td>
<td>31</td>
</tr>
<tr>
<td>1997*</td>
<td>78.1</td>
<td>18.8</td>
<td>3.1</td>
<td>32</td>
</tr>
<tr>
<td>1998</td>
<td>71.9</td>
<td>18.8</td>
<td>9.4</td>
<td>32</td>
</tr>
<tr>
<td>1999</td>
<td>68.8</td>
<td>18.8</td>
<td>12.5</td>
<td>32</td>
</tr>
<tr>
<td>2000</td>
<td>62.5</td>
<td>21.9</td>
<td>15.6</td>
<td>32</td>
</tr>
<tr>
<td>2001</td>
<td>56.3</td>
<td>25.0</td>
<td>18.8</td>
<td>32</td>
</tr>
<tr>
<td>2002</td>
<td>56.3</td>
<td>25.0</td>
<td>18.8</td>
<td>32</td>
</tr>
<tr>
<td>2003</td>
<td>56.3</td>
<td>25.0</td>
<td>18.8</td>
<td>32</td>
</tr>
<tr>
<td>2004</td>
<td>56.3</td>
<td>28.1</td>
<td>15.6</td>
<td>32</td>
</tr>
<tr>
<td>2005</td>
<td>53.1</td>
<td>28.1</td>
<td>18.8</td>
<td>32</td>
</tr>
<tr>
<td>2006</td>
<td>53.1</td>
<td>28.1</td>
<td>18.8</td>
<td>32</td>
</tr>
</tbody>
</table>

*In 1997 was the first election for Chief of Government in DF, going from 31 elected governorships to 32. Source: Selee (2011).

The PAN has been the longest-lived opposition party, maintaining its center-right tendency since its creation in 1939. From its first gubernatorial victory, in 1989, PAN has gained increasing control of political posts, even winning the presidency twice, in 2000 and 2006 (See Table 5.2). The PAN has increased its presence in both the Senate and the Chamber of Deputies, raising its representation from 10 percent shortly after its
foundation, to 20 percent in 1988, to 24 percent in 1994 and 1997, and increasing again the number in the 2000 and 2003 elections (See Tables 6.1 and 6.2 in Chapter 6).

Dissidents from the PRI and small leftist parties created the third largest nationwide party in 1987, the Party of the Democratic Revolution (PRD), to compete in the 1988 presidential elections. In that year, the center-left party had a high voter turnout that was greatly diminished by the time of the 1991 elections. But by 1997 it had risen again, as its former presidential candidate from 1988, Cuauhtémoc Cárdenas, won the governorship of DF in the Capital’s first democratic elections, and the party garnered more seats than the PAN in the Chamber of Deputies. As of 2012, the DF has continuously elected a PRD Chief of Government since Cárdenas’ victory.

To paint a broad picture of the Mexican party system, some indicators from the work of Mark P. Jones (2005)²⁶ are worth noting. The confidence in and legitimacy of political parties is close to the mean for the Latin American region.²⁷ The level of institutionalization in Mexico scores at 67 on a scale of 1 to 100. Parties are characterized as clientelistic, while ideological polarization is low.²⁸ And party discipline – or centralization of power in political parties as treated by Jones – is medium-low. A complete explanation of these indicators will be made in the next chapter. Overall, the indicators tend to be closer to the regional mean than those for Argentina.

²⁶ As noted in Chapter 3, to see a whole description of the construction and coding of these indicators see Jones’s work (2005). For detailed studies on the literature of these indicators see: on effective number of parties Laakso and Taagepera (1979); on party institutionalization Mainwaring and Scully (1995); on party fragmentation Liphart (1994); on party discipline see Morgenstern and Nacif (2002); on party nationalization see Jones and Mainwaring (2003), and on programmatic character of party system see Kitschelt (2000, 2010).
²⁷ Mexico’s values for these indicators are 15 and 29 respectively, while the mean values for Latin America are 19.33 and 28.99.
²⁸ Sources: Jones (2005), and Stein, et al. (2005)
Unions

Organized labor has been an important actor in the country since the beginning of the PRI’s rule, helping to form a strong corporatist system. Unions have been a strong base for political action and electoral support since the 1930s, principally of the PRI. Although this linkage made the PRI a *catch-all state party*, the national force acquired by the PAN and the PRD in the last 20 years, have won many unions away from the PRI and made them also a base of support for other parties.

Organized labor has traditionally controlled seats in Congress, which gave them significant negotiating strength in resource distribution. But unions have experienced a decline in their representation, as union members, who made up 30 percent of all PRI deputies in 1976, represented only 7.5 percent in 2003 (Lehoucq, Negretto, et al. 2008). The government used unions “to prevent the mobilization of large-scale opposition” (Ai Camp 2007, 154), by combining union power with other actors within the ruling party. The main unions are the Mexican Federation of Labor (CTM), the National Peasant Confederation (CNC), the National Workers Union (UNT), the National Teachers Union (SENTE), and multiple unions of the energy sector.

Businesses

Starting in the 1990s, when the government initiated a process of privatization, corporations acquired significant power in the country. Their lobbying capacity has increased due to the resources that they can contribute to political campaigns, despite public financing of elections. That is to say that many agreements are conducted in the

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29 For a full description of a *catch-all party*, and other Latin American examples, see Dix (1989).
dark, and there have been continuous allegations of corrupt practices in campaign fundraising (Mayoral Jiménez 2012).

**Bureaucracy**

Mexican bureaucracy has been dependent on the president since the PRI came into power (Ai Camp 2007). After that party lost the presidency in 2000, the bureaucracy remained under the control of the president, and subject to low degrees of supervision by Congress. As Velázquez López Velarde (2010) claims, the arrival of democracy has not been able to significantly increase bureaucracy’s accountability.

**International Financial Institutions (IFIs)**

As in the rest of Latin America in the wake of the 1980s financial crisis, Mexico had to assent to the recommendations and guidelines of IFIs in order to obtain financial credit. IMF and World Bank policies became even more prominent when the North American Free Trade Agreement between Canada, the US, and Mexico came into effect in 1994. The economic crisis of that year also made the Mexican government strengthen its adjustments and policies as part of economic stabilization. The macroeconomic, fiscal, and budgetary regulations that Mexico had to comply with were straightforward in terms of balancing the budget, maintaining a low deficit and inflation indexes, and liberalizing the exchange rate. From then on, IFIs played a fundamental role in the economic and financial spheres of the country because of the structure that they helped establish and their continuing influence.
The Mexican Constitution is usually in flux, as over 300 amendments have slowly reconfigured how institutions work in the country along the past century. Those transformations have filled legal vacuums, increased the democratic character of laws, liberalizing the economy, and correcting or modifying institutional outcomes. Nevertheless, informal politics in the country remain a significant part of politics and policymaking. In other words, the Mexican constitution has moved extensively toward greater formal influence, but one can also see an interesting persistence of informal institutions. In general, the locus of informal practices have shifted away from the presidency and toward governors.

Clientelism

Clientelistic practices have been part of Mexican politics for decades. Jones (2005) categorizes Mexican political parties as clientelistic rather than programmatic with good reason. Government actors and political parties have developed strong and embedded networks of patronage relationships with different sectors of society, distributing goods, services, money, and jobs, and granting access to state-sponsored assistance programs, in exchange of votes or some type of political support. These mechanisms have been used by all levels of government, all major political parties, and by the leaders of unions and interest groups (who are normally linked to a party or party fraction). Local and regional bosses, or “caciques,” and other political activists are the driving force of these networks, having established themselves as the brokers who
mediate between a major authority with access to resources (patrons) and the people to whom those resources are distributed (clients).

The literature on Mexico suggests that clientelism has changed from a top-down governing tool - authoritarian clientelism - toward a model of electoral clientelism, which is mostly based in informal practices during the election season (Schedler 2004, 58). This has entailed a shift from electoral fraud to vote-buying and coercion before and during elections. Schedler (2004) explains this shift as a consequence of the loss of state resources due to the economic crises of the 1980s and 1990s, and the exit of the PRI from the presidency. Two main characteristics configure patron-client relationships in Mexico: party machines as a distributive mechanism for electoral purposes, and caciquismo, the influence of local or regional party bosses who act as brokers (Middlebrook 2009).

The current clientelistic structure was built by the PRI during the years it ruled the country, and it has been maintained even after that party lost its grip on the presidency in 2000 (Pfeiffer 2004). Nevertheless, some changes have occurred in terms of who controls clientelistic structures and candidate nomination power. Democratization transformed, or at least decentralized, some informal rules of the game. On the one hand, political parties, especially the PRI, PAN, and PRD, took control of the networks in a distributive way. Clients and brokers, on the other hand, were presented with more possibilities from which to choose when accepting side-payments during electoral times, shifting from a monopoly of clientelistic relationships, all controlled by the PRI, to a competitive environment.  

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30 Although in the 1997 and 2000 elections opposition parties were already involved in clientelistic exchanges, they also campaigned against them. More than a decade on from those elections, they routinely employed tactics similar to those of the PRI in order to mobilize people, secure their votes, and win elections. This has two possible explanations. The first is the embeddedness of clientelism in political practices and culture. The second is that many PRIistas left their party and joined the other parties, transplanting their own clientelistic networks (Shefner 2001; Middlebrook 2009). The third one is simply, as suggested by John Bailey, that they want to win elections, and, independent of outside influence, resort to clientelistic strategies as the most effective way to accomplish this goal.
clientelistic market. A similar logic operates with organized labor and interest groups or organizations, who now can negotiate with different parties to get the best deal from them (Schedler 2004). This suggests key parallels between the PRI and PJ in Argentina, in that both parties are clearly clientelistic (Pfeiffer 2004; Jones 2005). They continue to maintain control over an important part of the networks using their greater access to resources over time, and maintaining their hold on the majority of state and municipal governments. The PRD has moved to position itself likewise as a clientele-based party, especially in DF, where it has ruled since 1997.\textsuperscript{31}

Governors and congressmen are key players in this dynamic (Magaloni 2006). Because of the control held by governors on state resources, they have become political bosses in their territories, playing the chief part in the clientelistic structure. Caciques act as brokers between clienteles and a higher political or governmental authority with the capacity to distribute funds as patronage and pork (Middlebrook 2009).

Ultimately clientelistic networks have remained, but their monopolization by the PRI has changed. Not only is there competition among political parties, but also between central and state authorities. This helps brokers and clients look for better options when they are not satisfied, diluting the power of patrons and making it a more competitive market.

\textsuperscript{31} When in the opposition, party leaders of the PAN and PRD strenuously denied that they would reproduce the old regime practices, but when they found themselves contending for political elective posts they ended up taking advantage of the structures created by the PRI and reproducing the same patronage procedures in order to win elections (Langston 2008; Selee 2011).
Nomination of Candidates and Political Careers

Trends in the recruitment and nomination methods for legislators and chief executives (state and national) in the Mexican political scene fall into two broad periods. The first runs from the beginning of PRI rule in the 1920s to the mid 1990s, and the second one the mid 1990s to 2007. The watershed during the 1990s, which showed especially in the 2000 elections, was the liberalization and democratization of elections in the country, and the corresponding decentralization of candidate nominations and control over career paths of politicians (Langston 2008; Selee 2011).

The nomination of candidates in Mexico is principally handled by national party factions or regional leaders (Jones 2005), who are constrained by certain formal institutions. The formal institutions that have shaped nomination procedures and career paths, from 1994 to 2006, are: the rule banning consecutive re-elections, the mixed majority and PR electoral systems in both chambers of Congress, and the centralization of the electoral processes (Selee 2011). The main characteristics of the informal power network are: hegemonic party features (the president as the party’s *de facto* leader, his capacity for installing and removing governors, and the *dedazo* practice),

32 agreements with important actors, and the decentralized network of local and state political brokers. Both formal and informal institutions gave the PRI regime stability, and some of them remained as the bases of politics and power sharing agreements among actors after 2000.

But many political processes related to nominations and control over political careers have been effectively decentralized, giving significant power tools to governors

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32 The *dedazo* practice meant that the president, as leader of the executive branch and its party during the hegemonic regime period, designated his successor for the presidency. The president’s candidate, who was the PRI’s official nomination for president, won every election between 1929 and 1994.
instead of concentrating decision-making processes in the national executive and national parties’ leaderships. The increasing electoral competition that began in the late 1980s has also forced parties to change some of their nomination methods, either to demonstrate their democratic character or to produce better candidates with more chances of winning seats.

There are differences among the three main parties, and between the hegemonic regime period and the democratic one (marked by the 1997 and 2000 elections). These have been shaped by the differing origins of each political association, and by the electoral results of each election since 1988 (Ai Camp 2007, 2008; Langston 2008). The PRI moved from the dedazo to a more open procedure of primaries or internal negotiations of candidacies with governors and other key constituencies. The PAN has always held state nominating conventions of party militants, and these conventions have become even more decentralized from the PAN National Executive Committee (Comité Ejecutivo Nacional, CEN). The PRD went from different types of methods to open primaries. In certain elections, it has included external, non-PRD, candidates in districts where they had better chances of success than their own party members. In all three parties, the local and state spheres have become more important, and aspiring candidates with local careers and direct connections to governors have gained favor over the years (Langston 2008). Overall, autocratic decisions and elite-controlled procedures are crucial (Ai Camp 2008), but now autocrats and local elites participate in decision-making processes.

In general, the important factors for aspiring candidates are not necessarily ideological but personalistic, based on the value of their patronage networks. Candidates
are selected taking into account a mix of personality and charisma, prior elective or governmental experience, seniority in the party, and their linkages to other actors, such as unions (Langston 2008). Personal financial resources, contrary to what happens in Argentina, are not as relevant for a candidate to be chosen, because the electoral law stipulates that a majority of the financing is public. The Federal Electoral Institute (Instituto Federal Electoral, IFE) channels funds directly to the parties to distribute among their candidates and campaigns.

Control over career paths of legislators has also been decentralized from the president to state governors. With the no-consecutive reelection clause, legislators’ political future is tied not to their constituency but to their political bosses (governors, local leaders, the president, party leaders), who can help or hinder future political opportunities as their legislators move on from their elected posts, a practice that only reinforces caciquismo (Langston 2010). Governors have increased their influence as a direct consequence of the opening of political competition, so that Mexican governors increasingly resemble their South American counterparts (Langston 2010). They have become strong political forces with substantial formal and informal powers, and increasing control over public resources. Governors also serve as local political bosses, controlling their legislators – national deputies and senators – when needed, and balancing that control by not intervening in their votes except if necessary (budget or fiscal issues). As Langston notes, “caucus leaders and governors share authority over deputies only on issues involving fiscal and resource distribution to the states” (2010, 244).
Legislators are directly linked to their political bosses, but there is a more open competition among the aspirants for a majority (SMD) seat, than among those aspiring for a PR one. The former need to campaign, at least internally in their party, to win the nomination, and then campaign to win a seat. The latter must fight only to get onto the upper positions of the list. The most important factor is the role an actor plays within the party, as party insiders generally get placed first, as do those with more experience who can guarantee a better performance in Congress. In all parties, the final lists are normally negotiated among the president (when this applies), parties’ national leaderships, and governors.

**Other informal institutions**

During the PRI era, the presidency was embedded in a series of informal rules referred to in the literature as *meta-constitutional* powers (Casar 2002a; Weldon 2002; Casar 2010). Control of clientelistic structures, and control over nominations and political careers were included in the package, but so were other mechanisms that helped not only to retain the presidency for one party over 70 years, but also to maintain Mexico’s relative stability.

These informal rules were: the president as a *de facto* head of its party, the party’s funding through public resources, control over electoral processes for all public positions, the extended control over selection and nominations of candidates (that comprised not only legislators, but governors, municipal presidents, and the mayor of Mexico City, which the president could freely named and remove at his will), and the

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33 Which made it to be considered as a *State party*.

34 The PRI was known as a *catch-all* party, mainly because it included among its rank and file almost all types of unions and organizations within the party (Dix 1989).
president’s naming of his own successor by the *dedazo* and the *tapado* procedures (Langston 2006). These informal mechanisms served for maintaining “policy continuity and thus reassured members of the revolutionary family that defection was a worse strategy than cooperation with the PRI. The president, who had the longest time horizons, was the linchpin of the system” (Lehoucq, Negretto, et al. 2008, 300). The president also controlled elections by centralizing electoral organs and by mobilizing his party to use all kinds of stratagems to ensure votes for the PRI.

**THE MEXICAN BUDGET PROCESS**

**The Public Sector**

The federal public administration is formed by the centralized administration, public business and financial organisms (*industria paraestatal*), and decentralized administration. The Federal Public Administration Organic Law (LOAPF), the General Attorney’s Office Organic Law, and the Federal Law for Decentralized Entities regulate them. The centralized administration includes the Presidency, State Secretariats, the General Attorney’s Office (Procuraduría General de la República, PGR), and other administrative organs. The *paraestatal* administration includes decentralized organisms, public funds or endowments, credit institutions, and public enterprises. Theses entities are

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35 *Dedazo* refers to the technique used by a president of simply designating his successor, while *tapado* refers to the three of four unrevealed but possible next presidents, which the president would reveal at his convenience. For detailed information on both see Langston (2006).
grouped by sectors and coordinated by the centralized administration, but they operate with varying degrees of autonomy. The most relevant decentralized organisms are: PEMEX (the national oil company), CFE (the Federal Commission of Electricity), ISSSTE (the federal employee pension agency), and IMSS (the Mexican Institute of Social Security, which is in charge of overseeing Mexico’s social security system for non-state employees).

**Scope of the Mexican Budget: Focusing on Annual Expenditures**

As in the case of Argentina, this research focuses on the expenditures budget. Mexico’s federal budget is unusual in that it is divided into three separate documents that are formulated and presented to Congress individually. These are the macroeconomic framework and fiscal dispositions (*Criterios Generales de Política Económica para la Iniciativa de Ley de Ingresos y el Proyecto de Presupuesto de Egresos*), the Revenues Bill Proposal (*Iniciativa de Ley de Ingresos*), and the Expenditures Budget Decree Proposal (*Proyecto de Presupuesto de Egresos*, PPEF). The legal difference between the Revenue Law and the Budget Decree lies in that only the Lower Chamber of Congress approves the latter, while both Chambers approve the former, but there is no difference in their enforcement. The macroeconomic forecasts provide context to inform the estimates for the other two documents. The revenue draft contains tax revenue policy, an estimation of taxes and prices, and an explanation of tax and non-tax revenue for the next fiscal year. This initiative is sent to both Chambers of Congress.

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36 Oil estimates and other commodity prices, financial markets, evolution and highlights of the country’s economy, guidelines for next year’s fiscal policies, etc.
Revenue collection in Mexico has been below the average of the Latin American region (20 percent in 2006).\textsuperscript{37} The country, as shown in Figure 5.1, has been characterized for depending on non-tax income, especially from oil resources, which constitutes an approximate of 40 percent of total revenues. The tax-collection capacity of the government has been diminishing in the 1994 – 2006 period, while the country depends more on oil resources.

\textsuperscript{37} See data from ECLAC and OECD.
Figure 5.2 illustrates the composition of total tax revenue. In the last years of the period (2006 and 2007) the government, in agreement with Congress, has been increasing direct taxes by taxing cash deposits in banking institutions and introducing a business tax with a single rate. These measures have started to address the problem of having a regressive tax policy in a country with 50 percent of the population living in poverty.

Annual expenditures constitute the Budget Decree (Presupuesto de Egresos de la Federación, PEF). Expenditures are accommodated according to different classifications (economic, administrative, and functional). I have focused on functional classifications to better enable comparison between Argentina’s and Mexico’s public spending. The PEF

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38 The economic classification refers to the type of expenditure (for what is it being spent?), while the administrative refers to the entity or agency that will implement the assigned budget (who spends?), and the functional classification corresponds to the broad purpose of the expenditures (for what?).
comprises the central public administration, (secretariats and General Attorney’s Office),
decentralized administration, the judiciary, the legislature, the Federal Electoral Institute
(IFE), and the National Commission on Human Rights (CNDH). Contrary to the case of
Argentina, Mexico’s budget includes most public spending; decentralized organisms,
fiduciary funds, and public enterprises are included. The only off-budget items are the
semi-public enterprises, although the money destined for their subsidies and transfers is
included in the annual budget. Certain financial funds (PIDIREGAS, IPAB, etc) are not
included in the annual revenue and expenditures budget, but Congress approves them
separately. In sum, all public spending requires the legislature’s approval (See Figure
5.3).

39 The IFE and the CNDH are autonomous and independent organs funded by public resources.
40 Starting in 2006, with the Budget and Fiscal Responsibility Law, it is mandatory that the Mexican budget
be balanced.
41 PIDIREGAS stands for Proyectos de Inversión Diferida En El Registro del Gasto, while IPAB stands for
Instituto para la Protección al Ahorro Bancario.
There are two broad guidelines for the formulation of each year’s budget. First, the National Development Plan (Plan Nacional de Desarrollo, PND), which is a six-year plan made by each president and marks the pathways of his administration, establishing national priorities. The second is the previous year’s budget, which provides the baseline for preparing its successor; budgets are drafted in an incremental way, like in Argentina.

The average annual PEF from 1994 to 2006 includes: debt services (11 percent), payroll (30 percent), pensions to former state workers (9 percent), transfers to state and

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42 The OECD journal of budgeting states that the PND’s impact on budgets tends to be uneven, because the Plan is weighted against short-term priorities (2009).
municipal governments (18 percent), materials (13 percent), subsidies (6 percent), investment (12 percent), and others.43

The budget is divided into fixed spending (gasto no programmable) – debt, entitlements, and transfers, amongst others – and discretionary spending (gasto programmable) – spending supporting the governmental agencies’ operation. With the addition of so-called inevitable spending – that is, personnel expenditures – non-discretionary spending comes to more than 90 percent of total spending. New expenditures can be as little as 2 or 3 percent of the total budget, so that, as in the Argentine case, expenditures subject to discussion are actually quite low (Echeverry, Bonilla, et al. 2006; OECD 2009).

The Formal Budget Process

The Mexican budget process was regulated until 2006 by the Constitution, the LOAPF, the Planning Law, the 1976 Federal Budget, Accounting, and Public Expenditures Law (abrogated in 2006 by the Federal Budget and Financial Responsibility Law),44 the Federal Decentralized Entities Law, the General Public Debt Law, the Public Works and Services Law, the Acquisitions Law, and their corresponding regulations.

From 1994 to 2006, several changes were introduced to the legal framework regulating the budget. For clarity, and because this study restricts itself to that period,

43 These numbers were taken from the approved budget of 2003.
44 Due to the importance of this change in terms of legal framework regulating the budget process, it will be treated in detail in the last section of this Chapter. The following sections will address the process before the new regulations took effect.
each section will first address the stages before the Constitutional amendment of 2004 and the new budget law of 2006 (See Appendix VI).

**Formulation**

The Secretariat of Treasury and Public Credit (*Secretaría de Hacienda y Crédito Público*, SHCP) is responsible for formulating the annual expenditures budget. It has three undersecretariats: the Undersecretariat for Expenditures (*Subsecretaría de Egresos*, SSE), which functions as the budget office, the Undersecretariat for Revenues, which is in charge of drafting the Revenue Law, and the Undersecretariat of Treasury and Public Credit, which is in charge of elaborating the forecasts.\(^{45}\)

From February to August, the SHCP elaborates the programmatic structure of the budget for the next fiscal year (which matches the calendar year). The SHCP had until March 15 to dictate the norms the agencies had to follow for formulating their preliminary spending budget proposals (*anteproyectos*). Between June and August the SHCP prepared the aggregated preliminary budget, signaling the total expenditures to be executed. It published the General Criteria of Economic Policy (*Criterios Generales de Política Económica*), a document laying out the economic guiding principles to be followed.\(^{46}\) By June 15, the SHCP sent to all the agencies the budget ceilings and nominal references for spending by sector.

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\(^{45}\) The SSE employs 1145 people, it is headed by the Undersecretary (*Subsecretario de Egresos*), and has six units (Investment, Budgetary Policy and Control, two General Directorates for Programming and Budgeting, General Directorate for Legal Affairs, and Governmental Accounting), of which the budget-related ones and the Legal Affairs unit are the most relevant and influential, both internally to the SHCP and externally. The staff working on those four units is more than 250 people.

\(^{46}\) These guiding principles included political economic strategies to address issues of economic stability, budget equilibrium, infrastructure planning, inflation standards, revenue and tax policies, debt ceilings, etc)
All agencies had until July 20 to send their initial budget drafts to the SHCP for their review. Each agency and state organism has a specific office that deals with their budget, and these are in constant communication with their counterparts of the General Directions for Programming and Budgeting (Direcciones Generales de Programación y Presupuesto, DGPyP) in the SHCP. Formal and informal bilateral meetings take place between those, with discussions moving up levels of hierarchy as the end of the formulation process approaches. By October 20, the final drafts had to be submitted again to the Secretariat. The deadline for the SHCP to present the Revenue Bill and the Spending Budget Decree proposals was November 15 (or December 15 in the first year of a presidential term).

With the constitutional amendment to article 74 approved in July 2004, the dates for the submission of the proposal to Congress changed. Starting with the 2005 budget, it is now sent to the Chamber of Deputies no later than September 8 (or December 15 in the first year of a presidential administration).47

47 See “DECRETO por el que se aprueba el diverso mediante el cual se reforma la fracción IV del artículo 74 de la Constitución Política de los Estados Unidos Mexicanos”, July 30, 2004.
Box 5.1. Changes to the Formulation Stage of the Budget by the 2006 Budget Law.

Approval

With the 2006 budget law, the SHCP now submits to Congress its macroeconomic projections for the next fiscal year, no later than April 1. By June 30, the SHCP has to submit to the legislature a programmatic structure and some main budget proposals for the next year, without any specific budgetary estimates. During June and July, secretariats and other agencies start drafting their budget proposals (anteproyectos). By July 15 ministries have to submit to the SHCP their multi-annual investment projects, and on that same date the SHCP publishes the budgetary handbook of programming and budgeting. This handbook, or circular, stipulates the formats and methods for putting together the budget draft.

In early August, SHCP announces the budgetary ceiling. During the next fifteen to twenty days those agencies send their anteproyectos to the Secretariat. After this, the Undersecretariat [OF WHAT?] pulls the various submissions together into an integrated budget proposal and consults with the presidency to make final revisions before submitting the Expenditures Budget Proposal (Proyecto de Presupuesto de Egresos de la Federación, PPEF) to Congress.

The approval phase differs little from any other legislative initiative introduced by the executive to Congress, except that the approval of the budget is the exclusive faculty of the Lower Chamber, so the Senate is not involved in the discussions or votes.

When the Chamber of Deputies receives the economic package proposal, containing both the revenue law draft and the budget decree draft, the Directive Board (Mesa Directiva) of the Chamber sends the revenue proposal to the Committee of Treasury for its discussion and vote, after which it is submitted to a vote in a plenary session. It is then sent to the Senate, where it follows the same process in that body.
The expenditures budget proposal (PPEF) is sent to the Committee of Budget and Public Accounts in the Lower Chamber, which discusses it and then sends relevant sections to other line committees (e.g., Transportation and Infrastructure, Education, etc). The Budget Committee receives comments from the other committees and incorporates them into their discussion. As noted by Casar (2001), Weldon (2002, 2004), OECD (2009), and most of the interviewees, the Budget Committee is the most important forum for the discussion and analysis of the budget draft. The Committee can summon public officials to question them about the proposal, and is in constant contact with SHCP and the Secretariat of Interior (Secretaría de Gobernación, SG). At the end of this discussion period, it elaborates two rulings (dictámenes), one general ruling which applies to the proposal as a whole, and one particular ruling for the reserved articles. There are two rounds of votes on the floor, first to approve or reject the general bill, and then, if it is approved, a second round of votes in particular is conducted. The second round treats the specific articles that were reserved by a member of congress for further debate. The Chamber could amend the spending budget with no limitations, because there were no stipulations pertaining to it (Weldon 2002). Modifications are mostly made in the Committee; to make changes to the budget bill on the floor is very difficult due to legislative procedures.

The Center for Public Finance Studies (Centro de Estudios par las Finanzas Públicas, CEPF), a congressional bureau created in 1998, is in charge of analyzing the

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48 This Committee has 34 members: all political parties are represented according to their total representation in the Chamber of Deputies.
49 If a particular article is rejected, it goes back to the Committee to be amended or deleted, and the rest of the bill is frozen until a new report or dictum on the reviewed articles is prepared and treated. See Weldon (2002) for a detailed discussion on this matter.
50 For details on this see Weldon (2002).
Mexican economic forecast provided by the executive and helps legislators with their review and analysis. The CEPF operates year-round, providing relevant information to members of Congress when they request it on all economic issues, including budgetary matters. The CEPF does not produce independent information or forecasts on the budget; the center grounds its analysis in information provided mostly by the SHCP, but it remains the closest thing to a congressional budget office.

Until 2004, the approved and final Expenditure Budget Decree had to be sent to the President no later than December 15 or December 31 if sessions were extended, but in any case by the last day of Congressional sessions. The final budget has to be approved and published by January 1, at which point the President has the constitutional obligation to publish and promulgate the budget.

The president was not explicitly empowered to veto the approved budget bill, nor any legislation exclusive to one of the Chambers until 2004. The amendment to section IV of article 74 of the Constitution (relative to Congress’s attributions), comprised three main changes: the deadline for the executive to present the budget and revenue proposals to Congress was moved from November 15 to September 8, the time limit for the Chamber of Deputies to approve the final budget was changed from a tacit December 31, to an explicit November 15, and the capacity of congressmen to modify the proposal sent by the executive was formalized. This last modification to article 74 gave leeway to

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51 Argentina and Mexico have the same fiscal year (from January 1 to December 31).
52 Before 2004, the article stipulated the capacity and obligation to “examine, discuss, and approve” the budget, while now it reads “examine, discuss, and in the event, modify.” See Appendix VI for more detail. Texts refer to 1993, and to 2004 respectively. Source: Instituto de Investigaciones Jurídicas de la UNAM, http://info.juridicas.unam.mx. See also “DECRETO por el que se aprueba el diverso mediante el cual se reforma la fracción IV del artículo 74 de la Constitución Política de los Estados Unidos Mexicanos”, July 30, 2004.
deputies to extensively modify the budget proposal without grounding those changes in the projected income. Hence, President Fox decided to veto the 2005 budget bill, precipitating a constitutional controversy as the president had not been considered to hold veto power. The case was resolved when the Supreme Court of Justice ruled in favor of the president using his power of veto.\(^{53}\)

Finally, there is no provision or consideration for what is to occur if there is not a published budget by the beginning of the fiscal year. There is no reversion mechanism; if stalemate were to occur, the solution would be left to judicial interpretation.

**Box 5.2. Changes to the Approval Stage of the Budget: The 2006 Budget Law.**

The 2006 Budget Law introduced time limits to Congress’ internal process. Under its provisions the Revenue Law must be voted on the Lower Chamber’s floor no later than October 20 and on the Senate’s floor no later than October 31. Although it is not stipulated by law, it is assumed that if it is the first year of a Presidential term, the deadline will be December 31, because the outgoing and incoming presidents have to work together on the proposal. Also, in the 2006 Budget Law, some specific dispositions were included related to the capacity of the Chamber to amend the budget. Congress has this power, but with some limitations: it cannot change the programmatic structure (the baselines on which the budget is designed and implemented), it cannot deny funding for entitlements and transfers mandated by law, it can only increase spending amounts if new sources of funding are specified, and it can amend income estimates or oil prices only within a range given by a formula developed by the SHCP and approved by Congress. Congress can estimate variations on oil prices in a range of twenty percent of that formula.

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\(^{53}\) The legal basis for this is that the executive cannot veto any resolution or law approved and issued by only one of the Chambers, but after the modifications to the Constitution, and to maintain the balance of power among branches of government, it was upheld to judicial interpretation of the law.
As indicated in Box 5.1 and Box 5.2, several changes to the legislation regulating the budget\textsuperscript{54} and the Mexican political system have made the legislature more active in the budget process, as will be seen in more detail in the sections on actors’ power resources.

\textsuperscript{54} The Budget Law of 2006, the Integral Fiscal Reform of 2007, and the reform of the accounting system (2008) and of federal auditing (2008 and 2009), which were passed with a significant congressional support.
Figure 5.4. Mexican Budget Approval Phase, After the 2004 Reform

Executive’s Budget Proposal (Economic Package) submitted to Congress no later than September 8, or December 15 in the first year of a presidential term.

Chamber of Deputies

Expenditures Budget Proposal sent to Committee of Budget and Public Accounts

Floor Vote

Approve Budget no later than November 15, or December 31 in the first year of a presidential term

Revenue Law Proposal sent to Committee of Treasury

Floor Vote

Senate

Senate’s Committee of Treasury

Floor Vote

Budget Decree and Revenues Law Published by the president no later than January 1
Execution

Due to the detailed nature of the yearly budget decree, the allocation of resources is already settled (specific transfers, entitlements, and appropriations’ amounts) through the approved budget for the fiscal year, which runs from January 1 to December 31. The SHCP disburses resources to all governmental agencies on a monthly basis using an information system with a tracking mechanism, called Federal Integrated Financial Management System (SIAFF).\footnote{The SIAFF was created under President Zedillo’s administration in 1998. In comparison with the previous system, the SIAFF concentrated updated information and made more efficient the technical process of budget implementation.} Public expenditures are executed according to the financial calendar and the previously set goals of all agencies. By December 15, the SHCP issues a series of guidelines for next year’s use of each agency’s monies. Agencies have fifteen days to review those, and then the budget in full detail is uploaded to the SIAFF to their scheduled availability.\footnote{The 2006 Budget Law states that the SHCP has 15 days after the approval of the budget to communicate the spending guidelines for the next fiscal year.}

Agencies have access to their allocated resources every month, and in some cases they can advance expenditures for future months with the condition of offsetting those advances with other resources. They can also reallocate resources internally without the intervention of the SHCP, but they do have to request authorization when a reallocation takes place between categories. They also require SHCP authorization to exceed their budgetary ceilings.

The budget law of 1976, which governed the process up until its replacement by the 2006 budget law, permitted the executive to spend more than the previously approved
amounts if there was a surplus in public accounts. It could also transfer moneys between budgetary categories.\textsuperscript{57} The executive had to notify Congress about this, but it did not need congressional approval.

**Audit**

While in Argentina there are two control mechanisms for supervising the budget implementation, in Mexico there are three main control mechanisms and agencies that supervise and audit the budget execution process. The first is the Secretariat of Public Function (Secretaría de la Función Pública, SFP),\textsuperscript{58} and the second is the SHCP, both within the executive branch. The third one is the Superior Audit Office of the Federation (Auditoría Superior de la Federación, ASF), an independent congressional entity.\textsuperscript{59}

During the execution phase of the budget, the SHCP delivers a quarterly report to Congress on the evolution of public spending, including all ex-post authorizations for overspending granted to other agencies if they account for 5 percent or more of a given line. It also delivers monthly reports on the public debt level. The SHCP is also charged with putting together the annual Public Account (Cuenta Pública). The executive presents annual public accounts on the budget execution to the Chamber of Deputies (exclusively) no later than April 30 of the following fiscal year. The Chamber in turn submits this document to the ASF, which has until February 20 of the following year (14

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\textsuperscript{57} In 2000, this was specified in a series of rules laid out in the Manual for Programming and Budgeting, a manual that specifically details the procedures for resources result of a surplus.

\textsuperscript{58} The Secretaría de Contraloría y Desarrollo Administrativo (SECODAM) was changed into the SFP in December 2003, with the same functions and responsibilities. The SECODAM was created in 1998, and went from being Secretaría de la Contraloría General de la Federación (SECOGEF), to a more efficient and complete agency with new functions to modernize and control various administrative functions.

\textsuperscript{59} The ASF was created by the reforms of articles 73, 74, 78, and 79 of the Constitution in 1999, and the promulgation of the Federation’s Superior Audit Law in 2000. The ASF replaced the General Accounting Office of the Chamber of Deputies.
months after the end of the reported fiscal year) to send back to the lower Chamber its review. Then, the House continues with its own report, which has to be finished by September 30. The final report is presented about 20 months after the end of the reported fiscal year. The period of time between the end of a fiscal year and the finished public accounts on that year’s executed resources is quite long, which makes the audit phase considerably less relevant, particularly if we consider that the formulation of the budget is incremental and should be based on the review of past fiscal years. What happens in Mexico is more an audit activity in a legal-technical sense than an evaluation (Guerrero Amparán and López Ortega 2001).

The Informal Institutions of the Mexican Budget Process

The executive uses delegation of powers and tactical estimation of data to enhance its influence and discretion over public spending. Together with those, informal agreements, and a cluster of issues negotiated before the budget proposal is delivered to Congress, are key mechanisms that inflect the budget process at its formulation and approval phases.

Delegation of Powers

Even though delegation of powers from Congress to the president is not done through emergency decrees or by the inclusion of articles in the budget decrees, Mexican legislators delegate faculties to the executive to reallocate expenses during the fiscal year. Mexican legislation does not contemplate special emergency decrees. Instead, a tacit
delegation of powers is given to the executive, and, as has been noted by some scholars (Farfán Mares 2010; Velázquez López Velarde 2010) and other analyses (OECD 2009), legislators seem to have little oversight over reallocations made between item in an approved budget.

**Misestimating Revenue Data Projections**

The executive manipulates estimation of macroeconomic indicators when calculating annual revenues and formulating the budget proposal. In the case of Mexico, the most relevant commodity is oil (one of the major sources of revenue), income from which has been continuously underestimated by the executive. The legislature has increasingly disputed this practice, and has augmented the projected oil price to increase the amount of available spending funds, but only within a limit. Congress, with the help of the Center for Public Finance Studies *(Centro de Estudios para las Finanzas Públicas, CEFP)*, makes separate calculations (both projections, the SHCP and Congress’ are within a formula range established by the law). 60 Another important factor is the independence of the Central Bank *(Banco de Mexico, BM)*, 61 which calculates macroeconomic data for the current year and the ones to come, as well as makes forecasts similar to the ones made by the SHCP.

**Other informal mechanism used during the budget process**

Before 1997, when the governing PRI had the majority of seats in Congress, the approval of the budget without major changes was practically guaranteed. Any conflicts

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60 The dispute about oil prices is noticeable since 2000. For a better understanding, see Rodríguez (2008)
61 The *Banco de México* was granted autonomy in 1994, in order to make it a stable central bank that for depoliticizing Mexico’s monetary policy.
among interested parts (president, governors, legislators, and other actors) were solved before the budget proposal reached Congress. And if the president needed to make changes to the running budget while being executed, Congress usually assented, because the president was the chief of all PRI legislators. After the 2000 elections, negotiations have been extended to the approval stage of the budget, but still some important agreements are made beforehand in informal arenas. As Langston (2008) points out, these agreements are usually done with governor’s intervention, which is a way to empower them during the budget process. At the same time, the practice of maintaining a secret account (*partida secreta*) granted a significant amount of funds to the executive (more than 8 percent of total spending) for its discretionary use. As described below, this practice was common among all administrations, until 1998 (Aguayo Quezada 1997; Méndez 2008; Jaime and Avendaño 2011).

**CONCLUSIONS**

The interrelation of formal and informal institutions, embedded in the political system and the budget process, create the power resources that actors use for pushing forward their preferences during the budget cycle in Mexico. The relationship that the president, Congress, and governors have with other actors also helps determine their power resources, of which three matter the most: agenda-setting capacity, information control, and political control.\(^{62}\) We can see how together with changes in legal

\(^{62}\) For a detailed explanation of power resources, see the first two chapters of this dissertation.
frameworks and changes in the political system brought about by the democratization process, actors’ power resources have changed over time.

As shown in Table 5.3 at the end of this chapter, the presidency is formally a strong actor, but not as strong as it was before the 1994 economic crisis, the loss of the PRI’s absolute majority in the Lower Chamber in 1997, and changes introduced to the budget process.63 While no changes have been introduced to the formal institutions governing the presidency, the informal institutions surrounding it have evolved, and have experienced modifications. The president’s “meta-constitutional” powers disappeared slowly during Zedillo’s administration and, while clientelism and the control over nominations of candidates and legislators’ career paths did not vanish, they did undergo a decentralization process accompanied by increasing political and electoral competition and the electoral victories of opposition parties.

In general terms, the president remains the single actor with the most power resources, although there have been variations through time in the relative amount of power resources held by each actor. The president’s power to set the agenda has declined as a result of the divided-government situations starting in 1997, the increasing force of opposition parties, and the changes introduced to the budget process in terms of dates and amendments possibilities while in the approval stage of the budget. These changes in the formal framework are the 2004 Constitutional amendment to article 74, specifying that Congress can effectively modify the proposal, and expanding the timeframe the legislature has to review and approve the budget proposal.

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63 These two contextual factors will be further analyzed in Chapter 6.
The president’s control over information remains high, mainly because of his exclusive power to formulate the annual budget proposal, and the technical capacities, expertise, and concentration of information in the SHCP.\textsuperscript{64}

The political power of the president has been diminished over the years. The reasons for this loss of political control are the elimination of some informal institutions, the opening of political competition, the rise of state governors as influential decision-makers, and the lack of monopolistic control of PAN presidents over clientelistic structures. In the PRI’s ruling era, the party machinery commanded important informal mechanisms; when this structure of control was decentralized to the governors afterwards, the PRI retained control in the majority of states.

Legislators have gained more strength and resources over the years, increasing especially their agenda-setting capacity. Unlike their Argentine counterparts they have made a slow change from a reactive to a more proactive congress (Lehoucq, Negretto, et al. 2008), with one caveat: they continue to be more representative of their political bosses than of their constituency. No immediate reelection in congress and the mixed electoral system (SMD and PR seats) induce congress members to be more dependent on their political bosses for their nomination to a seat, and for the advancement of their political careers after serving a term in the legislature.

The control over information that most members of congress have continues to be limited.\textsuperscript{65} The creation of the ASF (congressional fiscal audit office) and the CEFP (the

\textsuperscript{64} As pointed out by Farfán “No other entity produces such information, not even the national statistics office (INEGI) or the central bank (Banxico)” (2010, 173).

\textsuperscript{65} I specify “most members of Congress” because there is an internal difference among sitting legislators. Even though both Chambers are formed by equal members (as many of the interviewees for this study mentioned in 2009), there are legislators who, either because they are in the Directive Board, are their parties’ leaders, or hold the presidencies of the most relevant committees, may have larger access to information than others.
Mexican equivalent to a congressional budget office) has increased legislators’ access to information and analytical resources. However, the CEFP does not generate its own data, but instead relies on information provided by the SHCP, which continues to constrain the availability and independence of information. Moreover, although the timelines have been increased for the review and approval of the budget proposal, Congress continues to operate at a disadvantage in comparison to the executive. One more factor hinders legislators’ capacity: the impossibility of cultivating expertise and seniority among its members. Senators serve 6-year terms, as do the president and governors, but they do not have an official part in the approval of the budget. Meanwhile deputies, charged with budget approval and audit, only serve for 3 years. Without consecutive reelection, it is difficult for legislators to develop expertise on budgetary issues. Thus, seniority is a tricky term when used in the Mexican Congress. Legislators who build their careers in Congress have to go from one chamber to the other.

Political control, by members of Congress is low, because without the possibility of continuous reelection and with the mixed-system electoral rules, they are highly dependent on political parties and political bosses. Legislators often act as political brokers, bargaining on behalf of their bosses. As Langston notes, legislative candidates are "beholden to their party leadership and governors for future career opportunities and thus continue to vote in a disciplined fashion" (2008, 146).

Finally, governors are apparently the real winners of the new set of institutional arrangements. As has been said before, the decentralization of informal mechanisms has favored them by devolving more resources (financial and political) to their control. State
governors’ agenda-capacity in a general sense, for Congress and the budget process, has been increased from low to medium, mostly based on control over informal institutions.

Although legislators’ control over information has not varied significantly, and remains low, we cannot say the same about political control. The latter was considerably augmented after the PRI lost the presidency in 2000 while most of the state governorships remained under that party’s control. As such, governors are often seen as possible presidential candidates and they "have become the most important pool for future national leadership selections, and democratic elections since 1997 have significantly altered their qualities too" (Ai Camp 2008, 299). Together with that, they now wield significant influence in constructing the parties’ lists for PR legislators. Also, they may influence nominations for single-member seats in the national Congress, and for who succeeds them in office.

Chapter 6 focuses on the changes Mexico experienced through two different presidential terms, Ernesto Zedillo (1994-2000) and Vicente Fox (2000-2006), and the corresponding changes to the political system and the budget process. In the following pages I analyze annual budgets, focusing on the changing patterns and the roles played by the executive, congress, and the governors.
# Table 5.3. Actor’s Power Resources in Mexico

<table>
<thead>
<tr>
<th>Actor</th>
<th>Formal Institutional Design</th>
<th>Relationships with Other Actors</th>
<th>Informal Institutions</th>
<th>Resulting Power Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Macro / Political System)</td>
<td>(Micro / Budget Process)</td>
<td>(Macro / Political System) Clientelism and Control over Nominations and Political Careers</td>
<td>(Micro / Budget Process) Delegation of Powers and Use of data for Revenue Projections</td>
</tr>
<tr>
<td>Executive</td>
<td>Formulation of proposal - Total and partial veto - Distribution of quotas - Internal audit - High technical capacity and information production</td>
<td>Strong ties to political parties, unions, businesses, bureaucracy, and IFIs</td>
<td>Control of clientelistic structures, especially if it is a PRI president. PAN presidents control some clientelistic networks but can be superseded by governors.</td>
<td>Agenda-setting capacity: from high (before 1997) to medium (after 1997)</td>
</tr>
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<td></td>
<td>- No reelection - 6-year terms - Powers to: initiate legislation, introduction of budget proposal, total and partial (line-item) veto (except in the cases where legislative matters are exclusive of one of the chambers of Congress)</td>
<td></td>
<td>Control of nominations and careers, notwithstanding the president’s party, he is his party’s de facto leader, hence has a great influence in the selection and nomination processes of candidates, and their political careers.</td>
<td>Information control: high</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Both clientelism and control of nominations and careers have been decentralized with the increasing party and electoral competition in the country.</td>
<td>Political control: from high (before 1997) to medium-high (after 1997) and medium (after 2000)</td>
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<tr>
<td></td>
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<td></td>
<td>Delegation of powers is given tacitly from Congress to the executive for reallocating resources during the budget’s implementation. Tactical estimation of oil prices are used by the executive to underestimate revenues and then have some extra resources to distribute.</td>
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### Cont. Table 5.3. Actor’s Power Resources in Mexico

<table>
<thead>
<tr>
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<tr>
<td>Congress</td>
<td>- PR closed-lists and Majority rule (SMD)</td>
<td>- Both chambers need to approve revenues; only the House approves the expenditures - Congressional budget office (CEFP) - Deputies: analyze and amend the budget, review of public accounts, and names people in charge of the ASF - No reversion point</td>
<td>Strong ties to political parties, unions, and businesses</td>
<td>Close relationship with clientelistic structures, especially SMD legislators who need to campaign to get elected. Favored by their own clienteles, linked to their party’s clientelistic structure. Nominations and career paths depend on their political bosses (the president, governors, and political parties’ leadership). SMD legislators can be less dependent on political bosses than PR legislators. Congress has been empowering by contesting the executive’s tactical estimation of revenue.</td>
</tr>
<tr>
<td>Governors</td>
<td>- No reelection - Control of economic resources - Dependence on federal transfers</td>
<td>- No legal role</td>
<td>Strong ties to political parties, unions, businesses, and IFIs</td>
<td>Control of clientelistic structures at the state level, and at the national level through their parties. Control on nominations and careers of their national legislators. They exert more control over them if their party is not the same as the president’s party, because they can unilaterally influence their legislators. Otherwise, the selection and nomination procedures are agreed between state governors and the president, and strong leaders within their parties.</td>
</tr>
</tbody>
</table>

Source: author’s own elaboration.
CHAPTER 6. THE MEXICAN BUDGET PROCESS: THE DECREASING INFLUENCE OF THE PRESIDENT

INTRODUCTION

Chapter 6 analyzes the Mexican federal budget, from 1994 to 2006, focusing on the contextual variables, economic constraints and political contexts that have influenced the institutional variables and actors’ power resources that we discussed in Chapter 5. As with the analysis of Argentina, the dependent variable, presidential control over the budget, is operationalized by tracking three indicators: changes introduced by Congress to the executive’s budget proposal, adjustments made to the budget bill during its implementation, and the number of days the legislature took to approve the budget. A historical and qualitative perspective of how public spending has changed over the period is also given. The data used has been collected from budget documents, interviews, and media coverage. The explanatory variables are economic stability, whether the president’s party had a majority in Congress and its degree of party discipline, the president’s partisan control of governorships, the capacity of each president to modify the budget throughout the fiscal year, and actors’ power resources.

environment that lasted until the date of writing this dissertation. It also transitioned from hegemonic party rule to a divided-government situation, and has seen a steady deepening of democratic procedures. Congress has seen an evolution of its role in the budget approval process, moving toward a more proactive role. Former and current legislators interviewed agreed that the budget has been the most important legislation in congress because it involves a large number of committees and all the political parties.\(^1\)

Although Congress has became a more proactive actor after the hegemonic party system period came to an end in 2000, the executive still has strong control over the budget. It remains the most powerful actor in the budget process thanks chiefly to its advantages in information control and the legal capacity to reassign expenditures during the budget execution. Still, legislators have increased their relative power, as measured by the number of amendments introduced to the budget proposal. These are normally in the form of increased state transfers and revenue sharing to their states. The fact that bargaining is generally directed toward transfer payments, as well as items like social spending and infrastructure, illustrates the increasing force of governors, more so than Argentina. State executives have augmented their strength through decentralization of clientelism, and by increasing their influence over the nomination of candidates and legislators’ political careers – powers which were previously concentrated in presidency during the period of PRI hegemony.

This chapter establishes that the main factor influencing whether legislators make modifications to the executive’s budget proposal is not economic growth or lack thereof, but the presence of a divided-government situation and party fragmentation. Also, we can

\(^1\) Interviews conducted for this research in Mexico City during 2008 and 2009.
see that control over informal institutions influences actors’ power resources, and therefore affects final budgetary outcomes.

Since the 1930s, Mexico has had a largely stable political system, without any coups d’état since the 1917 Revolution. It grew economically in a significant way and managed to recover from several economic crises. The Mexican miracle was based on a hegemonic-party system, a sort of permanent dictablanda (Casar 2010). The ruling party, the Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI), controlled most arenas of political life in Mexico, including the three branches of government, the state governments, and the various labor sectors. As Lehoucq, Negretto et.al (2008) point out, such analysts as Samuel P. Huntington were impressed by the PRI’s apparently perfect combination of political stability and economic growth. The same authors note that this combination was consistent with Spiller and Tommasi’s (2007) claim that a smaller number or actors or veto players, are more able to build stable inter-temporal agreements helping sustain policymaking processes.

When democratization processes began to sweep Latin America, around the 1980s, the Mexican miracle began to be questioned for its lack of political competition (O’Donnell, Schmitter, et al. 1986). The debate about the type of regime that Mexico had

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2 Mexican political institutions showed a great deal of stability and capacity for survival, and they also had the needed flexibility for change and adaptation to different contexts and pressures from diverse opposition groups. By maintaining a symbiotic relationship between the Mexican state and the PRI, political leaders managed to maintain governability. There were three fundamental rules of the regime: first, to hold periodic elections, although they were fraudulent and based on clientelistic mechanisms; second, to allow opposition parties to compete in these unfair elections; and third, to maintain the no reelection clause which governed the president. The first two imperatives gave legitimacy to the regime, while the last one guaranteed change in leadership and gave everyone within the party’s upper echelons a chance to hold the presidential seat every six years (Garrido 1986). The PAN, a traditionally right-wing party, and leftist parties, could compete in every election, but rarely had a chance of winning against the “all powerful” PRI, which portrayed itself as the “true representative of the Revolution’s values” (Garrido 1986).

3 Those regimes “where they [political authorities] liberalize without democratizing (i.e., where they concede certain individual rights but do not render themselves accountable to the citizenry), the hybrid has been labeled dictablanda” (Schmitter 1994, 59).
and the need to democratize it became the center of attention. Political liberalization was attempted through small steps taken by the PRI’s leaders – that is, the presidents. Liberalization preceded democratization, laying the foundations for opening of the political process and greater inclusion and representation of different political and social groups.\(^4\) The party system underwent a sea change, from being a hegemonic-party system for more than 70 years, to having a plural and more representative party system with a more even field for electoral competition. The situation of Congress changed from being dominated by the president’s party to a situation of divided government that altered the informal rules of the game, increasing the influence of legislators and governors in the budget process, and decreasing the unilateral authority of the president.

A deeper discussion about the real powers of the president, *meta-constitutional* powers, and the weaker powers given to the president by the Constitution became even more relevant as the PRI, for the first time, lost the majority in congress in 1997, and the presidency in 2000 (Casar and Marván 2002; Elizondo and Nacif 2002). Many scholars agreed that in the PRI-controlled regime, Congress was a reactive and marginal actor with no real influence, but with latent powers (Díaz Cayeros and Magaloní 1998; Sour 2007). In the post-transition phase, studies began questioning the implications of these changes for the budget process and policymaking in general (Casar 2001, 2002a; Casar and Marván 2002; Weldon 2002, 2004; Lehoucq, Negretto, et al. 2008). The budget process was again put under a microscope, particularly the need to reform some rules and adapt them to the new circumstances of the country (Chávez Presa 2000; Gutiérrez 2001).

\(^4\) Liberalization, as understood by Przeworski, is a top-down unstable process, the first phase of democratization, and one that can be reversed easily (Przeworski 1991). Due to this definition of the concept, Elizondo and Nacif say that “Mexico seems to have reached democracy through an unexpected route: through political liberalization” (2002, 13).
Moreover, the turn toward the study of informal institutions and their possible influence in Mexican politics has deepened the literature, bringing in an additional lens for explaining political phenomena and distribution of power (Langston 2006; Ai Camp 2008; Langston 2008; Middlebrook 2009). Finally, new analyses have begun to synthesize these literatures, calling attention to the shifting relationships of power amid a context of still-entrenched democratic deficits (Farfán Mares 2010; Velázquez López Velarde 2010; Selee 2011).

Several changes to the legal framework of Mexico’s political structure⁵ were important to the liberalization and later democratization processes undergone by the country since the mid 1970s. Together with changes in their formal counterparts, informal institutions also experienced transformations. Both impacted the re-composition of political forces in Mexico, lessening the executive’s leverage, and augmenting Congress’ and state governors’ influence over political decisions and policymaking, including the budget process.

This chapter begins with a description of the economic context and how public expenditures have changed over the period. The following sections are divided by presidential administration, covering Ernesto Zedillo’s government (1994 – 2000), and Vicente Fox’s years (2000 – 2006). Each of these sexenio-based⁶ sections covers the economic constraints faced by each leader, the political panorama (configuration of congress and governorships), and analysis of each year’s budget process.

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⁵ That is, executive powers, legislative configuration and powers, party and electoral rules, and fiscal and budgetary regulations.

⁶ Sexenio means the six-year term of a president in Mexico.
THE ECONOMY AND ITS IMPACTS ON PUBLIC SPENDING

Mexico undertook a series of economic liberalization reforms after the debt crisis of 1982, with president Miguel de la Madrid (1982 – 1988), and these were continued under president Carlos Salinas (1988 – 1994). Like Argentina, Mexico followed the guidelines of the Washington Consensus, as De la Madrid and Salinas tackled basic fiscal deficits and tried to balance the budget. Their administrations also focused on the reduction of the state bureaucratic apparatus, and overhauled tax policy by broadening the tax base and privatizing public enterprises. Along with such measures as the privatization of banks, reduction of the bureaucracy, and tightening control over public finances, the North American Free Trade Agreement (NAFTA) was signed between Canada, the United States, and Mexico, and came into force in 1994.

In December 1994, just as president Ernesto Zedillo was inaugurated, the Mexican devaluation crisis (Tequila Crisis) struck, leaving the country in its worst condition since the 1980s. The crisis was a combination of the overvalued exchange rate, and the 1994 political turbulence, which generated market uncertainty and doubts in international investors and IFIs. In 1995, GDP decreased by 6.20 percent, inflation reached an annual rate of 35 percent, and external debt rose from 30 percent of GDP in

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7 The Debt Crisis was a financial crisis caused by Latin American countries not being able to fulfill their debt services. The accumulation of foreign debt happened during the 1970s, and in August 1982, Mexico declared a 90-days moratorium because it could not longer pay debt services. This was the trigger for similar situations in the Latin American region.

8 In particular, the Chiapas uprising, the assassination of PRI presidential candidate Luis Donaldo Colosio, and the assassination of José Francisco Ruiz Massieu, Secretary General of the PRI, engendered serious concerns about Mexico’s stability and spooked investors.
1994 to almost 53 percent of GDP. Unemployment and poverty rates also escalated. As with Argentina in December 2001, Mexicans discovered that their peso was overvalued and that the government’s fight to maintain it was unsustainable. Macroeconomic indicators recovered after eighteen months, due to US assistance and restrictive economic and financial policies conducted by Zedillo’s government. He also quickened the pace of trade opening.

**Figure 6.1. Mexico’s Macroeconomic Indicators, 1994 – 2007**

After the 1994 – 1995 crisis, macroeconomic indicators improved (Figure 6.1,) and due to the export stability brought by NAFTA, the South East Asia crisis did not hit

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9 The OECD Journal on Budgeting for Mexico, underlines that there is a general consensus that the economic and political reforms taken after the Tequila crisis have been key to the rapid recovery process of Mexico and its maintenance of a healthy and prudent fiscal environment (OECD 2009, 27).
as hard as it did in Argentina. After 1997, GDP grew over 4 percent annually up until 2001. Inflation was effectively controlled, as was the acquisition of external debt.\(^{10}\)

In 2001, GDP growth fell again, mainly because of the deceleration of the US economy. After president Fox took office in December 2000, a brief period of stagnation began, and although Mexico was not directly impacted by the Argentine crisis in 2001 – 2002 (contrary to what happened in Argentina with the Mexican crisis of 1994), the economy did not grow at an annual rate above 4 percent of GDP for all Fox’s administration. This becomes particularly important when we see the increase in commodity prices (energy and agriculture) from 2000 to 2007. See Appendix V, Figure 2.

\textbf{FIGURE 6.2. MEXICO’S EXECUTED TOTAL BUDGET EXPENDITURES AS PERCENTAGE OF GDP AND GDP GROWTH RATE, 1994 – 2007}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure62.png}
\caption{Executed Expenditures as Percentage of GDP and GDP Growth Rate, 1994 - 2007}
\end{figure}

Source: data from the World Bank and the Secretaría de Hacienda, author’s own elaboration.

\(^{10}\) This was after 1995, when the US government granted Mexico a US$ 20 billion loan to rescue the banking system.
Figure 6.2 represents public spending as percentage of GDP during the period. Overall, expenditures remained more or less constant, but one observation is worth making. Public spending was slightly increased after stagnation years (1995 – 1996, and 2001 – 2002), because, as in Argentina, government spending policy was countercyclical.

**ACCOUNTING FOR VARIATIONS IN THE BUDGET**

Following the same methodology used for the Argentine case, my analysis of presidential control over the budget in Mexico is grounded on three indicators: changes introduced by Congress to the executive’s budget proposal, changes made by the executive during the budget implementation, and the relationship between those changes and the number of days Congress took to pass the budget bill. Two presidential administrations are covered, and within each administration I analyze each year’s budget process. As in the case of Argentina, two caveats must be mentioned. First, the literature and interviews concur that the bulk of budgetary negotiations occur either before the budget proposal is sent to the legislature during formulation, or in a series of informal meetings.11 These informal agreements always involve the executive, while the degree of participation of legislators, governors, and other actors has varied over time. The second caveat concerns the possibility of amending the budget bill during its execution, which indicates that the approval phase is by no means definitive. As we saw in Chapters 3 and

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11 Public servants, legislators, government officials, and others, mentioned during the interviews conducted in 2008 and 2009 that the real negotiations are done in informal arenas, and that a bulk of those are made during the formulation of the budget.
4, the Argentine formal framework does not allow the president to change the approved budget, although he managed to do so through Necessity and Urgency Decrees, and delegation of powers from Congress to the Chief of Cabinet. Contrary to the Argentine case, the Mexican legislation, the Constitution and secondary laws, do not establish restrictions for the executive to amend the approved budget Decree during its execution.\textsuperscript{12}

On the one hand, members of congress are willing to cede their oversight powers by entering into an exchange based on goods and services, pork for their districts, and their future political careers. On the other hand, legislators get the executive to honor pledges during execution through their future votes on legislative matters.

I account for variations over time in the budget process by tracing three variables: the stability and growth of the economy, the political context of the country (composition of congress and governorships, and parties’ fragmentation), and actors’ power resources (as described in Chapter 5).

\textbf{Ernesto Zedillo’s presidency (1994 – 2000)}

Ernesto Zedillo was elected president of Mexico in July 1994, obtaining 50.1 percent of the vote. He was the second PRI candidate for president in that election, after the original anointed candidate, Luis Donaldo Colosio, was assassinated during a campaign event. Zedillo took office in December,\textsuperscript{13} and soon afterwards found himself


\textsuperscript{13} In Mexico, almost 6 months separate election and inauguration. Presidential elections take place the first Sunday of July, and inauguration day is December 1. This gap has been widely criticized by media and academics.
facing the most recent of Mexico’s economic debacles, the Tequila Crisis. The rapid forced devaluation of the peso put the incoming president in a vulnerable situation, spurring criticisms of the hegemonic party system ruled by the PRI, and highlighting the need for political competition.

**From crisis to fiscal and economic stability**

The early 1990s were a time of intense hope in Mexico. President Salinas had stabilized the economy and returned it to sustained growth, signed a free trade pact (NAFTA) with Canada and the United States, and these achievements in the economic arena bore dividends for the PRI’s popularity. The Salinas administration and the international press praised these achievements as heralding the entry of Mexico into the developed world. These hopes, however, suffered a series of setbacks beginning in 1994. First came the Chiapas uprising, then two major political assassinations (Colosio, and José Francisco Ruiz Massieu, Secretary General of the PRI) and the subsequent replacement of the popular presidential contender Colosio by the uncharismatic, Zedillo. All this dealt severe blows to Mexico’s credibility in the eyes of investors and IFIs. Then, Salinas’s economic decisions – seven percent deficit of public accounts, the emission of governmental bonds, the lack of international reserves, and the overvalued exchange rate – and Zedillo’s maintenance of his predecessor’s economic policies, were the principal causes of the crisis. It all culminated in the devaluation of the Mexican peso in December 1994.

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15 Colosio, and José Francisco Ruiz Massieu, Secretary General of the PRI.
16 The Tequila crisis had a deep impact in the region, as exemplified with Argentina.
The crisis was detonated when, in December 1994, president Zedillo announced to some investors and Cabinet members that a controlled devaluation of the peso was to occur at a near point in time, from 3.4 to 4 pesos per US$, while still maintaining the peso’s strength within a band. The news of this decision was leaked, however, and the rumor precipitated capital flight. The government was forced to move the devaluation forward, to December 20, 1994, when it announced devaluation within an exchange rate target band. As capital flight continued, however, the government announced on December 22, 1994, that they would allow the peso to float. In one week the exchange rate reached 7.2 pesos per US dollar.\textsuperscript{17} Real wages fell about 20 percent in a few months.\textsuperscript{18}

The policy solutions taken by Zedillo were to maintain a floating exchange rate, to harden fiscal policies and austerity measures, and to continue to open trade. The increase of exports helped the country recover, and by 1997, Mexico started repaying loans from the US. GDP grew an average of 5 percent per year from 1996 to 2000. This was fueled in part by policy autonomy as Mexico had finally implemented prudent economic, fiscal, and monetary policies, and separated these decisions from political pressures (OECD 2009). But poverty and inequality were hardly ameliorated; poverty increased from 20 million to 26 million people between 1994 and 1999 (Ai Camp 2007), reflecting the depth and impact of the 1994 crisis.

\textsuperscript{17} Salinas referred to Zedillo’s announcement of devaluation to investors as the “December mistake.”
\textsuperscript{18} For a deeper understanding of the crisis see Gil Díaz and Carstens (1996).
From PRI hegemony to the first divided government experience

The PRI governed Mexico for more than 70 years, maintaining an unbroken hold on the presidency and most of the seats in Congress, state governments and municipalities. It was considered a “state party” because of its public funding, the number and size of organizations included within its essentially corporatist structure, its control over electoral processes for all public positions, and its control over nominations of candidates and their careers which was centralized in the president and a handful of other PRI bosses. The chief executive was also the de facto leader of the party and had the power to name and remove not only members of his cabinet, but also governors, congressmen, and any other public officials. Most importantly, the president routinely chose his successor. Those features, known as meta-constitutional powers (Casar 2002a; Weldon 2002; Casar 2010), allowed the party, and especially the president, to have absolute control of Mexican politics and policy-making.19

The power of the president was deeply institutionalized, but was also based on informal arrangements. As shown in Chapter 5, Mexican presidents do not have legal-institutional advantages over other actors; rather, in Mexico presidencialismo or hyper-presidentialism, was of an informal nature.20 As Casar puts it, “the exceptional character of the Mexican case is that the executive has managed to nullify the action of the political institutions conceived by the Constitution to share and counterbalance presidential power” (2002b, 42).

Within this context the PRI sent yet another loyalist, Ernesto Zedillo, to the presidential offices at Los Pinos in 1994. General elections also renewed both Chambers

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19 For further details on this, see Chapter 5.
20 See Chapter 3 of this dissertation on Argentine hyper-presidentialism.
of Congress in that year. The PRI won the presidency and an absolute majority in Congress, holding 74.2 percent of the Senate seats from 1994 to 1997, and 60 percent of seats in the Lower Chamber. The president’s party controlled 93.5 percent of the governorships in 1994 (See Table 5.2 in Chapter 5.) The second political force of that period was the National Action Party (*Partido Acción Nacional*, PAN), which won 19.5 percent of the seats in the Senate and 23.8 in the Chamber of Deputies (see Tables 6.1 and 6.2). The leftist Democratic Revolution Party (*Partido de la Revolución Democrática*, PRD) was the third political force.21

**Table 6.1. Composition of the Mexican Senate, 1994 – 2009**

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</thead>
<tbody>
<tr>
<td>Partido Revolucionario Institucional</td>
<td>74.2%</td>
<td>60.2%</td>
<td>46.9%</td>
<td>44.5%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Partido Acción Nacional</td>
<td>19.5%</td>
<td>25.8%</td>
<td>35.9%</td>
<td>36.7%</td>
<td>39.8%</td>
</tr>
<tr>
<td>Partido de la Revolución Democrática</td>
<td>6.3%</td>
<td>12.5%</td>
<td>11.7%</td>
<td>11.7%</td>
<td>20.3%</td>
</tr>
<tr>
<td>Others</td>
<td>0.0%</td>
<td>1.6%</td>
<td>5.5%</td>
<td>7.0%</td>
<td>14.8%</td>
</tr>
</tbody>
</table>

Total number of seats: 128 128 128 128 128

Source: CIDAC, Base de Datos Electorales.

**Table 6.2. Composition of the Mexican Chamber of Deputies, 1994 – 2009**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Partido Revolucionario Institucional</td>
<td>60.0%</td>
<td>47.6%</td>
<td>42.0%</td>
<td>47.4%</td>
<td>21.2%</td>
</tr>
<tr>
<td>Partido Acción Nacional</td>
<td>23.8%</td>
<td>23.6%</td>
<td>41.4%</td>
<td>28.6%</td>
<td>41.2%</td>
</tr>
<tr>
<td>Partido de la Revolución Democrática</td>
<td>14.2%</td>
<td>25.0%</td>
<td>10.4%</td>
<td>13.8%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Others</td>
<td>2.0%</td>
<td>3.8%</td>
<td>6.2%</td>
<td>10.2%</td>
<td>12.6%</td>
</tr>
</tbody>
</table>

Total: 100.0% 100.0% 100.0% 100.0% 100.0%

Source: CIDAC, Base de Datos Electorales.

Note: To see the disaggregated composition of both Chambers of Congress (SMD and PR seats), see Appendix VIII.

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21 It is useful to note that PRD was formed by the major schism of the PRI’s history, right before the 1988 presidential elections.
The economic crisis of 1994 – 1995 and the corresponding loss of credibility of the ruling party gave the political opposition a window to attain the political support needed for historic victories and a shift in control of Congress in the midterm elections of 1997. For the first time in the PRI’s history the party lost the absolute majority in Congress. During the second half of Zedillo’s administration, the PRI had 47.6 percent of the Deputies, while retaining full control of the Senate. Meanwhile, although the PAN held steady by retaining 23.6 percent of the Lower Chamber’s seats, it increased by 6 percent its presence in the Senate, and the PRD became the second political force in the Chamber of Deputies, with 25 percent of the seats.\textsuperscript{22} Lehoucq, Negretto, et al. (2008) illustrate how after 1997, the number of executive initiatives sent to Congress diminished, and so did the ratio of legislation approved to legislation introduced. With PRI control over the legislature diminished, the legislature lost much of its rubberstamp character and legislators began introducing and approving more of their own initiatives.

Along with the midterm elections for congress, the citizens of Mexico City elected the city’s Chief of Government for the first time, resulting in a major victory for the PRD. The president’s control over the provinces was diminished, because the two leading opposition parties now held 7 governorships (See Table 5.2, in Chapter 5). This allowed the PAN and the PRD to appropriate state clientelistic structures and use the corresponding power to favor their own candidates for national Congress and control their political careers. This marked a change in governors’ roles, as noted by Camp

\textsuperscript{22} This advancement of the center-left PRD can be traced to the need to look for solutions to the Chiapas uprising of 1994. Three years after Zedillo had taken office, the Zapatistas (Ejército Zapatista de Liberación Nacional, EZLN) were still at the center of political and social discussions. Other armed groups also started appearing in Mexico.
(2008), in that democratization decreased geographic centralization of resources and powers, increasing the number of prominent actors on the national scene.

Two more significant changes occurred around the midterm elections. In 1996 the national electoral authority, the Federal Electoral Institute (Instituto Federal Electoral, IFE) was granted autonomy, stripping control of electoral processes from the executive’s hands.\(^{23}\) Also important was the formation of the National Governors’ Conference (Conferencia Nacional de Gobernadores, Conago), which was formed in 1999 with the goal of forming a united front that could counterbalance the president. These two events signaled not only the ongoing democratization of the country but also the decentralization of power resources once held mainly by the national executive.

Against his own party’s will, Zedillo helped to push forward Mexico’s transition from authoritarian rule. This process was slow, stretching over years of incremental changes. The transition was influenced by the aftermaths of economic crises, convoluted political events, and an increasingly demanding political opposition and civil society. President Zedillo aided democratization in a passive manner, by deciding not to intervene in electoral and political processes, and by recognizing immediately the victory in the 2000 election of Vicente Fox, the first PAN candidate to win the presidency, in 2000.

**The budget during Zedillo’s administration: an evolving process**

By the mid 1990s, Mexico’s economic and political spectra had been in a state of constant flux, and more changes were to come during Zedillo’s government. While

Mexican state and society became more liberal and democratic, the formal budgetary process was almost unaltered since 1976, despite strenuous calls for reform by some scholars and critics of the regime (Chávez Presa 2000; Casar 2001; Gutiérrez 2001; Weldon 2002).  

The budget was seen as a topic related mainly to the executive branch, and spending was controlled by the Secretary of Treasury and his closest lieutenants and cronies (Bailey 1984). Certain characteristics of the budget process were evident under *presidencialismo*, as described by Lehoucq, Negretto et al. (2008): limited access (only a few actors were involved in its formulation), and secrecy (neither the judicial branch, nor congress oversaw the executive on this matters).

The budgets for 1995, 1996, and 1997, were all submitted on time to Congress, and the bills were passed on time. The executive’s proposals were not amended by the legislature, as shown in Figure 6.3. During the approval phases of 1994, 1995, and 1996 (that is, pertaining to the years previous to the implementation of the budgets), the PRI majority in the Chamber of Deputies was sufficient to approve the president’s budget with no changes. Opposition parties voted constantly against the passage of the Budget Decree, but they did not have the strength to reject the bill. Opposition parties also lacked the strength to effectively amend the Budget Committee reports, which were also controlled by a PRI majority. Even in December 1994, after the devaluation of the peso, there were no adjustments made to the Budget Decree for 1995 and the opposition

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24 These reforms meant to congress more time to review the budget proposal, stipulate a reversion point (what was to happened if the budget is not approved by the beginning of the fiscal year), and improving the quality of information giving by the executive to congress along the year.

25 The budget proposal for 1995 was introduced to Congress on December 9, according to the Constitution, which stipulates that on the year that a new president takes office, the budget proposal should be sent to Congress no later than December 10. See details in Chapter 5.
parties, PAN and PRD, could only complain. All the changes were introduced later by the executive, during the year. The process for the next two budgets played out the same way. But although no changes were made in total spending, appropriations were shifted toward social spending, assistance programs, and resources relative to the states and municipalities.

At the beginning of Zedillo’s term, opposition parties began to question and criticize a particularly controversial spending item reserved for the use of the executive and without any specific accountability provisions: the presidential secret account (*partida secreta*). Historically that spending item was considered a “*de facto* delegation mechanism” (Aguayo Quezada 1997) from congress to the president as a means to secure discretionary spending. The first blow against this practice was struck when, for the 1996 budget, the Chamber of Deputies reassigned some resources of the executive’s secret account in order to transfer them to the states. Meanwhile, the PRD demanded in a parliamentary session that the secret account be eliminated, or to establish legislative controls over it, a measure that was meant to bring more transparency to the budget in general and to the president’s spending in particular. As a result of this pressure, in the 1996 budget, the *partida secreta* represented only eight percent of total expenditures, the least amount allocated for the last three presidential terms (sexenios) – that is, almost two decades.

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26 See Reforma, December 23, 1994. The PRD fraction started shouting at the end of the voting session on the floor “we were plundered by the PRI again” (*No que no, sí que sí, nos volvió a saquear el PRI*).
28 See Article 74 of the Mexican Constitution. For more details on the *partida secreta* and its use by different presidents, see Jaime and Avendaño (2011).
Figure 6.3 shows in percentage terms the changes introduced by Congress to the executive’s proposal, without specifying if those changes were budget cuts or increases. It illustrates the change after the president’s party lost the majority in the Chamber of Deputies in the 1997 midterm elections. Before that point, the legislature simply passed the executive’s budget proposal without amendments; after the end of the PRI’s majority, adjustments to the budget proposal began to be made. The fact that the Senate is not involved in the discussion and approval of expenditures, made the PRI majority in that Chamber irrelevant as a veto actor, but it served to secure projected revenues and tax policies in most cases. The Senate, although it was constitutionally excluded for the approval and audit of the expenditures budget, was involved in the approval of the revenues law. Through the revenues law, the Senate intervened, at least indirectly, on
how much money would be allocated, even if senators did not have a say in how will those resources be spent.

During 1997, the first divided government in the PRI era, the discussion over the budget was characterized by significant shifts in procedures around the approval phase of the budget. For one thing, the president’s secret account was eliminated, without objection by the president. While the practice itself was not banned, the account was effectively defunded. Also of great significance was the exercise by Congress of its power to introduce changes to the budget. The meta-constitutional powers of the president were weakened by the PRI’s loss of an absolute majority in the Chamber of Deputies, accompanied by the decentralization of clientelistic networks and nomination of candidates to the governors and parties (Casar 2001; Weldon 2002, 2004). Nevertheless, the amendments made for the 1998 and 1999 budgets were done in consultation with SHCP (Weldon 2004). The amounts increased in both years were for revenue sharing with the states, and for congressional spending. While to an extent this favored the opposition, especially the PAN, overall it also serves to demonstrate governors’ power in the system and their influence over legislators.

Legislators cut the 1998 budget, and decreased the total amount again in 1999. The latter was reduced by one percent (more than 1 thousand millions US dollars), as shown in Figure 6.4. The cuts responded to the fall of oil and energy prices, and followed a PAN amendment on revenues.\textsuperscript{29} Expenditures had to be adjusted and reduced for the Federal Electoral Institute (IFE), Congress, the Judiciary, and some executive agencies.

\textsuperscript{29} The amendment eliminated a tax increase on telephones, which had been proposed by the Zedillo administration.
The discussion for the 1999 budget was held in extraordinary sessions, and the Budget Decree was finally passed on the last day of December. News media and analysts underlined the fact that without a reversion point in the law, the last-minute approval showed how near the country came to institutional paralysis. This “brinksmanship” would recur over the next six years (Heath 1999; Casar 2001; Gutiérrez 2001). The budgets for 1998 and 1999 were approved with the votes of PRI and PAN, through a series of contentious debates, and excluding the other opposition parties, which voted against the Decree. (See Appendix II, Table 2)

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30 As noted in previous chapters, the reversion point is the mechanism (e.g. implement last year’s budget, implement the one up for approval, etc.) by which the executive acts if a fiscal year starts and there is no approved budget to execute.

31 The negotiations between PRI and PAN were based on the adjustments made to the tax on telephones, and the compromises for elevate taxes to diesel and alcohol beverages prices. Also, the increase of transfers to states and municipalities were a victory for the PAN (Casar 2001). In terms of economic policies and preferences, PRI and PAN were the parties closest to one another in policy preference.
The budget proposal for 2000 was sent to the Chamber of Deputies on time, but was approved only on December 28, 1999. The political game became more complex. Opposition parties were positioning themselves against the government for the presidential elections of 2000, but were unable to build a stable coalition. The PRI maintained its discipline, but the closeness in time of presidential elections sabotaged the prospect of an alliance on the budget with the PAN (Sarmiento 1999). Three expenditures proved particularly problematic: resource transfers to the states, the bank rescue after the banking crisis of 1999, and social spending. Two extraordinary sessions and several rounds of votes were needed to approve the budget. By the end of the maneuvering, the majority report was passed with 465 votes in favor (PRI, PAN, PRD, and the smaller parties), but fourteen articles were reserved for individual votes. These separate votes saw...
*ad hoc* party alliances shift based on the particular issue under discussion. On ten articles, the PRI was defeated by an opposition coalition formed by the PAN and the PRD. On the remaining articles, the PRI was able to win by allying with the smaller parties, and by gaining some votes from defections from PAN and PRD legislators.\(^\text{32}\) Total spending was increased only slightly (0.6 percent), which avoided an official recalculation of the oil price forecast. However, projected oil prices were increased within the legal band (from US$ 15.50 to US$ 16), and many items were redistributed.\(^\text{33}\) Among those increases, the most significant were 16.6 percent on regional and urban development, 6.4 percent for social assistance, and 4.3 percent for economic services, all of which favored the states. This pattern of voting is largely explained by the proximity of elections. Impending elections make opposition parties less likely to cooperate with government, and extra rounds of negotiations will be required. The official party will ally pragmatically in order to get the votes needed to pass its proposal.

The voting processes for the budget approval during Zedillo’s presidency reveals several things: first, the difficulty of passing a budget in a divided-government situation; second, the still-impressive party discipline of the PRI, and the unstable discipline of PAN and PRD; third, that defections within the parties could mean the victory of another party. This was shown in the approval of the 2000 Budget Decree.

While bickering and deal-making captured the attention of the media, scholars, analysts, and the general public, the amendments had little impact. In the end, the

\(^{\text{32}}\) One of those articles in which the PRI defeated the opposition parties was relative to the banking rescue, a measure that PAN and PRD had explicitly criticized and wanted to cut by 250 thousand US$. In that vote, the president’s party won due to the unexplained absence of 9 PAN legislators. See Reforma, December 29, 1999, and Casar (2001).

\(^{\text{33}}\) The victory for the opposition were the change of projected oil prices, an increase on transfers to states and municipalities, an increment on a special Fund for states, and the inclusion of a new governmental program which would benefit five provinces, two controlled by PAN, two by PRI, and 1 by PRD.
executive simply utilized his power to reassign resources during the course of the fiscal year to circumvent budget amendments introduced by the legislature, or to simply readjust to new economic circumstances. The approved budgets were adjusted every time, as shown in Figure 6.5.

**Figure 6.5. Adjustments made to the Budget Decrees during their execution, 1994 – 2007 (Total Spending vs. Primary Spending)**

Changes introduced to the Approved Budget during its Execution in Mexico (Total Spending vs. Primary Spending)

Source: author’s own elaboration of data from Approved Budget Bills and Executed Expenditures, Diario Oficial de la Federación and SHCP reports.

In most of the years, changes in total and primary spending (excluding debt payments) move together. The exceptions to this general rule are the 1995 executed budget, which was significantly increased due to the acquisition of foreign debt to alleviate the Tequila crisis, and the 2005 – 2007 period, which will be discussed in the next section. These annual adjustments by the executive reflect a reality in which Congress does not constrain the executive, in particular the SHCP, after the approval
phase of the budget, leaving the president room to maneuver as he wishes (Farfán Mares 2010).³⁴

Zedillo’s term signaled changes in the structuring of political forces, the increasingly proactive role of congress, due to a divided-government situation, and some restraint on the president’s freedom regarding discretionary public spending (i.e., the secret account). The term introduced a new phase of more competitive politics and some gains in influence by the legislators and the governors.

**Vicente Fox’ government (2000 – 2006)**

Vicente Fox was the first president to be elected from the PAN, and the first non-PRI candidate to win the presidency of Mexico since the Mexican revolution. Fox broke 72 years of PRI rule by winning the elections with 43.4 percent of the vote, while the PRI’s Francisco Labastida obtained 36.9 percent of votes. The PRD’s Cuauhtémoc Cárdenas, running for the third time, was left in third place.

It was expected that Fox would win the election, as his campaign and his background had been very attractive to citizens. It was also expected that the new president would introduce changes in terms of the economy and the political life of the country. These expectations derived in part from the fact that he was not a career politician or a core militant of the PAN. He had governed the state of Guanajuato, but before that, he was a businessman, and he had a distinctive, relaxed style that differentiated him from traditional politicians. But the qualities that made him run a

³⁴ Farfán suggests that “effective budgetary discretion benefits the central government almost as a rule, at the expense of autonomous bodies which includes the Legislature” (2010, 174). He mentions that only the Mexican executive enjoy a “free hand over expenditure reallocation” (159).
successful campaign (i.e., a charismatic, but inexperienced leader and statesman), ended up damaging him during his presidency. These perceived inadequacies, in addition to a US economic deceleration in 2001, caused his six years in government to fall short of popular expectations. Nevertheless, the election of Fox as chief executive, with the acquiescence of president Zedillo, signaled a major step toward a democratic regime, marking an end point to the long Mexican transition (Casar 2002b; Elizondo and Nacif 2002; Middlebrook 2004; Lehoucq, Negretto, et al. 2008; Smith 2009).

No domestic crises, but not enough growth

While many Mexicans were eager to see the end of PRI hegemony, the Mexican economy was in a good shape at the end of Zedillo’s term. For the first time in many changes of government, there was not an economic crisis during the transition.35 When Fox took office in December 2000, Mexico had experienced five years of continued growth and low inflation rates. In 2000, the country reported GDP growth of 6.6 percent, and 10 percent inflation, the lowest since 1994, which led to a decrease in unemployment. The external debt had also been reduced.

Unfortunately, the favorable economic vista of 2000 did not last. In 2001 the US entered a recession that inevitably impacted Mexico.36 Fox did not change the economic, fiscal, and monetary policies of his predecessor. While oil prices rose in 2000-2004, they

35 Regardless of the favorable economic conditions of the country, voters were reluctant to give credit to Zedillo, and they feared another “end of the sexenio crisis.” Contrary to the perception voters had of the PRI in the 2000 elections, they trusted the administrative and management capacities of Fox, so they were inclined to vote for him also for economic preferences. In addition, his slogan of “getting the PRI out of Los Pinos” resonated widely (Buendía 2004).
36 The US is Mexico’s first commercial partner, so changes in the US economy always impact Mexico’s economy.
stabilized until 2004, so the government could use increased oil revenues to cushion the recession’s impact.

Mexico’s economy did not grow as Fox had promised, due to a variety of factors: the US recession, the impacts of NAFTA (increases in exports, but no amelioration of unemployment and the devastation of rural areas), stagnant poverty rates, and foreign investors’ rush to other countries and regions rather than Mexico (Ai Camp 2007). Despite the increase in oil prices, GDP showed negative 0.2 percent growth in 2001, and in the years that followed it hardly recovered at the pace needed to ameliorate poverty and inequality. The average growth of GDP during Fox’s *sexenio* was 2.54 percent. This contrasted especially with the growth of other countries in the region, e.g. Argentina (See Chapter 4). Nevertheless, inflation rates were down, dropping from 6.4 percent in 2001 to 3.6 percent in 2006. Fiscal discipline was a way to sustain the Mexican economy during this period, despite the beginning of the global recession.\(^{37}\)

Despite low growth, Fox’s administration managed to sustain the macroeconomic and financial stability gained during Zedillo’s administration. The problem was that additional structural reforms were needed in order to consolidate these improvements (OECD 2009).

**The first PAN president, changing political contexts**

The Mexican transition to democracy is often described as a smooth process without any rupture within the regime or significant alteration of the political system and its legal institutions (Elizondo and Nacif 2002). Even though no drastic rupture occurred

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\(^{37}\) For more detail on this issue, see the OECD’s *Journal of Budgeting* on Mexico (2009).
in Mexico, the changes in the relationship between actors regarding the budget process reveal at least a moderate fissure. Presidential control over the budget also changed as a result of the transition.

The composition of Congress after the 2000 elections reflected the political changes in the country, increasing electoral competition among parties, and the re-composition of power structures in the country. The PRI lost its majority in the Senate, winning only 46.9 percent of the seats, while the PAN won 35.9 percent and the PRD 11.7 percent. In the Chamber of Deputies the PAN had 41.4 percent of the seats, increasing significantly their fraction, while both PRI and PRD lost ground in comparison to the 1997 elections (they had 42 percent and 10.4 percent respectively). No party a standalone majority. Thus, a divided government situation continued and the PAN had not only to govern the country for the first time, but also to do so without a majority in Congress.

The composition of governorships in 2000 reflected a different political map: while the PAN controlled 7 states, and the PRI 20 states, the real winner in terms of relative position was the leftist party. The PRD increased its control over governorships going from one in 1997 to five in 2000 (maintaining control of the government of Mexico City).

The loss of the presidency in 2000 did not mean the collapse of the PRI. The 2003 mid-term elections proved this, when even though the PRI lost two more states’ governorships and some seats in the Senate, in the Lower Chamber the PRI regained some seats. During the second half of Fox’s administration, the PRI held 47.4 percent of seats in that Chamber (reaching almost what they had in 1997). President Fox’s perceived
failures were punished as his party’s share of the lower house fell to 28.6 percent of seats. The PRD also gained more seats than in the 2000 election, and an array of smaller parties (PT, PVEM, and others) held more than 10 percent. This made smaller parties an easy target for the PRI to make coalitions in order to pass its agenda.

Gradually, a more balanced distribution of power among branches of government began to emerge, as decentralization processes gave more resources to the states, and economic and budgetary policy began to be of a more programmatic and less discretionary nature. Mexico faced the real conflicts of a presidential democracy after 1997: divided-government situations and difficulties in reaching agreements. Control over informal institutions shifted to the states, but the PRI still held most of the governorships so while clientelistic networks became more locally and regionally based, their control remained mostly in PRI’s hands. The PRD made Mexico City its bastion of clientelism and mobilization. Nomination of candidates and control over legislators’ political careers also gravitated toward the states, an example of change in the power resources of the president and governors.

Overall, the first PAN president had fewer power resources than the last of the PRI presidents. While both chief executives had to govern without a majority in Congress, Zedillo always had the backing of a majority of PRI governors, and therefore greater territorial control. Governors’ roles changed in many ways, particularly through the decentralization of informal rules and influence acquired at the national level, as they increased their strength vis-à-vis the president and built stronger mechanisms of influence over their legislators. In tracing this process, Langston makes the point that "governors

38 By more programmatic and less discretionary I mean that budgetary and economic policies began having a higher degree of compliance with regulations and procedures, and decisions became more institutionalized and less personalistic.
were strengthened in the informal backroom Senate and Chamber of Deputies nomination deals.” (2008, 150)

One more factor is relevant; the fragmentation of the parties also played an important role in the evolving balance of partisan power. The main three political parties experienced internal fractures and changes, but in the long run, the PRI was able to recompose and reunified itself once again. At the same time the PAN and PRD entered a phase of factionalization that would become manifest over the next several years.39

During the second half of Fox’s administration “after losing the 2003 midterm elections, the influence of president Fox on the congressional agenda collapsed” (Lehoucq, Negretto, et al. 2008, 311). Lehoucq, Negretto, et al. show this by tracking the number of approved pieces of executive-initiated legislation. While in the two last legislatures where the PRI had a majority the president initiated an average of 79 percent of the bills passed, that number reached 20 percent of the total number of bills between 1997 and 2000. During the first half of Fox’s administration, this proportion was 18.2 percent, but it fell to 3.7 percent in the second half. Congress’s percentage of initiated legislation rose from 22.2 in Zedillo’s presidency, to 89.1 in the period 2003 – 2006.40

The budget process: in need of substantive transformations41

The budget process under president Fox got more convoluted. Several changes made to the budget process increased legislators’ power resources while placing more

39 The PAN won again the 2006 presidential elections but by a small margin over the PRD. Camp (2008) insightfully says: “Fox’s failures were related to his [PAN] outsider status, which let Calderón win with his insider status.” By the 2012 elections, the PRI recovered the presidential seat, and some of the states it had lost.
40 The complete data and tables are in Lehoucq, Negretto, et al. (2008, 310)
41 Some of parts of this section are taken from Lorena Buzón “The 2005 Controversy over the Mexican Public Budget,” May 2005, unpublished paper.
checks on the executive, especially on the SHCP, and diminishing its discretion over allocation of resources (Velázquez López Velarde 2010). The principal changes were, first, the increase in appropriations details on how appropriations should be spent, as demonstrated by Velázquez (2010), who counted the number of pages in Decrees, and the addition of chapters and articles contained in each budget bill. While in 2000 the bill was 35 pages, by 2006 the approved expenditures were explained in 124 pages. As a second change, the congressional audit body of many decades (Contaduría Mayor de Hacienda) in 2000 became the Superior Audit Office of the Federation (Auditoría Superior de la Federación, ASF), increasing the oversight and audit powers of the legislative bureau and including a mandate to review public accounts. The ASF was created to limit the powers of the executive in budgetary and public spending matters, which correspondingly gave greater oversight capacity to the Chamber of Deputies concerning monies spent. This tied the executive’s hands by obliging him to follow the allotment of resources in a much more detailed fashion. The third wave of improvements came in 2004, with some changes to the Constitutional articles related to the budget, giving more time to the legislature to review the executive’s proposal. Finally, the Law of Budget, Accountability and Public Spending of 1976 was abrogated by the 2006 Federal Law of Budget and Treasury Responsibility, which increased controls and guidelines on how the budget must be approved and implemented. During this period, the Chamber of Deputies introduced numerous amendments to the budget during its approval.

42 See Velázquez for further details on this topic. He builds on Huber and Shiplan (2002), according to whom the number of words in a law is inversely related to an actor’s subsequent discretion. Velázquez says that “in principle, the larger the appropriations law’s content, the more regulations, constraints and checks bureaucrats face in the allocation of funds. In other words, the larger the appropriations law (in pages), the less discretion bureaucrats have when implementing the budget.” (2010, 125)

43 The ASF corresponds to the Chamber of Deputies, due to the fact that only that Chamber is in charge of discussing and approving the annual budget, and reviewing public accounts. For more details on the ASF and its predecessor, see Chapter 5.
Starting in 2000, the budget included a new program to distribute resources to states, the Program to Support the Strengthening of Federal Entities (Programa de Apoyo para el Fortalecimiento de las Entidades Federativas, PAFEF). This has been a key part of the strategy of governors, and their deputies have continuously fought to increase the PAFEF, along with other mechanisms that assign more resources to the regional and local realms. This amounts to a historical rebalancing of presidencialismo. After decades of depending on the national executive while the PRI was in power, governors regained some control over their own states and resources, and increased their political power. This was especially important now that the majority of governors were from the PRI, but without a president from their party (See Table 5.2.) In 2000 to 2006, states succeeded in increasing their transfers year after year.

In Fox’s presidency, budget proposals for the years 2001 to 2007 were sent to Congress on the mandated dates. As with the first budget introduced by Zedillo’s administration, president Fox sent the 2001 budget at the beginning of December, just a few days after taking office. For that fiscal year, deputies increased total spending by 1.7 percent. Starting in 2000, SHCP created a special pool of resources in the budget proposal to be distributed among legislators in the approval phase. This fund, as discussed in interviews with two SHCP officials, is colloquially called the piñata, for its analogy to the Mexican tradition. The head of SHCP openly expressed to Congressmen the possibility of reassigning US$ 1.7 million, but the opposition parties found that

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44 These resources were based on oil price increases and form part of three different cash flows to the states, Chapter 28, Chapter 33, and Chapter 39 of the budget.
45 Interviews with Max Diener and Guillermo Bernal, conducted in Mexico City on November and December 2008.
46 The piñata is a Mexican type of ornament and toy mostly used for children’s parties. It can be made from different materials and decorated with colorful papers and in shape of popular figures. It is filled with candy, fruit, or toys. The point of the piñata is to break it, at which point everyone gets some of the things inside.
insufficient. They finally reached an agreement that reassigned US$ 3.1 million by increasing revenue projections. To achieve an increase in social security (9.8 percent), communications and transportation (9.5 percent), and transfers to the states (30.6 percent in regional and urban development), several reductions were made to other expenditure items, such as the presidency and ministries (advocated by the PRI), the judiciary (-6.4 percent), IFE (-3.2 percent), education (-2.6 percent), and debt payments (-1.0 percent).

After a congressional session that lasted almost two days, the budget was approved with the support of all three parties, with spending favoring the states. The leaders of PAN, PRI, and PRD, and the Undersecretary of Expenditures finally agreed on a report, which was approved unanimously, with 480 votes in favor. This negotiation of the 2001 budget shows how by distributing more resources favoring the states (i.e., governors and their legislators) a unanimous agreement could be reached.

The budgets for 2002 and 2003 were increased by 3.7 and 1.6 percent respectively, which reflected several tax increases introduced in each year’s negotiations, and the increases in oil price estimations for 2003, (as shown in Table 6.3). In the revenues laws of for those years, the PAN, under the leadership of President Fox, pushed to include medicines and food in the VAT (Value Added Tax), but it faced opposition from PRI, PRD, and smaller parties. In exchange for that, the VAT was increased by 5 percent for luxury items (reaching a total of 20 percent).

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47 See “Aprueban el Presupuesto, pero les fallan las cuentas” por Jorge Reyes y Jorge Arturo Hidalgo, in Reforma, December 30, 2000.
48 These tax increases were on real property, tobacco, alcohol, soft drinks, and telecommunications.
Table 6.3. Projected and real Oil Prices in Mexico, 1994 – 2007

<table>
<thead>
<tr>
<th>YEAR</th>
<th>OIL PRICE PROJECTED BY THE EXECUTIVE (US$ / BAREL)</th>
<th>OIL PRICE APPROVED BY CONGRESS</th>
<th>REAL OIL PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>13.00</td>
<td>13.00</td>
<td>16.00</td>
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<tr>
<td>1995</td>
<td>13.60</td>
<td>13.60</td>
<td>17.00</td>
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<tr>
<td>1996</td>
<td>13.25</td>
<td>13.25</td>
<td>20.00</td>
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<tr>
<td>1997</td>
<td>14.50</td>
<td>14.50</td>
<td>19.00</td>
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<tr>
<td>1998</td>
<td>15.50</td>
<td>15.50</td>
<td>13.00</td>
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<tr>
<td>1999</td>
<td>11.00</td>
<td>9.25</td>
<td>18.00</td>
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<tr>
<td>2000</td>
<td>15.50</td>
<td>16.00</td>
<td>28.00</td>
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<tr>
<td>2001</td>
<td>18.00</td>
<td>18.00</td>
<td>24.00</td>
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<tr>
<td>2002</td>
<td>17.00</td>
<td>15.50</td>
<td>25.00</td>
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<tr>
<td>2003</td>
<td>17.00</td>
<td>18.35</td>
<td>29.00</td>
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<tr>
<td>2004</td>
<td>20.00</td>
<td>20.00</td>
<td>38.00</td>
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<tr>
<td>2005</td>
<td>23.00</td>
<td>27.00</td>
<td>53.00</td>
</tr>
<tr>
<td>2006</td>
<td>31.50</td>
<td>36.50</td>
<td>64.00</td>
</tr>
<tr>
<td>2007</td>
<td>42.50</td>
<td>42.80</td>
<td>71.00</td>
</tr>
</tbody>
</table>

Source: Author’s elaboration from Revenue Law Proposals, Revenue Laws approved by Congress, and Word Bank database, author’s elaboration.

Those processes were similar to that of the 2001 Budget Decree in terms of reaching agreements between all actors. The 2002 budget was passed unanimously, with 417 votes in favor (with the remaining legislators being absent). The budget for 2003 faced more resistance, largely from two thirds of the PRD contingent (36 legislators), who wanted more resources for social spending and the states and criticized the fiscal and economic policies of the government. In the end however, the budget decree was passed with 427 votes from the PAN and PRI, along with some PRD deputies and some of the smaller parties. That budget was the first since 1998 that was approved without requiring extraordinary sessions. In both cases, once again, the winners were the states and municipalities (increasing their transfers by 76 percent of the total negotiated extra funds), social spending, agriculture, and education. These increases came from the additional resources approved in the Revenues Law, which reached US$ 2.466 billion.

49 This contingent was joined by some other deputies who voted against the general dictum.
added to the executive’s proposal of US$ 150.018 billion (accounting for the 1.6 increase in total spending for the 2003 budget).\textsuperscript{50}

With the 2003 midterm elections, the losses suffered by the PAN and the increase of PRI seats in the Chamber of Deputies cast into doubt what would happen with the 2004 budget (see Table 6.1). The need to regulate the use of surplus resources from oil revenue, and the highly criticized administrative spending of Fox’ government on increased personnel, were the main topics of the discussions. The Senate gave powers to the Chamber of Deputies, through an article in the Revenue Law, to regulate and then distribute oil-related income when prices exceeded estimates.\textsuperscript{51} This measure was introduced by the PRI delegation in order to diminish the SHCP’s discretionary capacities to use those resources. Meanwhile, legislators made some cuts to the executive branch on publicity and staff spending.

In a move that resembled the budget agreements made in the second half of Zedillo’s presidency, the 2004 budget was approved by an alliance of the PRI and PAN on the last day of 2003. The PRI had suffered a division in the legislature, but they all approved the Budget Committee’s dictum in general.\textsuperscript{52} The PRD battled for changes in the government’s economic policy. One of its deputies, Pablo Gómez, stated that “PRD will vote against the proposal, because it does not modify the neoliberal and centralist economic policy that has showed its inefficiency,”\textsuperscript{53} but the PAN and PRI agreed on the

\textsuperscript{50} These resources resulted from a higher estimation of oil prices, cuts to government and judicial spending, and some reallocations.


\textsuperscript{52} The split was between Deputy Emilio Chuayffet and the teacher’s union leader, also a PRI representative, Elba Esther Gordillo. During the 2004 budget discussion, while Chuayffet and his group pushed for more resources for infrastructure, hospitals, and schools, Gordillo’s fraction wanted only extra resources for the teachers.

passage of the budget based on the lines sent by the executive. The PRI saw as benefits the increase of transfers to states, the cuts made to the presidency, and the reduction in discretionary spending by restricting allocation of extra resources during the fiscal year. Some individual articles were left aside for further discussion. In the end, the budget, modified only by 0.8 percent of total spending, was in fact austere and fiscally responsible. Even so, governors saw their take increase again through increases in the social development function by 7.5 percent (including regional development, education, health, and other items) and economic function by 8.8 percent (including agriculture, industry, and communications and transportation). Overall, government spending was reduced by more than 30 percent. The budget for 2004 was approved with 370 votes in favor and 93 against (from the PRD fraction).

Real problems surfaced, however, in 2004 with the 2005 budget, when what all scholars and analysts had feared in fact occurred (Chávez Presa 2000; Casar 2001; Gutiérrez 2001; Casar 2002a; Weldon 2002, 2004). Mexico came to the edge of a conflict between branches of government and the imminent need to overhaul the budget’s legal framework and its actual workings became clear.

In July 2004 some amendments to the Constitution were made whose incomplete and haphazard nature led only to more problems. Instead of an integral reform, the patches unbalanced the powers of the branches of government and generated confusion. Section IV of the Article 74 of the Constitution was passed, with three amendments: the cut-off date for the executive to present the budget proposal was moved from November 15 to September 8, the deadline for the Chamber of Deputies to approve the final budget was moved from a tacit December 15 to an explicit November 15, and the expressed
capacity of legislators to “modify” the proposal sent by the Executive was added to the sections governing the budget process. Until the reform of July 2004, Congress’ actions to introduce changes were marginal and used as a bargaining tool with the executive. The conundrum was how the legislature could amend an initiative that the executive could not veto?

Early in September 2004 the executive sent the budget package proposal to the Chamber of Deputies. The Revenue Law was approved on November 13, with an increase of almost US$ eight billion over what president Fox requested. The increase in the amount for federal expenditures was made after the approval of a higher oil price which translated into additional revenue and more money to allocate through the budget.

The Budget Committee presented its report on the proposal for 2005 to the floor, where it was approved by 323 votes (PRI and PRD), with 137 against (PAN) and 1 abstention (See Appendix VII). This was the first time in the 1994 – 2006 period that PRI and PRD allied, because agreements were usually reached between PRI and PAN, parties with similar views on economic and fiscal policies. The budget, like the revenue law, had been increased by 4.2 percent, an unprecedented amount. The reallocation of resources represented more than US$ 9.3 billion. Among the main areas with increases were

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54 Prior to this, the legislature only considered the budget’s examination, discussion, and approval. The original text established the faculty of the Lower Chamber to “examine, discuss, and approve” (“examinar, discutir y aprobar”), while the new text says “examine, discuss, and in its case, modify” (“examen, discusión y, en su caso, modificación”). Texts refer to 1993, and to 2004 respectively. (See Appendix VI) Source: Instituto de Investigaciones Jurídicas de la UNAM. http://info.juridicas.unam.mx
56 Refer to Chapter 5 for a deeper discussion of veto regulation.
57 The oil price was raised to 27 dollars per barrel, an increase by four dollars from the price calculated by the executive, as shown in Table 6.3.
education (more than 10 percent), agriculture (more than 30 percent), communications (more than 50 percent), and the Program to Support the Strengthening of Federal Entities, or PAFEF (more than 30 percent).58 Once again legislators decreased resources for the judicial branch, the Attorney General’s Office (PGR), Fiscal Debts of Past Fiscal Years (Adeudos de Ejercicios Fiscales Anteriores, ADEFAS) and the Institute for the Protection of Bank Savings (Instituto para la Protección al Ahorro Bancario, IPAB). This last was a win for the PRD, which had always advocated for cuts to the IPAB.

President Fox refused to publish the Budget Decree as passed, but was limited to publishing his “observations” to the document.59 PRI and PRD legislators said publicly several times that they would reject any changes because the president had no power of veto over the budget.60 The president re-submitted the budget with his observations in the last days of December. On the one hand, the executive and some scholars argued that the law allowed the president to veto the budget.61 On the other hand, the Chamber of Deputies claimed that the Constitution contained no provision for a presidential veto over the budget.62 The Chamber sent the budget back to the president without making any of the changes asked by him, thus complying with the mandated dates (See Appendix III, Table 2).

59 The Mexican Constitution does not include the word veto in it, in its place it uses observations, which is interpreted as the same thing. See Chapter 5.
60 See Chapter 5 for a more in-depth discussion of the powers of the president.
61 The argument was based on Clause J of Article 72 of the Constitution, where the cases in which the president cannot exercise his power of veto are clearly and explicitly stated. The defenders of this argument were, among others: Jesús Silva-Herzog Márquez, Emilio Zebadúa, Miguel Ángel Granados Chapa and José Roldán Xopa.
62 This argument is based on Clause C of Article 72 of the Constitutions, which interpretation is that the president cannot veto a resolution or law that has only gone by one of the chambers of Congress. Among the people advocating for this, were: Ignacio Burgoa, Salvador Rocha Díaz and Raúl Carrancá.
Finally, the president published the Budget Decree on December 20, 2004. One day after, he filed an appeal before the Supreme Court against the Lower Chamber of Congress, giving rise to a constitutional controversy. On December 22, the Nation’s Supreme Court of Justice decided to hear the appeal and issued an instruction to freeze the contested resources. The controversy was based on two main issues: the president’s power to veto the budget and the excessive intervention of the legislative in the executive’s functions. After several months of debates, a decision was reached, stating that the Lower Chamber had the official right to modify the budget proposal, but only within certain boundaries fixed by the Law of Budget, and that the executive has the right to veto the budget bill.

The final budget of Fox’s administration was the one for 2006. As frequently happens, the influence of the upcoming general elections of 2006, played a strong role in the increases made to the proposal, and the budget as implemented, with the electoral cycle playing the same key role as it had in the budget process of 2000 (Magaloni 2006). In addition to adjustments imposed after the Constitutional controversy over the 2005 budget, this gave legislators more leeway to amend expenditures and allocate more resources to their states. Governors and their legislators accordingly used these pork barrel allocations for electoral advantage (Ai Camp 2008; Langston 2010).

63 The court exercised its power to hear the appeal under the argument that a clash between branches of government necessarily fell under its jurisdiction. "Article 105 of the Constitution states that constitutional controversies occur when an authority of any level of government encroaches on the jurisdiction of another authority or fails to fulfill any obligation under the legal order. This concept is a means of constitutional control intended … to preserve the separation of powers." "El artículo 105 constitucional establece que las controversias constitucionales proceden cuando una autoridad de cualquier nivel de gobierno invade facultades de otra autoridad o deja de cumplir con algún obligación que le impone el orden jurídico. Se trata de un medio de control constitucional destinado… a preservar la división de poderes". (Miguel Carbonell, Published in Reforma Newspaper, Mexico City, December 3, 2004).
The final amendments to the budget proposal amounted to a 6.3 percent increase, with significant increases in regional and urban development (40 percent), agriculture (35 percent), and communications and transports (more than 50 percent), and with cuts to many of the central government agencies. The budget was passed in November 15, 2005, with 367 votes in favor (PRI, PAN, and smaller parties), 92 against (PRD), and 37 abstentions (deputies from various parties). The PRD opposed the increase of spending favoring states governed by PRI and PAN, but was outnumbered by those two parties. In a midnight session the budget was passed without the PRD votes. Overall, we see a pattern in which the opposition in the Chamber of Deputies increases the executive’s income estimates and passes the resources to social spending and to the states.
The voting patterns in the Lower Chamber concerning the annual budgets are noteworthy; two main voting outcomes are seen from 1994 to 2006. First, the approval of the budget unanimously (by all three major parties), which occurred in the first three years of President Zedillo’s term (with a unified-government situation), and in the 2000, 2001, and 2002 budget approvals (with a divided-government situation). Then, we can see in the 1998, 1999, 2003, 2004, and 2006 budgets, the alliances made by PRI and PAN to approve the budget bills without the help of the PRD. The PRD voted as a united front against the majority of legislators in all but one case (i.e. 2003 budget), always against the economic and fiscal policies of the government. Finally, we see only one outlier case, the 2005 budget, which was approved by the two most powerful opposition parties, PRI and PRD, against the PAN (official party) legislators, which were defending the president’s proposal.

The first explanation accounting for these patterns is that PRI and PAN are more natural allies between them than either of them with the PRD, due to that party’s more leftist ideology. The second explanation is that increasing resources to the states facilitate cooperation among all actors. Finally, another factor that could promote the alliance of PRI and PRD for the 2005 budget approval is the 2004 reform empowering Congress to modify public spending; as opposition parties. These parties may have gotten carried away, with the understanding that the president could not veto the Budget Decree.

Figure 6.6 shows the amount of changes introduced by Congress to the budget proposal and the days that it took legislators to approve it.
We see that until 2000, there is not a visible correlation between the two variables, which can be explained by the fact that legislators simply did not take an active role during those years. Starting with the 2001 budget, though, we can see a pattern in which there is a positive correlation between the days that the budget proposal stays in the Chamber of Deputies and the percentage of modifications that legislators introduce to it. It is also important to note that the few days that the legislature had to approve the budget, prior to the 2004 Constitutional amendment, did not allow for a real examination of the proposal. This leads us to corroborate what interviewees said about negotiations taking place before the budget proposal reached Congress. A high-ranking official from the SHCP said in an interview that negotiations tended to be conducted in a top-down
way: first agreements were reached among party leaders, governors, and the executive, and then these more powerful actors instructed their legislators on how to vote.⁶⁴

The examination of the 2000-2006 budget processes shows recurrent battles over estimating oil prices took place between the executive and legislators. Although energy prices, and oil prices in particular, increased after 2004, the executive’s projections were lower than the real prices, arguing always that the government needed to be cautious when making these estimates (See Table 6.3). The underestimation became more evident starting in 2004, 2005, and 2006, with the oil prices and energy boom. We should also note not only the increase in Congress’ role, but the increasing number of changes that the executive made to the approved Budget Decrees during the execution phase (Figure 6.5). These changes are not reflected in total spending amounts, but they can be seen in primary spending.⁶⁵ Interviewees, both from Congress and the SHCP say that no matter how strict new legislation may be, the executive continues to allocate spending discretionarily, although an increase in oil income gives more resources to governors, the legislature, and the executive.⁶⁶

⁶⁴ Interview with Max Diener on October, 2008.
⁶⁵ Velasquez (2010, 145) notes that since 2000, budget decrees have required SHCP to notify the budget committee of any changes to the approved budget that exceed 10 percent of a budget item or surpasses one percent of the programmable expenditures. See, for example, article 26 of the 2002 Budget Decree.
⁶⁶ Interviews conducted during 2008 and 2009, and the analyses done by Farfán (2010) and Velázquez (2010) corroborate these statements.
Contrary to the case of Argentina, transfers to states in Mexico are done through the annual expenditures budgets. Some of the resources go through specific items, Chapter 33 and Chapter 38, while others are transferred through programs managed by the secretariats line ministries (which consist of either public works or investments that benefit states). The interest of governors in the expenditures budget is high, because that is the source from which they get funding, and Mexican governors have more power according to the money their states have.

To measure governors’ influence in the budget process is highly difficult because it is informal, and no public records exist. Governors are not legal actors during the budget process, but interviewees have stated their ultimate importance regarding public spending decisions. The increasing strength of state executives (Langston 2010) has been translated into the increasing pressure of their legislators for more money in the budget. The executive recognized governors as powerful actors and created in 2000 the Program to Support the Strengthening of Federal Entities (PAFEF) as a new mechanism to give them more resources and encourage their cooperation in all types of matters.

Before the PRI left the presidency in 2000, and before it lost the majority in Congress in 1997, governors asked the president and the SHCP for resources. Now, they not only go to them for extracting more money from the federal government, but they also bargain and lobby with line ministries and committees of Congress to get their way. Some interviewees categorize this process as a “runway of governors,” first in the ministries and the executive’s office (during the budget’s formulation), and then in the Committee of Budget (during the budget’s approval). Legislators lobby for more resources (usually for pork, but they are also enforcers of the agreements reached by their political bosses.

The decentralization of macro informal institutions (nomination of candidates and influence on political careers, and clientelism), and the political diversification of congress, have made governors powerful actors that now constantly pressure the national government for more funds in exchange for their support in other matters and their legislators’ votes.

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67 Interviews with Max Diener, Guillermo Bernal, Oscar Levín Coppel, Marcela González Salas, Ifigenia Martínez, Francisco Suárez Dávila, María Eugenia Campos, and other public officials and members of congress who preferred to remain unnamed, México City and Toluca, 2008 and 2009.
Finally, the passage of the Federal Law of Budget and Fiscal Responsibility on March 2006 marked a tipping point in budgetary regulation in Mexico, and changes took place starting in 2007. All the minor adjustments made gradually between 1976 and 2006 were finally included in the new law. The new law clarifies guidelines, rules, and limits to the annual budget that the executive and legislators should comply with, reducing uncertainty and discretion, and also enhanced discipline and oversight mechanisms. It does not, in any case, limit the Chamber of Deputies’ tendency to modify the proposed budget.

**CONCLUSIONS**

Through this chapter, I have established several key points. First, we can see how the 1994 – 1995 Mexican crisis was a critical juncture for the introduction of economic reforms, and changes in the political map of the country. These shifts in the political and economic context contributed to a new composition of congress in 1997, generating a divided-government situation that prevailed until 2006, and strengthening the governors. The power of the governors and their control over legislators are great obstacles to the legislature’s efforts to build an effective and consistent counter-balance *vis à vis* the executive (Farfán Mares 2010; Langston 2010).

Second, the expansion of political competition, the opposition parties victories, and the stability of the economy, contributed to the introduction of changes to the budget process and the actors involved in it. The tipping point for a more significant change was the Constitutional Controversy over the 2005 budget, which generated a difficult
confrontation between the executive and the legislature. Finally, a new budget law was passed in 2006, tightening formal controls on both the executive and Congress in terms of budget powers, and requiring a balanced budget. We see in these new laws an important formalization of changes.

Third, according to Rodríguez and Bonvecchi’s (2006) claim about economic and fiscal stability, we can see how Mexico’s macroeconomic stability has influenced institutions and actors. In this long period without major crises, Congress has been able to modify some regulations and enhance its power. The presence of a divided-government situation in Congress has also made legislators more proactive in the budget process, as seen in the increasing number of changes to the executive’s proposal, and gave them a more active role in contesting economic projections. Legally, the executive has a more reactive role than it did in the hegemonic party system period. But in reality, as some scholars have noted, the breach between formal institutions and the real workings of the process continues (Velázquez López Velarde 2010). The executive effectively ignores regulations relative to the reallocations it is permitted to do, and members of Congress acquiesce to the weakening of their oversight faculties in exchange for particular goods and services, favors, or the advancement of their careers.\(^\text{68}\) Even if Mexico has become more democratic and has undertaken decentralization of power, there is still some way to go to effectively impose controls on the executive and governors when it comes to spending public money and augmenting their responsiveness to their constituency.

Fourth, party leaders and political bosses have become more powerful nationally, because legislators’ careers depend on their leadership. The development of opposition

\(^{68}\) Two interviewees who asked to remain anonymous asserted that members of Congress essentially trade the exercise of their oversight faculties for advancement in their careers.
parties was, according to Nacif (2002), the most significant political change in Mexico from 1980 to 2000. This is because informal institutions were decentralized, which has reconfigured power relations between the president and governors. But this shift has left legislators dependent on both these patrons.

Democratization rearranged some legal parameters, and brought about a more balanced structure power with effective division of powers and checks and balances. But with the no-reelection rule, and the mixed electoral system (SMD along with PR closed-lists), legislators are still not autonomous, and the real counterweights of the national executive are the governors (as has been the case in Argentina for many years). There are some reforms pending: the reincorporation of the Senate into the budget process (Casar 2001; Gutiérrez 2001; Lehoucq, Negretto, et al. 2008); the empowerment of Congress with a budget office that produces information; more effective controls on the executive’s reallocation of resources; and the end of the no-reelection rule, and the proportional representation (PR) electoral system.

The final chapter pulls together the main findings of this analysis and their implications for the existing literature on institutions, executive-legislative relations, and budget processes.

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69 As Weldon (2002) and Gutiérrez, Lujambio, et al. (2001) explain, after the Senate was reintroduced into the Constitution in 1874, because it had been eliminated in the 1857 Constitution, the attributions related to the budget approval were not reestablished, remaining as an exclusive duty of the lower chamber.
CHAPTER 7. CONCLUSIONS: DIVERGING PATHS IN BUDGET MAKING IN ARGENTINA AND MEXICO

In the preceding pages I examined the Argentine and Mexican budget processes, and the roles that the executive, congress, and governors play in them. I showed that these two countries followed opposite paths from 1994 to 2006. In Argentina, the executive centralized control over informal institutions, increasing the power of this branch as the capacity of Congress and provincial governors to act as counterweights was diminished. Argentina saw economic growth improve in recent years, but with high inflation rates. Control over the Argentine budget now resides mostly in the hands of the executive. After the crisis period of 2001 – 2003 we do not see Congress make significant changes to the executive’s proposal; on the other hand we do observe increasing reallocations made by the executive during the fiscal year. Mexico, on the other path, has moved away from a hegemonic party system to experience an opening of political competition and democratization. The control of informal institutions was decentralized from the president to state governors and other political bosses, and between 1997 and 2006, presidents had to govern without a majority of their parties in Congress. Their power was constrained by these divided-government situations and a more diverse landscape at the state level as non-PRI parties continue to make inroads. After 1997, Mexican legislators made a higher number of amendments to the executive’s budget proposal, and the executive made fewer changes to the budget decree during the fiscal year. Parallel to the imposition of constraints on presidential power, state governors’ influence on national politics and the budget process has been increasing.
This chapter brings together my main findings as I examine the results of my initial hypotheses, and discuss how the explanatory variables function in the two cases. Then I explore the theoretical implications of this analysis, focusing on the literatures that deal with institutions, executive-legislative relations, and budget-making processes. I conclude by delineating a research agenda for future studies.

**MAIN FINDINGS**

This research posed the question of how informal institutions have influenced the control that the president wielded over the allocation of resources in Argentina and Mexico from 1994 to 2006. I find that informal arrangements do exert an important degree of influence on the president’s control over the expenditures budget. I address three sets of independent variables to explain the differences and similarities between Argentina and Mexico, and variation over time in these countries in terms of presidential control over the expenditures budget. The first set of variables constitutes formal and informal institutions and the actor’s power resources resulting from them. Changes in power resources (e.g. through shifts in informal institutions) influence control over the budget through facilitation of greater or lesser *agenda-setting capacity*, *control over information*, and *political control*. Decentralization/centralization of *nomination of candidates* and *control over legislators’ careers*, and *clientelism*, explain the differences between the presidents’ political control in both countries, accounting for variation over time (between administrations), and the subsequent variation between countries. The increasing/decreasing use of *delegation of powers* and *tactical use of economic*
projections, account for the similarities. The second and third variables are economic constraints and political context.

- **Formal institutions and the importance of electoral arrangements**

Both Argentina and Mexico are federal and presidential democracies, with two chambers of Congress. The electoral rules governing the two political systems foster the dependence of legislators on their political bosses (the president, governors, or other political leaders) more than their responsiveness to their constituency. Argentina’s closed-list proportional representation (PR) system makes aspiring candidates to Congress rely on their political leaders to get on the ballot. Even though there are no term-limits on legislative reelection, incumbency rates are low (17 percent in the Senate and 23 percent in the Chamber of Deputies).¹ This strengthens the link between members of Congress and their political bosses, because they have to secure their future in politics and in the government, and that future is normally in the hands of the president or governors.

Mexico has a mixed (or hybrid) electoral system, which includes single-member districts (SMD) and PR legislative seats in both chambers of Congress. With that alone, we should find that the dependence of legislators on their political bosses is greater among the PR legislators than in the plurality (SMD) seats, and that overall the Mexican legislators are less dependent than their Argentine counterparts. Nevertheless, the prohibition on consecutive legislative reelection drives all members of Mexico’s Congress to resemble their Argentine counterparts. This is in great part because once they have served in Congress, progression in their careers depends on the support of the president or

¹ See Chapter 3, and Jones (2008).
governors. In sum, notwithstanding other important formal rules, electoral institutions have a significant influence on the power resources that actors’ wield.

- *Nomination of candidates and control over legislators’ careers, and clientelism*

In Argentina, centralization of informal institutions in the executive, as a product of weakened opposition parties (UCR), president’s political support (of both PJ and some UCR governors), and more economic resources to distribute, has effectively subordinated the governors to the president. While the PJ president does not directly influence nomination of candidates in the UCR, the alliance of UCR governors with the president results in the subordination of some UCR legislators. This can be seen during Néstor Kirchner’s government (2003 – 2007). With provincial governors providing a diminished counterweight, the Argentine president also increased his control over legislators (much more so in the cases of the PJ members of Congress). Clientelistic networks have been controlled by the PJ at the provincial level, so that with the precipitous decline of the UCR and the PJ’s renewed dominance, local PJ officials have reinforced their ties to the Peronist machine, controlled by Kirchner during the period under consideration.

Mexican presidents in turn saw their political control over members of Congress slipping, due in great part to the increasing electoral competition that led the PRI to not only lose its majority of Congress in 1997, but also to lose some state governorships and therefore control over their legislators. The PAN’s presidential victory in 2000 also meant that governors’ power resources increased, as most governors were still from the PRI, and retained the clientelistic structures and political machineries necessary to extract resources
from the central government. Because this president was no longer from their own party, governors were also less constrained in exercising their leverage. Moreover, the PAN is the party less associated with unions and other client groups, while the PRI and PRD base a significant amount of their political support on these constituencies.

- **Delegation of powers to the executive and tactical use of data estimation for revenues**

In Argentina, delegation of powers from the legislature to the executive increased in the mid 1990s with the recurrent external economic shocks suffered by that country. At that time Menem had a unified Congress that approved his actions, and he was not reluctant to use Necessity and Urgency Decrees (DNUs) and exercise explicit delegation mechanisms to reallocate resources. This practice continued after Menem’s administration, with all subsequent presidents declaring emergency situations (even though during 2003 – 2007 the economy grew over 8 percent annually.) In 2006, the delegation of faculties to the executive was permanently formalized. Tactical manipulation of data estimation was also a constant factor, and took place without real contestation from legislators.\(^2\) These two informal institutions enhanced the president’s discretion in resource allocation, and were also used to maintain support from the provinces, legislators, and other actors.

In Mexico, delegation of powers mostly took place implicitly. Although budget regulations became more stringent in constraining the executive, legislators seem to turn a

\(^2\) Tactical use of economic data has been mostly criticized by political analysts and IFIs. See Uña (2006), and Abuelafia, Berensztein, et al. (2006).
blind eye to the reallocations made by the executive along the fiscal year. Why would legislators fight during the approval phase to introduce changes, and then let the executive act with such a high degree of discretion once the budget is approved? How is this permissiveness in both countries explained? The answer has to do with an exchange of goods, services, pork, or the advancement of political careers. All of these inducements either depended on the executive, or on the governors that exerted influence on the president’s decision to reallocate funds (Velázquez López Velarde 2010). In terms of tactical estimation of economic data for revenue projections, the executive continuously underestimated oil prices, which - except in 1998 - always exceeded the predictions, giving more resources to the executive to allocate with ample discretion.

Economic context

Economic cycles alone do not appear to have a great impact on the role that Congress played in the approval of the budget, contrary to what Rodríguez and Bonvecchi (2006) assert, but they did have an impact on the relationship between the president and governors. Both countries experienced periods of growth and stability (Argentina in Kirchner’s presidency and Mexico in the second half of Zedillo’s administration), and no significant changes were seen in the content of the budget, or in the process by which the budget was produced. Also, during crises the changes introduced by the Argentine Congress were the result of agreements with the president under the pressure of rapidly changing circumstances. However, when combined with political factors, economic growth seems to empower the president, by giving him more resources to distribute, while
scarcity of resources, together with other factors, appears to empower governors. Availability of resources favors the president, increasing his discretion, as has been noted for Argentina by Abuelafia, Berensztein, et al. (2005).

Most important about economic cycles is that deep crises tended to be critical junctures, triggers for change. In Argentina, the noticeable changes in the political scene after the 2001 – 2002 crisis were the loss of credibility of political parties, the weakening of the UCR, the resurgence of Peronism, and return to heterodox models in economic policy. In Mexico, after the 1994-1995 Tequila Crisis, political parties were strengthened, the PRI lost its majority in Congress, and fiscal, economic, and monetary policies became stricter. In both cases the governing party was discredited.

- **Political context**

To summarize, when the president’s party holds a majority in Congress and has low degrees of fragmentation, the president is typically able to pass his budget proposal with few or no amendments in Congress. When these two conditions are combined with availability of resources, the president enlarges his discretion on spending allocation by amending the approved budget during its execution. When the president’s party holds a majority in Congress, but has high degrees of party fragmentation, Congress may amend the budget proposal more than they would in the previous scenario, as different factions normally led by governors jockey for advantage. When the president’s contingent in Congress does not reach a majority, changes introduced to the proposal increase, especially for transfers to states (Mexico), along with spending on infrastructure.

\[3\] These factors are divided government, lack of support to the president, and high fragmentation of parties.
transportation and communications, public works, health, education, and various pork barrel projects. These amendments reveal the key role that governors play as legislators’ political bosses. In sum, the chances that a president’s budget proposal will pass with minimal changes increase if his party controls congress; if he does not, he is forced to increase bargaining with legislators, and in federal systems, with governors.

Executive-legislative relationships were crucial in shaping budgetary processes and outcomes in Argentina and Mexico. In Mexico, when the president’s party lost its majority in congress, the executive branch had increasing difficulty in passing legislation. In Argentina, on the other hand, the executive’s power was increased by congressional majorities of the president’s party after 2003, leaving legislators to play a rubberstamp role on behalf of their political bosses decisions.

To see more clearly the diverging paths that Argentina and Mexico took in 1994-2006, the following figures compare the changes made by congress to the executive’s proposal (Figure 7.1) and the amendments introduced by the executive to the budget during its execution (Figure 7.2) in the two countries.
FIGURE 7.1. CHANGES MADE TO THE BUDGET PROPOSAL, ARGENTINA AND MEXICO (TOTAL SPENDING)

Source: Budget proposals and Budget Laws of Argentina and Mexico, author’s elaboration.

FIGURE 7.2. CHANGES INTRODUCED TO THE BUDGET DURING ITS EXECUTION, ARGENTINA AND MEXICO (TOTAL SPENDING)

Source: Budget Laws and Executed Expenditures of Argentina and Mexico, author’s elaboration.
We can observe in both figures that the trends diverge starting in 2003 until the end of the period. This confirms that Mexico shows a higher activity of Congress in the budget’s approval and a higher compliance of the executive in implementing the enacted budget, whereas Argentina’s Congress has almost no influence in the budget passage and the executive has enhanced its discretion by increasingly amending the budget law during implementation. Taking into account what has been explained about the governors and their relationships with legislators and the president, we also see that in the last years of the period under study, Mexican governors became stronger while their Argentine counterparts lost some influence (Uña 2006; Langston 2010). But in both cases, legislators lacked sufficient power resources to make an effective counterbalance to the president, a role that has been taken by their provincial leaders.

**THEORETICAL IMPLICATIONS**

This research has implications for several streams of literature: institutions, executive-legislative relations, and budget making processes in a democratic context.

- *Institutions and executive-legislative relations*

  I began this work by asserting that institutions matter, that they shape actors’ actions by giving them a framework in which to move and by which they are constrained (North 1990; Knight 1992; Tsebelis 2002; MacIntyre 2003), and that different sets of arrangements produce different outcomes (Weaver and Rockman 1993; Haggard and
McCubbins 2001; Shugart and Haggard 2001). This applies not only to formal institutions but also to informal rules. As several authors have pointed out (North 1990; Helmke and Levitsky 2006; Meyer 2006), informal institutions matter in the workings of politics and policy processes, because they influence the intended or unintended results of formal arrangements. Informal institutions can increase or decrease the impacts of formal arrangements and the corresponding powers held by the executive, legislators, and governors. The intertwining effects of formal and informal institutions, in certain economic and political contexts, make possible an explanation of political and social phenomena that is more complete than one based only on formal rules.

In the cases of Argentina and Mexico I find that the centralization of informal institutions at the macro-level (nomination of candidates and control over legislators’ future careers, and clientelism) increases the president’s power, and their decentralization strengthens governors. In both scenarios, having a PR or mixed electoral system and low reelection rates, or no continuous reelection, legislators remain dependent on their political bosses. The mere existence and use of informal institutions at the micro-level relative to the budget process (delegation of powers to the executive and tactical use of economic data for economic projections) enhances the power of the president, increasing his discretion over resource allocation.

This dissertation also contributes to the subject of institutional change (North 1990; Knight 1992; Grief and Laitin 2004; Mahoney and Thelen 2010). Some factors were identified as triggers for institutional change: economic contexts, configuration of congress, and party fragmentation. While economic crises can prompt transformations in
the economic framework, tightening fiscal regulations, promoting democratization processes, and even eliminating some informal rules (meta-constitutional powers of the president in Mexico) they can also increase the use of informal mechanisms conducive to a delegate democracy (O'Donnell 1994; Carey and Shugart 1998). They can even help formalize those informal rules that evidently strengthen one actor over the others (delegation of powers to the president in Argentina.) What explains the differences between the two countries? The keys to presidential control over the budget are having a majority in congress and the support of governors. That noted, ultimately comes down to a leader’s political will to determine the path that a country’s institutions follow after a crisis. The dynamics of the political triggers of institutional change are: having a president with a unified-government situation in congress and low degrees of party fragmentation can maintain or promote further centralization of macro-level informal institutions (Argentina) while a divided-government situation and high party fragmentation can promote their decentralization, shifting their control from the executive to governors (Mexico).

- **Executive-legislative relations**

    As a related issue to institutions, executive-legislative relations play a fundamental part in the budget process (Casar 2002a; Morgenstern and Nacif 2002; Weldon 2004; Lehoucq, Negretto, et al. 2008). Argentina and Mexico represent two cases in which a

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4 While during the 2001-2002 crisis Argentina had a divided-government situation, and the majority of governors opposed to the president, (which would explain the difference with President Zedillo’s decisions after the Mexican 1994 crisis), Argentina also lived through two economic downturns during Menem’s second term, and no substantive changes in institutional terms were carried out. Moreover, President Kirchner, who also had the support of Congress and provincial governors, did not modify institutions toward a more democratic scenario.
policy process as significant as the budget cannot be studied without taking into account the role of governors. I have argued that the traditional executive-legislative model needs to be broadened to include provincial or state executives, because they are the real counterbalance to the national executive. They establish themselves as legislators’ political bosses (in the cases in which the president is not their political leader) and as real counterweights to the president. This should cause us to rethink the checks and balances in a presidential democracy, to take into account that it is not necessarily congress that balances the executive.

**Figure 7.3. Who controls the budget process, the executive, congress or governors? Situating Argentina and Mexico**

Source: author’s own elaboration.
Figure 7.3 illustrates the different periods in the Argentine and Mexican budget process (from 1994 to 2006) in terms of control. We see that Menem’s second term (1994-1999) and the crisis period (De la Rúa and Duhalde, 1999-2003) is nearer to the upper space of the triangle, but control has moved towards the presidency in Kirchner’s term (2003-2006). In the case of Mexico, Zedillo’s first three years (1994 to 1997) is situated farther away from the governors and closer to presidential control over the budget. Over time, control over the budget moves to the middle of the line between the president and governors, beginning in the second half of Zedillo’s term (1997-2000) and continuing through Fox’s administration (2000-2006). It is noteworthy that even if congress became more influential in Mexico, legislators remained highly dependent on their bosses, so the basic relationship continued to be that between the president and governors.

- **Budget processes**

Budgets are among the most important policies produced by elected actors (Lee and Johnson 1998; Schick 2000; Wildavsky and Caiden 2001). Notwithstanding if they have a *de jure* or a *de facto* role in the budget process, presidents, legislators, and governors decide how the citizens’ money gets spent. Budgets are, as such, a product of voters’ choices when deciding on a ballot, and they give political and policy analysts material to study how democracy works beyond the electoral arena. We have relatively little understanding of the role that informal institutions play in the budget process.

In terms of explaining the dependent variable, presidential control over the budget, this research contributes by expanding the scope of the variables examined. Cheibub’s (2006) study on the subject only considers independent variables related to formal
presidential powers, which gives a partial understanding of the president’s control over the budget (See Chapter 2). This dissertation illustrates not only the importance of including more formal arrangements (e.g., electoral rules and federalism) to account for presidential control over allocation of resources, but it also shows the importance of including informal institutions for configuring actors’ power resources and their subsequent roles in the budget process. This dissertation has taken the lead from several studies that suggest that adding informal rules to the analysis of policy-making processes (Lehoucq, Aparicio, et al. 2005; Spiller and Tommasi 2007; Stein, Tommasi, et al. 2008) and the budget process in particular (Abuelafia, Berensztein, et al. 2005; Braun, Díaz Frers, et al. 2006a; Velázquez López Velarde 2010) is necessary to achieve a better understanding of these phenomena.

Thus, we have seen how particular informal mechanisms influence the budget process. It has been delineated as well that negotiations are made during the formulation of the budget, with fewer during its approval. Also, the repeated amendments made to a budget bill as implemented by the executive show that continuous negotiations are carried out during the execution phase of the budget. The executive has ongoing access to a tool to get other actors to comply, just as governors and legislators are constantly pushing for more funds.

In sum, by broadening the scope of variables that explain presidential control over the budget, and by conducting comparative research, we can better understand the intricacies of the budget process, and the diversity of factors that influence actor’s roles within it.
FINAL COMMENTS AND FUTURE RESEARCH AGENDA

Studying the budget process is a challenging task. There are multiple theoretical frameworks with which to study the subject, different analytical perspectives and methodologies to examine it, and a variety of subtopics to address. Even the issues included in this work have many more edges to further study. I have tried to illustrate the multiple factors that influence the budget, putting emphasis on institutions and their workings, but there is definitely more research to be conducted on budgets and all the diverse variables that play into them. Informal institutions remain a complex theme, because the available data is of poor quality and their systematization is intricate due to their uncodified nature. However, I believe that societies and governments are configured by both the formal and the informal (to greater or lesser degree). Especially in Latin America informal arrangements are as crucial as, sometimes even more than, formal rules. The only way to understand social, economic, and political phenomena is by addressing both types of institutions, and contextual factors, with equal weight.

From the pending subjects of analysis related to this study, some seem more important for future research: the impacts of corruption on public spending, and power-seekers’ (or power-holders’) self-interest over public interest as obstacle for enhancing democratic governance and sustained economic and fiscal wellbeing. More comparative research is needed to broaden the scope of this analysis. Perhaps the inclusion of federalist systems like Brazil and Venezuela would give more cases to test the causal patterns established in this. Also, the comparison with other regions of the world could illustrate further features of the budget process.
Latin American democracies remain young and complex. We continue to look for the right balance of powers, for effective checks and balances, and for accountability and oversight methods that will ensure citizens that their decisions are respected, and their rights protected. The budget reflects these complexities, and it can be a good measurement of how democracy works on a day-to-day basis. After all, we see how similar tipping points (economic crises, pluralization of congress, and party fragmentation) can trigger different outcomes, and how two electoral democracies can walk along two different paths. One path moves to a more robust concept of democracy, à la Dahl, while the other deepens a model of delegative democracy that relegates many elected officials to the role of mere spectators in a hyper-presidential system.
## APPENDIX I. VARIABLES

### Table 1. Dependent Variable

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Measurement / Indicators</th>
<th>Sources*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control over the budget</td>
<td>Changes introduced by Congress to the budget proposal</td>
<td>Comparison of budget records for both countries, years 1994 – 2006, in aggregated amounts</td>
</tr>
<tr>
<td></td>
<td>Changes introduced by the Executive during the budget implementation (fiscal year)</td>
<td>Comparison of budget records for both countries, years 1994 – 2006, in aggregated amounts</td>
</tr>
<tr>
<td></td>
<td>Length of time taken to approve the budget, and degree of contestation in this phase</td>
<td>Budget records, years 1994 – 2006. Interviews and media coverage</td>
</tr>
</tbody>
</table>

* All records are public. Some of the latest budget proposals, approved budgets, executed budgets, and final audits, can be found on line at the *Oficina Nacional de Presupuesto* of Argentina. [http://www.mecon.gov.ar/onp/html/](http://www.mecon.gov.ar/onp/html/), and at the *Secretaría de Hacienda y Crédito Público* of Mexico [http://www.apartados.hacienda.gob.mx/presupuesto/index.html](http://www.apartados.hacienda.gob.mx/presupuesto/index.html). The ones that cannot be found there are accessible at the libraries of the Argentine and Mexican Congresses, in the Ministry of Economy and Secretariat of Treasury and Public Credit, and in the *Diarios de Debates* of Mexican Congress. I also cross-checked with secondary sources.

### Table 2. Institutions

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Measurement / Indicators</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electoral rules</td>
<td>Majority rule or PR/closed or open lists/terms/relection / M (district magnitude)</td>
<td>Primary sources: federal laws.</td>
</tr>
<tr>
<td>Electoral cycle</td>
<td>Concurrent or non-concurrent or honeymoon or counter-honeymoon elections (for president, and congress elections)</td>
<td>Primary sources: federal laws.</td>
</tr>
<tr>
<td>Federalism</td>
<td>Federal System, Election of Sub-national Authorities</td>
<td>Primary sources: federal laws</td>
</tr>
<tr>
<td>Powers of the president</td>
<td>Introduction of legislation, decree power, emergency decrees, appointment of Cabinet members and JGM (Argentina), veto power</td>
<td>Primary sources: federal laws</td>
</tr>
<tr>
<td>Configuration of congress</td>
<td>Sessions/committees/staff/type of legislature</td>
<td>Primary sources: federal laws, Saiegh (2005)</td>
</tr>
<tr>
<td>Legal actors involved</td>
<td>Analysis of phases: Formulation, Approval, Execution, and Audit. Roles and time schedules</td>
<td>Primary sources: federal laws</td>
</tr>
<tr>
<td>Powers of the president</td>
<td>Exclusive introduction of budget proposal, Reversion point, veto</td>
<td>Primary sources: federal laws</td>
</tr>
<tr>
<td>Configuration of congress</td>
<td>Internal process/work on committees/agenda-setting powers/ bicameral or unicameral process</td>
<td>Primary sources: federal laws</td>
</tr>
<tr>
<td>Institutions</td>
<td>Measurement / Indicators</td>
<td>Sources</td>
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</tr>
<tr>
<td>Control of nominations and political careers</td>
<td>Party leadership (president, governors, others), electoral rules</td>
<td>Interviews, media, Jones (2005), De Luca (2008), Jones (2008), Langston (2008), Camp (2008)</td>
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<tr>
<td>Clientelism</td>
<td>Clientelistic ties and patronage exchanges, Pork barrel, discretionary use of resources, vote-buying</td>
<td>Interviews, media, Mustapic (2002), Jones (2005), Saiegh (2005), Kitschelt and Wilkinson (2007)</td>
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Table 3. Independent Variables

<table>
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<th>Explicatory Variables</th>
<th>Detailed variables</th>
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<tr>
<td>Actors’ Power Resources</td>
<td>Agenda-setting capacity</td>
<td>Interplay between formal and informal institutions (Table 2)</td>
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<tr>
<td></td>
<td>Control over information</td>
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<td></td>
<td>Political control</td>
<td></td>
</tr>
<tr>
<td>Political Context</td>
<td>Configuration of congress</td>
<td>President’s party contingent in Congress and in provincial/state governorships, party discipline (media, secondary sources, voting records)</td>
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<tr>
<td></td>
<td>Configuration of governorships</td>
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<tr>
<td></td>
<td>Party fragmentation</td>
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<tr>
<td>Economic Context</td>
<td>Macroeconomic variables</td>
<td>GDP growth, Inflation rates, Commodity prices</td>
</tr>
</tbody>
</table>
# APPENDIX II. PRESIDENTIAL ELECTIONS

## Table 1. Presidential Elections in Argentina, 1983 - 2007

<table>
<thead>
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<tr>
<td>Partido Justicialista (%)</td>
<td>40.16</td>
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<td>44.9</td>
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<tr>
<td>Unión Cívica Radical (%)</td>
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<td>32.45</td>
<td>16.8</td>
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</tr>
<tr>
<td>Frente País Solidario (%)</td>
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<td></td>
<td></td>
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<td>Alianza por el Trabajo, la Justicia, y la Educación (%)</td>
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<td>Alianza Conc. Just. Para el Cambio (%)</td>
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<td>Alianza Acción para la República (%)</td>
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<td>Alianza Frente por la Lealtad (%)</td>
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<td>Alianza Frente para la Victoria (%)</td>
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<td>Alianza Movimiento Federal para Recrear el Crecimiento (%)</td>
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<td>Frente Movimiento Popular Unión y Libertad (%)</td>
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<td>Afirmación para una República Igualitaria (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14.11</td>
</tr>
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<td>Confederación Coalición Cívica (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14.05</td>
</tr>
<tr>
<td>Alianza Concertación UNA (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>23.04</td>
</tr>
<tr>
<td>Alianza Frente Justicia, Unión y Libertad (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7.64</td>
</tr>
<tr>
<td>Others (%)</td>
<td>8.09</td>
<td>20.06</td>
<td>9.9</td>
<td>3.14</td>
<td>9</td>
<td>6.69</td>
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<td>TOTAL PERCENTAGE OF VALID VOTES (%)</td>
<td>100</td>
<td>100</td>
<td>100</td>
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</table>

Source: National Electoral Direction, Secretary of Institutional Affairs, Ministry of Interior.

## Table 2. Presidential Elections in Mexico, 1988 - 2006

<table>
<thead>
<tr>
<th></th>
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<tr>
<td>PRI</td>
<td>50.6%</td>
<td>50.1%</td>
<td>36.9%</td>
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<td>PAN</td>
<td>16.8%</td>
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<tr>
<td>PRD</td>
<td>3.6%</td>
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<td>17.0%</td>
<td>36.1%</td>
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<tr>
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<td>2.7%</td>
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<td>Total percentage of valid votes</td>
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APPENDIX III. YEARLY BUDGET CYCLES

Table 1. Argentina’s Budget details, per year, 1994 – 2007

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<th>FISCAL YEAR</th>
<th>BUDGET BILL #</th>
<th>DATE SENT TO CONGRESS (PROPOSAL)</th>
<th>DATE VOTED IN HOUSE</th>
<th>NUMBER OF DAYS IN THE CHAMBER OF DEPUTIES</th>
<th>DATE SENT TO SENATE</th>
<th>DATE VOTED IN SENATE</th>
<th>NUMBER OF DAYS IN THE SENATE</th>
<th>TOTAL DAYS IN CONGRESS</th>
<th>DECREE #</th>
<th>DATE OF PROMULGATION</th>
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Table 1. Budget details, per year, 1994 – 2007 (cont.)

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<th>DATE VOTED IN HOUSE</th>
<th>NUMBER OF DAYS IN THE CHAMBER OF DEPUTIES</th>
<th>DATE SENT TO SENATE</th>
<th>DATE VOTED IN SENATE</th>
<th>NUMBER OF DAYS IN THE SENATE</th>
<th>TOTAL DAYS IN CONGRESS</th>
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<tr>
<td>2002</td>
<td>25565</td>
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<td>26</td>
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Source: Based on data from the Chamber of Deputies of Argentina and the Ministry of Economy of Argentina, author’s elaboration.
Table 2. Mexico’s Budget details, per year, 1994 – 2007

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<th>BUDGET</th>
<th>DATE SENT TO CONGRESS (PROPOSAL)</th>
<th>DATE VOTED IN LOWER CHAMBER</th>
<th>TOTAL DAYS IN CONGRESS</th>
<th>DATE OF PROMULGATION</th>
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<tr>
<td>2000</td>
<td>November 11, 1999</td>
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<td>November 6, 2003</td>
<td>December 30, 2003</td>
<td>54</td>
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<td>2005</td>
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<td>November 17, 2004</td>
<td>69</td>
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<td>2006</td>
<td>September 7, 2005</td>
<td>November 14, 2005</td>
<td>68</td>
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## APPENDIX IV. COMPOSITION OF THE BUDGET

Table 1. Composition of the Budget by function, Argentina

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<th>Subchapter</th>
<th>Function</th>
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<td>Information and Basic Statistics</td>
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<td>Insurance and Bonds</td>
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Table 2. Composition of the Budget by function, Mexico

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<td>Promotion and Protection of Human Rights</td>
<td>National Commission of Human Rights</td>
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<td>Government Functions</td>
<td>Government Functions</td>
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<td>Justice</td>
<td>Order, Security, and Justice</td>
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<td>Environmental Protection and Natural Resources</td>
<td>Environmental Protection and Natural Resources</td>
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<td>Norms and Regulations</td>
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<td>Other goods and Public Services</td>
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<td>Legislation</td>
<td>Legislation</td>
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<td>Social Development Functions</td>
<td>Social Development Functions</td>
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<td>Urban and Regional Development</td>
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<td>Working issues</td>
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<td>Energy</td>
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<td>Communications and Transports</td>
<td>Communications and Transports</td>
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<td>Agricultural Development</td>
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<td>Other Services and Economic Activities</td>
<td>Working issues</td>
</tr>
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<td>Entrepreneurial issues</td>
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<td>Tourism</td>
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<td>Science and Technology</td>
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<td>Land Issues</td>
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<td>Sustainable Development</td>
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<td>Transfers to States and Fiscal Stimulus</td>
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APPENDIX V. COMMODITY PRICES

Figure 1. Argentina’s GDP growth and commodities, 1994 - 2007

Figure 2. Mexico’s GDP growth and commodities, 1994 - 2007

Source: Based on data from the World Bank, the Ministry of Economy of Argentina, and the SHCP, author’s elaboration.
APPENDIX VI. LEGAL REFORMS

1. ARGENTINA. “SUPERPOWERS LAW”


Article 37.

The original text:

La reglamentación establecerá los alcances y mecanismos para efectuar las modificaciones a la ley de presupuesto general que resulten necesarios durante su ejecución.
Quedan reservadas al Congreso Nacional las decisiones que afecten el monto total del presupuesto y el monto del endeudamiento previsto, así como los cambios que impliquen incrementar los gastos corrientes en detrimento de los gastos de capital o de las aplicaciones financieras, y los que impliquen un cambio en la distribución de las finalidades.

The new text: The article was substituted by Law 26124, article 1, published on August 27, 2006. The new text says (on bold letters):

La reglamentación establecerá los alcances y mecanismos para efectuar las modificaciones a la ley de presupuesto general que resulten necesarios durante su ejecución.
Quedan reservadas al Congreso Nacional las decisiones que afecten el monto total del presupuesto y el monto del endeudamiento previsto.
El Jefe de Gabinete de Ministros puede disponer las reestructuraciones presupuestarias que considere necesarias dentro del total aprobado por cada ley de presupuesto, quedando comprendidas las modificaciones que involucren a gastos corrientes, gastos de capital, aplicaciones financieras y distribución de las finalidades.
A tales fines, exceptúase al Jefe de Gabinete de Ministros de lo establecido en el artículo 15 de la Ley N° 25.917.
El incremento de las partidas que refieran gastos reservados y de inteligencia sólo podrá disponerse por el Congreso de la Nación.

Reglamentación: ARTICULO 37. — Al efectuar la distribución administrativa del Presupuesto de Gastos, el señor Jefe de Gabinete de Ministros establecerá los alcances y mecanismos para llevar a cabo las modificaciones al Presupuesto General, dentro de los límites que la Ley de Presupuesto le señala teniendo en cuenta lo siguiente:

a) Las solicitudes de modificación al Presupuesto General para la Administración Nacional deberán ser presentadas ante la OFICINA NACIONAL DE PRESUPUESTO, mediante la remisión del proyecto de acto administrativo que corresponda, acompañado de la respectiva justificación y de acuerdo a las normas e instrucciones que dicha Oficina establezca.
b) Para los casos en que las modificaciones sean aprobadas en las propias jurisdicciones y entidades, la decisión administrativa que establezca la distribución deberá fijar los plazos y las formas para la comunicación de los ajustes operados a la OFICINA NACIONAL DE PRESUPUESTO.
2. MEXICO. CONSTITUTIONAL REFORM

Constitution of the United States of Mexico, published on February 5, 1917.

Article: 74, fraction IV

The original text: published since September 9, 1993

Son facultades exclusivas de la Cámara de Diputados:
I.- a III.- ......................

IV.- Examinar, discutir y aprobar anualmente el Presupuesto de Egresos de la Federación, discurtiendo primero las contribuciones que, a su juicio, deben decretarse para cubrirlo, así como revisar la Cuenta Pública del año anterior.
El Ejecutivo Federal hará llegar a la Cámara la iniciativa de Ley de Ingresos y el Proyecto de Presupuesto de Egresos de la Federación a más tardar el día 15 del mes de noviembre o hasta el día 15 de diciembre cuando inicie su encargo en la fecha prevista por el artículo 83, debiendo comparecer el Secretario del Despacho correspondiente a dar cuenta de los mismos.
Sólo se podrá ampliar el plazo de presentación de la iniciativa de Ley de Ingresos y del Proyecto de Presupuesto de Egresos, así como de la Cuenta Pública, cuando medie solicitud del Ejecutivo suficientemente justificada a juicio de la Cámara o de la Comisión Permanente, debiendo comparecer en todo caso el Secretario del Despacho correspondiente a informar de las razones que lo motiven;

V.- a VIII.- ......................

The new text: July 30, 2004

Son facultades exclusivas de la Cámara de Diputados:
I.- a III.-......................

IV. Aprobar anualmente el Presupuesto de Egresos de la Federación, previo examen, discusión y, en su caso, modificación del Proyecto enviado por el Ejecutivo Federal, una vez aprobadas las contribuciones que, a su juicio, deben decretarse para cubrirlo, así como revisar la Cuenta Pública del año anterior.
El Ejecutivo Federal hará llegar a la Cámara la Iniciativa de Ley de Ingresos y el Proyecto de Presupuesto de Egresos de la Federación a más tardar el día 8 del mes de septiembre, debiendo comparecer el secretario de despacho correspondiente a dar cuenta de los mismos. La Cámara de Diputados deberá aprobar el Presupuesto de Egresos de la Federación a más tardar el día 15 del mes de noviembre.
Cuando inicie su encargo en la fecha prevista por el artículo 83, el Ejecutivo Federal hará llegar a la Cámara la Iniciativa de Ley de Ingresos y el Proyecto de Presupuesto de Egresos de la Federación a más tardar el día 15 del mes de diciembre.

V.- a VIII.- ......................
## APPENDIX VII. VOTING RECORDS ON BUDGETS, MEXICO

### BUDGET 1999

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<th>PVEM</th>
<th>IND</th>
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<tbody>
<tr>
<td>In favor</td>
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<tr>
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<td>114</td>
<td>2</td>
<td>6</td>
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<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
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<tr>
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### BUDGET 2000

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### BUDGET 2001

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<td>211</td>
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<td>52</td>
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### BUDGET 2002

<table>
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<th>Votes</th>
<th>Total</th>
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<th>PAN</th>
<th>PRD</th>
<th>PVEM</th>
<th>PT</th>
<th>PSN</th>
<th>CONV</th>
<th>PAS</th>
<th>IND</th>
</tr>
</thead>
<tbody>
<tr>
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<td>417</td>
<td>152</td>
<td>192</td>
<td>46</td>
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<td>7</td>
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<td>1</td>
</tr>
<tr>
<td>Against</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<td>0</td>
</tr>
<tr>
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<td>0</td>
<td>1</td>
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<td>1</td>
</tr>
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<td>Total</td>
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<td>209</td>
<td>207</td>
<td>52</td>
<td>16</td>
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### BUDGET 2003

<table>
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<th>PRD</th>
<th>PVE</th>
<th>PT</th>
<th>PSN</th>
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<th>PAS</th>
<th>IND</th>
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<tbody>
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<tr>
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<td>36</td>
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<td>0</td>
<td>1</td>
<td>0</td>
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<td>0</td>
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<td>0</td>
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</tr>
<tr>
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<td>0</td>
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<tr>
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<td>8</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

*Quorum means that a deputy was present when the session began, but did not vote.

Note: No records are reported for previous budget votes, because the electronic system for roll call voting was installed in 1998.

### BUDGET 2004

<table>
<thead>
<tr>
<th>Votes</th>
<th>Total</th>
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<th>PRD</th>
<th>PVE</th>
<th>PT</th>
<th>CONV</th>
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</thead>
<tbody>
<tr>
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<td>370</td>
<td>200</td>
<td>146</td>
<td>0</td>
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<td>6</td>
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<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Quorum*</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>3</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>496</td>
<td>222</td>
<td>151</td>
<td>95</td>
<td>17</td>
<td>6</td>
<td>5</td>
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### BUDGET 2005

<table>
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<th>PAN</th>
<th>PRD</th>
<th>PVE</th>
<th>PT</th>
<th>CONV</th>
<th>IND</th>
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<tr>
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<td>94</td>
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<td>5</td>
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<tr>
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<td>135</td>
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<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Quorum*</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
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<td>222</td>
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<td>97</td>
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### BUDGET 2006

<table>
<thead>
<tr>
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<th>PAN</th>
<th>PRD</th>
<th>PVE</th>
<th>PT</th>
<th>CONV</th>
<th>IND</th>
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<tbody>
<tr>
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<td>11</td>
<td>5</td>
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<td>3</td>
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<tr>
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<td>92</td>
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</tr>
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<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
</tr>
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<td>97</td>
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</tr>
</tbody>
</table>

Note: No records are reported for previous budget votes, because the electronic system for roll call voting was installed in 1998.
APPENDIX VIII. DISAGGREGATED COMPOSITION OF CONGRESS (SMD AND PR), MEXICO

Table 1. Composition of the Mexican Senate by SMD and PR seats, 1994 – 2006

<table>
<thead>
<tr>
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<tbody>
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<td>SMD</td>
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<td>PR</td>
<td>SMD</td>
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<tr>
<td>PRI</td>
<td>74.2%</td>
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<td>40.6%</td>
<td>49.0%</td>
</tr>
<tr>
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<td>25.0%</td>
<td>28.1%</td>
<td>38.5%</td>
</tr>
<tr>
<td>PRD</td>
<td>6.3%</td>
<td>0.0%</td>
<td>8.3%</td>
<td>25.0%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Others</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>6.3%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Total number of seats</td>
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<td>96</td>
<td>32</td>
<td>96</td>
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<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

* PR seats in the Senate were introduced for the 1997 elections.
Source: CIDAC Base de datos electoral, www.cidac.org

Table 2. Composition of the Mexican Chamber of Deputies by SMD and PR seats, 1994 – 2006

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
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<td>PR</td>
<td>SMD</td>
<td>PR</td>
<td>SMD</td>
</tr>
<tr>
<td>PRI</td>
<td>92.3%</td>
<td>11.5%</td>
<td>54.7%</td>
<td>37.0%</td>
<td>44.0%</td>
</tr>
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<td>6.0%</td>
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</tr>
<tr>
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<td>8.0%</td>
</tr>
<tr>
<td>Others</td>
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<td>5.0%</td>
<td>1.0%</td>
<td>8.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Total number of seats</td>
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<td>200</td>
<td>300</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: CIDAC Base de datos electoral, www.cidac.org
APPENDIX IX. LIST OF INTERVIEWS

Mexico

Max Diener (November 28, 2008)
Guillermo Bernal (December 1, 2008)
Oscar Levín Coppel (January 29, 2009)
Marcela González Salas y Petricioli (January 30, 2009)
Ifigenia Martínez (February 16, 2009)
Francisco Suárez Dávila (February 17, 2009)
Ma. Eugenia Campos Galván (March 8, 2009)

Argentina

Andrés D. Eleit (July 2, 2009)
Marcos Makón (July 2, 2009)
Pablo Guidotti (July 7, 2009)
Jesús Rodríguez (July 6, 2009)
Oscar Cetrángolo (July 20, 2009)
Juan Llach (July 28, 2009)
Claudio Lozano (August 3, 2009)
Joaquín Alperovich (August 4, 2009)

*Some of the interviewees preferred to remain anonymous.
"El FMI insistió en sus críticas sobre el INDEC." La Razón, September 21, 2011 2011.


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Fukasaku, Kiichiro and Ricardo Hausmann, eds. Democracy, decentralisation, and deficits in Latin America. Paris, France


David Rockefeller Center for Latin American Studies, Harvard University 2009.


American Development Bank and David Rockefeller Center for Latin American Studies, Harvard University, 2008.


Londregan, John B. Legislative institutions and ideology in Chile: Cambridge University Press, 2007.


