CENTRE FOR THE FUTURE STATE

Institute of Development Studies

Research Summary 29
How do natural resource rents affect budget coalitions?
A comparative study of three Andean states.

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This paper is published under the Centre for the Future State, based at the Institute of Development Studies. Below is a summary of research findings. Further details are available at:
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This paper analyzes how the presence of natural resource revenues affected the number and cooperation incentives of political actors in Ecuador, Peru and Bolivia. The paper suggests that the absence of effective political parties undermined the benefits of the decentralization process and gave presidents greater discretionality over the allocation and execution of resource rents.

Introduction

Over the past few years, resource dependent countries have benefited from an unexpected surge in rents produced by the rising prices of commodities around the globe. The countries of interest have all benefitted from windfall revenues from the export of their main commoditites: oil in Ecuador, minerals in Peru and gas and oil in Bolivia. The greater availability of resources has encouraged the mobilization of new political actors, including sub-national governments, sector-specific interest groups, as well as ethnic and regional electorates, who demanded a larger share of government spending allocations. While the countries experience a comparable and simultaneous economic shock, each featured a distinct political architecture in terms of their political parties, the strenght of the opposition and the degree of political decentralization. These factors affected the presidents' ability to dominate "budget coalitions" and freely decide on the allocation and execution of resource rents.

Theoretical Framework

The existing literature has well documented the extent to which governments who tend to extract natural resource rents, instead of revenues from individual tax contributions, a) tend to discourage the growth of productive economic activities, and b) lack political incentives to remain accountable to citizens' preferences (Brautingam *et al*. 2008, Laserna 2006, Karl 1992). Recent comparative research in Latin America shows that increased government revenues have produced mixed effects on budget outcomes. In countries like Chile and Brazil to a lesser extent, excess revenues have been effectively secured for future use through the adoption of stabilization funds. In countries like Venezuela or Bolivia by contrast, windfall revenues have motivated voters and policymakers to ignore or bypass long term stabilization mechanisms and make immediate use the unearned wealth to attend –at least in principle- the social and economic needs of the poor (Weyland 2007). What explains such differences?

This paper suggests that fiscal outcomes reflect the nature of budget coalitions formed around them. The notion of budget coalitions refers to the way in which political actors, at the national and subnational level, influence the redistribution of government rents through the formulation, approval, and execution of the government's budget. Table 1 shows that there are two dimensions affecting the formation of budget coalitions. The first dimension

illustrates the extent to which there are effective checks and balances to executive power, throiugh the agency of oversight mechanisms, effective legislatures, independent judiciaries, etc. The second dimension refers to the relative presence and strength of other polticial actors besides the president, including subnational governments, organizaed, interest groups, who have a direct influence on the policy making process (veto players).

Table 1: Budget coalitions and fiscal outcomes

	Weak checks and balances	**Effective checks and balances**
Fewer veto players	*Budget discretionality* (Venezuela, Peru)	*Budget stability* (Chile)
Greater number of effective veto players	*Budget rigidity* (Ecuador, Bolivia)	*Budget accountability* (Brazil)

A first implication is that a limited number of veto players in the decision making process could ensure the stability of existing spending allocations, if these agreements are effectively enforced by other state institutions (Chile), otherwise, fewer veto players could facilitate greater discretionality in the budget-making processif the executive is unconstrained by effective checks and balances (Venezuela). The participation of multiple veto players in the budget process increases the costs of bargaining and brings more demands for increased government spending; but these competing demands may produce better budget allocations if effective state institutions ensure the transparency and credibility of budget agreements over time (Brazil), otherwise, the increased proliferation and fragmentation of budget actors may produce policy deadlock and spending rigidity (Ecuador and Bolivia).

Preliminary Findings

Predictably, governments in all three countries sought to centralize resource rents while increasing their discretionality over budget allocations. However, their effective ability to dominate budget coalitions depended on the degree to which the party system had been previously articulated and the degree of existing decentralization before the resource boom. Where there were no effective political parties and/or very weak decentralization processes, presidents were able to control the allocation and execution of resource rents.

Conversely, where political parties existed or there was an ongoing process of decentralization, governments faced strong political opposition over the allocation and execution of resource rents. In both scenarios, the absence of effective checks and balances on executive power contributed to the poor quality of government spending: in the former case, because governments were unwilling to form budget coalitions and independently decided on the magnitude and direction of the new resource rents, in the latter because governments were unable to form redistributive coalitions as they could not agree on spending priorities with the opposition.

Future Research

The next stage of research will analyze the impact of budget coalitions on the quality of public spending through detailed case study assesments of public investment in different sectors of the economy in Ecuador, Peru and Bolivia.