



INTER-AMERICAN DEVELOPMENT BANK  
BANCO INTERAMERICANO DE DESARROLLO  
LATIN AMERICAN RESEARCH NETWORK  
RED DE CENTROS DE INVESTIGACIÓN  
RESEARCH NETWORK WORKING PAPER #R-510

## POLITICAL INSTITUTIONS, POLICYMAKING PROCESSES, AND POLICY OUTCOMES: THE CASE OF URUGUAY

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MARCH 2006

**Cataloging-in-Publication data provided by the  
Inter-American Development Bank  
Felipe Herrera Library**

Political institutions, policymaking processes, and policy outcomes : the case of Uruguay / by Mario Bergara (coordinator) ... [et al.].

p. cm.  
(Research Network Working papers ; R-510)  
Includes bibliographical references.

1. State, The. 2. Uruguay—Social policy. 3. Uruguay—Economic policy. I. Bergara, Mario. II. Inter-American Development Bank. Research Dept. III. Latin American Research Network. IV. Series.

320.1 P445-----dc22

©2006  
Inter-American Development Bank  
1300 New York Avenue, N.W.  
Washington, DC 20577

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## Abstract

Uruguay generates a variety of policy outcomes. First, there are relatively stable policies, such as those allowing for the commercial and financial openness of the country. Then there are inflexible and low-quality policies, such as those related to social policies, some areas of state reform (civil servants' wages and hiring mechanisms), the bankruptcy regime, etc. Finally, there are volatile outcomes resulting from economic shocks, such as those related to discretionary public spending. In the cases in which historical precedence or the availability of external enforcement devices do not lead to relatively stable policies, the main outer feature of Uruguayan policies is rigidity. The source of rigidity appears to be a mixture of institutional factors (multiple veto points, factionalized parties and direct democracy mechanisms) and political conflict (divergent policy preferences), in which it is very costly to move from the *status quo* due to the credible threat of policy reversal. Political institutions in Uruguay are conducive to achieving political compromise in the short run, but cannot effectively cooperate in establishing stable and flexible policies in the long run. The difficulty in achieving intertemporal political exchanges is consistent with the main characteristics of the political environment: a large number of key political actors and veto points, a relevant amount of unobservable political maneuvering, poor enforcement technologies in the economic arena, a politically influenced bureaucracy, political exchanges occurring outside the legislative arena, a particular constellation of parties and preferences and costly policymaking and institutional changes.



## 1. Introduction

Uruguay is the most enduring democracy in Latin America. To a large extent, its long-lasting democratic process has been sustained by an institutionalized party system, in which only two parties (Partido Colorado and Partido Nacional) have dominated the political scene since the country was established. In the long run, therefore, the Uruguayan political system reflects an important level of stability and continuity that makes it almost an exception in the regional context. Since the return to democracy in 1985, Uruguay has experienced a high degree of political inclusion and political and social participation. Intensive negotiations took place between political parties and social organizations, each holding a significant degree of power. Nevertheless, it has not been easy to reach agreement in a number of important policy areas.

Uruguay is a pluralistic system with strong parties and is a highly participative democracy. Indeed, the pluralism in the political institutions and party system is nourished by the participation of citizens and social groups, especially through certain procedures of “direct” democracy (plebiscites, referendums) on constitutional matters, human rights issues and privatizations. The key role played by the state stems from a long historical process of political leadership and party performance, which has had long-lasting effects on citizenship and civic culture.

Uruguayan public opinion profiles (*Latinobarómetro* poll series 1995-2002) show the citizen/voters’ attachment to democratic culture and the state: (i) Uruguay and Costa Rica have the greatest support for democracy and the lowest tolerance of non-democratic regimes. (ii) Uruguay has the highest level of interpersonal trust and Uruguayans have the most confidence in their political parties. Trust in government is above average, but is a long way from the top. (iii) Uruguay’s endorsement of the free-market economy is by far the lowest in Latin America. (iv) Only Argentina has a more negative view of privatization than Uruguay.

Uruguayan public opinion exhibits high levels of statism. Uruguayans’ preference for state over market was explicitly demonstrated in referenda: one opposing the privatization of the state-owned telephone company in 1992 and one opposing a law which would have allowed the state-owned oil company to associate with a private partner in 2003. In the first instance, 72 percent of the electorate voted against the law, and in the latter 62 percent did so. There also were other situations when the mere threat of a referendum blocked market-oriented reforms, such as when Congress revoked articles that would have allowed for the partial privatization of

the state-owned cell phone company in 2002 immediately after the signatures calling for referendum against them were collected.

But this Uruguayan preference for the state not only implies that resources must be concentrated in the state apparatus, but also that the state should have the ability to satisfy every kind of “social” demand. In the same way that market-oriented reformers think that privatization serves to tie their hands in terms of resource allocation, state-oriented supporters believe state-controlled, discretionary resource allocation is the only way to meet the needs of different “weak” interest groups (pensioners, unions, debtors, etc.). Therefore, people tend to oppose not only market-oriented reforms, but also any kind of reforms that pretend to define rules precisely and provide rationality to public administration. This last feature of the Uruguayan political landscape sits well with constituency-oriented politicians, who prefer to manage resources in a discretionary way rather than in a more institutionalized manner.

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

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

Some of the distinctive features of Uruguayan democracy, reflected in its institutions (parties and party system) and in the preferences of public opinion, make it almost an exception in the Latin American context. In those contexts where the party system is highly institutionalized, parties and their leaders help shape the preferences of voters, but they also follow public opinion.<sup>1</sup> Because of this, the preferences of the public are, as such, indiscernible from the policy preferences of the leadership and of the Uruguayan parties in general. In other words, Uruguayan parties strongly support the democratic process and its institutions, and the party system reveals a certain level of polarization regarding some policy issues such as state participation in the economy.

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

Uruguayan political parties are the main actors both in the government and in the opposition, shaping the processes and contents of major public policies. Particular attention shall be paid to the shift from “triangle” politics to bloc politics. To the extent that the leftist front (the FA) grows, the Blancos and the Colorados—who have been rivals throughout Uruguayan history and have been competing against each other in the new democratic period—are nevertheless going through a process of “convergence.” Even when they are still competing, they reach compromises and form coalitions, thus creating a political pole and an ideological family. On the other side, the leftist FA is developing as the dominant opposition force, putting forward its positions against liberal initiatives and privatization. These patterns of competition and cooperation are central to explaining the different chapters of the politics of reform and their outcomes.

Uruguay is able to generate different kinds of policy results. First, there are relatively stable policies, such as those allowing for the commercial and financial openness of the country. Second are policies characterized by a low volatility, but which are inflexible and of low quality,

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<sup>1</sup> Even though this seems as if politicians follow public opinion preferences, during direct democracy events like plebiscites and *referenda*, party guidelines have proven to be the decisive factor over the outcome. As suggested by Altman (2002): “When Uruguayans go to the polls to decide a popular initiative, they mainly take into consideration their political faction’s suggestion.”

such as those related to social policies, some areas of state reform (civil servants' wages and hiring mechanisms), the bankruptcy regime, etc. Finally there are volatile outcomes resulting from economic shocks, such as those related to discretionary public spending.

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

In the cases in which policies are relatively stable, political preferences tend to be convergent and the expected gains from political conflict are not significant. Additionally, external enforcement mechanisms could be available through strategies such as "tying one's hands." The commitment technology was not provided by the working of the political system itself, but via external "enforcers." Here historical precedence could also play a key role, making it very costly to reverse policies in several areas. In the cases in which policies are rigid and low-quality, political preferences tend to diverge but the cost of implementing safeguards is relatively low. The rigidity emerges from the need for political safeguards, and the low volatility is consistent with the fact that institutional change is very costly in Uruguay. This can be characterized by the presence of political threats and the perception of politicians that the probability and costs of having their policies reversed are high. In the cases of volatile outcomes, this result is determined by the absence of stable and adaptable policies across economic shocks. Decisions here are delegated by the Executive, particularly in the implementation stage. This is not the result of political conflict, but of an inability to set rules with a long-term perspective.

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

The difficulty in achieving intertemporal political exchanges is consistent with some characteristics of the political environment. The number of key political actors and veto points in several areas is relatively large and does not facilitate cooperation, even if political leaders have

some intertemporal linkages. A relevant amount of political maneuvering is not openly observable, although some transparency emerged in recent administrations. Despite the tradition of a relatively independent judiciary, enforcement technologies are poor in the economic arena; the bureaucracy is crucially influenced by political considerations, relevant and actual delegation has not taken place and the courts are not adequately prepared to handle complex economic issues. Key political exchanges take place outside the legislature and their certainty, observability and enforcement are less obvious in a framework of political fragmentation, a particular constellation of parties and preferences and costly policymaking and institutional change. Additionally, the workings of the policymaking process suggest that intra-period payoffs from non-cooperation are high.

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

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

## **2. Characterization of Public Policies in Uruguay**

In order to develop a tentative characterization of policies in Uruguay along the dimensions suggested in Spiller, Stein and Tommasi (2003) and Scartascini and Olivera (2003), this section is divided into two parts. The first part provides different accounts of specific policy areas and specific policy cases, offering valuable information regarding trends and specific features of Uruguayan public policies. The second part summarizes the tentative description of the country's

policies in terms of their stability, their flexibility to adapt to changing socioeconomic conditions, their rigidity, etc.

### ***2.1 Description of Some Specific Policies***

This section summarizes a wide range of public policies, including some main economic issues and measures embedded in the state reform program.

**Trade policies:** The policy of trade opening, understood as the process of systematically lowering tariffs, was first implemented in 1974, and it brought to an end several decades of the import-substitution model of trade policy. This change was a consequence of the fact that the deficit in the balance of trade, which came about following the first oil crisis in 1974, could not be sustained (see Vaillant, 2003). The process of market opening continued throughout the period of the dictatorship, and was not to any great extent reversed when the country returned to democracy in 1985. Uruguay joined MERCOSUR and the tariff structure of the bloc was adopted in 1995, consistent with the process of a general reduction in tariffs. In the early phase of trade liberalization lasting until the early 1990s, a relatively stable group of industries was isolated from foreign competition. The existence of an exceptions list improved the chances of trade reform because it made the reform more palatable in political terms. In the second half of the 1990s, reciprocal trade agreements (preferential or multilateral non-discriminatory) changed the political equilibrium of the previous unilateral trade policy. The number of Uruguayan industries isolated from the liberalization process was drastically reduced. Indeed, geographical reasons largely dictated Uruguay's decision to join MERCOSUR, although policymakers around the region acknowledge the value of the agreement as a "commitment technology" that increased their autonomy *vis à vis* domestic interest groups (see Vaillant, 2003). This process of tariff reduction and trade opening can be characterized as a steady movement without reversal, which can be considered as an outer feature of this policy.

It must be stressed that when Uruguay returned to democracy there was no reversal of the policy of openness, although there was pressure for a move in that direction. This pressure was handled using non-tariff instruments, which provided the desired levels of effective protection. In some cases this policy of "contingent protection" was applied to specific sectors (e.g., the automotive and sugar industries), and in other cases to sub-sectors or even to particular firms. This operated as an escape valve, and it meant that the general policy of reducing tariffs was not reversed. Additionally, in 1995, the country adopted the tariff structure agreed to in

MERCOSUR. From then on, discretionary activity in trade policy lessened, and was expressed through managing the so-called lists of exceptions to the common regime of the common external tariff, and exceptions to the free movement of merchandise within the bloc. This was called the adjustment regime. In this sense, policies in the trade area became more public-regarding. Thus the MERCOSUR agreement operated as a mechanism of external enforcement of the policy of openness, limiting the possibility for particular sectors to lobby. It was relatively obvious for all relevant actors that a small country like Uruguay has to be open to the world in terms of trade. What was not so obvious was the fact that opening to imports is the price a country has to pay in order to get into international markets. The Asuncion Treaty represented Uruguay's fundamental acceptance of the need to effectively open the economy, and served to tie the government hand in terms of granting sectoral privileges, making the policy less private-regarding.

**Financial openness:** Uruguay started the process of opening the capital account of the balance of payments during the 1970s. The motivation behind this policy was the same as that behind trade opening, namely the 1974 oil crisis and the need to finance the large trade balance deficit that followed. The financial reform aimed to deregulate internal capital markets and liberalize financial operations between the country and the rest of the world. The most important liberalization measures in the financial sector (i) authorized residents to maintain domestic bank accounts in dollars without having to account for the source of those funds, (ii) allowed them to maintain any kind of assets abroad, (iii) authorized the profits and capital of foreign agents to leave the country freely, (iv) allowed non-financial enterprises unrestricted access to foreign credit, (v) authorized commercial banks to accede to foreign credit, and (vi) removed controls on the interest rates in a gradual process that lasted until the late 1970s. As in the trade case, this policy was managed by the Executive, through the Ministry of Finance. Congress did not intervene except to pass certain laws giving powers to the Executive. However, as long as the policy consisted of almost total freedom for capital movements, there was little room for discretion in its implementation.

Since the initiation of the reform, which led to financial opening, there has not been any attempt to hinder the movement of capital between Uruguay and the rest of the world. The economic and financial openness was the result of systematic negotiations with multilateral organizations in the early 1980s. During the 1990s, an important wave of capital inflow

occurred, which in addition to representing visible technological progress in the financial sector, was an endorsement of the global policy. Even during the recent financial crisis in 2002, there were no calls to control capital movements, showing a high level of consensus on preferences related to this issue and stressing the stability of this policy.

**Pension system policy:** In the early 1990s, Uruguay had a social security system with a single, pay-as-you-go pillar. It was not in imminent danger of collapse, but it did have serious problems connected to (i) a population structure in which pensioners accounted for a very high percentage compared to the economically active population,<sup>2</sup> and (ii) the fact that for decades, the social security system had been used as an instrument for political favors. In 1989, as the result of a plebiscite initiated by various pensioners' and workers' organizations, rules for the adjustment of pensions were incorporated into the Constitution. The introduction of these rules was probably a reaction to the government's tendency to use pension adjustments in opportunistic ways, leading to rigidity and reducing its ability to adapt to macroeconomic conditions. This made the economic problems of the social security system worse, and played a part in the political system's decision to take measures to counteract its slide towards insolvency. In 1995, Congress passed the Social Security Reform Law, which set up a mixed system. It combined an individual capitalization pillar with a pay-as-you-go pillar. The reform was moderate insofar as it is estimated that when the system matures, 75 percent of the contributions will still be made in the public pay-as-you-go pillar. This pillar is administered by the *Banco de Previsión Social* (BPS), while the individual savings pillar is administered by organizations that were created through the reform—the Pension Fund Administrators (AFAPs). The reform reduced politicians' ability to manipulate the sector, using pensions as a typical clientelistic resource. In particular, the implementation of work history as part of the reform reduced the ability of politicians to grant benefits on a discretionary basis. As in the case of trade issues, policies here also seem to be getting less private-regarding. The new stakeholders created by law—the administrators of the pension funds—can contribute to the formalization of the pension system (see Forteza, 2003).

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<sup>2</sup> An illustrative indicator is the Potential Dependency Rate (*PDR*), which is the ratio between the number of peoples who could potentially be dependent (those younger than 13 years old + retired and potential retired people) and the number of people who could potentially enter the labor force (persons between 13 and the retiring age). The *PDR* was approximately 75 percent at the time of the reform implementation and is estimated to be 65 percent during the next 20 years. In comparison, the *PDR* in Chile was 55 percent in 2000.

The social security reform temporarily raises the deficit of the system because of the implicit debt of the downsized pay-as-you-go pillar. One of the consequences of this process has to do with the fact that the government induces or even forces the administrators of the pension funds to invest a sizeable part of the fund in public bonds. In essence, the reform was characterized by intense negotiations, involving parties, factions and a large number of interest groups and associations, both in the executive and legislative arenas. The result is a rigid scheme that tries to avoid opportunistic behavior on the part of politicians by making it more costly to grant pensions on a clientelistic basis. The crisis of 2002 cast doubt on the state's ability to meet government bond payments. An eventual failure to meet these obligations would have meant expropriations from the individual savings system, since this is a big holder of Uruguayan bonds.

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

In cases where the reforms went through (electricity, and partially in communications), the pace of the implementation has depended on the role the reform policy played at the time, i.e., whether there were (i) objectives related to sectoral reforms, (ii) fiscal objectives, which are much more important during a crisis, or (iii) external constraints, which have speeded the process of electrical interconnection with Argentina or the MERCOSUR bloc. The reform of the electricity sector seems to be a paradigmatic case here, since it is a reform achieved by a law that was not overturned, though seven years later it still has not been implemented.

Interest groups also play a relevant role in resisting some reforms. While unions do so by promoting referenda, other groups defend their interests in a more subtle way in the policy-implementation stage through interactions with the Executive and the political parties.

Broad policies in utility markets tend to be relatively rigid when they are the result of interaction between the legislature and the Executive: (i) the very existence of the state-owned companies is established in the Constitution, (ii) the mechanisms for appointing and firing the board members of these companies are also noted in the Constitution, and (iii) several laws are very specific in terms of operational procedures, eliminating some discretion in terms of business strategies, association with private firms, etc.

**Fiscal policies:** Since 1990, the tax burden has increased considerably, growing from 25 percent to more than 30 percent of GDP in a decade (the highest possible in the region). The structure of this income remained basically unchanged: the taxes on consumption, the IVA (value added tax) and IMESI (sales tax), accounted for 65 percent of income at the start of the period and stood at the same level at the end. Total income increased because of rises in the rates charged and a widening of the base where the tax was levied.

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

Expenditure also increased over the decade, but by a smaller proportion than the increase in income. In 1989 a plebiscite that index-linked pensions to the past rate of inflation generated

significant fiscal problems on the spending side. In the five years immediately following the plebiscite, the deficit in the social security administration (the Banco de Previsión Social) jumped from 2.5 percent to 6.3 percent of GDP. The plebiscite had the effect of making social security expenditure non-discretionary. In response to this problem, Congress passed a reform of the social security system in 1995. This reform did not change the fact that expenditure on social security remained outside of government control, but it did establish actuarial bases for the system that would be sustainable in the middle and long term.

The amount of salaries paid by the public sector also remained constant (in terms of GDP) throughout the period. The outstanding policy move in this area began in 1996 with the rendering of accounts by a single article<sup>3</sup> to avoid having to submit the revised annual budget to Congress (maintaining the five-year budget without any modifications). This had the effect of avoiding discussion and negotiations with the public employee unions, and thus removed the possibility of increasing expenditure in this area. The price the government paid for this strategy was that it made the budget process very inflexible.

Public-sector investment remained stable over the period until 2002, when there was an abrupt fall due to the generalized economic crisis. Fluctuations in the management of public-sector investment have a negative effect and generate harmful cycles, as has been well documented in the case of road infrastructure. Investment in public enterprises also fell as a response to fiscal requirements; investment decisions in state-owned enterprises are now negotiated with the Planning and Budget Office and the Ministry of Finance during bargaining over the transfer of profits.

Almost all of the items on the spending side are essentially rigid and non-discretionary. Broadly speaking, half of public expenditures go to social security and one fourth goes to wages. Interests and debt repayment are also outside government control. Therefore, public sector investment is the “adjustment variable” of spending to generate fiscal income (which is very procyclical). The volatility in this item is the result of the absence of countercyclical mechanisms in the remaining items of public spending, in a context in which tax burden had reached a point where it is difficult to impose any new increase.<sup>4</sup>

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<sup>3</sup> The Uruguayan budget bill is a five-year program (*Presupuesto Quinquenal*) with yearly revision bills (*Rendición de Cuentas*) proposed by the executive and approved by the legislature.

<sup>4</sup> Besides having a very low investment rate, the volatility of public investment makes it even more inefficient.

**State reform:** The design and implementation of state reform programs in Uruguay were traditionally the responsibility of diverse public offices with overlapping functions and deficient coordination, and with an important lack of human, technical and financial resources. In addition, legal measures related to state reform resulting from the dealings between the Executive and the legislative branch used to be quite inflexible due to political safeguards, though the implementation of reform policy needed room for adjustment. This affected the quality and coherence of the measures finally implemented.

The process was modified in 1996 with the creation of an articulated proposal on state reform of the central administration. The strategy was to pass the essential legal framework to implement the programmed measures in Congress and to establish an institution responsible for implementing the program. This framework allowed the Executive to define some regulations by decree, which increased flexibility in policy implementation, but also increased the effectiveness of lobby groups to influence the final outcome.

Three aspects of the reform process must be noted. First, measures related to state reform that emerge from an interaction between the Executive and the legislature tend to be rigid due to political safeguards. This applies to hiring civil servants, setting public wage scales, firing employees, etc. Second, reform policy tends to be more volatile at the implementation stage because of greater executive discretion and a poor observability of this discretion. This process is influenced by the action of interest groups, which affect specific decisions in the implementation stage. Third, measures that can be implemented as expected are those tied to external enforcement mechanisms such as the conditionality of financial disbursements by the Inter-American Development Bank (IDB). In these cases, the IDB's conditionality plays a role when aligned with the government's goals, by providing ammunition for the government to weaken those who oppose reform. Nevertheless, when all aspects of the state reform process are considered, they do not comprise a coherent and predictable policy as a whole, and an overall rigidity remains.

## ***2.2 Tentative Characterization of Policies in Uruguay***

A brief overview of the main characteristics of economic policies in Uruguay suggests that the country is able to generate diverse kinds of results. First, some policies seem to be relatively stable and are the result of a long-term perspective, such as the commercial and financial openness of the country. While some debate existed prior to the early 1980s, it is unusual today

to find voices in the political arena demanding a “closing” of the economy in the commercial or financial sectors. Historical precedence also plays a role, since it is very difficult now to conceive of retreating from MERCOSUR or closing the financial sector of the economy after the respective advances in both arenas. Second, there are some areas in which policies are characterized by low volatility, but they tend to also be of low quality and to show important signs of inflexibility. These are policy areas in which there are very large institutional costs of making and changing policy decisions and in which rigidity is the price to be paid for political protection against future reversals. These areas include pension policies, some areas of state reform (civil servants’ wages and hiring mechanisms) and fiscal policies, among other examples. Third, some outcomes show volatility since they are not subject to specific policies with a long-run perspective, and they are affected by the result of other rigid policies. For example, public sector investments are the “adjustment variable” of global fiscal performance, which is plagued by inflexibilities in the rest of the items. Therefore, the variable associated with the evolution of the business cycle is the investment expenditure of the central administration and state-owned enterprises.

It would not be accurate to describe policies in Uruguay in only one generic fashion, since there are different types of outcomes. With one type, the absence of a commitment mechanism would make the policy outcome highly volatile (as suggested by the history of trade protection and financial opening and closing). External commitment devices associated with international agreements, combined with historical precedence, tends to limit the power of domestic interest groups. A second group of policies includes those that are highly rigid and are kept that way by the blocking power of interest groups combined with voting interests. Thus, what exists is a) an increase in the equilibrium by commitment devices in policies that otherwise would be highly volatile, and b) huge inflexibilities in areas that also would be highly volatile in the absence of rigidities. As for the third type of outcome, it must be noted that the volatility does not emerge from the interaction of political actors with opposing preferences, but is the result of the inability of the political system to set any fiscal responsibility rules to generate countercyclical spending behavior.

Additionally, the fact that the country generates different types of policies is consistent with the analytical framework, since the resulting political decisions do not depend solely on the political institutions but also on the transaction-cost characteristics of the different arenas. Not all

policy areas imply similar policy preferences, similar demands in terms of intertemporal exchanges, the same mix of political and social actors or the same need for external enforcement. Several factors distinguish policies in terms of their transaction-cost characteristics, especially those related to intertemporal political exchanges: (i) the constellation of political preferences, how close they are, how salient the specific issue is and, in general, what are the expected gains from the political conflict; (ii) the availability of external enforcement mechanisms, (iii) the subset of political actors and veto players, (iv) the relationship between policy design and policy implementation in each arena and, consequently, the role of the legislature and the Executive in the actual implementation of the specific policy, (v) the cost of implementing safeguards, etc.

The description mentioned above can be consistent with the Spiller and Tommasi (2003) analytical model. This constellation of policies can emerge from an institutional environment that does not facilitate intertemporal exchanges and cooperation. In the cases in which political preferences are convergent, the expected gains from political conflict are not significant. Two examples of this situation are related to the financial and commercial openness of the Uruguayan economy, particularly since the late 1980s and early 1990s. First, most of the actors are convinced that a small country like Uruguay has to be open to international financial markets, since it needs loans and foreign direct investment in the development process. Second, after Argentina and Brazil decided to engage in an integration process (MERCOSUR), Uruguay had no choice but to join them, since they are its two main trade partners and they have a significant impact on Uruguay's exports, financial markets and tourism industry. Cooperation on these issues had to be feasible even under a relatively "weak" institutional framework, because of the convergence of political preferences. Additionally, external enforcement mechanisms could be available (conditionality with multilateral financial organizations, like the IMF and the World Bank, and the MERCOSUR agreement contained in the Asuncion Treaty of 1991). In the latter process, the strategy of "tying one's hands" was very clear and the political system could advance in the commercial openness with a depth that not even the dictatorship could. Therefore, relatively stable policies are the result of similar political preferences and the ability to generate external enforcement mechanisms, even under a political framework that does not encourage cooperation in the long run.

In cases in which preferences diverge but the cost of implementing safeguards is relatively low, the emerging policies are rigid and of low quality. Policies related to enrolling,

hiring and paying civil servants are one example of this situation. Instead of having a flexible strategy for adjusting the size of the bureaucracy, incorporating civil servants into the budgetary payroll, hiring based on the needs of the state and the employees' professional background, and remunerating employees according to their opportunity costs, the current policy is characterized by the prohibition of enrolling new civil servants in the budget, the virtual impossibility of firing them, rigid and incoherent wage scaling, and the belief that every new contract is suspicious because of some political abuse of the hiring mechanism. These rigidities emerge from the need for political safeguards.

Another example has to do with bankruptcy procedures. The main law governing them has not been significantly changed in the last seven decades, and the results in this policy area are very poor. The inflexible mechanisms and the weakness of the institutional framework encourage agents to solve the resolution of failed firms outside of the courts or other formal procedures.

In the public sector investment process, volatility is the logical result of an absence of stable and adaptable policies in the fiscal arena. Since almost all the rest of the items in the public spending side are basically rigid (social security, wages, debt repayment, and so on), the procyclicality of fiscal income and the variations in the access to financial markets have to be compensated for by the evolution of an "adjustment variable:" public investment. The only expected outcome is volatility. Decision-making in this area is essentially the responsibility of the Executive.<sup>5</sup> Nevertheless, it worth noting again that this volatility is not the result of political conflict, but of an inability to set long-term rules for managing public spending.

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

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<sup>5</sup> Although the Executive does not directly decide the amount to be invested in state-owned enterprises, it crucially affects the decision-making process via negotiations regarding the amount of profits to be transferred from these companies to the Ministry of Finance.

### 3. A Description of the Uruguayan Political Process

#### 3.1 *Formal Political Institutions*

The Uruguayan Constitution mandates a presidential regime, though significantly different in some ways from the U.S. model. Indeed, the central feature of Uruguayan presidentialism is the strong influence that the Executive exerts on the policymaking process through different legal mechanisms of controlling the legislative process. Like many other cases in the region, Uruguayan presidents have important legislative powers such as total or item vetoes, the exclusive authority to initiate bills in strategic areas (budget or tax policy) and the ability to send urgent consideration laws, as well as non-legislative powers such as ministerial appointments and other key bureaucratic spots. In the long run, at least since 1930, the executive branch has gained substantive power vis-à-vis the legislative branch in successive constitutional reforms, including the last amendment endorsed in 1996.

Despite their institutional powers, most Uruguayan presidents since 1985 have been politically weak. This political weakness is the result of two different features associated with the party system and the partisan organization. On the one hand, the party system has exhibited an increasing level of fragmentation since 1971, and particularly since 1989, with three and a half parties (the fraction will be explained below).<sup>6</sup> On the other hand, and perhaps more importantly, Uruguayan political parties are factionalized, which means that the number of actors and hypothetical agents at the bargaining process will be higher than that set by the system.<sup>7 8</sup>

The transition from a bipartisan system to a multiparty system has meant that most Uruguayan presidents since 1989 have been forced to negotiate coalition governments with opposition parties and factions. In other words, the multiparty system is the causal factor that explains the minority condition of most Uruguayan presidents and has facilitated the emergence of coalition governments from the 1990s onward (Chasquetti and Moraes, 2000). Given the

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<sup>6</sup> The Effective Number of Parliamentary Parties (on average) for the period 1942-1966 was 2.27, and was 3.07 for the period 1971-1999.

<sup>7</sup> Like the cases of Italy, Japan and Colombia, Uruguayan parties are factionalized. However, unlike those cases, Uruguayan factions are institutionalized agents within parties and the whole political system. Both Italian and Japanese factions are “informal” actors within parties, since the electoral system does not promote or legally legitimize those agents. Uruguayan factions are a direct consequence of the electoral rules, and for that reason they tend to be stable agents within parties, with their own leaders and organizations (see Section 4.2).

<sup>8</sup> It is important to note that Uruguayan political parties are one of (if not the most) institutionalized parties in the region (Mainwaring and Scully, 1995). However, because of the factionalized structure, presidents are only factional chiefs rather than party chiefs. Those factions are also highly institutionalized in the political process, but show higher levels of electoral volatility compared with the parties as a whole.

combination of a presidential regime with a factionalized multiparty system, presidents have to negotiate inter and intra-party agreements in order to build coalitions or legislative majorities to pass their agenda.

The electoral rules are one of the key factors in understanding the political dynamics described above. Presidents are elected for a five-year term with no re-election.<sup>9</sup> Before 1994, presidents were elected by a plurality system and a double simultaneous vote (DSV). This electoral feature allowed parties to present multiple candidates for the presidential race, given that voters cast their ballots primarily for a party and then for a presidential candidate. In this context, given that candidates within parties were able to add up their votes (for the party), the person who received the most votes within the party with the most votes became president. A constitutional reform in 1996 changed these electoral rules. It eliminated the controversial DSV for the presidential election, and set the new election by majority runoff.<sup>10</sup> Additionally, it was constitutionally established that all parties have to hold primaries in order to select their single presidential candidates. The reform process took place during President Sanguinetti's second administration and was promoted and sustained because of the threat posed by a possible left-wing (FA) electoral victory. The new electoral rules—specifically the majority run-off for the presidential election—favored the tenure of the reformist coalition in office (i.e., either the Colorados or the Blancos),

Uruguay has a bicameral Congress. Senators and representatives are elected by proportional representation with closed lists, under a double simultaneous vote.<sup>11</sup> Until 1996, all elections were held simultaneously. Currently, legislative elections take place simultaneously with the first round of the presidential election. Citizens cast their votes for lists of candidates for the legislature (senate and representatives) and the presidency in the same ballot. The Senate has 30 members elected in a single national district, along with the vice-president. The Chamber of

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<sup>9</sup> Until the 1966 constitutional reform, presidents and legislators had four-year term mandates.

<sup>10</sup> The 1996 constitutional reform removed the DSV for the presidential elections without affecting legislative elections.

<sup>11</sup> The different factions within parties provide party lists for the senate and the lower chamber. On the same ballot, the voter casts votes for: a) a presidential candidate and his or her corresponding vice-president; b) a list of candidates for the senate, and c) a list of candidates for the lower chamber. Notice that faction leaders have control over the nomination, despite the fact that a party authorization is the only requirement for creating a new list. This is the case because the system of closed lists and proportional representation guarantees the primacy of leaders within each faction. The fact that voters simultaneously cast three votes and that the presidential election is the most important race induces voters to “overdetermine” the presidential election. In turn, the presence of simultaneous elections and proportional representation ensures that elected presidents will have a similar number of votes in the legislature as that obtained in the presidential race (see Buquet et al., 1998: 8-15).

Representatives has 99 members elected in 19 multi-member electoral districts.<sup>12</sup> In the first phase, seats are assigned among parties using the D'Hondt formula on a national basis. Secondly, the distribution takes place within parties (among factions), also under proportional representation, and within districts with a minimum of two representatives for each district. In this way, proportional representation is preserved in a perfect fashion among parties, even though some disproportionality could appear among factions. In a multi-partisan context, the proportional representation system can create minority governments, while the combination of single candidates and the majority run-off system—which was established by the electoral reform—could contribute to weakening the parliamentary position of the elected president. Under the current rules, the legislative representation of the party in government does not have to be the biggest in Congress because there is nothing to stop the election of the candidate of the second party, whose representation would be second in terms of the number of legislators, as happened in the 1999 election. In addition, there is no disposition in the new constitution that guarantees legislative weight to the president's faction. The elected president is the single candidate from his party, and voters can vote for him/her together with any of the parliamentary lists of that party. The votes that the president's faction obtains are relatively independent of the electoral potential that he/she has, and consequently he/she may be in the minority in his/her party.

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

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<sup>12</sup> The Uruguayan legislature has two large districts. The national Senate, which elects 30 members plus the vice-president, and Montevideo for the lower chamber, which elects 44 out of 99 members. In addition to these large districts, there is one medium-size district (Canelones), and 17 small binominal and trinominal districts (corresponding to the countryside departments).

present only one list of candidates per district, enhancing the faction leader's authority to coordinate the provision of candidates. The elimination of the accumulation of *sublemas* (electoral alliances among lists) in the election of representatives led to a very big reduction in the number of lists presented in 1999, amounting to less than half of those presented in 1994. As long as different house lists cannot accumulate votes, the smaller ones either have to join larger ones or unite to build a single list among several of them. On the other hand, the reduction in the legislative supply is associated with the predomination of the main national factions with respect to local political groups, because the new rules enforce a rigid connection between the supply for the Senate and the supply for representatives. Consequently, one can expect more disciplined legislative conduct from the factional representatives. In sum, faction leaders and particularly presidential candidates have control over the nomination process in both large and small districts. These property rights over factions allow them to control not only the nomination of candidates for legislative elections but also, and perhaps more importantly, faction discipline.<sup>13</sup>

Like presidents, legislators are elected for five-year terms. However, unlike presidents who cannot immediately be re-elected for a second term, legislators can be re-elected without restrictions. This difference yields specific incentives for the system. Unable to run for re-election, the president loses power, authority and control over legislators from his own party. At the same time, his or her legislators start to build new partisan loyalties (within the party) with presidential candidates who have the chance to be elected. Additionally, legislators who seek re-election in small districts will start to meet their voters' preferences, whether or not they are those of the main party leaders. In this way, the combination of legislative re-election with non-re-electable presidents creates centrifugal tendencies in the political system that are expressed through an extreme weakening of the president's power toward the end of each mandate. During this period, parties are less likely to cooperate in order to pass relevant bills for the president's agenda.

The Uruguayan institutional design also has diverse mechanisms of direct democracy. Among the several existing mechanisms, there are two remarkable constitutional devices. One is the use of referenda against laws passed by Congress. In this case, a law can be revoked when 25 percent of registered voters support a referendum. Approved laws dealing with taxes or laws

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<sup>13</sup> There is no compelling evidence showing that small-district legislators are more likely to engage in particularistic behavior. Indeed, legislators elected in the capital ( $M = 44$ ) are more likely to provide constituency service than those elected in binominal districts.

over which the Executive has exclusive initiative cannot be revoked through this mechanism. During the last 15 years, the opposition has frequently used this constitutional device. Indeed, when different pressure groups join certain parties and factions in opposing governmental policies, the use or threat of using a referendum has acted as an important veto mechanism for repealing relevant laws passed by the government.<sup>14</sup>

On the other hand, the Constitution enables the use of direct democracy to reform the Constitution itself. In this case, reformers must introduce the suggested amendment with the support of 10 percent of registered voters. During the period from 1985-2003, this mechanism was frequently used by different interest groups, sometimes supported by opposition parties interested in challenging the Executive's interpretation of some constitutional prerogatives (pensions), or in fixing at the constitutional level the amount of public spending dedicated to public education. Although the technical nature of this institution is different from that of the referendum, it has also worked as a reactive device against reforms carried out by all governments since the democratic restoration in 1985.<sup>15</sup>

### ***3.2 Parties and Party System***

Uruguay has one of the few institutionalized party systems in Latin America (Mainwaring, 1999; Mainwaring and Scully, 1995). First, part of this characterization deals with the fact that two of the Uruguayan parties (the Blancos and Colorados) are the oldest in the world. While the Blancos and Colorados have existed for 168 years, the left-wing Frente Amplio (FA) has been

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<sup>14</sup> Promoters have been successful on two occasions: combating the privatization of major public firms in 1992 and the association of the state oil company with private firms in 2003. They did not achieve their goal of revoking the amnesty provided to military involved in human rights violations during the authoritarian regime in 1989. On three occasions popular support failed to persuade the required 25 percent of the electorate to make use of the referendum: (i) the deregulation of the transmission, transformation, and distribution of electricity in 1998; (ii) the reduction of the available period to workers to make claims against employers in 1998, and; (iii) the improvement of public and private services, public security and promotion of productive activities as an emergency law passed in 2001. Additionally, Congress itself once revoked a law to avoid the use of a referendum that was certain to be successful—the partial privatization of the mobile state-owned company.

<sup>15</sup> Two popular initiatives were successful: the adjustment of pensions based on wage fluctuations (1989), and pension regulations via budgetary amendments (1994). Retirees and pension holders promoted both plebiscites in 1988 and 1993, respectively. Two popular initiatives were unsuccessful: a constitutionally fixed budget amount for public education (1994), and the financial independence of the judiciary (1999). Both plebiscites were promoted by labor organizations associated with public education and the judiciary and, in the latter case, the judiciary supported *in totum* the referendum, including Supreme Court justices.

around for 33 years. This longevity reveals stability across time and there are no indications that the current system with three parties will undergo a major transformation in the short run.<sup>16</sup>

Until 1971, the Uruguayan party system was robustly bipartisan. Since then, the emergence of the FA transformed this format into a multiparty system with three and a half parties, if one takes into account the systematic presence of a small fourth actor (Nuevo Espacio). In any case, the system is stable and changes in a slow fashion, unlike non-institutionalized party systems.

**Table 1. Effective Number of Parties (1946-1999)\***

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

\* Effective Number of Parties Index (Laakso and Taagepera, 1979). *Source:* Buquet et al. (1998) and Corte Electoral.

\*\*The electoral and legislative ENP was calculated by taking into account the share of votes and the number of seats obtained by each party in national elections, respectively.

A second relevant feature contributing to the level of institutionalization is that Uruguayan parties are identified as agents with deep roots in society. Both the traditional parties and the left-wing Frente Amplio have been the central mechanisms of representation and expression of political interests. Uruguayan voters have identified with the Blancos and Colorados for decades, and the same has been true for the growing electorate of the Frente Amplio. This deep-rooted institutionalization has at least two broad implications. On the one hand, it leaves no room for the advent of populist leaders of the sort that have been appearing in

<sup>16</sup> There are good reasons to believe that the Uruguayan party system will remain stable in the short run. Part of this observation comes from recent polls conducted by different sources indicating that despite some important changes in the distribution of votes, there is no reason to believe that any of the two traditional parties will disappear. The transition from a bipartisan system to the current multiparty system has been gradual and the same is expected for any future changes in a highly institutionalized party system like the one in Uruguay. Furthermore, the electoral system does not provide any incentives for a deep transformation of the party system. The new electoral formula with runoff elections (ballotage) eliminates the reduction effect produced by the old simple majority or plurality system for the presidential election (see Shugart and Carey, 1992). Thus, neither voter preferences nor the new institutions regulating elections suggest a dramatic change in the Uruguay party system in the short run.

many inchoate Latin American party systems. On the other hand, and more importantly, it is associated with very low levels of electoral volatility.<sup>17</sup>

**Table 2. Electoral Volatility and Vote Distribution (1946-1999)**

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

\* Pedersen Index of Electoral Volatility. *Source:* Buquet et al. (1998) and Corte Electoral.

A third factor has to do with the acceptance of elections and parties as the only or best mechanisms of expressing popular demands. As previously noted, Uruguay has consistently been among those countries in which the population overwhelmingly prefers democracy to any other type of political regime. However, it is also true that the parties have lost part of their legitimacy in recent years, due in part to the economic crises and also other more general trends of disenchantment with politicians here and around the world. Despite those increasing levels of disenchantment, however, no outsider or new party has been able to challenge the party system as has occurred in other institutionalized party systems such as Venezuela.

Fourth, Uruguayan parties are factionalized. As mentioned before, this type of internal organization is the direct consequence of electoral rules that facilitate the existence of these agents within parties. These factions are institutionalized and/or stable groups within parties, generally led by presidential candidates or national senators.<sup>18</sup> As can be seen in Table 3, the number of factions has remained stable over time. Although the total level of factionalization has been high since 1971, and particularly since 1999, the increase in factionalization was due to an

<sup>17</sup> For 11 elections held between 1946-1997, Uruguay had an electoral volatility of 9.7. Electoral volatility is measured by using the widely used Pedersen index, which measures the percentage of votes that change between elections, indicating the amount of voters who switch their preferences among parties. Uruguay received very low scores compared to other Latin American countries. According to Mainwaring and Scully (1995), electoral volatility in Costa Rica was 18.2 for four elections held during 1970-1990; about 17.7 for four elections in Venezuela during 1973-1993; and 18.4 percent in Chile for three elections during 1973-1993.

<sup>18</sup> There are no legal impediments to creating new factions within parties. However, beyond the interest of politicians and voters, a faction's relevance in the political system will depend on its ability to remain stable and gain parliamentary representation on a permanent basis.

increase in the effective number of parties. That is, the Effective Number of Factions within “traditional parties” has remained relatively stable over time (before and after 1971), but the emergence of the Frente Amplio increased the total level of factionalization given its large number of factions.

**Table 3. Effective Number of Legislative Factions (Senate) 1946-1999\***

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

\* Using the same formula for the Effective Number of Parties, this calculus takes into account the number of lists for the Senate as the best proxy for considering factions. *Source:* Buquet et al. (1998) and Corte Electoral.

Paradoxically, although the Frente Amplio has the largest number of factions, it has the highest level of routinization in its internal decision-making process (see Levitski, 2002). Compared to the Blanco and Colorado parties, the Frente Amplio has solid mechanisms for making decisions beyond factions, with a unique leader and national committees and partisan structures that function effectively. The Blancos and Colorados show a similar pattern of routinization only when one of the two remains in the opposition.<sup>19</sup>

The existence of factions within parties does not imply that parties are weak. Parties are organized around factions, but they are still relevant agents in the political system, since there are rules and procedures for making joint decisions beyond factional divisions or policy preferences. In any case, Uruguayan parties cannot be considered as unitary actors, but both factions and parties are stable agents in the political system. A faction is a national group led by senators or national leaders outside the legislature. Within the same ballot, senate lists are followed by deputy lists, revealing the hierarchical structure of factions.

Until 1996, faction leaders were able to make deals with local leaders running for the lower chamber, which allowed these politicians to be associated with different national senate

<sup>19</sup> Since 1985 the “Mesa Política” (or literally “political bureau”) has been leading the Frente Amplio, with the exception of programmatic issues and the selection of candidates. Something similar happened during the governments in which the traditional parties switched in the presidency. In this case, the Blanco and Colorado party were led by the “Honorable Directory” and the “National Executive Committee,” respectively.

lists or factions. The reform prohibited the accumulation of votes among lists for lower chamber seats. More specifically, it reduced the number of factions because the supply of lists had to be associated with only one national senate list. Thus, faction leaders have to coordinate the selection of candidates among different individuals. Before 1996, potential candidates could make deals with different senate lists and gain election or re-election. After 1996, the restriction of a single list per faction at the district level reduced the proliferation of factions, since major factions have more chances to make deals with local leaders.

Party leaders have the power not only to control the nomination process but also to control party discipline. Since the control of the nomination process relies to a large extent on the leaders' discretion, legislators have strong incentives to follow the faction leader and his policy preferences. This is guaranteed by the fact that the closed list and proportional representation electoral system itself guarantees that leaders have strong leverage in the nomination process. As a result of this type of nomination control, legislators follow faction or party discipline. Since faction leaders have control over the nominations, undisciplined legislators will not be endorsed for re-election and their chances for gaining endorsement for other career paths are fairly low.

Several studies suggest that Uruguayan parties are strongly disciplined in Congress (Buquet et al/, 1998; Lanzaro et al., 2000; Koolhas, 2003). Using the standard Rice Index,<sup>20</sup> Table 4 shows the level of party discipline for the period 1985-2003. As can be observed, at least since 1985, Uruguayan parties have been highly disciplined when voting in Parliament. In addition to those mechanisms involving faction leaders over legislators, other political factors are also influencing the level of party discipline. For instance, specific agreements and governmental coalitions carried out by the Blancos and Colorados during the last 15 years have had a strong influence, in the sense that they have forced faction leaders to fulfill their commitments within those political arrangements. In other words, those agreements and coalitions have not only served as binding conditions for enforcing party discipline, but they have also served to facilitate the policymaking process. According to Table 4, for 86 out of 125 relevant laws passed by Parliament during the period under consideration, legislators from the three parties voted completely in unison with their parties.

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<sup>20</sup> The Rice Index is calculated by using the difference between affirmative and negative votes among members of the same party or faction for a particular bill. The index varies between 100 and 0, for values of perfect discipline and complete indiscipline, respectively. For instance, if a party has 10 members, and six vote in favor of a certain bill and four vote against it, the Rice index will assign a value of 20. Similarly, if party votes are completely united, it will assign a value of 100, and 0 if it is completely divided between two groups.

**Table 4. Party Discipline in Parliament (Rice Index): 1985-2003**

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

\* Senate votes on highly relevant laws.

- RI; Rice index of Party Discipline.
- VD, voting instances in which factions split the party vote.

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

Finally, the party system exhibits a centripetal mode of political competition, with stable levels of ideological polarization since the restoration of democracy in 1985 (see Table 5). This particular feature of a polity (ideological polarization) has a relevant impact on the way a political system is able to handle not only the policy process but also the interaction among actors regarding the political regime. Indeed, low levels of ideological polarization are more conducive to achieving agreements among political actors, and the democratic process is less likely to suffer the policy differences among actors. Inversely, a high level of ideological polarization inhibits the ability of agents to achieve agreements and threatens the democratic process. More concretely, the level of ideological polarization is a key factor in understanding executive-legislative relations, since low levels facilitate the extent to which presidents are able to achieve agreements with Parliament.

In recent years, authors like Gonzalez (1993) have pointed out that the ideological distance between the extremes of the ideological spectrum in 1986 was 25 percent less than the value shown for the year of the military coup in 1973. More recent measurements (EPI-IEIP-CIS, 1998; EPE-ICP, 2003) show that the level of ideological polarization remains fairly stable.

**Table 5. Legislators' Ideological Identification\***

	Ideological positioning of legislator's own party		
	1985-90	1995-00	2000-05
Partido Colorado	4.8	5,0	5.5
N	(31)	(20)	(37)
Partido Nacional	4.3	5.6	5.4
N	(40)	(20)	(27)
Frente Amplio	2.1	2.9	3.1
N	(24)	(25)	(49)
Distance **	2.7	2.7	2.4

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

\*\* Maximal distance among extreme parties

Source: González (1993); Alcantara (2000); ICP(2003).

As can be observed in Table 5, there has been a meaningful change in the overall system. Basically, the whole system moved toward the right with the distances between the extreme parties remaining constant. Over time, the Colorado and Blanco parties have become more rightist and the Frente Amplio has made a similar move toward the center-left of the ideological spectrum. This evidence is consistent with Frente Amplio's efforts to go beyond its original core constituency of labor movements, blue-collar workers and young voters in the capital and capture a broader spectrum of the electorate. Overall, any variations observed for earlier periods are small enough to continue perceiving the system as having relatively moderate levels of ideological polarization.

### **3.3 Co-Participation**

The co-participation system has been a key "informal institution" that has paralleled not only the evolution of Uruguayan political parties but also of the democratic process itself. This institutional arrangement guaranteed that no party would prevail in controlling the entire political process and the bureaucratic apparatus ("winners did not take all"). Indeed, the co-participation system is the result of a long series of conflicts between the traditional parties occurring since the nineteenth century (1872), long before the emergence of the modern democratic process in 1910. This system facilitated a form of interaction between the Blancos and Colorados and created forms of proportional access to public goods and the decision-making process. Until 1990, the

system was viewed as a political practice whereby the winning party was supposed to be controlled by the minority party in all major state offices.

Traditionally, the co-participation system did not imply any form of political support for those who won the presidency. Before 1990, political support to elected governments by opposition parties was neither a necessary nor a sufficient condition to gain access to public offices and some important state goods. However, President Lacalle (1990-1994) linked this access to political support, particularly when it came to the presence of opposition members in the Cabinet. In other words, this form of linkage implied a major change of the old co-participation system. Formally, the 1996 constitutional reform mandated that political losers will only have access to Cabinet portfolios and other public appointments if they are cooperative. Otherwise, the Executive has the authority to remove those parties or factions that do not intend to support the policies promoted by the president.

### ***3.4 Bureaucracy and Administrative Capabilities***

In the Uruguayan state apparatus, political rationale strongly prevails over administrative and technical considerations. The current Uruguayan state is comparatively large but is administratively inefficient, when compared with neighboring countries such as Chile or Brazil. The basis of this characterization must be understood in the context of its own evolution. Two broad periods must be considered. The first consists of a substantive process of state expansion in the economy and the provision of public services. It began in the early twentieth century and, unlike most Latin American countries, indicated the emergence of an important welfare state. During this period, the Uruguayan state introduced an impressive array of economic regulations and policies in which political parties were responsive to the demands of citizens and interest groups. Essentially, Uruguayan parties were the key actors in the delivery of public goods and benefits on a particularistic basis such as rents and clientelistic practices. This long-standing process was facilitated by the fact that parties preceded state formation in Uruguay, and for this reason they were also able to expand their own bases. This process involved a substantial growth in the number of civil servants and an increasing amount of social services, such as education and social security.<sup>21</sup> In such a context, the behavior of the bureaucracy was not ascribed to a Weberian structure but to an environment of political patronage and nepotism. The bureaucratic

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<sup>21</sup> In 1960, 20 percent of the labor force was employed by the state, and 30 percent of the population depended on pensions (Alonso and Demasi, 1986).

and political spheres were both parts of a complex link.<sup>22</sup> The influence of the political patronage involved the lack of the State's technical capacity.

The second period began in the mid-1950s after a deep economic crisis that affected the country. The Uruguayan state began a very slow period of retrenchment in most economic areas and in the delivery of public goods. This retrenchment did not imply a lack of bureaucratic strengthening and technical improvement in some strategic areas. Since the mid-1960s, the state has been able to implement administrative reforms in public offices, several reforms of its informational systems in various policy areas and the rationalization of the budgetary process. In the long run, these reforms at the state level have been slow, but certainly real.

Needless to say, when compared to the mid-1960s, the current Uruguayan state has embarked upon smaller levels of economic intervention, though since the mid-1990s, it has overseen an important set of reforms undertaken by political parties that produced a drastic decrease in the old clientelistic practices. Those reforms occurred in the social security system, telecommunications, electricity, water supply and other sets of monopolistic public services. These improvements within the administration of the state apparatus implied declining levels of political manipulation and intervention in state performance. Nevertheless, the state remains the most important agent in the economy, representing 35 percent of the Uruguayan GDP. Currently, large areas of the state remain politically controlled, with low levels of technical efficiency.

As indicated by Spiller et al. (2003), a high-quality bureaucracy that is adequately supervised by Congress can contribute to an environment conducive to the intertemporal enforcement of political agreements. Scartacini and Olivera (2003) maintain that an organized civil service can reduce the ability of politicians to reverse their decisions in response to short-term considerations. While the former emphasizes the incentives generated by the institutional framework, the latter insists on the importance of preventing short-term public interests from influencing public policy dynamics. Following Evans and Rauch (1999), Uruguay has one of the worst performances of Latin American countries as measured by the "weberianness scale."<sup>23</sup> The authors give Uruguay 4.50 points. At this level, Uruguay outperforms countries like Guatemala, Argentina and Ecuador, but it is worse than Chile, Brazil, Colombia, Mexico and Costa Rica.

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<sup>22</sup> Both of the main political parties were the creators and the beneficiaries of a system in which they delivered public posts according to voting performances (Zurbriggen, 1999).

<sup>23</sup> This index measures the public bureaucracy's level of professionalism and influence in the PMP. The country data is gathered by sending a questionnaire to selected national experts, which deals with issues such as bureaucrats' recruitment, career patterns, wages and social status.

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

**Table 6. Ranked Score on the Weberianness Scale**

<b>COUNTRY</b>	<b>WEBSCALE</b>
ARGENTINA	3.80
BRAZIL	7.60
CHILE	5.00
COLOMBIA	8.50
COSTA RICA	9.00
ECUADOR	4.00
SPAIN	10.00
GUATEMALA	3.00
INDIA	10.00
MALAYSIA	10.50
MEXICO	8.50
SINGAPORE	13.50
URUGUAY	4.50

*Source: Evans and Rauch (1999)*

These authors' view of Uruguayan bureaucracy is, in general terms, correct. However, it is necessary to make an important distinction. Inside state structures in Uruguay there are different levels of professionalism. More specifically, it is necessary to distinguish between central government agencies (the different ministries), which have low levels of professionalism, and the bureaucracies of the public enterprises (ANTEL, UTE, ANCAP, et.c), which are better organized.

State-owned enterprises have managed to preserve and reproduce acceptable levels of professionalism, due fundamentally to their greater levels of autonomy. They can dismiss employees with greater discretion than can a ministry within the central administration.<sup>24</sup> They also have more autonomy in developing their budgets. This makes it easier for them to escape restrictions on salary increases in the public sector that the Ministry of Economy has tried to impose in an attempt to control the fiscal deficit. The obvious result is that wages (and therefore technical capacity) at state-owned enterprises are considerably higher than in the central administration.

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<sup>24</sup> Civil servants in the central administration have the privilege of "immobility," a rule that requires an authorization from the Senate to remove them. An employee of a state-owned enterprise can be dismissed only by a pronouncement of the Directory.

However, the boards of these enterprises have been made up of politicians from different parties since 1931. This “co-participation” in the management of public enterprises was a consequence of a pact made between some sectors of the two main traditional parties. Even though the set of rules that regulates the appointment of the boards of public enterprises has been changing, the institutional design has always assured that the two parties are represented in them. The rule for representation of the major minority in the boards of these enterprises determines that the rotation of parties in government does not imply an abrupt change in the policies of public enterprises. The fact that politicians are appointed to manage public agencies and state-owned enterprises implies that they are seldom adequately professionally handled (Rivarola, 2003). This problem could be solved if politicians would rely on technical support at the party level. However, this is not the usual practice in Uruguayan politics. When appointing their support and advisory teams, the politicians choose to reward political loyalty rather than technical and professional ability.

Policies designed and implemented at the ministry level have been, in general, more unstable and of lower quality than those related to public enterprises. In general, ministers do not have an obligation to choose collaborators from other parties, and can appoint a great number of “officials for responsible posts” to carry out the most important duties. Additionally, ministers receive an administrative machine with low professional skill and very little motivation. Within this framework, the bureaucrat will not try to get involved in the implementation of public policies, since there is little chance that his knowledge will be taken into account. In the long run, this thwarts investment in developing bureaucratic technical capacities. Thus, it cannot be expected that the bureaucrat would feel involved in the orientation of the public policy and would actively cooperate in policy implementation.

At the beginning of the 1950s, the problems in the bureaucratic structures of the central government started to be incorporated into the political agenda. The Hall (1954) and CIDE (1965) reports offered organized views of the main problems facing the Uruguayan bureaucracy. Among other aspects, these studies showed the need to change from a system structured on the basis of political clientelism to one that rewarded merit in the civil service and administrative appointments. The understanding of the need for an administrative reform led to the creation, in 1968, of the National Office of Civil Service (ONSC).

Even though clientelism diminished during the military regime, no great changes were made in terms of administrative reform. Once democracy was restored, and especially during the 1990s, new attempts at reform inspired by new public management theories were undertaken. At first, Parliament prohibited the inclusion in the budget of new civil servants (this rule has existed for more than 15 years). Secondly, Presidents Lacalle (1990-1994) and Sanguinetti, in his second presidency (1995-1999), both placed the problem of bureaucratic modernization at the top of their agendas. Lacalle implemented a National Program for Debureaucratization (PRONADE) that, among other things, strongly modernized rules related to state purchasing (TOCAF) and the administrative process (Decree 500/91). Sanguinetti created an Executive Committee for State Reform (CEPRE) attached to the presidency. Its creation led to a decrease in the number of ministry officials, a concentration of their activities on those defined as “substantive” by each public office, the implementation of a system of management evaluation and, based on its results, its incorporation into the budget (Ramos, 2003).

**Table 7. Civil Servants in Uruguay During the Twentieth Century**

<b>Year</b>	<b>Number of Civil Servants</b>	<b>Number of Civil Servants as percent Population</b>
<b>1900</b>	14,500	1.8
<b>1931</b>	43,220	2.4
<b>1941</b>	57,200	2.9
<b>1955</b>	166,000	6.9
<b>1969</b>	213,001	7.4
<b>1985</b>	258,000	8.7
<b>1990</b>	272,000	8.8
<b>1995</b>	256,000	7.9
<b>2000</b>	223,619	6.8

*Source:* Filgueira et al. (2003).

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

### ***3.5 Specialized Knowledge***

Uruguay exhibits a comparatively low rate of incorporation of specialized knowledge into public policies (De Armas and Garcé, 2000),<sup>25</sup> which influences the quality of those policies.<sup>26</sup> The

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<sup>25</sup> For example, when examining the list of Uruguayan ministers from 1985 onward, it became apparent that very few of them pursued graduate studies abroad and none of them had a Ph.D. degree.

supply of social research that could be potentially useful in public policies is still comparatively weak. Social sciences in Uruguay have had a late development. In Brazil, Argentina, Mexico and Chile they were thriving during the 1930s and 1940s, whereas Uruguay had to wait until the 1960s for significant advances in this area. Even though in the last 20 years there has been a slight tendency to strengthen social sciences, they are still notoriously far behind. In particular, there are very few people specializing in public policy analysis. There is some accumulation of specialized knowledge in areas such as education, poverty and income distribution, but there is little research in industrial policies, farming, technology, etc. In fact, the only available policy studies are conducted almost exclusively from an economic perspective.

The demand for specialized knowledge on the part of politicians is still negligible. Political parties never developed cadre-formation policies, and the state does not have government schools. The link between social research and policymaking is thus narrow and unstable, and there are no institutions to facilitate a meeting of the two. The characteristics of public administration do not contribute to the incorporation of specialized knowledge. Bureaucracy is weak from a technical perspective, and in the cases in which it is not, it is not sufficiently taken into consideration, because it has been excessively subordinated to political dynamics (Filgueira et al., 2003). Congress has not built a system of assessment and of advising staff, and the parties lack think tanks. In the last 20 years, there has been a more ample use of specialized knowledge in public policies than in the 1950s and 1960s, particularly in the Executive's sphere. It has occurred generally as the result of taking advantage of external financial support by multilateral organizations.<sup>27</sup> Even so, deficiencies in the Uruguayan political process regarding this issue become evident when the country is compared to others in the region such as Chile and Brazil (De Armas and Garcé, 2000).

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<sup>26</sup> The current discussion on how to increment the impact of research on public policies can be found in "Bridging Research and Policy," a project launched by the Global Development Network (<http://www.gdnet.org/rapnet/>) in 2002. See also Stone, Maxwell and Keating (2001).

<sup>27</sup> Some of the programs that have led to the generation of specialized knowledge in social policies are: the Social Investment Program (PRIS), Strengthening of the Social Areas (FAS), Institutional Strengthening of the Health Sector (FISS), Program of Improvement of Quality of Primary Education (MECAEP), and the Program of Modernization of Secondary Education and Teacher Education (MES and FOD). The main poles of accumulation and production of specialized knowledge in the state are the Planning and Budget Office (OPP) and the Economic Research Department of the Central Bank of Uruguay. The Office of Programs and Farming Policy (OP and PA) of the Cattle-raising, Agriculture and Fishing Ministry and the Management of Planning and the National Administration of Public Education must also be mentioned.

### **3.6 Judiciary**

Uruguay has a strong and prestigious tradition in law studies and a numerous and competent body of lawyers, prosecutors and judges. The high standard of development of legal studies has allowed important levels of specialisation, mainly in civil, commercial, family, criminal, minor, customs and administrative law.

Unlike the state bureaucracy described above, the judiciary has an important tradition of independence and professionalism *vis-à-vis* the political process. The Supreme Court is appointed by a two-thirds vote of the Uruguayan Senate. Given the scope of fragmentation at the party system level, the rule of two-thirds for judicial appointments isolates the judiciary from major political discretion and manipulation. Traditionally, the Uruguayan judiciary has been impervious to political influence, and this reputation has formed the basis of its high levels of public support. The Supreme Court is the organ responsible for the appointment of judges and overseeing the judiciary. In 1993, the Supreme Court created a Consultant Commission for the promotions of magistrates. This Commission consists of five members: a Minister of the Supreme Court who presides, a Minister of the Appellate Courts, a representative of the Magistrates Association, a representative of the Lawyers College and a representative of the Faculty of Law of the University of the Republic. This Commission develops annual lists consisting of 10 magistrates who are suitable for promotion.

After the re-establishment of democracy, the judicial system in Uruguay was subject to several important reform initiatives. These initiatives received a strong stimulus during Sanguinetti's first presidency, at the request of the University of the Republic's law faculty and of Vice President Enrique Tarigo, a professor in that faculty and an expert in procedural law. Within this framework, two important innovations took place in 1988. First, the new General Procedural Code (CGP) was approved. This code, which replaced the one that had been in effect since 1876, was aimed at making the judicial process easier and more democratic. In order to accomplish this, the CGP established the oral trial in civil, commercial, family, labor and administrative disputes. Secondly, an institution specializing in the training of magistrates was created (the Centre of Judicial Studies of Uruguay—CEJU). The creation of the CEJU was an outgrowth of the implementation of the new procedural mechanisms. The CGP created an abrupt need for judges and for training courses for professionals who had to start using the Code. Since the creation of CEJU, the institution's graduates have priority admission to the magistracy and to

judicial careers. The creation of CEJU and the Consultant Commission has strengthened the meritocratic rule in the Uruguayan judicial system.

In addition to the judicial apparatus that depends on the Supreme Court, there exists the *Tribunal de lo Contencioso Administrativo* (TCA), which is in charge of delivering justice at the government administrative level. In fact, most claims against government decisions are generally submitted to the TCA after they have gone through the corresponding office and the upper hierarchical levels. The TCA has three members appointed by Congress and is typically composed of judges rather than politicians. This is an autonomous judicial body financed by a specific item of the national budget.

Proceedings at the TCA are usually very costly and follow patterns typical of the Uruguayan bureaucracy. TCA decisions tend to take years, particularly when some political and economic complexity is involved.<sup>28</sup> Therefore, the ability of the judiciary to reverse government decisions exists, but it could be of little material impact in most of the important cases. The only important exception took place in 1992 during the Lacalle Administration. In this case, the government was able to pass a small piece of legislation reforming social security within the budget bill. After it was approved in Congress, the law was appealed by individual citizens and declared unconstitutional the Supreme Court, following the Uruguayan procedure. However, the sentence opened the door for an enormous number of appeals that resulted in a strong political mobilization against the law by the association of pensioners and retirees. This mobilization led to a plebiscite held concomitantly with the 1994 elections, where an overwhelming majority of the electorate (85 percent) supported revoking the law and prohibiting the possibility of passing social security reforms in budget laws.

Despite healthy levels of institutional independence, the Uruguayan judiciary also faces some obstacles to modernization. Naturally, one of the main ones comes from financial restrictions. The administrative members of the judiciary earn very low salaries. The majority of judicial offices are inadequate, and there is not enough information-processing equipment. However, it should be noted that since 1985 the Uruguayan state has made an effort to improve the salaries of magistrates.

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<sup>28</sup> One interesting example refers to a claim submitted by potential providers of paid TV in Montevideo, who in February 1994 were awaiting government authorization. They had 10-year permits, which expired before the TCA issued a judgement. The Adjunct State Attorney in the administrative jurisdiction submitted her report to the TCA in August, 2003, that is, nine and a half years after the claim was submitted!

The judiciary has also some important institutional problems. One main drawback is the lack of specialization in economic and financial problems and crimes. In particular, the Uruguayan judicial body has not developed experience in adequately solving contractual disputes involving any economic complexity. Additionally, the lack of specialized staff or specific courts has not been offset by resources that could allow for the subcontracting of these activities (Bergara, 2003).

Another institutional problem is that the judiciary does not have financial independence. Although formally, it is supposed to develop its own budget according to the Constitution, in reality its economic resources are determined by the Budget Office, which depends on the Executive. Thus, it has an important handicap in handling its own budget, with important restrictions imposed by the Executive in the national budgetary process. This financial dependence conspires, at least partly, against the equilibrium between the Executive and the judiciary.

Finally, the Uruguayan institutional design has established a Supreme Court without the ability to declare certain bills unconstitutional during their consideration in Congress. The Court can only be an effective veto gate once a bill has been approved by Congress and once an individual citizen has been affected by it. Only when those individual citizens ask for the bill to be declared unconstitutional can the Court intervene. The central point here is that the judiciary has a limited ability to undertake policy reversals when the Executive or the legislature promotes unconstitutional bills. However, despite these formal proceedings, both the Executive and the legislature are strategically oriented to minimize the costs of further defeats, particularly when certain laws are politicized by opposition parties.

Milnitsky (2004) presents some indexes related to the quality and celerity of judicial activity in Uruguay. The annual demand for judicial services involves approximately 200,000 cases, which must be added to a typical load of 300,000 cases initiated in previous years. In terms of quality, one of every seven definitive sentences is appealed, and approximately half are totally or partially revoked. In terms of celerity, the average clearance rate (the ratio between the number of cases solved and the number of cases initiated) for the period 1995-2000 is lower than 1 (0.91) and the congestion rate (the ratio between the total caseload of the system and the number of cases solved) represents almost three years, with an increasing trend, consistent with the system's inability to clear the annual demand. An international comparison of indicators

suggests that the Uruguayan judicial system exhibits levels of celerity similar to those of other Latin American countries such as Argentina and Costa Rica, at least for civil and family cases. Courts take on average between 15 and 25 months to rule on civil, penal, administrative and labor issues and 40 months in customs issues. Additionally, Appeals Courts take from seven to 10 months on average to achieve definitive sentences.

### ***3.7 Interest Groups***

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

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

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

Unlike other countries in the region, Uruguayan businessmen have not seemed too willing either to support relevant research centers or think tanks, or to hire specialists. At least in some sectors, this process appears to be changing very gradually.

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

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

During the first half of the twentieth century, the Colorado Party occupied an extensive political space from the center to the left. Actually, during that period, the ideological position of the Colorado Party was determined by the predominance of *batllismo*<sup>31</sup> in the internal political competition. The substantive preferences of *batllismo* can be compared to those of the social democracy or labor parties. Searching for economic growth and an improvement in income distribution, the *batllistas*<sup>32</sup> expanded the role of the state, protected national industry and

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<sup>29</sup> Partisans of the Partido Nacional and the Partido Colorado, respectively.

<sup>30</sup> Parties in the U.S. have recently been analyzed from a similar perspective. See Gerring (2000).

<sup>31</sup> *Batllismo* was the most important fraction of the Colorado Party, built around the outstanding leadership of José Batlle y Ordóñez, who held the presidency for two periods (1903-1907 and 1911-1915), shaping some of the more important features of modern Uruguay.

<sup>32</sup> Partisans of *batllismo*.

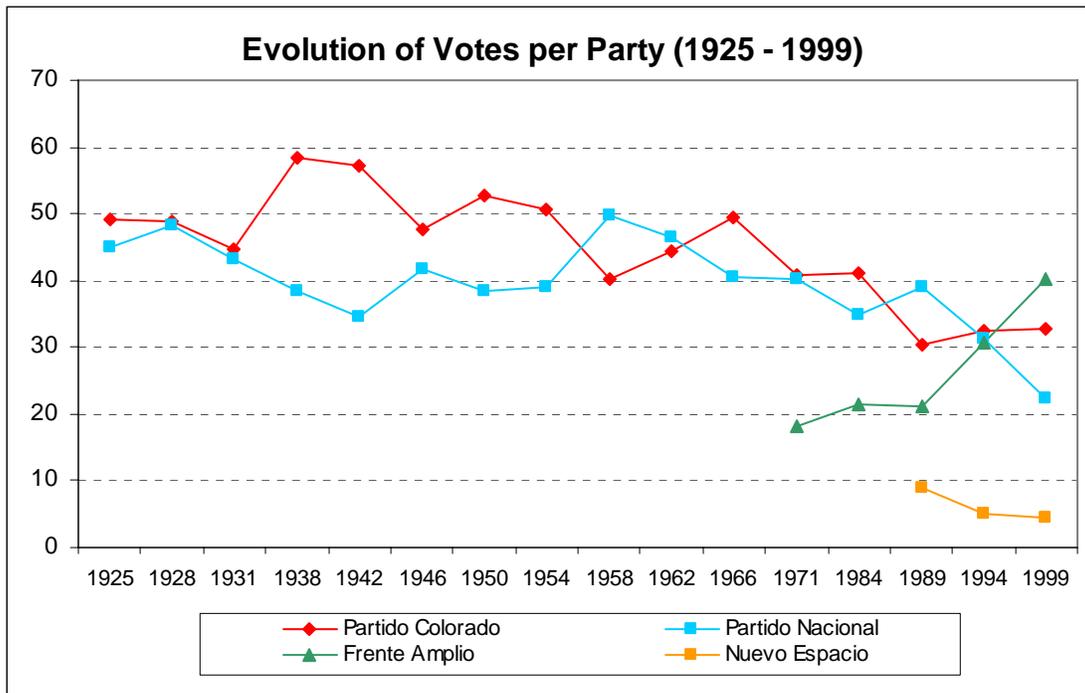
developed an enlarged welfare state. The National Party (the Blancos), meanwhile, occupied a space from the center to the right. During those years, the Blancos questioned the *batllista* model in the name of the principles of economic liberalism and cattlemen's interests.

Since the economic crisis of the 1950s, this ideological map has suffered deep changes. In fact, between 1971 and 1989, the relative position of the Blancos and Colorados in the left-right axis experienced a reversal: the Colorados abandoned the left and adopted economic liberalism while the Blancos moved towards the left, encouraged by the influence of ECLAC theories. Those changes are deeply associated with the leadership of Jorge Batlle in the Colorado Party and Wilson Ferreira in the National Party. Since Wilson Ferreira's death in 1989, the National Party has returned to its traditional place. Simultaneously, the Colorado Party, then under Julio María Sanguinetti's leadership, tried to occupy the space of center and center-left.

Although between 1989 and 1990 it reached a position to the left of the National Party, the Colorado Party could never return resolutely to the left because of the emergence of the Frente Amplio. In spite of Sanguinetti's efforts, the Colorados inexorably abandoned the left wing. In a few years, this party capitalized on the political legacy of *batllismo*: today it occupies an extensive ideological space from the left to the center, while the Blancos and Colorados share the space from the center to the right.

In 1984, with the re-establishment of democracy, the levels of polarization were lower than those of 1971 (González, 1993). This trend towards the center was consolidated during the following years by changes in the Colorado Party (i.e., the disappearance of its most right-wing faction under the leadership of ex-president Pacheco) and by the gradual programmatic and political moderation of the Frente Amplio. Until the early 1960s, Uruguay had a moderate two party system. At the beginning of the 1970s, the scenario changed deeply: the number of parties increased and polarization grew. After the dictatorship, the number of parties did not change, but polarization slowed down, so that the current Uruguayan political system can be described as moderate and multi-party.

Chart 1.



After a process of ideological and programmatic evolution, the left ended up tuning in with the median voter. Through a systematic opposition to essentially all reforms, the left became the political force that best interprets the Uruguayan “*batllista* political culture.” Of course, to get to this stage the left had to go through a deep change. The fall of the Berlin Wall in 1989 made it easier for the Frente Amplio to start a slow but systematic turn toward the centre. The thriving economic liberalism that followed the collapse of the socialist system and the crisis of the welfare state made a deep impression on the left. The Frente Amplio abandoned radicalism regarding the state and the nationalist ideas it used to have at the beginning of the 1970s. Its current program can be defined in general as social democratic. Although it still assigns an important role to the state with regard to the administration of the economy, it does not promote nationalization policies and recognizes the role of private initiative (Garcé and Yaffé, 2004).

An overview of the dynamics of political preferences helps to understand why public policies in Uruguay have been reformed in such a moderate and gradual way. During Sanguinetti’s two presidencies (1985-1989 and 1995-1999), but especially during his second one, Sanguinetti made sure his political discourse and his workings in office were not far removed from the predominant preferences of the citizenship regarding state intervention and

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

This ideological moderation process, in the context of diminishing party system polarization, created a favorable scenario for the construction of agreements between the traditional parties and the left-wing opposition—in theory. However, there have been low levels of cooperation between the Blancos and the Colorados on one side, and the left on the other. Both political blocs have contributed to this situation. The Blancos and Colorados have generally preferred to leave the left on the margins of the main negotiations, probably to impede its movement towards the center. The left has chosen a clear opposition policy, systematically and indiscriminately querying the successive governments.

From 1985 on, with a few exceptions such as the constitutional reform of 1996 (the reform of Social Security or the ANCAP Association Law that has been recently repealed), the Colorados and Blancos did not look for the cooperation of the opposition in Congress. Not only was it easier for them, but it was also politically more convenient to reach agreements between themselves than with the left-wing opposition. Regarding substantive preferences, the ideological distance between the Blancos and Colorados is far less than it is between either of them and the left wing. Regarding political strategies, traditional parties have had no interest in supporting the left wing's growth and they did not need it to pass laws. Apparently, the leaders of the traditional parties were convinced that the best way to prevent the left wing from growing was, precisely, to keep it away from relevant decision-making. Excluding the left wing from taking part in political agreements on relevant issues had two objectives from an electoral point of view. First, it showed that the problems of the country could still be solved by the traditional parties without the cooperation of the left-wing opposition. Second, it hindered the political moderation of the left wing and its shift towards the center. The traditional parties abandoned the exclusion strategy

only when they believed that reforms would not be possible without the inclusion of the opposition.

Nevertheless, the lack of agreements between successive governments and the left wing cannot be explained only by the political strategies of the Blancos and Colorados. It is essential to take into account the fact that the opposition did not show any interest in cooperating. Since the creation of Frente Amplio in 1971, most of its leaders have believed that the best way to increase the electoral support of the left wing is to adopt an opposition strategy of systematically questioning the governments. Uruguayan electoral behavior seems to have validated this strategy. Between 1984 and 1999, which was essentially a period of economic growth and poverty reduction, the opposition doubled the number of votes it received, becoming the most political party that received the greatest number of votes.

In summary, after the dictatorship, the differences among the left wing and the other parties diminished. However, the political strategies orienting electoral competition among relevant actors hindered the building of bridges between the parties that formed the government and the left-wing opposition.

## **5. A Characterization of the Policymaking Process**

### ***5.1 A Brief Description of the PMP***

The Uruguayan policymaking process is determined by four broad institutional features: (i) the presidential regime that sets fixed terms for both executive and legislative powers; (ii) a president with strong legislative powers to control the ability of parties and legislators to influence the PMP; (iii) a multiparty system with factionalized parties; and (iv) institutional devices that enable the use of direct democracy to reform the constitution or endorse laws. The combination of the first three factors determines to a large extent the features of the PMP with a cyclical pattern consisting of two discernible periods within each presidential term, characterized by cooperation and conflict.

In the context of a presidential regime with a multiparty system, most Uruguayan presidents since 1985 have been forced to form governmental coalitions to pass their policies. Thus, before each government takes power, most presidents have to negotiate the policies to be incorporated into the political agenda. This process leads to an intense inter and intra-party

negotiation process<sup>33</sup> based on the exchange of political support for strategic bills (for the president) for cabinet positions demanded by those parties and factions that will be part of the governmental coalition.

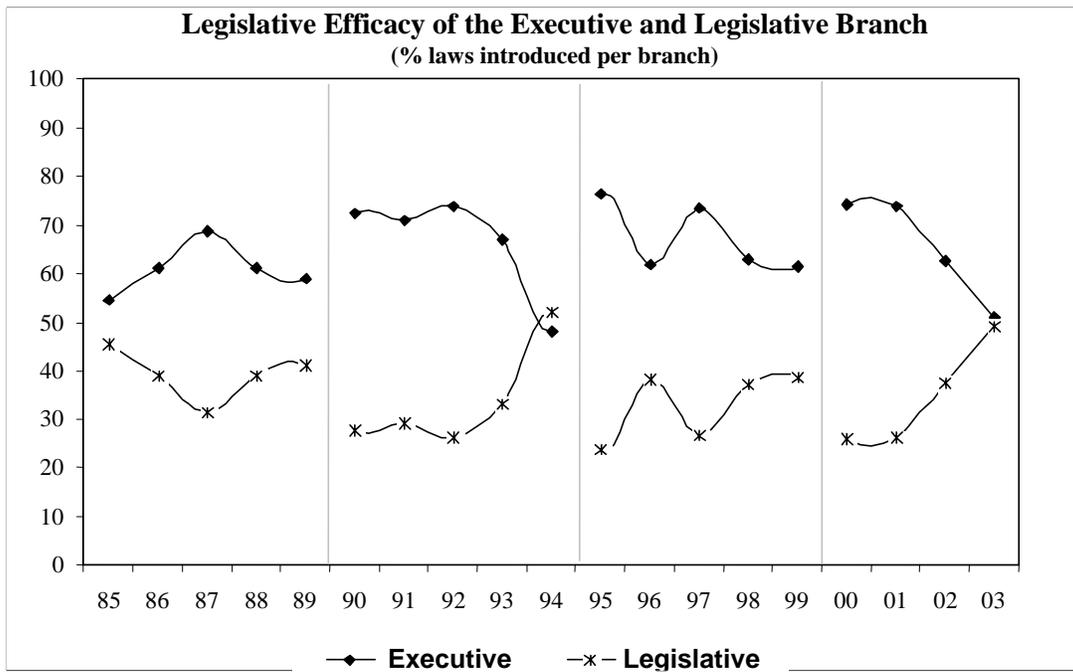
During the span of time that executives are supported by the governmental coalition, presidents are able to pass (or at least partially pass) the agenda and the policies negotiated at the coalition-formation stage. However, as the presidential term progresses, the incentives for those who cooperate with the president decrease, given that the electoral calendar forces coalition members to compete. Indeed, the payoff structure of governmental coalitions under presidential systems determines that those who support successful governments will receive small benefits (votes), and for this reason coalition termination before the electoral campaign begins is a precondition for avoiding such electoral inefficiencies. If the president is unsuccessful, the coalition partners have obvious incentives to abandon the coalition as elections approach. But even if the president is successful, they have incentives to abandon the coalition, since the president himself (or his faction) will stand to gain more from the support than the coalition partners do.<sup>34</sup>

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<sup>33</sup> The intra-party negotiation is the result of the predominant model of parties. Given that parties are factionalized, presidents have to negotiate policies with other factions within their parties, in addition to the inter-party negotiation in order to form a governmental coalition.

<sup>34</sup> This political cycle has to be expected in all presidential regimes with simultaneous elections and fixed terms for presidents. However, some political systems where these conditions are met also show a less pronounced cycle or one that has a minor impact on the policymaking process. In most of these cases there are other institutional devices that buffer political or institutional conflict between presidents and assemblies (Shugart and Carey, 1992). For instance, the presidential re-election allowed by the 1997 constitutional reform in Brazil dramatically changed the positioning of political parties regarding electoral competition and their strategies toward the Executive. Something similar can be observed in Chile with the system of binominal districts, which forces parties to cooperate by being part of coalitions. Overall, some institutional devices beyond fixed terms and simultaneous elections can induce higher levels of cooperation during presidential mandates (See Chasquetti, 2001).

Chart 2.



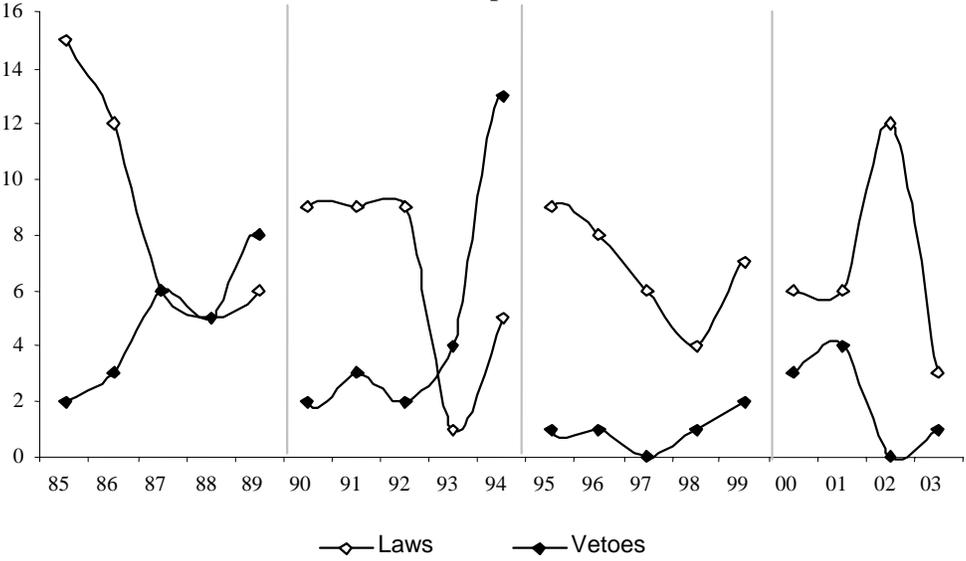
As can be observed in Chart 2, while cooperation periods enable presidents to pass their agenda, competition periods are characterized by a presidential inability to buffer the policy preferences of the legislature and the opposition parties. Additionally, the 1996 constitutional amendment introduced party primaries four months before national elections, extending the competitive period.<sup>35</sup> In sum, cooperation periods yield policy formation under political agreements, while competition periods are more prone to policy stalemate or *status quo* (Buquet et al., 1998). This dynamics implies an ability to develop some political exchanges and get some cooperation in several areas, although that cooperation will be difficult to sustain until the end of presidential mandates because of the logic of the electoral competition mentioned before.

The PMP evolves under the above-mentioned political and institutional dynamics. Theoretically, the PMP can be analyzed taking into account the agenda-setting and the policy-design processes. The agenda-setting process in Uruguay is determined by the cyclical pattern of government described above. At the outset of each government, presidents and coalition partners

<sup>35</sup> In addition to the extension of competitive periods, the new constitution also introduced the split of national and local or sub-national elections to be held in May of the first year of nationally elected governments. This change means that coalition partners who are supposed to be cooperating by passing the governmental agenda are competing at the subnational level. For this reason, Batlle was able to start passing his agenda only after subnational elections took place.

bargain on a set of policies that will prevail in the legislative arena. By implication, those policies will have political support in Congress. In addition to those contexts in which presidents are supported by governmental coalitions, some institutional features give them an important asymmetry in the congressional arena. Indeed, Uruguayan presidents have exclusive initiative in relevant policy areas, such as the budgetary process, tax policy and the ability to appoint new personnel for key administrative posts. Thus, during cooperation periods, presidents are able to legislate and pass the governmental agenda without major congressional opposition.

**Chart 3.**  
**Governments and Legislative Cycles: 1985-2003**  
 Number of important laws and vetoes



According to Chart 3, the political context undergoes significant changes as term mandates advance, since most presidents systematically lose political support toward the end of their terms. Systematically, during the last two years of each government, the agenda tends to shift from the policy preferences of the Executive toward the policy preferences of the legislature, and particularly favors those who are leaving the coalition or more punctual governmental agreements. During the second part of the cycle, the policy agenda follows a more particularistic pattern, given electoral proximity and the fact that during the first part of the cycle

legislators were working with the policy preferences of the Executive.<sup>36</sup> During this period, legislators are more prone to respond (via legislation or simple attention) to more narrow constituencies, which can be observed in the small peaks of important legislation endorsed during the last year of each government (see Chart 3). Given that Parliament becomes more proactive in the legislative process, it is also expected that presidents will be more prone to react to its policy preferences. For this reason, executive vetoes become more frequent during the last part of each government. Presidents can veto legislative initiatives (also with item vetoes) without restrictions on policy areas and can be overridden by a three-fifths vote in each chamber (Magar and Moraes, 2003).

The process of policy design is also strongly determined by institutional rules and structures. Presidents have not only exclusive power of legislative introduction in some policy areas, but can also tap into key institutional sources of expertise located in the bureaucratic apparatus. In contrast, Parliament lacks these resources for designing public policy. Given that legislators gain their nomination from faction leaders and those leaders are policy brokers who negotiate policies (via coalitions or particular agreements) with other parties or factions, individual legislators have no incentive to create strong institutions within Congress.<sup>37</sup> To a large extent, congressional institutions serve to diminish the level of uncertainty produced by the impact of the policies enacted by individual legislators. Low levels of uncertainty will be always preferred by individual legislators in order to improve their electoral fortunes. This is only true if legislators depend on themselves to gain re-election, as Krehbiel (1991) argues. However, if

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<sup>36</sup> Interest groups have limited influence as agenda-setters. However, they have important veto power. Generally, interest groups exert direct pressure on the Executive in order to modify or reverse some policy decisions. When those pressures are ineffective, interest groups shift their efforts toward Congress and particularly to the committee structure.

<sup>37</sup> The Uruguayan Parliament has a relatively small budget. Individual legislators can count on small amounts of money to finance and solve their particular needs in terms of staff, information and logistic resources. The internal institutions geared to fulfilling legislators' needs are scarce and are not well-equipped in terms of human resources or technical knowledge of public policies. During 1997, the IDB financed a large research project to evaluate the viability of introducing a permanent technical staff to assist the needs of legislators in different policy areas. However, Uruguayan legislators and administrative staff frustrated the reform. In particular, Uruguayan politicians have been reluctant to use think tank research and individuals specialized in policy areas of strategic importance, such as telecommunications, energy and also institutional or political reforms. The legislature and individual legislators have followed two types of bypasses to solve the lack of technical knowledge. On the one hand, since the legislature delegates a large part of the policy design to the executive branch, all committees require information and opinion from ministers and public firms directors in order to have a better look at the policies under consideration. This process has intensified during the last coalition governments from 1990 onward. On the other hand, legislators are allowed to request the transfer of public servants to work on their particular staff. Those public servants are generally professionals working in areas of particular interest to the legislator.

legislators depend on party or faction leaders to gain office, their incentives to create strong legislative institutions are few (Moraes, 2004).

The Executive has an important set of specialized agencies and experts that are in most cases responsible for designing public policies delivered to the legislative arena. The legislature, however, has a limited set of resources and specialized staff to produce public policies. Indeed, neither parties nor the legislature have think tanks or specialized bodies dedicated to designing public policies.

Normally, coalition legislators can influence policy design through the legislative process. The most important bills get into Congress through the Senate (Chasquetti and Lanzaro, 2003). The senate committee in charge has the authority to make changes and, as a general rule, committees frequently amend executive proposals, negotiating with the president or individual members of the Cabinet. Additionally, interest groups, bureaucrats and experts participate in the discussion of each particular bill. Therefore, the negotiation process involves not only strong executive influence, but also the important participation of key legislators in the committee structure.<sup>38</sup>

From the brief and preliminary description developed here, it must be noted that the number of veto gates and veto players with power over policy decisions is relatively large due to the set of institutions (presidential regime with bicameral legislature) and political agents operating within the system (fragmentation and party factionalization). In addition to these factors, plebiscites and referenda are a tremendously influential factor in the way parties, factions and governmental institutions interact. These mechanisms of direct democracy have played a relevant role in Uruguayan politics since the restoration of democracy by imposing serious constraints on the enactment of important reforms endorsed by the legislative and executive branches. Overall, despite the presence of these different types of vetoes, the system has been relatively stable in maintaining a systematic path in the policymaking process, with a clear political cycle.

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<sup>38</sup> Each chamber determines the set of standing committees that they will have at the beginning of each legislature. Overall, the number of those committees has increased during the last few decades. For instance, during the period 1985-1990, both chambers had nine standing committees, but the current legislature's (2000-2005) lower chamber and Senate have 14 and 15 standing committees, respectively. In addition to these committees, each chamber can create ad hoc or special committees to investigate a certain type of policy or to oversee executive decisions and policies. These types of committees require special majorities to be created and their survival is very limited, since they are created with very specific purposes (see: [www.parlamento.gub.uy](http://www.parlamento.gub.uy)).

## *5.2 The Dynamics of the Policymaking Process*

Hitherto, the static aspects of the Uruguayan policymaking process have been discussed. This section discusses the dynamic. First, the executive branch is the main agent in the legislative process, but the legislature retains the power to veto executive proposals and shift the policy preferences of the president (Cox and Morgenstern, 2002). Executives set the agenda by using different prerogatives and rely upon strong bureaucratic and administrative mechanisms that allow them to design their policy preferences.<sup>39</sup>

Second, the opposition party (the Frente Amplio) has no incentive to become a policy maker within the legislature given that governmental coalitions simply pass their own agenda. Thus, since 1985, the Frente Amplio has increasingly become a control agent rather than a policy maker as a consequence of its own position outside the presidency and governmental coalitions (Chasquetti, 2004).<sup>40</sup>

Third, there are implicit delegation mechanisms from the legislature to the Executive. By delegating policy design to the executive branch, government or coalition legislators are able to dedicate their time and resources to serving their constituents by providing particularistic benefits in the form of small pieces of legislation and casework (Moraes, 2004).<sup>41</sup> This type of delegation allow pressure groups to focus their lobbying on the executive branch rather than the legislature and individual legislators, despite the fact that those interest groups participate during the legislative process and particularly at the committee level. Furthermore, interest groups are mostly interested in influencing coalition members because they are part of the executive branch. Thus, their incentives to knock on legislators' doors are less than those to pressure the Executive and those who join the governmental coalition. Furthermore, the dynamics of executive-legislative relations also affects the incentives for creating legislative institutions. During the two to three years of cooperation within each governmental cycle, the Senate is motivated to work with the presidential or coalitional agenda. Thus, it does not have any incentive to create

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<sup>39</sup> The Uruguayan Executive is structured around 11 ministries with areas of specialization and control over programs. Additionally, the Executive has an Office of Planning and Budget that designs and controls the development and execution of the national budget.

<sup>40</sup> During 1985-2003, the Frente Amplio submitted a total of 9,217 requests for information to the executive branch, representing 60.4 percent of all requests made by Parliament during that period. However, since 1997, the Frente Amplio has intensified its requests, representing more than 80 percent.

<sup>41</sup> Uruguayan legislators invest 28 hours a week (on average) in providing help to individual voters. This number of hours is almost equal to other countries in which legislators have notorious institutional incentives to provide particularistic benefits and goods to their voters, such as the Brazilian case (Hagopian, 2002).

institutions to produce informational resources during this stage. However, during the second part of the governmental cycle, legislators are attuned to the electoral competition and their own constituencies and so the incentives to create those institutions and informational resources are also low.

Fourth, since parties are strong, logrolling is negligible in the Uruguayan Parliament, with the sole exception of low-profile bills submitted at the end of legislative terms (Weingast and Marshall, 1988). For this reason, legislators have few incentives to create legislative institutions to improve their chances of passing their policy preferences and, by implication, their probability of being re-elected. However, from an informational point of view (Krehbiel, 1991), only the Frente Amplio has the incentives to create those institutions or informational resources. Given that coalition partners or governmental parties delegate the policy formation and the informational resources to the executive branch, these parties have no incentives to create those institutions. Hence, only the opposition party has the incentives to create those resources or institutions within Parliament. Additionally, the Frente Amplio has the highest re-election rates, which supports the thesis that the creation of specialized bureaus and informational resources are linked.

Fifth, the lack of incentives for building institutional capacities does not stem from the fact that re-election rates are low. Rather, the Uruguayan case shows comparatively high levels of turnover in the region. More specifically, between 49.54 and 65 percent of those seeking re-election in the 1989-94 and 1999 elections achieved their goal (Altman and Chasquetti, 2002). This evidence reinforces the argument that low re-election rates do not explain the weakness of legislative institutions in Uruguay.

Sixth, the legislature also holds some power over executive programs and specific agencies because it generally intervenes during the policymaking process to grant itself further mechanisms of control. This type of delegation may not result in an efficient way of transferring power through administrative procedures. Generally, many institutions face several problems in executing their objectives due to the fact that legislators and parties usually exert pressure over those agencies to shift their policies. Interest groups also exert direct pressure to revert policy decisions made by those agencies. As can be expected, the type of pressure exerted by those interest groups leads to poor levels of institutional performance given the dominance of informal channels of interest representation.

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

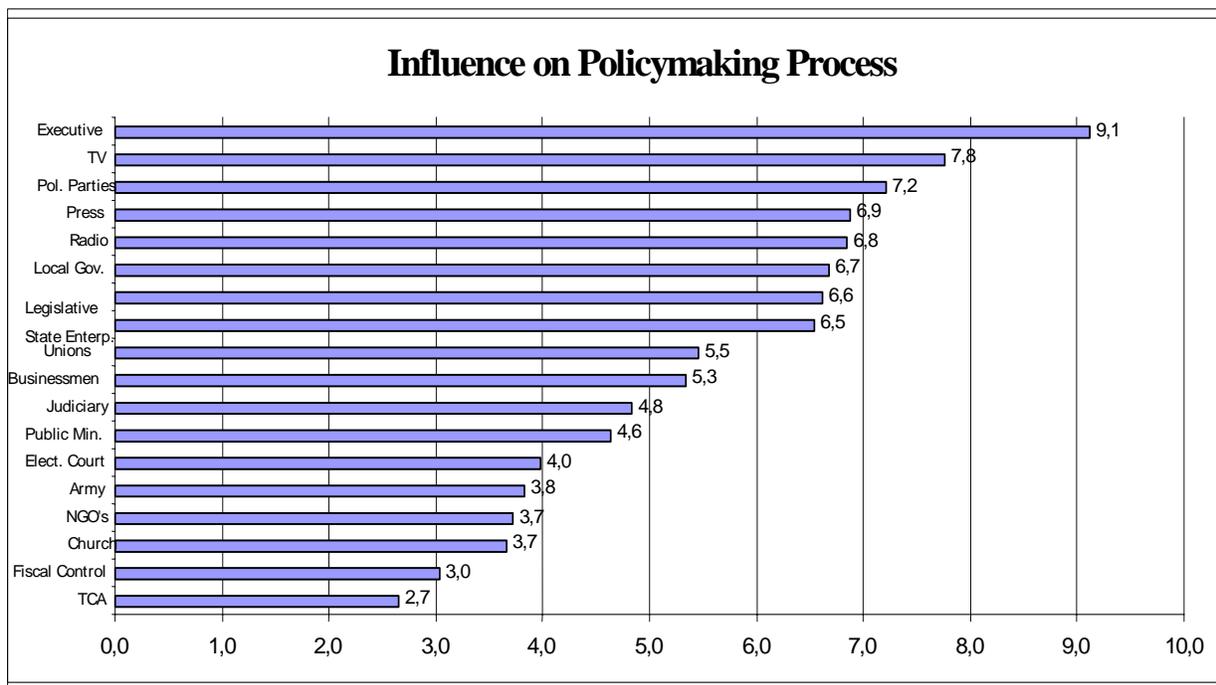
There have been no instances since Pacheco's presidency in 1968 in which the Executive has tried to circumvent the legislature. Indeed, the Executive has no legal instruments (such as decree powers or administrative procedures), but in some cases in which there is deadlock, political negotiations have always prevailed. If presidents usurp the legislature's rights, and particularly some of the core policy preferences of the left-wing party, the costs of this type of action can surpass the benefits. Since the opposition can be a relatively easy promoter of plebiscites and individuals can use judicial powers to declare laws and decrees unconstitutional, executives have tried to avoid these actions by broadening political negotiations. Overall, gains in representativeness or "democratic inclusiveness" can be observed as inefficiencies in the way public policies are made, given the number of veto gates (as institutions) and veto players operating within the political system (as political actors).

## **6. The Perception of Relevant Actors**

In order to understand the perceptions of the key political and social actors regarding the relationship between political institutions and the policymaking process, the research team carried out an elite survey. The relevant actors' perception of these issues can be taken as a crucial ingredient in understanding the process and the political culture in the country. The survey includes 46 variables related to the policymaking process, the inclination to agreements and the perception of changes and stability in public policies. Respondents were selected from a pool of Uruguayan "elites," including ministers, legislators, mayors, directors of public enterprises, leader of unions and businessmen, scholars and journalists.

A first approximation of the policymaking process arises from the diverse degrees of influence that these elites assigned to different private and public institutions.<sup>42</sup> According to their perceptions, the Executive plays the predominant role in the process. Political parties and the media come in second, while the legislature places third, along with local governments and public enterprises. Businessmen and unions are also viewed as having some influence, while the judiciary and other groups such as the church and NGOs are perceived as having no significant influence over the policymaking process.

**Chart 4.**



Executive-legislative relations are at the core of the policymaking process. The view that the legislature obstructs the Executive is not widely held among the Uruguayan elite (10 percent), though businessmen are more inclined to think so (20 percent). The elites are divided among those who perceive there to be a well-balanced relationship between both government branches (39 percent) and those who believe that the Executive imposes on the legislature (50

<sup>42</sup> The “degree of influence” is an average of the responses giving a 0 value to the answer “nothing,” 10/3 to “little,” 20/3 to “enough,” and 10 to “a lot.” All indexes of degree that appear below follow the same criteria.

percent). As can be expected, members of the executive clearly prefer the equilibrium vision (63 percent), while legislators favor the vision of the imposition of the Executive (56 percent).

The survey also tried to examine the role of the legislature in the policymaking process. Broadly speaking, the elites believe the legislature has relatively little influence over policy design or its control and oversight. They feel the only area over which the legislature has some influence is the development of the national budget, assigning it 5.75 points on a 10-point scale of “degree of influence.” The budgetary process is the only environment in which Uruguayan society as a whole (political and not political) sees the Parliament as a key actor. Additionally, the elites think that the time typically taken by Congress to pass a law is excessive (55 percent), and that its productivity is not adequate (63 percent).

Another topic included in the survey was the perception of positive changes in public policies. In general, the elites tended to feel that there have been few changes in Uruguayan policies since 1985, coinciding with the common view that the country is reluctant to innovate, is quite conservative and is gradualist in the application of measures. Nevertheless, it is worth noting the perception of some improvements related to the modernization of state-owned enterprises, which received almost six points on a 10-point scale of “degree of change.” Given the incorporation of new technologies, the improvement in the quality of services, and, in some cases, price declines, this appears to be the area of the state seen as the most dynamic and efficient. On the other hand, the worst performance is assigned to the inefficiency of the public administration, with a 3.69 score.

We also explored the elites’ view of the possibility of achieving agreements in different areas of public policy. In the first place, social and foreign policies appear to be the areas where the elites believe agreements would be more feasible (64 percent think that is possible to reach significant agreements). Secondly, some elites believe that some agreement can be reached in an extensive set of public policies (trade opening, economic policy, public utilities, retirements and pensions, fiscal policy, tax reform, state reform and financial opening), although these elites do not constitute a majority. Finally, there are two areas in which the elites clearly mistrust any possibility of agreement: labor flexibilization and privatizations, where more than 85 percent of those polled felt there could only be minor agreements or none at all. Those two areas have been the source of main political conflicts in recent years.

The study finally tackles the perception of the elites with respect to the stability of diverse Uruguayan public policies. In general terms, public policies are qualified as having an intermediate level of stability; though there are important differences according to the policy in question. In the first place, it is worth emphasizing the great stability that the elites attribute to the policy of public liberties, which received 7.18 points on a 10-point scale of “degree of stability.” It can be said that the notion of a consolidated and sound democracy is clearly reflected in the answers of those polled. Second, there was a very extensive group of policies that qualified as having intermediate levels of stability. Financial and trade opening stand out among them, with the greatest scores (5.88 and 5.73, respectively). A second subset (taxation policy, legal security, international relations, public expenditures, social security and public utilities) were qualified with just intermediate stability, with scores around 5 points. Educational and health policies remain more relegated, and received scores that clearly show them to have low stability (4.33 and 4.00, respectively). Finally, state reform is the policy with the worst performance in terms of stability (3.82). Linking this indicator with the poor evaluation of public administration in terms of change, one can conclude that the Uruguayan elite are quite critical of the performance of the state.

## **7. Epilogue**

In October 2004, the left-wing party (Frente Amplio) finally won the presidential and congressional elections. For the first time in Uruguayan history, a third party will hold control executive branch with a majority in Parliament. This electoral change has several implications for the policymaking process and perhaps for the type of policies to be implemented during the next five years of government. In particular, one can observe four main features of the newly elected government.

First, the new government was elected with 52 percent of the popular vote. Unlike the coalition and minority governments elected since 1985, these electoral results imply that the Frente Amplio will hold a clear majority in Parliament. In addition, this type of majority party government has another salient difference with previous political configurations: so far presidents have been *primus inter pares* within their parties, while the Frente Amplio is headed by a single party leader as a *primus solus*.

Second, as with most majority party governments, the Cabinet will be in the hands of a single party instead of a coalition of parties, as has occurred in Uruguay during the last 15 years. Additionally, the newly elected president appointed all major faction leaders to Cabinet positions with the aim of ensuring party discipline in Parliament. In this way, the Cabinet will lead the policy-formation and agenda-setting processes *a la* Westminster model, where the legislative branch plays a minor role in the political process.

Third, based on the two previous features, the Uruguayan policymaking process, which so far has been characterized by two to three years of cooperation followed by increasing levels of inter-branch conflict, is expected to experience a smoothing trend. The new PMP will be facilitated by the fact that the Frente Amplio will have a clear majority in Parliament, and it is quite likely that Parliament will endorse the overwhelming majority of the policy decisions made at the Cabinet level.

Fourth, direct democracy has been widely used by interest groups supported by the Frente Amplio. However, with the left wing in office, it is not likely that this institutional device will be successfully used by those groups. Given that to a large extent the call for referendums and plebiscites requires a large number of signatures to be implemented, the lack of support by the party in office will make this mechanism an unlikely way of vetoing policies.

Finally, the elected government seems to be promoting a smooth transition whereby the Cabinet is ensuring a balance between the different sectors within the Frente Amplio and is guaranteeing moderation, particularly in those areas dealing with economic policy. Each new minister is legitimized as a reliable professional with expertise or experience in his/her policy area.

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## **Appendix 1: Legislative Process of Three Relevant Laws**

This appendix summarizes the work of Chasquetti and Lanzaro: “A Study of Legislative Process in Uruguay: Three relevant laws,” conducted under the framework of the Work Program established at the Instituto de Ciencias Políticas of the Universidad de la República to assess the legislative process, in agreement with the Legislative Power, with the support of the Interparliamentary Union and the UNDP.

The legislative process in Uruguay was analysed in the context of three laws: Law N°16.211 of Public Enterprises Reform (October, 1, 1991); Law N°16.713 of Social Security Reform (September, 3, 1995); Law N°17.243 - Urgent Law I (June, 29, 2000). These three laws can be considered extremely important legislative pieces, because of their content, the innovations proposed within them and their general and particular effects. They were passed by Congress during the administrations of Presidents Lacalle (1990-1995), Sanguinetti (1995-2000) and Batlle (2000-2005). Congress actively participated in the three cases, voting along party lines. During the process, ministers, public authorities, representatives from the interest groups involved, advisers and specialists participated in the committees’ works.

**A Reactive Congress.** The first conclusion of this study is that Congress, in general terms, actively participates in the legislative process, and is not restricted to ratifying projects. In the three cases, Congress effectively showed its reactive capacity when faced with initiatives coming from the proactive Executive. Nevertheless, the parliamentary influence changes according to the strength of the president’s legislative support (majority or not in the Chamber) and to the consistency of the Executive’s law-making process. Minor changes are observed in a law when the legislative coalition supporting the president is strong and disciplined. When the law-making process is consistent and involves wide technical knowledge together with the coalition members’ points of view, a law is also subject to less modification. Specifically, the case study shows that the projects sent by the Executive are remade in Congress. Two parliamentary instances exist where relevant modifications take place: a) the Chamber Committee receiving the project (in these three cases, the Senate) and b) the plenary of the Chamber.

**Modifications in the Senate Committees:** The Law of Social Security Reform—which is the best designed and counts with the support of a strong coalition—experienced less

modifications in committee (70 percent of the articles passed without alteration). The Public Enterprises Law was the opposite: the corresponding committee removed more than a half of the original articles proposed by the Executive (54 percent), modified almost a third (30 percent) and left unchanged only 17 percent.

**Modifications in the Chamber of Senators:** In the three cases, the committees made the agreed-upon changes in the projects. Once the revised projects were presented in the Chamber, they experienced new modifications, which were the result of negotiations between parliamentary leaders of the government coalition. In the plenary of the Chamber, the Law of Social Security Reform once again received the least modifications, given that the most of the revised articles remained intact (87 percent). The other two cases received similar treatments as in the plenary of the Senate, with the modification of one-third of the articles and the elimination of 6 percent.

**Softened Bicameralism.** A similar pattern existed in the three processes: in the first stage, the Chamber works on the project in two phases (Committee and Plenary), and in the second, Chamber avoids the introduction of new modifications. This softened bicameralism pattern comes from the agreements established by the Executive (coalition) in order to guarantee the sanction of the laws. The partners agree on the approval of the project and know the Senate will influence the final decision. Once the law is passed, the Committee in the Chamber of Deputies usually tends to ratify it and attempts to leave it that way are systematically refused by the majority. Regarding the Law of Public Enterprises Reform and the Law of Social Security Reform, it is interesting to note that for them to advance in that way, members of the Deputies Chamber (from the coalition parties) participated in the negotiations that took place in the Senate Committee.

## **Appendix 2: The Constitutional Reform**

An analysis of the constitutional reform endorsed in 1996 helps to understand the workings of the political institutions and the policymaking process. The reform process that took place during President Sanguinetti's second administration was promoted and sustained because of the threat posed by a possible electoral victory by the left-wing party (FA). The new electoral rules and specifically, the majority run-off for the presidential election, favored the tenure of the reformist coalition in office (whether Colorados or Blancos), as well as the political fragmentation and internal factionalism of political parties. The reform led to a reduction in the number of lower house lists of candidates and of the legislative support of the president, as well as to more disciplined legislative conduct on the part of the political parties. First of all, the combination of single candidates and the majority run-off system, established by the electoral reform, could contribute to weakening the parliamentary position of the president. Under the current rules, the legislative representation of the party in government does not have to be the biggest in Parliament because there is nothing to stop the election of the candidate of the second party, whose representation would be second in number of legislators, as happened in the last election. In addition, there is no disposition in the new constitution that guarantees legislative weight to the president's faction. The president is the single candidate from his party, and he can be voted for together with any of the parliamentary lists of that party. The votes that the president's faction obtains are relatively independent of the electoral potential that he has, and consequently, he may be in the minority in his party. Second, the elimination of the accumulation of *sublemas* (electoral alliances among lists) in the election of representatives has made for a large reduction in the number of lists presented in 1999, which amounted to less than a half of those presented in 1994. As long as different house lists cannot accumulate their votes, the smaller ones have either to join one of the larger ones or unite to build a single list among several of them. On the other hand, the reduction in the legislative supply is associated with the predomination of the main national factions with respect to local political groups, because the new rules enforce a rigid connection between the supply for the Senate and the supply for representatives. Consequently, one can expect more disciplined legislative conduct from sectoral representatives. The new electoral calendar also introduces some important changes since the reform also compels parties to hold primaries in order to present unique presidential candidates. Given that those primaries are held almost one

year before the general elections, the governmental process and most political agreements among parties were reduced, de facto, by increasing the time for electoral competition. An obvious by-product of this amendment is that parties and institutions decrease their interest in public policies.

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