

The Politics *of* Policies

**Economic and Social Progress
in Latin America**

2006 REPORT

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The Politics of Policies

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*A good government implies two things:
first, fidelity to the object of government,
which is the happiness of the people; secondly,
a knowledge of the means by which
the object can best be obtained.*

James Madison,
The Federalist Papers, No. 62

Preface

The 1990s were a period of intense reform in Latin America and the Caribbean. Frustration in the wake of the so-called “lost decade” of the 1980s, and the promise offered by the apparently simple recipe of the Washington Consensus, convinced political leaders to enact fiscal and monetary measures to control inflation and to adopt a series of reforms to open up their economies to trade, liberalize their financial systems and privatize State enterprises in order to accelerate economic growth.

With the modest success in terms of economic growth, and reduction of poverty and inequality, enthusiasm for reform has diminished in recent years. In its place are doubts about the efficiency of these reforms and debate over what the future course of economic and social policy should be in order to achieve the elusive goal of sustainable growth with equity to which all Latin American societies aspire.

This report aims to contribute to this debate, but not from the economic perspective from which entities such as the Inter-American Development Bank (IDB) have traditionally analyzed development policy. Instead, the report looks at the problem from a political and institutional angle—one that has been much less studied but is essential for understanding the possibilities for success of economic and social policies.

The focus of this report is not the content of policies, or their effects on major economic and social variables, but rather the process by which these policies are discussed, approved, and implemented. In presidential democracies like those in the majority of the Latin American countries, the process of adopting and implementing public policy occurs in political systems in which a variety of actors participate, ranging from the president to voters in small rural communities and including congressmen, judges, public opinion leaders and businessmen.

The complex interaction among these actors is influenced by the institutions and political practices of each country. This interaction is the subject of this report, which uses an approach that combines comparative analyses for Latin American presidential systems as a whole with a variety of country and sector case studies. Institutions and political practices help explain why reforms endure in some countries, why some countries can easily change policies that are not working well or why some can adjust better when circumstances demand it.

Institutions and political practices are not the only factors influencing the quality of economic and social policy. History, the beliefs and attitudes of citizens, and leadership are at least as decisive. This report recognizes these factors even though it does not do justice to these idiosyncratic, albeit equally important, aspects of the development of each country.

As Managers of the Research Department and the Sustainable Development Department of the IDB, which were responsible for its production, it is our pleasure to introduce to the public discussion this report, which, though it does not necessarily reflect the

opinions of the Bank or its management, does reflect the environment of intellectual openness, analysis and debate that has characterized this institution. For fostering this environment and for his interest in this report, we would like to thank Enrique V. Iglesias, former president of the IDB. We are confident that governments, politicians and students of development will find in these pages reasons to persevere in their efforts to build more prosperous, just, equitable and democratic societies.

Guillermo Calvo

*Chief Economist and Manager
of the Research Department*

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The views and opinions expressed in this report are those of the authors and do not necessarily reflect the official position of the Inter-American Development Bank, its President, or its Board of Directors.

Part I

Overview and Methodology

Democracy has its own way of developing public policies. Decisions grow out of a negotiated equilibrium of interests; they conform to transparent rules; and they are made in the public arena....Policies do not reflect the supposed omniscience of illuminated technocrats; instead, they represent the harmonization of legitimate interests, in a concert of wills, including that of the government itself.

Fernando Henrique Cardoso,
speech presented to ECLAC in August 2003

