

Budget Law 2012: An Endless Battle

Following a very complex proceeding, the Budget for next year was finally approved this week. Although the Government did not yield to excessive spending pressures, it is important to make a balance of the negative dynamics given in this process. It seems absurd that both Government and Opposition score political triumphs for the sole fact of allocating more resources to the budget items. It would be highly significant if the budget discussion moves to the analysis of the programs' goals and achievements, instead of considering figures only.

After two months of a confrontational degree unseen in previous budget discussions, and as it was expected, the Budget Law 2012 was approved with no significant changes.

Fortunately, Article 67 of the Constitution stipulates that if the bill is not passed 60 days after its introduction, the one initially proposed by the Executive shall prevail, so as to put pressure on the congressmen to pass the bill by that date.

At the same time, the second subparagraph of the said Article stipulates that the Congress can only reduce the expenditures contained in the bill, as long as they are not those stipulated by permanent laws (fixed expenditures). This restriction is based on the fact that the Executive is accountable for economic stability and public finances, considering that the legislator assumed with justified reason that the Congress gets greater demands to increase public spending and that it must provide for all the population's needs, and as it does not have any fiscal responsibility, it has no incentives for not acceding to pressures.

Notwithstanding the foregoing, we should not overlook the Congress' negotiating element in the budget's proceeding; it has certain tools such as the agreement protocols and the dilation of the discussion to

its extremes, with the purpose of achieving some kind of benefit or to express its annoyance due to impossibility of reaching agreements. However, when congressmen are prevented from sleeping for 29 hours¹ in order to comply with the deadlines, it is a sign that something is going wrong.

Why do we get to this absurd? The basic reason is the lack of rationality for asking spending increases to the Executive, something that was evident in the education budget. So, when it is impossible to reach an agreement in view of the Congress' excessive demands, its approval is delayed as a way of protesting.

Therefore, we should not forget that the criterion to set the spending levels cannot be the population's needs, since they are endless by definition. The criterion must be the effective availability of resources (not hypothetical), together with the evident restriction of having the capacity to efficiently spend these resources. In the present discussion, this principle has been overlooked, and the clearest example thereof is what happened with the university scholarships. While they were quarreling because resources were considered insufficient, the application period had to be extended, since quotas for 2012 had not been filled in a great proportion.

International organizations consider the country's fiscal institutional framework an example, for setting an objective and reasonable criterion to determine spending, in the sense that they must correspond to the trend earnings. As we have already mentioned, this institutional framework also establishes that the Congress has no faculties to modify the earnings' estimates, and it can neither determine spending increases. Somehow, in this year's discussion these principles of fiscal accountability were altered, not because expenditures without direct financing were proposed, but because expenditures with no destination defined by a bill were proposed, and which recommended potential tax increases for its financing.

We said several times that this meant to put the cart before the horse, since a tax reform was demanded to finance expenditures that were not evaluated nor endorsed by clear projects, but only by hypothetical needs, that as we mentioned, are endless by definition.

We are not claiming that tax modifications are a taboo issue, but obviously the budget discussion context is not the adequate one for this kind of debate. In order to avoid such conflicts, it should be made clear that asking for spending increases that evidently damage the

structural rule is not part of the budget discussion, especially when there are no bill or official evaluations supporting the convenience of those expenditures. The Government was right to accept this type of discussions, but separately from the budget discussion.

Finally, the tax discussion was not accomplished, but the *Concertación* tried to establish the need to increase taxes by strongly supporting petitions for greater spending on education, in spite of the fact that, according to the Constitution, congressmen cannot introduce spending initiatives.

If the above restrictions on spending increases were to be really applied, it would be possible to reach agreements within the normal deadlines. Since these restrictions are not operating, the Government cannot “let go of the wallet” before the deadline, since the Opposition would keep fighting for more significant increases. The essential point is that in practice fiscal accountability holds a minority position in the Congress, a situation that did not occur in previous governments.

Results of the Discussion

In this “arm wrestling” we believe that the Government showed a responsible behavior, since the education increase above the original budget totaled US\$420 million, 0.6% of the total budget, far below the US\$1,000 million demanded by the Opposition. These funds will be available from the Public Treasury (since the Education Fund was not approved) and from adjustments in certain items, although this detail is not known yet. Following this increase, we attain a 10% real growth in the education budget, a figure doubling the total spending growth. It is true that in the former government, the spending on education registered a higher average growth (12%), but in a context where total spending grew at an average rate of 10.3%; this is obviously unsustainable in normal conditions. It is also worth highlighting that in the budget analysis it is urgent to give greater emphasis to the issues concerning the fulfillment of goals above those of spending levels, since the efficiency indicators leave much to be desired.

The latter is very relevant. It seems absurd that both Government and Opposition score political triumphs for the sole fact of allocating more resources to the budget items. In all non-government organizations the budget process is exactly the opposite: how to

make more with the same, or how to do the same with less. It would be highly significant if the budget discussion moves to the analysis of the programs' goals and achievements, instead of considering figures only.

From the micro point of view, progress was made in a very important issue – that the previous governments could not or did not want to face – which was to mitigate the existing discriminations against the higher education centers which are not part of the Council of Rectors of Chilean Universities (CRUCH). The higher education budget increases 26% real, with an 86% budget increase for scholarships. These go from US\$370 million in 2011 to US\$690 million in 2012, almost doubling the number of benefited students. Scholarships increase by 104 thousand, 47 thousand for CRUCH universities, 39 thousand for technical training centers (CFT) and professional institutes, and 18 thousand for private universities. The strong discrimination in the credit mechanisms between CRUCH and non-CRUCH institutions is also eliminated, since credits endorsed by the State (CAE, *Crédito con Aval del Estado*) will turn into standby credits (where a maximum 10% of the income will be paid), and with an important drop in the interest rate, from 6% to 2% real. Consequently, with regard to higher education, the Budget 2012 means a very significant progress in terms of teaching freedom and non-discriminatory financing. This time, the Government was able to act according to the principles it defends.

The increase in the basal financing for this privileged group of institutions was not so positive; however the amounts do not seem significant. Direct fiscal contributions will grow 5% real per year in the next 10 years, doubling them in nominal terms. Three additional funds are created for this group of universities, which total US\$66 million in 2012. As a counterpart, all educational institutions receiving state contributions must fulfill higher transparency requirements. A bill concerning state universities was also announced, which should foster higher quality and efficiency standards.

As for the rest of the universities, and while the superintendence of higher education starts operating, they will be required to deliver financial information to the Ministry of Education with the aim of supervising non-profit compliance.

It is interesting to mention that in the last ten years, public spending on education doubled in real terms, and nothing close to it occurred in quality terms. We hope that from now on a real emphasis is put on

what is the basic problem: to improve the human capital of the future labor force, since this is the country's main hindrance to achieve development. Nevertheless, it is not easy to be optimistic when analyzing the evolution of the student movement; in the end the quality subjects were completely absent in the debate.ⁱⁱ

In the other budget items there were no significant modifications. The disallowance of the Education Fund and freezing the CORFO (Production Development Corporation) resources are worth mentioning. The Government announced that it will send a special bill to establish the Education Fund for US\$4,000 million, on a permanent basis.

With regard to CORFO, the problem could be solved through allocations from the Treasury. If CORFO cannot invest these resources, it is unable to maintain its guarantee program, in addition to the capital impairment caused by the lost financial return. The criticism from the Opposition seems rather *sui generis*, since they wanted to know the exact destination of the resources obtained from the sale of the water companies, when these funds are fungible by definition (a peso cannot be distinguished from another), so it is impossible to exactly determine how those funds were spent.

In other minor points, some personnel spending reductions were rejected in the Ministry of the Interior, the resources available for the consumer associations' fund were increased from CLP\$250 million to CLP\$350 million, some resources for the *Dirección Nacional de Servicio Civil* (National Civil Service Office) were restored, the contributions for cultural programs of the CNTV (National Television Council) were increased by CLP\$750 million, and the resources for the Chilean Agency of Energy Efficiency and the program for Non-Conventional Renewable Energies were restored.

Conclusions

Following two months of strong disputes between Government and Opposition, the Budget Law 2012 was finally approved within the stipulated deadline, as it has been the case from 1990 to date. In practice, the current constitutional provisions give advantage to the Executive in relation to the Legislative in budget issues, which seems right in terms of fiscal stability. The law was approved with no significant changes with regard to the original bill, since the increase allocated to the education budget is within a reasonable range. And what is more important from the micro point of view, progress was

made in education matters in terms of teaching freedom, since the existing discriminations in favor of the CRUCH universities were mitigated. However, we should not expect that this extra spending on education solves alone one of the essential problems, which is quality, although it firmly advances towards improving the access to higher education.

ⁱ Experts indicate that a person cannot remain awake for more than 18 consecutive hours, without compromising its reasoning capacity.

ⁱⁱ It is a matter of concern that in the end the great majority of students, both from secondary and higher education will end up passing the courses when they did not attend classes for such a long time. Without question, the main outcome of this movement will be an important drop in the quality of the education received by these groups.