

**Public Administration and Institutions in Latin America: an alternative view**  
**Ugo Panizza**

The paper by Susan Rose-Ackerman is a tour de force. It is so comprehensive that it is difficult to find any weaknesses. I therefore use this paper to cover a few points which I believe were not highlighted enough. My primary point is that incentive problems dominate all others.

**Money can't buy you good public administration:** Increasing public expenditure is not a good way to improve government quality, which can be measured, for example, in terms of Government Effectiveness, Control of Corruption and Rule of Law. Although there are statistically significant correlations between these measures and public expenditure, the economic impact is small. Ten point increases in government effectiveness or control of corruption would require several hundred dollars extra expenditure per capita.

Using survey figures and doing a back-of-envelope calculation, any reasonable assumption of the costs and benefits of achieving a one standard deviation increase in governance over a thirty year period gives a large negative net present value. Improvements to the rule of law, however, do seem to be cost effective in principle for middle income countries, although in practice may have little real impact on their own.

On the other hand, reducing government expenditure in the highest cost countries to the Latin American mean and increasing efficiency also to the mean could give very large benefits for essentially zero cost. Money is not the issue. This means also that the argument often put forward about "poorly paid" civil servants is not valid. The problem is that civil service pay scales are compressed, so that there is effectively a premium for low-skilled workers and a penalty for high skills. Incentives will not be increased in general by raising public sector wages.

**Reforming the reformers:** Although Rose-Ackerman – for good reasons – did not analyze the relationship between institutional quality and the political process, any reform of public administration in practice needs to start in the political arena. Politicians must have incentives to improve institutional quality. Incentives can be influenced through the electoral system, with proportional representation systems tending to lead to higher levels of corruption, for example. Decentralization also has the potential to improve the delivery of public services, but the potential is often not realized and more study is needed.

**Subsidizing transparency:** I agree with the author's points about the importance of auditing and transparency and the need for an independent media. In particular, stories published in prestigious international newspapers carry the greatest credibility and can then be further disseminated in the country in question.

Here is a crazy proposal to incentivize such stories. The International Development Bank could create a fund to pay journalists working for a short list of suitable journals a premium of \$20,000 for any major story published on Latin American misgovernment. The overall costs would be trivial, but the potential benefits enormous.

**Conclusions:** Money is not the problem, but simply improving efficiency is not necessarily easy. There is relatively little publicly available data on institutional efficiency,

and further studies could have high returns. But reform also needs political support, and this can be hard to come by. It may be necessary to buy back the privileges acquired by groups which oppose reform.