

Understanding the Politics of Policies: A Methodological Approach

The policymaking process can be understood as a succession of bargains among political actors, interacting in formal and informal arenas.

In a technocratic approach toward policymaking, policies are objects of choice by benevolent policymakers. Anyone interested in fostering better social outcomes would simply need to identify policies that would induce those better outcomes and communicate those policies to policymakers. Chapter 1 warned against the dangers of such an approach—which, among other shortcomings, takes policies as exogenous: that is, as originating from outside the system. This study examines the processes by which countries discuss, decide on, and implement public policies over time. Accordingly, this study treats policies (as well as some characteristics of policies) as largely endogenous. Policies are viewed as the outcome of the policymaking process. This study focuses on the characteristics and determinants of policymaking processes, with particular emphasis on the workings of political institutions.

Focusing the study on institutions and processes does not imply denying the influence of other, more structural variables on the configurations of politics, policymaking, and policies. Social and economic structures give rise to different configurations of actors in different countries at different times; these societal and economic actors exercise influence not only on the making of policy but also on the making of institutions. The country studies that serve as background to this report pay attention to the important role of such structures in each case.¹ The history of policymaking in Venezuela cannot be understood without reference to the political economy of an oil economy; policymaking in Argentina cannot be understood without reference to the complex relations between

¹ These country studies were conducted as part of the IDB Latin American Research Network project on Political Institutions, Policymaking Processes, and Policy Outcomes (www.iadb.org/res/index.cfm?fuseaction=LaResNetwork.StudyView&st_id=82).

the national government and the provinces—which in turn are affected not only by the formal institutions of that federal republic, but also by underlying economic and social structures throughout the country; and so on.

These important underlying forces cannot be ignored by anyone attempting to understand (let alone influence) the workings of these polities. Yet, since it is impossible to do everything at once, this report focuses mainly on the aspects of these complex polities that are more directly related to the formal and informal political and policymaking institutions.² This is a particularly timely focus, given that the democratization processes of most Latin American countries over the last few decades have increased the importance of political institutions, and given that such institutions are the focus of much debate (and in some cases, reform) in many countries in the region.

The workings of institutions and their influence on development outcomes have become a central concern in international policy circles, as well as in academic ones. For a long time, institutional capacity was perceived mostly as an “unexplained residual.”³ Development was conceived of as mainly a function of capital accumulation, with the implicit assumption that institutional capacity would follow resources. Institutions were viewed as the formal organizations in charge of implementing policies and projects. As pointed out by Arturo Israel, “Institutional development was everybody’s problem, but nobody’s problem.”⁴

That rather dismissive view of institutions was discredited by the failure of policies and investments for lack of institutional capacity, leading to a rather pessimistic mood about the possibility of overcoming institutional weaknesses. This turn was among the reasons leading to a paradigm shift toward markets and away from State-led distortions.

The difficulties experienced by countries of the former Soviet bloc in their transition to market economies, and the relative success of the Asian “tigers,” turned the spotlight again toward the role of institutions in development. This renewed interest was influenced by the conceptual and analytical advances of the so-called *new institutionalism*. The new institutionalism is a broad heading covering diverse schools of thought scattered throughout multiple disciplines (including economics, sociology, history, and law) that emphasizes the central role of institutions in explaining political, economic, and social behavior. Within the field of economics, economic historian Douglass North has led the way in generating new ideas on the relationship between institutions and development.⁵ These “new institutional” studies have highlighted the fact that (economic and political) institutions are themselves a product of human choice at some point. Some of the most dynamic current lines of inquiry trace the origins of institutions back to colonial times.⁶

² Chapter 5 provides some insights on the role of some key informal societal actors in the policymaking process.

³ Hirschman (1967).

⁴ Israel (1987).

⁵ See, for example, North (1990). Shirley (2005) provides an excellent survey of this literature.

⁶ See, for example, Acemoglu, Johnson, and Robinson (2001, 2002).

This report takes an intermediate view with respect to the issue of endogeneity or exogeneity of institutions. The authors of this report recognize that institutions are endogenous to past arrangements and occurrences, and to some extent to more recent configurations of political power, socioeconomic structures, and other deep determinants. This study focuses on the *impact* of particular configurations of political institutions on policymaking processes, and hence on policies. Political institutions are being debated and even reformed in many countries in the region, and these debates are not just blunt exercises of power. Instead, they are informed by a discussion of the possible effects of reform on political practices and outcomes. Hence, this study tries to take a middle way, attempting to increase awareness of the importance of political practices and institutions in the policymaking process—without falling into a totally deterministic mode in which everything that happens is determined by forces absolutely beyond the control of individual or collective actors. Leadership can sometimes be an extraordinary force in the political process, but its possibilities and implications are closely intertwined with the institutional setting (see Box 2.1).

The report aims to provide guidance and orientation to politicians, policymakers, organizations, and social actors interested in participating in the debate about improving policies and institutions to foster development goals. Increased awareness of policymaking processes and their institutional foundations might help in the promotion, design, and implementation of policy reforms that are more likely to achieve desired development objectives, given the particular political institutions and practices of each country. It might also illuminate discussions about reforming political institutions.

In studying these issues, the report draws from an extensive literature in political science about the effects of alternative arrangements of institutions on many important political and policy outcomes.⁷ These alternatives include whether the political regime is presidential or parliamentary; whether the State is centralized or decentralized; whether the electoral system is majoritarian or proportional; whether parties are weak or strong, numerous or few; whether business organizations, trade unions, or the media are active participants in the policy processes; whether the bureaucracy is meritocratic or clientelistic; and so on.⁸ Since each country has a specific configuration of all these and several other important characteristics, this report emphasizes the interactions of all these variables. As several examples in the following chapters show, these interactions are non-additive, in the sense that the effect of one particular institutional rule or characteristic depends on the whole array of institutional rules and characteristics.

⁷ These discussions have also been addressed by some important work on political economy by economists. For instance, Persson and Tabellini (2000, 2003) study the impact of different forms of government and electoral rules on a number of fiscal policy outcomes.

⁸ Part II provides references to that literature and summarizes some findings that are relevant for the purposes of this study. Given that most of the background work for this study has focused on the presidential democracies of Latin America, the distinction between parliamentarism and presidentialism is not emphasized in this report.

Box 2.1**The Role of Leadership in Political Processes**

Functional leadership renews institutions. Dysfunctional leadership “deinstitutionalizes” them, as the personal accumulation of power weakens institutions.

The role of leadership—the ability to effectively influence the achievement of certain goals—plays a critical role in political processes, often at critical times. The central role of leadership has encouraged a tendency to view politics more as a matter of personal interaction than as the interplay of institutional incentives. This report urges a careful look at the interplay of institutions, players, rules of the game, and incentives. Nonetheless, it is important to bear in mind the implications of individual leaders’ behavior.

Leadership is the ability of individuals to exert influence that goes beyond the scope of their formal authority. Leadership entails a combination of purpose, commitment, and ability to relate on a personal level that produces outcomes beyond what would be expected in the normal functioning of institutions. Leadership is demonstrated through distinct types of behavior, many of them symbolic. Leadership, thus understood, may be functional or dysfunctional, according to its effects on the structure of institutions and the quality of policies.

Functional leadership facilitates cooperation and inter-temporal bargains that improve the quality of public policy. The value of leadership is best appreciated in moments of change, when imbalances arise that alter the effect of rules on actors’ incentives and generate opportunities for institutional reform. Functional leaders, if they are to exercise influence and power to contain tensions in times of crisis, need to direct change toward renewing institutional frameworks. The region offers many examples of such a positive trend during the transition to democracy. The recent changes of government in countries such as Brazil, Mexico, and Uruguay, which are considered turning points in the political processes of these countries, represent an exercise of leadership, on the part of outgoing as well as incoming governments, that institutionalizes new rules of the game.

In a democracy, functional leadership can rarely be attributed to a single person. Democracy is associated with multiple leaders who serve as catalysts of deliberative process that permit policies and institutions to be adapted to the demands of an open society. One of the challenges facing these leaders is the articulation of political and technical rationales to produce policies of high quality. The region has a rich experience with such leadership, both at the national and subnational level, where cities such as Bogotá and Montevideo have enjoyed innovative and constructive leadership.

Box 2.1**Continued**

Dysfunctional leadership is different in nature. A single person can dominate. While at first its perverse effects may be hidden by the charisma of an individual leader and his effective exercise of power, those perversities eventually come to light. The fundamental characteristic of dysfunctional leadership is that it “de-institutionalizes,” as the personal accumulation of power weakens institutions. There is a significant risk that the accumulation of unchecked power might lead to arbitrary rule and corruption.

In times of crisis, dysfunctional leaders can hold an irresistible attraction for the public. Leaders can present themselves as having the answer to all problems, while promising to spare society as a whole and individual citizens from confronting their own problems and taking responsibility for them. This interaction between a leader’s charisma and followers’ escape from reality has historically been the route to a dangerous brand of politics.

The Methodological Approach⁹

While this study takes a rather eclectic approach, drawing insights from different disciplines, it has a guiding framework, which is described briefly below. The framework is presented graphically in Figure 2.1. In keeping with the nature of the methodology, and for ease of explanation, it is best to start from the dependent variable (some key features of public policies) and work back to its political and institutional determinants.

Characteristics of Public Policies: The Dependent Variable

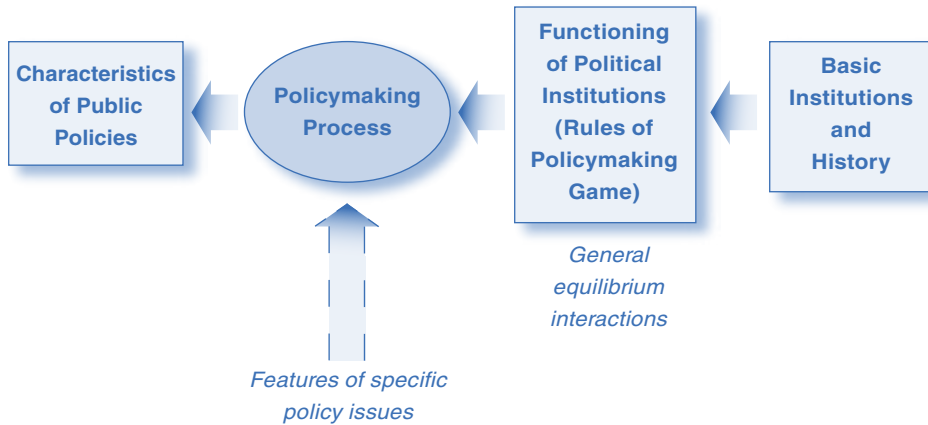
Policies are complex undertakings. Bringing any particular “policy reform” to fruition is a process that involves multiple actors through many stages of the policy process. It requires specific responses from economic and social agents, and therefore necessitates several forms of cooperation and positive beliefs about the durability and other properties of the policy. That is, policies require a great deal more than a magical moment of special politics to introduce “the right policy” in order to produce effective results.

A universal set of “right” policies does not exist. Policies are contingent responses to underlying states of the world. What might work at one point in time in a given coun-

The framework views public policies as the outcomes of complex exchanges among political actors over time.

⁹ An expanded description of this framework is provided in Spiller, Stein, and Tommasi (2003), the design paper for the IDB’s Political Institutions, Policymaking Processes, and Policy Outcomes project.

Figure 2.1 Political Institutions, Policymaking Process, and Policy Outcomes



Source: Spiller and Tommasi (2003).

try might not work in a different place or in the same place at another time. In some cases, some particular characteristics of policies or the details of their implementation might matter as much as the broad type of policy. For instance, Dani Rodrik analyzed six countries that implemented a set of policies that shared the same generic title—“export subsidization”—but had widely different degrees of success.¹⁰ Rodrik relates their success to such features as the consistency with which the policy was implemented, which office was in charge, how the policy was bundled (or not) with other policy objectives, and how predictable the future of the policy was.

One important characteristic of policies that has been widely recognized in recent work on macroeconomics, trade policy, regulation, and other areas of economics is policy credibility.¹¹ The effects of policies on the final economic and social outcomes of interest depends on the actions and reactions of economic and social agents, who take into account their expectations about the future of the policies in question before deciding on their responses. As Rodrik explains, in reference to trade reform, “it is not trade liberalization per se, but *credible* trade liberalization that is the source of efficiency benefits. The predictability of the incentives created by a trade regime, or lack thereof, is generally of much greater importance than the *structure* of these incentives. In other

¹⁰ Rodrik (1995).

¹¹ See, for example, Barro and Gordon (1983); Calvo (1996, Section V); Drazen (2000, Section II); Levy and Spiller (1994); and Rodrik (1989).

words, a distorted, but *stable* set of incentives does much less damage to economic performance than an uncertain and unstable set of incentives generated by a process of trade reform lacking credibility.”¹²

It is for these reasons that the policy outcome to be explained in this report is not the content or type of policies (whether some particular taxes are high or low), but certain characteristics or key features of public policies that affect their quality. For operational purposes, this study has defined and attempted to measure several such characteristics, listed below, but future work should identify and attempt to measure others.

The features of public policies examined in this report include:

- **Stability**—the extent to which policies are stable over time
- **Adaptability**—the extent to which policies can be adjusted when they fail or when circumstances change
- **Coherence and coordination**—the degree to which policies are consistent with related policies, and result from well-coordinated actions among the actors who participate in their design and implementation
- **Quality of implementation and enforcement**
- **Public-regardedness**—the degree to which policies pursue the public interest
- **Efficiency**—the extent to which policies reflect an allocation of scarce resources that ensures high returns.

Chapter 6 of this report discusses these characteristics in more detail; presents measures of them for most countries in Latin America, along with an overall index of the quality of public policies (based on these characteristics); establishes some links between the quality of public policies and various measures of welfare and economic development; and relates these policy properties to variables characterizing the workings of political institutions.

The Policymaking Process

The process of discussing, approving, and implementing public policy is collectively referred to as the **policymaking process** (PMP). In democratic systems such as those in Latin America, these processes play out on a political stage featuring a variety of political **actors** (or **players**, in the parlance of game theory). Players in this **game** include official State actors and professional politicians (presidents, party leaders, legislators, judges, governors, bureaucrats), as well as business groups, unions, the media, and other members of civil society. These actors interact in different **arenas**, which may be formal (such as the legislature or the cabinet), or informal (“the street”), and may be more or less transparent.

The PMP can be understood as a process of bargains and exchanges (or transactions) among political actors. Some of these exchanges are consummated instantly (spot transactions). In many other cases, current actions or resources (such as votes) are exchanged

¹² Rodrik (1989, p. 2). For models formalizing the effects of policies of uncertain duration in several economic contexts, see Calvo (1996, Section V) and Calvo and Drazen (1998).

for promises of future actions or resources (they are **inter-temporal transactions**). The type of transaction that political actors are able to engage in will depend on the possibilities provided by the institutional environment. Issues of credibility and the capacity to enforce political and policy agreements are crucial for political actors to be able to engage in inter-temporal transactions.

The behavior of political actors in these exchanges, and the nature of the exchanges themselves (for example, support for the government on a crucial policy issue in exchange for a job in the public bureaucracy; or support for reform in a particular policy area in exchange for concessions in a different policy area), depend on the actors' **preferences**, on their **incentives**, and on the **constraints** they face. They also depend on the expectations these actors have regarding the behavior of other players. These interactive patterns of behavior constitute what in the parlance of game theory are called **equilibria**. Thus the characteristics of public policies depend on the equilibrium behavior of policy actors in the policymaking game.

The behavior of political actors in the policymaking process, which are shaped by the roles they play, the incentives that motivate them, and the constraints they face, will depend, in turn, on the workings of political institutions (such as congress, the party system, and the judiciary) and also on more basic institutional rules (such as electoral rules and constitutional rules) that determine the roles of each of the players, as well as the rules of engagement among them.

Policymaking processes, like policies, are very complex. Multiple actors with diverse powers, time horizons, and incentives interact in various arenas. There are diverse rules of engagement which can have an impact on the way the game is played. For these reasons, it is not possible to fully understand these processes by focusing on a few institutional characteristics (such as whether the country is presidential or parliamentary, or whether the electoral rules are of the plurality or proportional representation variety). The institutional setup must be understood in a systemic way (or, in economic jargon, in **general equilibrium**).

Such a systemic view can be accomplished only by means of detailed country studies, which take into account a variety of key institutions and their interaction, as well as historical and cultural legacies (such as fundamental cleavages, shared values, and whether a country has a history of stable democracy or has suffered frequent constitutional interruptions). This is the reason why the 13 country studies from the IDB Latin American Research Network project Political Institutions, Policymaking Processes, and Policy Outcomes play such an important role as background material for this report. Chapter 7 of the report offers a glimpse of the workings of the PMP in a few of these countries, and provides a sense of the complexity involved.

To characterize the workings of the PMP in specific settings, the following questions were asked in regard to each of the countries studied:

- Who are the key actors that participate in the PMP?
- What powers and roles do they have?
- What are their preferences, incentives, and capabilities?

- What are their time horizons?¹³
- In which arenas do they interact, and what are the characteristics of those arenas?
- What is the nature of the exchanges/transactions they undertake?

The information gathered from the country studies was complemented with a series of studies focusing on the comparative role that some key actors play in the PMP across Latin America. Political actors and arenas covered by these studies include political parties and the party system, legislatures, presidents, cabinets, bureaucracies, judiciaries, regional actors, business interests, the media, workers' unions, social movements, and sources of technical expertise ("knowledge actors"). In each case, the studies focused on the key roles (both formal and informal) played by these actors in the PMP, their preferences, incentives, and institutional capabilities, and the way in which they interact with other actors in different arenas. This research is reflected to a large extent in Part II of this report.

Polymaking Processes and Policy Outcomes: The Role of Cooperation

One insight of this report is that important features of public policies depend crucially on the ability of political actors to reach and enforce inter-temporal agreements: that is, to cooperate. In political environments that facilitate such agreements, public policies will tend to be of higher quality, less sensitive to political shocks, and more adaptable to changing economic and social conditions. In contrast, in settings that hinder cooperation, policies will be either too unstable (subject to political swings) or too inflexible (unable to adapt to socioeconomic shocks); they will tend to be poorly coordinated; and investments in State capabilities will tend to be lower.¹⁴

Under what conditions is cooperation more likely? Drawing on intuitions from game theory, it can be argued that cooperative outcomes are more likely if:

- There are good "aggregation technologies" so that the number of actors with direct impact on the policymaking game is relatively small.
- There are well-institutionalized arenas for political exchange.
- Key actors have long time horizons.
- There are credible enforcement technologies, such as an independent judiciary, or a strong bureaucracy to which certain public policies can be delegated.

¹³ Time horizons are very important determinants of political behavior. Actors with long horizons are much more likely to enter into the inter-temporal agreements necessary to sustain effective policies. By contrast, actors with short horizons will tend to maximize short-term political and policy benefits, to the detriment of long-term institutional buildup, and of the credibility and quality of policies. This emphasis on time horizons draws inspiration from an important literature on institutional economics and its application to politics. See, for instance, Dixit (1996) and references therein.

¹⁴ This link between cooperation and features of public policies such as stability, adaptability, and coordination has been modeled by Spiller and Tommasi (2003).

Box 2.2**A Complementary Analytical Approach:
Veto Players, Decisiveness, and Resoluteness**

Another approach, complementary to the one used in this study, also emphasizes interactions among characteristics of polities: the **veto player approach**. This approach, first proposed by George Tsebelis, zeroes in on what it takes to replace the status quo.¹

In order to introduce any new policy, a number of actors must agree to the proposed change. Some of these actors are individuals, like the president; others are collective, like a house of congress. These actors are called **veto players** in the political science literature. Every political system has a configuration of veto players. The number of veto players may vary; players may have differing ideologies; it may be harder or easier for them to cooperate (the internal levels of cohesion may vary); and so on. These various configurations limit the set of outcomes that could possibly replace the status quo. Only some changes will be acceptable to the particular group of veto players. If few policies are acceptable as replacements for the status quo, policy will be hard to change: that is, policy will be very stable.

Gary Cox and Mathew McCubbins have taken the notion of veto players and applied it to study some characteristics of policies.² They suggest that one of the most important trade-offs in policymaking is that between the ability to change policy (“decisiveness”) and the ability to commit to a given policy, once it is enacted (“resoluteness”). These concepts are similar to some of the policy characteristics emphasized in this report: in particular, adaptability and stability.

Different configurations of institutions (electoral rules, number of chambers, legislative procedures, and so on) give rise to different configurations of veto players. Countries with more veto players will tend to have more resoluteness and less decisiveness. That is, it will be harder for them to change policy, but once they do, they will commit to the change.

The effective number of vetoes increases when a polity has many institutional veto points (“separation of power”), and political actors with diverse interests control those veto points (“separation of purpose”). Matthew Shugart and Stephan Haggard suggest links between key institutional variables (powers of the president, legislative institutions, federalism, electoral rules) and different degrees of separation of power and separation of purpose.³ Some of these suggested links are utilized in the rest of the report.

¹ Tsebelis (2002).

² Cox and McCubbins (2001).

³ Shugart and Haggard (2001).

These conditions are associated with some characteristics of key players and arenas such as congress, the party system, the judiciary, and the bureaucracy. These intuitions about the determinants of cooperation help guide the analysis of some of the main policy actors and arenas in Part II. Box 2.2 presents a complementary approach, based on the notion of “veto players,” which is also useful in the analysis of Part II.

Part III starts (in Chapter 6) by discussing and measuring the characteristics of policies that constitute the dependent variable. The rest of Chapter 6 and Chapter 7 attempt to identify aspects of the workings of the PMP that affect those characteristics of policies. According to the framework discussed above, effective public policies require political actors with relatively long horizons, as well as institutionalized arenas for the discussion, negotiation, and enforcement of political and policy agreements. Chapter 6 constructs some empirical counterparts of such characteristics, looking into the incentives of executives, the policymaking capabilities of congress, the independence of judiciaries, and the development of civil service systems, and relates them to the characteristics of policies using statistical techniques. Chapter 7 discusses several specific country cases, illustrating in greater detail some of the interactions among the multiple factors at play.

The PMP in Action in Specific Sectors

Much of this report looks into the general characteristics of policymaking in different countries, with the implicit assumption that such general characteristics will tend to permeate policymaking in all areas of public policy. Yet it is a well-known maxim in political analysis that “each policy has its own politics.” That is because the set of actors and institutions that are relevant in each case, as well as the nature of the transactions required for policy implementation, may differ across sectors. For example, pension reform requires very long time horizons, as well as trade-offs between generations. Trade policy expands the arena beyond purely domestic considerations to introduce international actors and international rules and enforcement. Education brings to the table a very powerful specific actor: the teachers’ union.

The chapters in Part IV look into the making of policy in a number of different sectors, with different degrees of proximity to the general PMP of each country. (Tax policy tends to involve all the main actors of the general PMP, while education policy brings in a more idiosyncratic set of actors.)¹⁵ They provide cross-country comparisons of policymaking in these sectors, and show how policy outcomes in each of them can be linked to the characteristics of their PMP. The last chapter in Part IV (Chapter 11) is somewhat different in nature. Rather than looking at the impact of the PMP on policy outcomes, it focuses on feedback effects from policy reform to the PMP. These chapters constitute an important step toward one of the main purposes of this report: to provide some guidance and orientation toward understanding the policymaking processes surrounding specific reform initiatives in particular areas in particular countries at particular points in time.

¹⁵ The policy examples are chosen to illustrate some of the general messages of the report; the coverage is far from exhaustive.

