

Part III

The Policymaking Process and Policy Outcomes

*It is not the strongest
of the species that survive
nor the most intelligent,
but the most responsive
to change.*

Charles Darwin

Part II examined the role of a variety of actors—formal and informal, professional politicians and members of civil society—as they interact in different arenas in the policymaking processes of Latin American countries. The chapters in Part II discussed these actors' incentives and capabilities, as well as the rules of the game (the institutions) that help shape their behavior.

Part III takes a step toward relating several key institutional features to policymaking processes, and to the characteristics of resulting policies. Chapter 6 takes a cross-country approach. It builds empirical measures of the characteristics of public policies and relates those characteristics to several of the institutional features suggested by the framework of Chapter 2 and studied in Part II. Chapter 7 presents highlights from detailed country cases, focusing on some of the interactions among the various institutional features in specific historical contexts.

Political Institutions, the Workings of the Policymaking System, and Policy Outcomes

This chapter presents a first effort at linking political institutions to the quality of public policies, such as stability, adaptability, and the quality of implementation.

This chapter offers a first look at the links between political institutions and policy outcomes. Rather than focusing on the content or orientation of policies, it emphasizes a number of characteristics of public policies—including their stability, their adaptability, and the extent to which they pursue the public interest—along with their institutional determinants.

The material in this chapter should be considered exploratory. It is a first effort at relating the policy features emphasized in the framework established in Chapter 2 to some measures of institutional characteristics. The small number of countries for which the detailed data on policies and institutions utilized are available prevents the statistical analysis from going beyond basic correlations at this point.

The cross-country approach adopted in this chapter is complemented by more detailed country cases and comparative sector studies in the chapters that follow. Together, the cross-sectional analysis, the country cases, and the sector studies offer important insights on the links between political institutions, policymaking processes (PMPs), and policy outcomes.

Yet this report does not pretend to offer the last word on these important issues. Rather, the goal is to set an agenda in motion to improve our collective understanding of policymaking processes, their institutional determinants, and their impact on policy outcomes. The hope is that other researchers will take up the challenge and contribute to the understanding of these issues by refining the methodology, by extending the sample of detailed country studies, and by focusing on other sectors in order to provide additional insights into the complex world of policymaking.

Key Features of Public Policies

Normally, the political economy literature concerns itself with the *content* of public policies: will exports be subsidized or taxed, which sectors get more or less protection, who benefits from and who pays for income redistribution, and so on. Instead, this study focuses on some *key features* of public policies:

- **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.

There are a number of reasons why this study focuses on these key features. First, from the standpoint of development, these features are as important as the content of policies themselves as ingredients for economic development.

Second, in many cases the link between the content of policies and the nature of the PMP is rather tenuous. Consider the case in which two parties with very different preferences alternate in power, in a political system that produces majorities for the president in congress and few incentives for cooperation among parties. In such a scenario, the content of policies may shift back and forth (from low protection to high protection, from open capital accounts to capital controls, from capture of regulatory agencies to expropriation of privatized assets). In contrast, one important characteristic of public policies will tend, ironically, to persist: policy instability.

Third, from the analytic standpoint, these variables can be used across varied policy domains, thus generating more “data” and allowing for a more precise mapping between policymaking processes and policy outcomes.

The discussion that follows describes each of these key features of public policies. They constitute the dependent variables in the framework of this report: that is, the features of public policies that this study is trying to explain. In addition to discussing their relevance, this study attempts to measure these features across countries, relying on indices developed from two main sources of data. The first is the Executive Opinion Survey of the World Economic Forum’s *Global Competitiveness Report* (GCR), which covers more than 100 countries and has been published annually since 1996.¹ The second is an

¹ One shortcoming of the GCR data is that they are subjective and tend to be affected by the macroeconomic cycle. When countries are doing poorly, business executives tend to rate them poorly across all variables. This is dealt with to some extent by averaging the indices over all available years. Still, it may negatively affect countries, such as Argentina, which have suffered from poor economic performance for most of the period for which GCR data are available.

opinion survey conducted for this report, inspired mostly by the work on State capabilities by Kent Weaver and Bert Rockman.² This survey, the State Capabilities (SC) Survey, questioned more than 150 experts in 18 Latin American countries, including public policy analysts, economists, political scientists, and former policymakers (including a few former presidents), regarding the capabilities of the State in a number of dimensions identified as crucial by Weaver and Rockman (see Box 6.1).

While each of the data sources has important shortcomings and none is free from measurement error, in combination they provide a good sense of the characteristics of public policies in different countries in the region. Before discussing each of the relevant features of public policies and their measurement in more detail, however, a couple of caveats are in order. First, respondents to the State Capabilities Survey were explicitly asked to base their answers not on the performance of public policies under the current administration, but rather on performance in the last couple of decades, or since the country's return to democratic rule.³ Thus the position of the different countries according to the indices does not necessarily reflect the quality of public policies under the current administrations.

Second, the objective in measuring these features of public policies is not to single out countries as doing things "right" or "wrong," but rather to use the information as an important ingredient in establishing links with the institutional variables introduced in Chapters 3 through 5. In line with this objective, rather than presenting the countries' actual scores on indices, this report groups countries on each dimension in three different categories ("low," "medium," or "high," depending on the value of the index).⁴

Stability

Some countries seem capable of sustaining most policies over time. In other countries, policies are frequently reversed, often at each minor change of political winds (whether a change in administration or even a change in some key cabinet member or senior bureaucrat). Having stable policies does not mean that policies cannot change at all, but rather that changes tend to respond to changing economic conditions or to failure of previous policies, rather than to political changes. In countries with stable policies, changes tend

Key features of policies, such as their stability or the quality of their implementation, are as important as the specific content of those policies as ingredients for economic development.

² Weaver and Rockman (1993).

³ In a few cases, respondents were asked to focus on more specific periods: before and after the Constitution of 1991 in the case of Colombia; before and after the end of the unified *Partido Revolucionario Institucional* (PRI) government in Mexico (1997); before and after the fall of the Stroessner regime (1989) in Paraguay; and before and after the introduction of popular elections for governors in Venezuela (1988). In this section, the values for each of these countries reflect the countries' performance in the latter ("after") period. Changes in these features of public policies within countries are discussed in Chapter 7.

⁴ The methodology used to group countries in the different categories is explained in detail in the Data Appendix.

Box 6.1 State Capabilities

A State must have certain capabilities to perform certain essential functions. It must have the capacity to maintain macroeconomic stability and ensure economic growth; to make long-term promises credible, and implement and enforce policies over time; and to ensure that policies are not captured by special interests. A particularly good list of State capabilities has been drawn up by Kent Weaver and Bert Rockman.¹ They identify ten:

1. To *set and maintain priorities* among the many conflicting demands made upon them so that they are not overwhelmed and bankrupt
2. To *target resources* where they are most effective
3. To *innovate* when existing policies have failed
4. To *coordinate conflicting objectives* into a coherent whole
5. To *be able to impose losses on powerful groups*
6. To *represent diffuse, unorganized interests* in addition to those that are concentrated and well-organized
7. To *ensure effective implementation of government policies* once they have been decided upon
8. To *ensure policy stability* so that policies have time to work
9. To *make and maintain international commitments* in the realms of trade and national defense to ensure the State's long-term well-being
10. To *manage political cleavages* in order to ensure that the society does not degenerate into civil war.

These State capabilities tie in closely with the key features of public policies discussed in this chapter. The State Capabilities Survey used in this study added a few items to this list:

11. To *ensure policy adaptability* when changes in circumstances require it
12. To *ensure coherence* across policy domains, so that new policies fit well with existing ones
13. To *ensure effective policy coordination* among different actors operating in the same policy domain.

¹ Weaver and Rockman (1993).

to be incremental, building upon achievements of previous administrations, and tend to be achieved through consensus. In contrast, volatile policy environments are characterized by large swings and by lack of consultation with different groups in society. As discussed in Chapter 2, this study associates policy stability with the ability of political actors to strike and enforce inter-temporal agreements that allow certain fundamental

policies (*Políticas de Estado*) to be preserved beyond the tenure of particular officeholders or coalitions. Thus, the notion of policy stability is closely linked to the notion of policy credibility discussed in Chapter 2.⁵

This study's measure of policy stability relies on both the GCR Executive Opinion Survey and the SC Survey. In addition, a variable on policy volatility based on the Fraser Index of Economic Freedom is used. This index, which has been published regularly since 1974 by the Fraser Institute, measures the degree to which policies and institutions of countries contribute to economic freedom (including dimensions such as the size of government, the protection of property rights, and freedom of international exchange). Given the focus on policy stability, this study is not interested in the level of economic freedom as measured by the index, but rather in the index's volatility. There are six components of the index of policy stability:

1. The standard deviation of the Fraser Index of Economic Freedom for the country⁶
2. The extent to which legal or political changes have undermined firms' planning capacity (from the GCR)
3. The extent to which new governments honor the contractual commitments and obligations of previous regimes (from the GCR)
4. The capacity of the State to set and maintain priorities among conflicting objectives (from the SC Survey)
5. The extent to which governments ensure policy stability (from the SC Survey)
6. The extent to which the State makes and maintains international commitments (from the SC Survey).

All the variables included in the index of policy stability were normalized to vary on the same scale (from 1 to 4, with 4 indicating greater stability), and each of them was given a similar weight. On the basis of the resulting index, cluster analysis techniques were applied in order to group countries into different categories for this dimension of public policy.⁷ The country groupings for the stability dimension, as well as the other dimensions discussed in the following pages, are presented in Table 6.1.

Adaptability

It is desirable for countries to be able to adapt policies to changing economic conditions and to change policies when they are obviously failing. However, governments sometimes abuse the discretion to adapt policies by adopting opportunistic, one-sided

⁵ This notion of policy stability is also closely related to the notion of resoluteness in Cox and McCubbins (2001), as discussed in Box 2.2.

⁶ The series for each country was detrended before calculating the standard deviation, so that countries that moved steadily toward more (or less) free market policies throughout the period were not characterized as having volatile policies.

⁷ Cluster analysis is a classification method that is used to arrange a set of cases into clusters. The aim is to establish a set of clusters such that cases within a cluster are more similar to each other than they are to cases in other clusters. For a more detailed discussion of the clustering methodology used, see the Data Appendix.

Table 6.1 Key Features of Public Policies since the 1980s

Country	Stability	Adaptability	Enforcement and implementation	Coordination and coherence	Public-regardness	Efficiency	Policy index
Argentina	Low	Medium	Low	Low	Medium	Low	Low
Bolivia	Medium	High	Medium	Medium	Medium	Medium	Medium
Brazil	High	High	High	High	Medium	Medium	High
Chile	High	High	High	High	High	High	Very High
Colombia	High	High	High	Medium	Medium	Medium	High
Costa Rica	High	Medium	High	Medium	High	High	High
Dominican Republic	Medium	Medium	Medium	Medium	Low	Medium	Medium
Ecuador	Low	Medium	Low	Low	Low	Low	Low
El Salvador	High	High	High	Medium	Medium	High	High
Guatemala	Medium	Medium	Low	Medium	Low	Medium	Low
Honduras	High	Medium	Medium	Medium	Low	Medium	Medium
Mexico	High	Medium	High	Medium	Medium	High	High
Nicaragua	Medium	Medium	Medium	Low	Low	Medium	Low
Panama	Medium	Low	Medium	Low	Low	Low	Low
Paraguay	Medium	Low	Low	Low	Low	Low	Low
Peru	Medium	Medium	Medium	Medium	Medium	Medium	Medium
Uruguay	High	High	High	Medium	Medium	Medium	High
Venezuela	Low	Low	Medium	Low	Medium	Low	Low

Note: The key features of public policies are classified as "high," "medium," or "low" using cluster analysis (see Data Appendix). For the case of the policy index, because Chile outperforms all the other countries, it has been classified as "very high," and the remaining countries have been classified as previously noted.

These measures are intended to capture features of a country's public policies over the last couple of decades, or since the return to democracy, and do not necessarily reflect the characteristics of policies in the current administration.

Source: Stein and Tommasi (2005).

policies that are closer to their own preferences or those of their important constituents. This can result in policy volatility, as policies may shift back and forth as different groups alternate in power. In political environments that are not cooperative, political actors often agree to limit such opportunism by resorting to fixed policy rules that are difficult to change. This limits policy volatility, but at the cost of reducing adaptability. It is sometimes accomplished by embedding policies such as pension benefits or inter-governmental transfers into the constitution. In other cases, a political system regularly generates gridlock, making it difficult to achieve change. Whatever the reason, countries with low policy adaptability will be unable to respond to shocks adequately, or may get stuck in unsuitable policies for extended periods of time.

This study's index of policy adaptability (see Table 6.1 for country assessments) has two components, both from the State Capabilities Survey. The first asks about the extent to which there is innovation when countries' policies fail. The second asks about the extent to which governments ensure policy adaptability. Given the lack of questions on international surveys such as the GCR that are closely related to the concept of policy adaptability, this measure is not as reliable as that corresponding to policy stability, as well as some of the other indices of public policy discussed in this chapter.

Coordination and Coherence

Public policies are the outcome of actions taken by multiple actors in the policymaking process. Ideally, different agents acting in the same policy domain should coordinate their actions to produce coherent policies. However, this does not always occur. In some countries, policymaking on certain issues involves a large number of actors that do not communicate adequately with each other, leading to what Cox and McCubbins have called "balkanization" of public policies.⁸ Lack of coordination often reflects the noncooperative nature of political interactions. It may occur among different agencies within the central government, between agencies in the central government and others at the regional or municipal level, or even among agents that operate in different stages of the policymaking process (such as when the complications that the bureaucracy might face during the implementation phase of a given policy are not taken into account during the design and approval stage of policymaking).

This study's measure of coordination and coherence (see Table 6.1 for country assessments)⁹ has two components, both from the State Capabilities Survey. The first component measures the extent to which new policies are consistent with existing policies. The second component deals with whether different policymakers operating in the same policy domain (or related policy domains) coordinate their actions effectively.

⁸ See Cox and McCubbins (2002). Balkanization refers to a process of fragmentation or division of a region into smaller regions that are often hostile or noncooperative with each other. In the case of public policies, the term refers to the fragmentation of policymaking, not necessarily along geographical lines.

⁹ As in the case of adaptability, however, the measure is based on just two questions from the State Capabilities Survey, so the rankings for this category are probably not as reliable as some of the others, which are based on a wider range of variables.

Quality of Implementation and Enforcement

A policy could be very well designed, sail through the approval process unchanged, and yet be completely ineffective if it was not well implemented and enforced. In many countries in Latin America, the quality of policy implementation and enforcement is quite poor. This is associated in part with the lack of capable and independent bureaucracies, as well as the lack of strong judiciaries. To an important degree, the quality of policy implementation and enforcement in a given country will depend on the extent to which policymakers in that country have incentives and resources to invest in their policy capabilities.

This study's index of implementation and enforcement (see Table 6.1 for country assessments) was constructed from four components:

1. The extent of enforcement of the minimum wage (from the GCR)
2. The extent of control of tax evasion (from the GCR)
3. The consistency of environmental regulation (from the GCR)
4. The extent to which the State ensures effective implementation of public policies (from the State Capabilities Survey).

Public-Regardedness

Public-regardedness refers to the extent to which policies produced by a given system promote the general welfare and resemble public goods (that is, are public-regarding) or tend to funnel private benefits to certain individuals, factions, or regions in the form of projects with concentrated benefits, subsidies, or tax loopholes (that is, are private-regarding).¹⁰ This dimension is closely tied to inequality, particularly since those favored by private-regarding policies tend to be the members of the elite, who have the economic and political clout to skew policy decisions in their favor.

This study's measure of public-regardedness (see Table 6.1 for country assessments) has four components:

1. The extent to which public officials tend to favor the well connected in their policy decisions (from the GCR)
2. The extent to which social transfers effectively reach the poor as opposed to the rich (from the GCR)
3. The ability of the State to impose losses on powerful actors (from the State Capabilities Survey)
4. The extent to which the government represents diffuse, unorganized interests, in addition to concentrated organized interests (from the State Capabilities Survey).

¹⁰ See Cox and McCubbins (2001).

Efficiency

A key aspect of good policymaking is the ability of the State to allocate its scarce resources to those activities where they have the greatest returns. This feature of policies is somewhat related to public-regardedness since, to the extent that policymakers unduly favor specific sectors to the detriment of the public interest, they will be moving away from the most efficient allocation of resources. This study's index of efficiency (see Table 6.1 for country assessments) has two components:

1. Whether the composition of public spending is wasteful (from the GCR)
2. Whether resources are targeted where most effective (from the State Capabilities Survey).

The Overall Index of Quality of Public Policy

The preceding sections have identified a number of key features of public policies: stability, adaptability, coordination and coherence, quality of implementation and enforcement, public-regardedness, and efficiency. While there may be other relevant characteristics of public policies that have not been included in the analysis, in combination these features should provide a good picture of the quality of policymaking in Latin American countries.

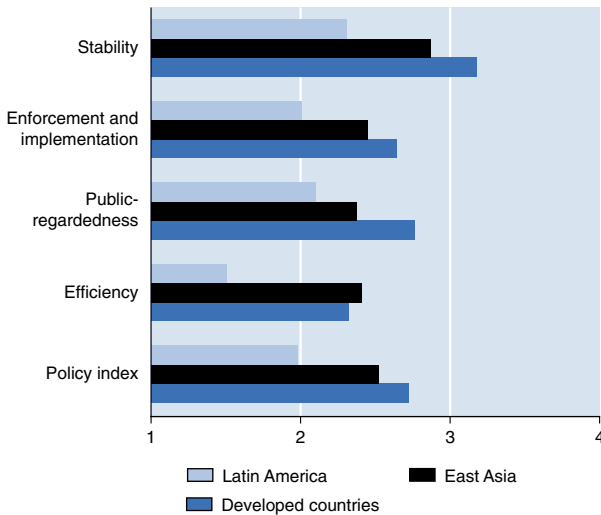
The various indices we have constructed to measure these key features could be combined in different ways to come up with an overall index of the quality of public policies. This study gives the same weight to each of the key features discussed. That is, it uses the simple average of the different indices. However, the specific method used to aggregate the individual indices into the overall Index of Quality of Public Policy (or, for simplicity, the “policy index”) is not driving the results,¹¹ or the grouping of countries into the categories shown in the last column of Table 6.1.¹²

How does Latin America compare with other regions with regard to these features of public policies? One important limitation in making an inter-regional comparison is the lack of comparable data for countries in other regions. In particular, data from the State Capabilities Survey conducted for this report are not available for other countries. However, the data from the Fraser Institute, and the data from the *Global Competitiveness Report*, are available for a much wider set of countries. It is not possible to compare Latin America directly with other regions using all the data. However, it is possible to do so using a modified version of the indices by including data only from the international data sets. Reassuringly, the correlation between the policy index for the countries in

¹¹ The correlation between the resulting overall index and an alternative in which the different qualities are weighted according to the number of subcomponents in each of them (six in the case of stability, two in the case of adaptability, and so on) is 0.99.

¹² As in the case of the individual indices, the countries were grouped using cluster analysis. In this case Chile, which had a significantly higher score than the rest of the countries on the policy index, was placed in a category of its own (“very high”); the rest of the countries were divided into the categories “high,” “medium,” and “low.”

FIGURE 6.1 Key Features of Public Policies Indices: An Inter-regional Comparison (using international data)
(1–4 scale)



Sources: Stein and Tommasi (2005) and World Economic Forum (various years).

Latin America and the modified version using only the internationally available data is 0.91, indicating that the comparison is meaningful.

Figure 6.1 presents the average index for four of the components,¹³ as well as the international version of the policy index, for three different groups of countries: Latin America, East Asia, and developed countries. Two things are worth mentioning. First, Latin America lags behind East Asia and the developed world in each and every one of the different policy components. In the overall index, the average for Latin America is 1.98, on a scale of 1 to 4. Meanwhile, East Asian countries have an average index of 2.53, while the developed countries stand at 2.73. Second, the gap between Latin America and the other regions varies across features. Latin America lags behind the most in stability and efficiency, while it is closer to the rest, or at least to the East Asian countries, in terms of public-regardedness.

Features of Public Policies and Economic Development

The previous sections developed a series of indices to capture a number of key features of public policy. An important assumption behind the development of these indices was that the features of policies being measured, such as stability, adaptability, and the quality of implementation, should be important ingredients for economic development. This section provides some evidence in support of this hypothesis, by showing the association that exists between the different features discussed, as well as the policy index, and a number of measures of economic development.

¹³ The indices for adaptability and coordination are not included in this comparison, since they were based exclusively on the State Capabilities Survey.

The measures of economic development used are the following:

- Per capita GDP growth, in U.S. dollars at purchasing power parity, between 1980 and 2002 (from the World Bank's *World Development Indicators*).
- The change in the value of the UNDP's Human Development Index (HDI) between 1980 and 2002. The HDI combines various measures of literacy and life expectancy with GDP per capita in order to measure a country's achievement in terms of human development.
- The reduction in poverty rates between 1980–90 and 1995–2000 (from the *World Development Indicators*).
- Two different measures of welfare, developed by the World Bank, that combine measures of income with different measures of income inequality, suggested by Amartya Sen and Anthony Atkinson, respectively.¹⁴

Table 6.2 presents the correlations between the different components and policy index and each of these five measures of welfare. The top portion presents these correlations for the case of Latin American countries, using the indices that combine international data with data from the State Capabilities Survey. The lower portion provides comparable information for a wider sample of developing countries, using international data only. For each political variable listed on the left, the top row of numbers presents simple correlations, while the bottom row of numbers presents partial correlations, controlling for the effects of initial (1980) per capita GDP, in order to account for potential convergence effects.¹⁵

As the correlations presented in the table show, the policy index is positively associated with each of the measures of development. In 14 out of 16 correlations, the association is statistically significant. In some cases, the correlations are very high. They tend to be higher for the Latin American sample, where the similarities among the countries are greater. The level of significance is higher for the developing country sample, however. This is not surprising, given the increase in the sample size. The individual indices also correlate well with most of the welfare measures used.

Relating Political Institutions and Policy Outcomes

The rest of this chapter pulls together information and findings on the features of policies in Latin America and some of the indicators of the workings of Latin American political systems developed in Part II. Correlations among the characteristics of public policies and a number of political and institutional variables appear in the following sections. This exploration is guided by the framework developed in Chapter 2, as well as some insights from the literature summarized in Part II.

¹⁴ See Gasparini (2004) for a discussion of the welfare indices.

¹⁵ In the case of partial correlations, the idea is to check whether countries whose policy index is higher than expected, given their initial per capita GDP, tend to have development indicators that are also higher than expected, given their initial income.

Table 6.2 Key Features of Public Policies and Economic Development: Simple and Partial Correlations

Latin American Countries								
	Stability	Adaptability	Coordination and coherence	Implementation and enforcement	Public-regardness	Efficiency	Policy index	No. obs.
GDP per capita growth	0.643*** <i>0.453</i>	0.543** <i>0.445</i>	0.722** <i>0.505</i> *	0.653*** <i>0.545</i> *	0.573** <i>0.287</i>	0.674*** <i>0.512</i> *	0.700*** <i>0.509</i> **	18 18
Human Development Index (change)	0.202 <i>0.418</i>	0.602*** <i>0.782</i> ***	0.186 <i>0.428</i> *	0.519** <i>0.711</i> ***	0.199 <i>0.464</i> *	0.375 <i>0.592</i> **	0.376 <i>0.614</i> ***	18 18
Poverty reduction	0.467* <i>0.339</i>	0.455* <i>0.377</i>	0.427* <i>0.268</i>	0.322 <i>0.235</i>	0.353 <i>0.177</i>	0.372 <i>0.226</i>	0.439* <i>0.300</i>	17 17
Welfare Index (Sen)	0.791*** <i>0.649</i> ***	0.685*** <i>0.610</i> ***	0.950*** <i>0.800</i> ***	0.688*** <i>0.590</i> ***	0.839*** <i>0.639</i> ***	0.856*** <i>0.739</i> ***	0.871*** <i>0.730</i> ***	16 16
Welfare Index (Atkinson)	0.791*** <i>0.647</i> ***	0.630*** <i>0.548</i> *	0.949*** <i>0.796</i> ***	0.635*** <i>0.528</i> *	0.817*** <i>0.605</i> *	0.826*** <i>0.704</i> ***	0.843*** <i>0.695</i> ***	16 16

Developing Countries								
	Stability	Adaptability	Coordination and coherence	Implementation and enforcement	Public-regardness	Efficiency	Policy index	No. obs.
GDP per capita growth	0.489*** <i>0.491</i> ***	— —	— —	0.261* <i>0.331</i> *	0.193 <i>0.236</i>	0.467*** <i>0.476</i> ***	0.420*** <i>0.445</i> ***	52 47
Human Development Index (change)	0.215 <i>0.199</i>	— —	— —	0.585*** <i>0.567</i> ***	0.485*** <i>0.476</i> ***	0.249* <i>0.283</i> *	0.400** <i>0.393</i> *	52 47
Poverty reduction	0.511*** <i>0.514</i> ***	— —	— —	0.332* <i>0.327</i> *	0.222 <i>0.202</i>	0.448*** <i>0.445</i> ***	0.461*** <i>0.450</i> ***	42 37

— Not available.

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

Note: For each political variable listed on the left, the first row presents simple correlations with each of the policy variables listed at the top of the columns, and the second row presents (in italics) partial correlations (controlling for 1980 GDP per capita).

Sources: World Bank (various years); Stein and Tommasi (2005); Gasparini (2004); and UNDP (various years).

The framework presented in Chapter 2 emphasized that good policymaking can be facilitated if political actors have relatively long horizons, and arenas for the discussion, negotiation, and enforcement of political and policy agreements are relatively encompassing and well-institutionalized. Some of the characteristics of key political actors and arenas that can enhance good policymaking are explored below.

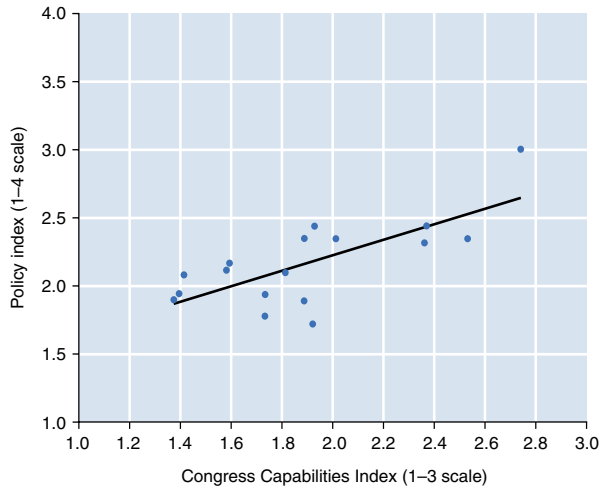
The Policymaking Capabilities of Congress

Legislatures are critical to the functioning of democracy. Given its constitutional responsibility, the national legislature is the most natural arena for the discussion, negotiation, and enforcement of political agreements. Legislatures include broader representation than the executive branch, and as such they may serve as an arena for inter-temporal political agreements. A legislature made up of professional legislators, with technical capabilities for discussing and overseeing policies, and with adequate organizational structures, can facilitate the development of relatively consensual and consistent (stable) policies over time.

Chapter 3 presented an index, the Congress Capabilities Index, that attempts to capture the extent to which congress, as an institution, has the capabilities to serve such a policymaking function. The discussion focused on some aspects of congress as an organization, as well as on some characteristics of legislators. The index includes such variables as the strength and specialization of congressional committees, the confidence that the public has in congress as an institution, the level of education of legislators, their technical expertise, and the extent to which congress is a desirable career place for politicians.

Figure 6.2 presents a scatter plot relating the Congress Capabilities Index to the policy index.¹⁶ The positive relation between both variables is quite clear. The correlation is 0.699, and it is significant at the 99 percent level of statistical confidence.

FIGURE 6.2 Congressional Capabilities and the Quality of Policies



Sources: Stein and Tommasi (2005) and authors' compilation.

¹⁶ Since the objective is to establish links between institutional variables and the quality of policies, and not to single out the countries with the best or the worst policies, the names of the countries are omitted from the scatter plots presented here.

While the figure shows a strong association between the Congressional Capabilities Index and the policy index, association does not necessarily mean causality. For example, both variables could be explained by a third one, such as the level of economic development. For this reason, we checked whether the link between these variables survives after controlling for the level of income per capita in 1980.¹⁷ It does. Similar checks were conducted for the links between the policy index (and its components) and the other institutional variables used in this section. Table 6.3 presents information about the correlation of each of the policy characteristics identified earlier in the chapter and each of the political and institutional variables discussed. (For each institutional variable, the top number presents a simple correlation and the bottom number presents a partial correlation, controlling for GDP per capita.)

Characteristics of Political Party Systems

Parties are organizations whose function is to represent and aggregate diverse interests. As such, they are naturally encompassing organizations that should facilitate political bargains in the policymaking process.

As stated in Chapter 3, the structure and organization of political parties and party systems in a country can have an important influence on the policymaking process. Political parties can play a direct role in the policymaking process, but they also can play indirect roles through their interaction with various other institutions. For instance, in some countries parties are important actors in defining and articulating broad policy programs and are able to effectively engage in public policy debates, even when they are in the opposition. But characteristics of the party system in a particular country also affect the country's policymaking process somewhat more indirectly, such as by influencing the workability of executive-legislative relations, the possibilities for coordination in congress, and/or the incentives of elected officials to cater to narrower or broader sets of societal interests. This section focuses on some characteristics of parties and party systems that make parties more encompassing policy players, and explores the effects of these characteristics on the quality of public policies. One such characteristic is their degree of institutionalization. More institutionalized parties and party systems, particularly when parties are programmatic, are more likely to encourage long horizons and to prevent individual politicians from behaving opportunistically. They can also facilitate inter-temporal bargains, both within a party and among parties, since the commitments made by current party leaders are more likely to be respected in the future. Another characteristic that might facilitate encompassing parties is their relative focus on national issues, as indicated by measures of party system nationalization. How effectively parties play their roles in the PMP will also depend on the main incentives and orientations of key party actors.

¹⁷ This check was conducted by using partial correlations instead of simple correlations. In the case of partial correlations, the idea is to check whether countries for which the Congress Capabilities Index value is higher than expected, given their income levels, tend to have values for the policy index that are also higher than expected, given their income levels.

Table 6.3 Correlations of Institutional and Political Variables with Key Features of Policies

	Stability	Adaptability	Coordination and coherence	Implementation and enforcement	Public-regardness	Efficiency	Policy index	No. obs.
Congress Capabilities Index	0.740***	0.570**	0.754***	0.503*	0.624***	0.614***	0.699***	18
	<i>0.722***</i>	<i>0.543**</i>	<i>0.752***</i>	<i>0.472*</i>	<i>0.601***</i>	<i>0.606***</i>	<i>0.679***</i>	18
Party system institutionalization	0.388	0.150	0.315	0.104	0.041	0.287	0.250	18
	<i>0.401*</i>	<i>0.164</i>	<i>0.321</i>	<i>0.120</i>	<i>0.054</i>	<i>0.295</i>	<i>0.263</i>	18
Party system nationalization	0.505**	0.367	0.409	0.313	0.132	0.496**	0.420*	17
	<i>0.625***</i>	<i>0.493**</i>	<i>0.481*</i>	<i>0.434*</i>	<i>0.221</i>	<i>0.584*</i>	<i>0.533**</i>	17
Programmatic parties	0.431*	0.478**	0.478**	0.351	0.385	0.616***	0.499**	18
	<i>0.446*</i>	<i>0.495**</i>	<i>0.486**</i>	<i>0.370</i>	<i>0.401*</i>	<i>0.626***</i>	<i>0.514*</i>	18
Judicial independence	0.866***	0.705***	0.808***	0.722***	0.661***	0.751***	0.835***	18
	<i>0.850***</i>	<i>0.678***</i>	<i>0.809***</i>	<i>0.693***</i>	<i>0.637***</i>	<i>0.745**</i>	<i>0.816***</i>	18
Cabinet stability	0.450	0.362	0.441	0.352	0.472	0.530	0.464	10
	<i>0.442</i>	<i>0.350</i>	<i>0.440</i>	<i>0.339</i>	<i>0.466</i>	<i>0.525</i>	<i>0.456</i>	10
Share of ministers in civil service	0.613	0.312	0.340	0.420	0.200	0.317	0.411	8
	<i>0.669*</i>	<i>0.343</i>	<i>0.463</i>	<i>0.400</i>	<i>0.263</i>	<i>0.383</i>	<i>0.467</i>	8
Civil service development	0.524**	0.562**	0.542**	0.536**	0.631***	0.452*	0.588**	18
	<i>0.526**</i>	<i>0.548**</i>	<i>0.611***</i>	<i>0.503*</i>	<i>0.646***</i>	<i>0.482**</i>	<i>0.599***</i>	18
Proportionality of electoral system	-0.040	0.191	-0.210	0.036	-0.110	-0.208	-0.063	18
	<i>-0.065</i>	<i>0.163</i>	<i>-0.224</i>	<i>0.004</i>	<i>-0.139</i>	<i>-0.226</i>	<i>-0.089</i>	18
Effective number of legislative parties	-0.221	0.060	-0.168	0.019	-0.082	-0.261	-0.110	18
	<i>-0.028</i>	<i>-0.018</i>	<i>-0.214</i>	<i>-0.070</i>	<i>-0.165</i>	<i>-0.325</i>	<i>-0.191</i>	18
Partisan powers of the president	0.029	-0.168	0.040	-0.043	0.034	0.161	0.001	18
	<i>0.029</i>	<i>-0.108</i>	<i>0.070</i>	<i>0.031</i>	<i>0.100</i>	<i>0.207</i>	<i>0.062</i>	18

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

Note: For each political variable listed on the left, the first row presents simple correlations with each of the policy variables listed at the top of the columns, and the second row presents (in italics) partial correlations (controlling for the 1980 GDP per capita)

Sources: Stein and Tommasi (2005); Jones (2005); Martínez-Gallardo (2005b); Zuvanic and Iacoviello (2005); World Economic Forum (2004); and authors' compilation.

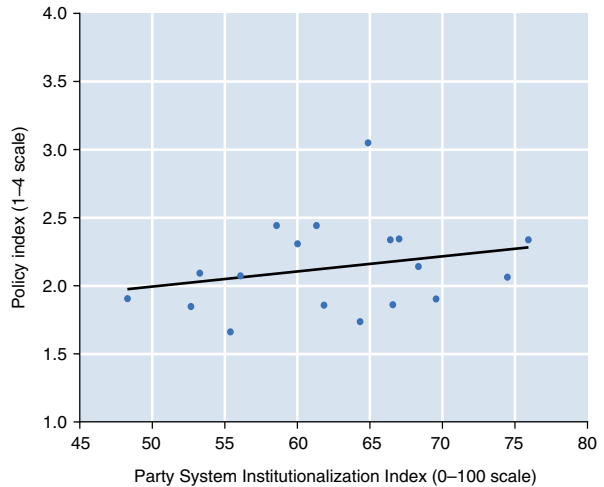
Party System Institutionalization and Programmatic Orientation

In well-institutionalized party systems, parties are likely to have longer horizons and more encompassing interests than individual citizens or individual politicians. Parties are collective identities, with an interest in maintaining or enhancing their reputation over time. Well-functioning parties are likely to be able to control the free rider incentives of individual politicians to engage in activities that give them short-term benefits: whether material benefits in exchange for favors to narrow constituencies, or symbolic benefits of indulging in their personal ideological inclinations. Long-lasting, well-institutionalized parties are more likely to be consistent long-term policy players and contribute to generate inter-temporal cooperation.

A system with a relatively small number of parties that are expected to be around for a long time, alternating in government, is more likely to respect some basic rules of interaction, and to establish somewhat consensual sustained policy stances on crucial issues (known as *Políticas de Estado*).¹⁸ Interactions among institutionalized parties with a focus on national policymaking can also add credibility and predictability to the policy-making system, complementing or even substituting for well-institutionalized legislative bargaining arenas.

Hence party system institutionalization is expected to have positive effects on key features of policies such as stability. The association between party institutionalization and the policy index presented in Figure 6.3, although positive, is not very tight. The reason is that the impact of this variable is not straightforward. In some countries, such as Colombia and to some extent Brazil, policies are relatively effective, despite the fact that the countries' party systems are not highly institutionalized. In these countries, the institutionalization of policymaking seems to take place in other arenas such as congress and the bureaucracy. In both countries, parties are more institutionalized in the con-

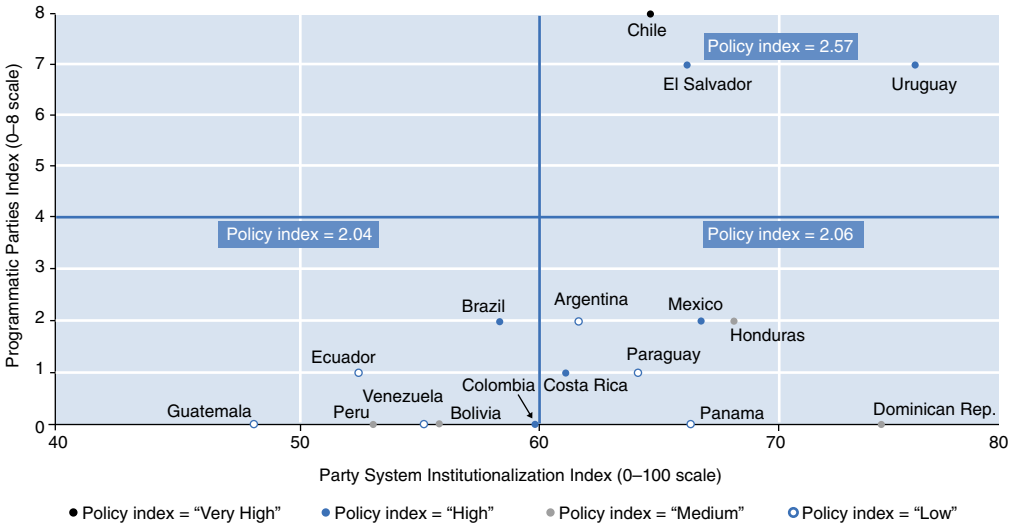
FIGURE 6.3 Party System Institutionalization and the Quality of Policies



Sources: Stein and Tommasi (2005) and Jones (2005).

¹⁸ At the same time, there are cases in which party systems are highly institutionalized and produce relatively effective policies, but at the cost of curbing political participation. Venezuela throughout the 1960s, 1970s, and 1980s is a case in point. For a more detailed discussion of Venezuela, see Monaldi and others (2005) and Chapter 11 of this report.

FIGURE 6.4 Party System Institutionalization, Programmatic Orientation, and the Quality of Policies



Note: The values in boxes show the average value of the policy index for the countries in that quadrant. Nicaragua has been omitted from this figure because its scores on the programmatic and institutionalization indices, when taken together, can be misleading (see note 14 in Chapter 3).

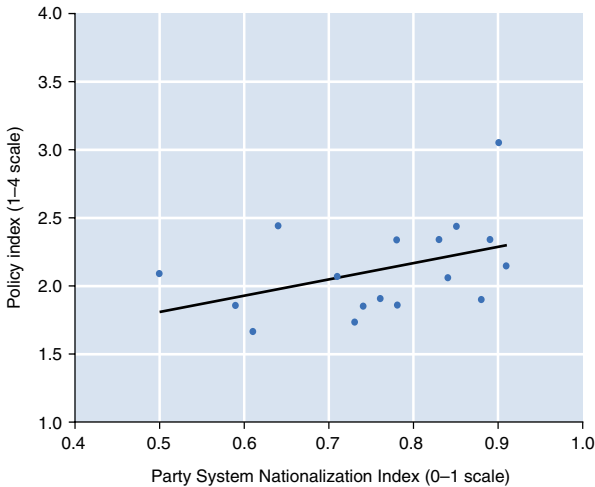
Sources: Stein and Tommasi (2005) and Jones (2005).

gressional arena (for instance, in their role in policy committees) than in the electoral arena—which is the one better captured in the index of party system institutionalization utilized in this study.

On the other hand, some parties are reasonably institutionalized, but are more focused on maintaining relatively narrowly based (often geographic) support networks than on the nature of public policies. Figure 6.4 shows the values of the policy index for different configurations of party system institutionalization and the extent to which parties are programmatic. The first thing to notice is that, as discussed in Chapter 3, there are no countries with programmatic parties that are not institutionalized (that is, the upper left quadrant of the figure is empty). The figure also suggests that institutionalization does not translate into better policies when parties are not programmatic. Policies are better only when party systems are institutionalized and programmatic.

Party System Nationalization

In a nationalized party system, parties tend to speak and act with a common national orientation, rather than being divided according to regional or subnational issues, and focused upon them. In highly nationalized party systems, national issues are likely to be central in legislators’ careers. Under conditions of weak party nationalization, legislators’ and politicians’ concerns will tend to be less focused on national public policy questions.

FIGURE 6.5 Party System Nationalization and the Quality of Policies

Sources: Stein and Tommasi (2005) and Jones (2005).

have some harmful effects on the quality of national policymaking. The potential tension between increasing inclusiveness and representation, on the one hand, and complicating government effectiveness at the national level, on the other, is discussed further in Chapter 7, in the particular case of Colombia.¹⁹

Implementation and Enforcement

Policies with good properties are more likely to emerge in more cooperative policymaking environments. Adequate enforcement and implementation facilitate such cooperation and hence strengthen the quality of policies. The judiciary is the most obvious enforcer in the political system. The bureaucracy plays a predominant role in policy implementation, and thus some of its characteristics and capabilities are likely to have an effect on the quality of implementation. In addition, the quality of the bureaucracy can also affect the ability of other political actors to bargain and enforce inter-temporal policy agreements. In fact, delegation to a competent bureaucracy might in some cases be the way to enforce the inter-temporal implementation of political agreements. Ministers and, more broadly, cabinets also play a key role in the design, discussion, and implementation of public policies in Latin America.

The discussion that follows explores how some characteristics of the judiciary, the cabinet, and the bureaucracy affect the properties of public policies.

¹⁹ See also the discussion in Chapter 11 regarding the impact of the introduction of elections for governors and mayors on the Venezuelan PMP.

More encompassing parties are likely to help generate better national policies. This study utilizes the Party System Nationalization Index score from Chapter 3 as a measure of nationalization of the party system. Figure 6.5 plots the policy index against the Party System Nationalization Index. The correlation between the two variables is 0.420, and it is significant at the 90 percent level. (The correlations are even stronger in the exercise controlling for GDP per capita.)

This result suggests that while having a more geographically decentralized political system may be beneficial in some respects (“getting government close to the people”), it may also

The Judiciary

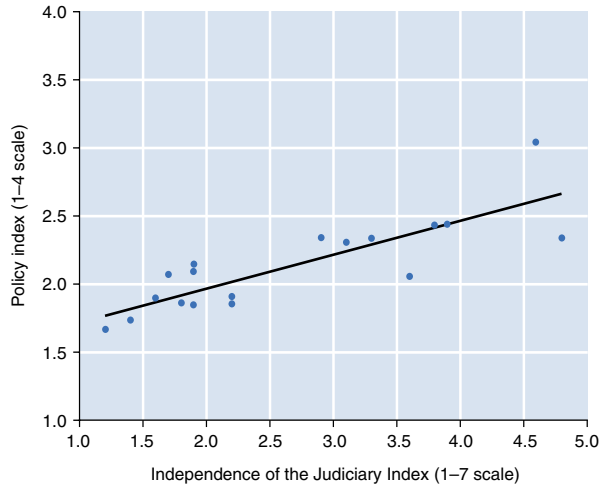
Of all the roles that the judiciary plays in the polity, one is especially important for the framework discussed in Chapter 2: the inter-temporal enforcement of prior political and policy decisions, as reflected in constitutions and laws. A judiciary that plays this role effectively will improve some characteristics of public policies, such as stability and quality of enforcement. The supreme court or equivalent institution is usually in charge of ensuring that the president does not encroach upon the powers of the congress, and that neither branch violates the constitution. The judiciary will be less able to perform this role if it is not independent of the executive in power.

Figure 6.6 plots the policy index against the World Economic Forum measure of independence of the judiciary discussed in Chapter 4. The correlation between those two measures is 0.835, and it is significant at the 99 percent confidence level. The presence of a reasonably independent referee thus turns out to be quite important in determining whether the political game generates high-quality policies. This seems to operate across the board on all policy features analyzed here.

The building of an independent judiciary is a complex business that usually takes a long time. This is suggested by Figure 6.7, which shows a strong correlation (0.771, significant at the 99 percent level) of judicial independence with the tenure of justices on the bench (see also Table 6.3). Clearly, a supreme court whose members change too often is unlikely to build up much independence. Since in most countries it is the president who nominates supreme court justices, in countries where the tenure of justices is short, most are likely to be nominated by sitting presidents. Individual justices who owe their position to the sitting president are less likely to show independence from the executive in their rulings.²⁰

As explained in Chapter 4, the judiciary can play other roles, beyond the enforcement of existing political agreements. One such role is that of a potential veto player. The supreme court can be considered a potential veto player as long as its agreement is required to enact policy change.²¹ Some observers have argued that policy change becomes more

FIGURE 6.6 Judicial Independence and the Quality of Policies



Sources: Stein and Tommasi (2005) and World Economic Forum (2004).

²⁰ See, for instance, Iaryczower, Spiller, and Tommasi (2002).

²¹ Sousa (2005).

difficult as the number of veto players increases.²² The veto player theory would predict that stronger (more independent) courts would induce policy stability and policy immobility. That is, they would increase “decisiveness” but reduce “resoluteness,” in the language of Cox and McCubbins.²³

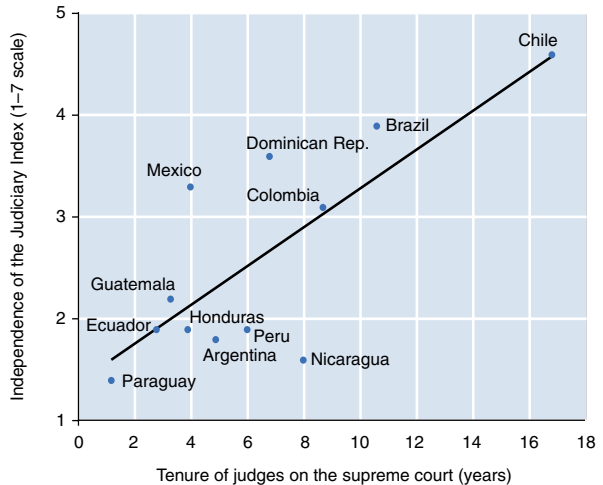
In order to test this hypothesis, this study looked at the correlation of the measure of judicial independence with the measures of policy stability (similar to resoluteness) and of policy adaptability (similar to decisiveness). It turns out that *both* policy characteristics correlate positively with judicial independence (0.866 and 0.705, respectively, both significant at the 99 percent level).

This finding argues against an emphasis on courts’ role as veto player, which would suggest a negative relation to policy adaptability. It seems that independent courts in Latin America promote inter-temporal enforcement, which might even facilitate policy adjustment. On the other hand, weak judicial enforcement might induce political actors to attempt to implement their preferred policies in rigid manners to prevent future changes, limiting the adaptability of policies.

The Cabinet

Latin American cabinet ministers, either individually or collectively, play key roles in every stage of the policy process. Characteristics related to the formation, operation, stability, and structure of cabinets are likely to have important effects on the properties of public policies. For instance, a certain degree of cabinet stability is likely to be necessary to promote longer-term policies and to allow ministers to see programs and policy implementation through to completion. Frequent turnover of cabinet ministers is likely to promote a short-term orientation to policy and frequent policy switches. Longer tenures also allow the development of better relationships with permanent bureaucrats, which are essential for implementing policy efficiently. Frequent changes in the cabinet can leave leadership vacuums that may contribute to bureaucratic inertia and even

FIGURE 6.7 Supreme Court Tenure and Judicial Independence

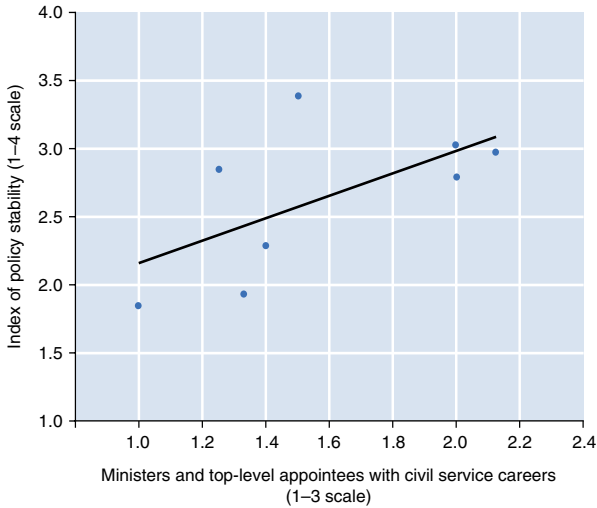


Sources: World Economic Forum (2004) and Henisz (2000).

²² See, for example, Tsebelis (2002).

²³ Cox and McCubbins (2001).

FIGURE 6.8 Ministers and Top-Level Appointees with Civil Service Careers and Policy Stability



Source: Stein and Tommasi (2005), based in part on data from Rauch and Evans (2000).

Chapter 4), and the fraction of ministers that come from a civil service career (an indicator of institutionalization). Both variables have positive correlations with this study's policy features. More stable cabinets are positively correlated with policy features such as stability, adaptability, and coordination and coherence. The correlation with the overall policy index is 0.464. A high proportion of ministers and top-level political appointees with civil service backgrounds correlates quite highly with policy stability (0.613), as depicted in Figure 6.8.²⁴

The Bureaucracy

A strong and capable bureaucracy is likely to improve the quality of implementation of public policies. It also has feedback effects on other stages of the policy process. Having a competent and independent bureaucracy to which some policy decision making and implementation may be delegated might facilitate inter-temporal agreements, par-

corruption. Longer tenure allows ministers to accumulate valuable expertise specific to the policy area in which they work and to develop political and managerial skills that are likely to improve the quality of their performance in their different policymaking functions.

Of the many characteristics of cabinets that might have an impact on the features of policies, this study focused on two features that are particularly consistent with the emphasis on long horizons and on institutionalization: the stability/durability of ministers (the inverse of the number of ministers per portfolio in each administration discussed in

²⁴ See also Table 6.3. The measure of ministers and appointees with civil service careers used in Figure 6.8 is from Rauch and Evans (2000) and is based on responses to an expert survey that were coded on a scale from 1 to 3. For details, see Data Appendix. The correlation of the proportion of ministers and top-level appointees with civil service careers with the policy index is 0.411. While the correlations between both cabinet variables and the policy indices are not statistically significant, this is due to the very small size of the sample of countries (eight) for which cabinet data are available. Statistical significance is too demanding a criterion to impose on such a small sample.

ticularly in policy areas that are prone to politicization and political opportunism. In situations in which there is a choice between rules and discretion, and discretion may lead to political opportunism, delegation to a technically competent bureaucracy can facilitate adaptability while keeping political opportunism at bay. Conversely, when a competent bureaucracy is lacking, policies are more likely to deviate from the public interest. For instance, businesses affected by economic regulation (or by taxation) are likely to focus their efforts on evading regulation or taxation at the implementation stage.

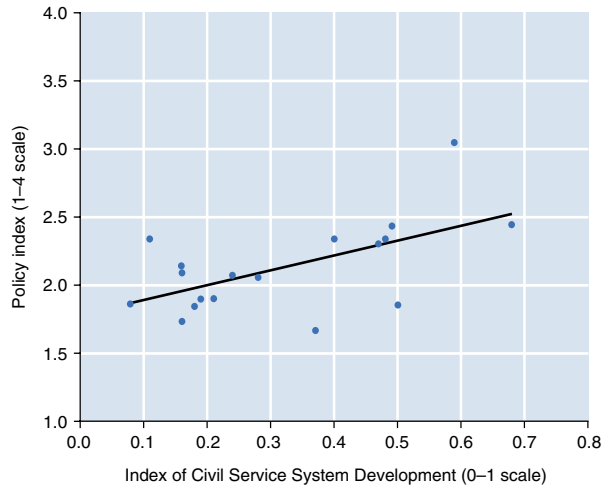
Chapter 4 introduced an index of the development of civil service systems in each of the Latin American countries. This index has a strong correlation with most of the key features of policy. As predicted, a strong bureaucracy seems to prevent the excessive influence of special interests at the implementation stage, leading to public-regarding policies. The correlation with the policy index, depicted in Figure 6.9, is 0.588, significant at the 95 percent level.

Electoral Rules, Party System Fragmentation, and Partisan Powers of Presidents

Several characteristics of presidential democracies (other than the ones emphasized so far in this chapter) have received considerable attention because of their potential impact on governability (and hence policymaking). The results presented in Table 6.3 suggest that several of those predictions do not seem to hold for the measures and countries included in this study, at least at the level of simple and partial correlations. For brevity, only a brief example is discussed here.

The degree of proportionality of representation induced by electoral rules is a feature that has received considerable attention. More proportional electoral rules are expected to lead to better representation, but lower policy effectiveness.²⁵ Electoral rules that

FIGURE 6.9 Development of Civil Service System and the Quality of Policies



Sources: Stein and Tommasi (2005) and Zuvanic and Iacoviello (2005).

²⁵ Payne and others (2002).

lead to a closer correspondence between share of votes and share of seats, as well as other features of the electoral system, are associated with more fragmented party systems and with presidents with lesser partisan powers (see Chapter 3 for a discussion of the various institutional sources of party system fragmentation and of partisan powers of presidents).

The last three rows of Table 6.3 present traditional measures of these concepts (proportionality of the electoral system, effective number of legislative parties, and presidential party's lower- or single-chamber contingent), and their correlation with policy characteristics. None of these measures appears to correlate significantly with this study's measures of policy effectiveness. This seems to suggest that it is difficult to generalize about direct effects of institutional rules and political configurations on the nature of policymaking and the characteristics of policies. As this study's framework suggests, more interactive and nuanced analysis seems to be necessary. That is a strong motivation for the type of country studies advocated by the framework. A first cut at such country studies is reflected in the Political Institutions, Policymaking Processes, and Policy Outcomes project, carried out by the Latin American Research Network of the Inter-American Development Bank. Some of that work is summarized in the next chapter.

Preliminary Conclusions

Table 6.4 summarizes the main correlations identified in this chapter. The countries (listed in the first column) are grouped in four categories with regard to the value of the policy index: "very high," "high," "medium," and "low." Countries are then presented alphabetically within each group. The other columns present values for some of the key variables identified in the foregoing analysis. Cases in which the country displays a relatively high value for the variable in question are shaded in dark blue. Cases of intermediate values are shaded in light blue. Cases of relatively low values are unshaded (white).

Countries with high values on the policy index tend to have high values for many of the institutional variables emphasized by this study. Note the country that has the highest value of the policy index: Chile. All the cells for Chile, with the exception of that corresponding to party institutionalization, are dark blue, indicating high values in the corresponding category. At the other end of the spectrum, countries with the lowest values of the policy index tend to have mostly white or light blue cells.

More generally, the table clearly shows that some of the main behavioral characteristics are inter-related. The high concentration of dark cells in the upper part of the table suggests that the variables are not independent. For instance, countries with stronger congresses tend to be countries with more independent judiciaries, and also with better policies.

This is not surprising, from the standpoint of this study's theoretical framework and the country studies conducted as background for this study. Several of the "institutional" variables, such as having a strong congress heavily involved in policymaking, or an independent supreme court, are the reflection of the equilibrium behavior of a number of relevant political actors. If a supreme court is able to maintain or develop its independence over time, it is because it is in the best interest of other relevant actors (such as

Table 6.4 Political Institutions and the Qualities of Policies

Country (by policy index level)	Congress Capabilities Index	Judicial independence	Party system institutionalization	Party system nationalization ^a	Programmatic parties	Development of civil service
Very High						
Chile	High	4.60	65	0.90	8.00	0.59
High						
Brazil	High	3.90	59	0.64	2.00	0.68
Colombia	High	3.10	60	—	0.00	0.47
Costa Rica	Medium	3.80	61	0.85	1.00	0.49
El Salvador	Medium	2.90	66	0.83	7.00	0.11
Mexico	Medium	3.30	67	0.78	2.00	0.40
Uruguay	High	4.80	76	0.89	7.00	0.48
Medium						
Bolivia	Medium	1.70	56	0.71	0.00	0.24
Dominican Rep.	Low	3.60	74	0.84	0.00	0.28
Honduras	Low	1.90	68	0.91	2.00	0.16
Peru	Low	1.90	53	0.50	0.00	0.16
Low						
Argentina	Low	1.80	62	0.59	2.00	0.50
Ecuador	Medium	1.90	53	0.74	1.00	0.18
Guatemala	Low	2.20	48	0.76	0.00	0.21
Nicaragua	Medium	1.60	70	0.88	8.00	0.19
Panama	Medium	2.20	67	0.78	0.00	0.08
Paraguay	Medium	1.40	64	0.73	1.00	0.16
Venezuela	Medium	1.20	55	0.61	0.00	0.37

—not available.

^a Adequate data for party system nationalization are not available for Colombia for 2002. For the case of Ecuador, party system nationalization data correspond to 1998.

Note: Countries are classified first according to their policy index values ("very high," "high," "medium," and "low") and then alphabetically within those groupings. The values for each country on each variable are shaded such that dark blue represents "very high" or "high" values, light blue represents "medium" values, and white (no shading) represents "low" values.

Sources: Stein and Tommasi (2005); Jones (2005); Zuvanic and Iacoviello (2005); and World Economic Forum (2004).

the president) not to meddle with the supreme court in pursuit of short-term political benefits. Strong congresses and independent judiciaries are not built overnight, but are the outcome of processes of investing in the quality and credibility of such institutions. Such processes are inter-related.

These processes in some cases can lead to equilibria characterized by virtuous institutional dynamics. Executives will not attempt to change the composition of the supreme court, and this will help increase the court's independence and reputation. A strong and independent judiciary will tend to adequately enforce the domain and prerogatives of other institutional arenas such as congress, which will then enhance the incentives of legislators to invest in their individual and collective capabilities, and so forth.

But these processes can also result in vicious institutional dynamics, where the opposite will tend to happen. Executives will be inclined to meddle with the judiciary and encroach upon the powers of congress, lowering the incentives to invest in legislative careers and in the institutionalization and strengthening of congress.

This discussion suggests that the incentives of the president, the strength of congress, and the independence of the supreme court in a country are likely to be codetermined in equilibrium, and that all these factors together are likely to have an effect on the quality of policies in the country. This in turn suggests what economists might call the presence of multiplicity of equilibria. If for any reason a particular political system enters a virtuous circle, the political system is likely to build up its strength over time. The opposite will tend to happen when such virtuous circles do not have time to build or are broken.²⁶ This suggests that particular historical events or critical political junctures, as well as personalities and leadership qualities, will matter—inducing *path dependence*. The next chapter returns to the interdependencies among these factors in some Latin American countries. The related issue of governmental breakdowns in the form of constitutional interruptions is discussed in Box 6.2.

²⁶ Mailath, Morris, and Postlewaite (2001).

Box 6.2 **Constitutional Interruptions**

One of the central concerns in regard to political institutions and governability in Latin America is the history of interrupted governments. Until a few decades ago, coups d'état and military governments were frequent in Latin America. Most of the region's countries have steered clear of military governments in recent years, yet constitutional interruptions (when either presidents or congress do not complete the term for which they were elected) are still a recurrent occurrence. Since the early 1980s (or the return to democracy), there have been 14 constitutional interruptions in the 18 countries analyzed in this study. These interruptions (or more precisely, their absence) could be taken as an indication of the institutionalization of the political regime.

Not surprisingly, a high percentage of constitutional interruptions is associated with poor values on measures of several of the features of public policies, especially stability.¹ Also not surprisingly, constitutional interruptions are associated with low levels of some of the key variables describing the degree of institutionalization and quality of incentives in the policymaking process. Constitutional interruptions are associated with weak (and obstructive) congresses, dependent judiciaries, and weak party systems.

These findings reinforce the ideas developed in this report. Poorly functioning institutions are likely to breed the type of discontent that makes constitutional interruptions more likely. But such interruptions (and the expectation that they are likely to happen) in turn shorten the horizons of political actors, leading to more opportunistic short-term strategies and to the lack of investment in building policymaking capacities and better institutions.

Even though there are forces that make all these characteristics interdependent, there are institutional configurations that make constitutional interruptions more likely—a topic that has long preoccupied political scientists, particularly in the case of presidential democracies such as those in Latin America. Some scholars have argued that presidential systems, as opposed to parliamentary ones, pose special problems for democratic stability, given the weaker incentives inherent in presidential systems for forming and maintaining coalitions.² Others have argued that the stability of presidential democracies may be problematic mainly in the context of multi-party systems.³ Recent work has suggested that presidential democracies in which the party in government does not control the legislature are a problem only to the extent that the president is unwilling or unable to form a majority (or near-majority) coalition.⁴

Following this lead, this study explored the links between constitutional interruptions and the type of government (majority or minority, single party or coalition) in a sample of 98 democratic governments in 18 Latin American countries between 1978 and 2005. The evidence, summarized in the table on the next page, is consistent with the findings of Chasquetti (1999) and Cheibub,

Box 6.2 Continued

Przeworski, and Saiegh (2004). Democratic stability is more at risk in the case of minority governments. In fact, minority governments are five times more likely to suffer constitutional interruptions than governments that have a majority or near-majority in congress. However, whether majorities or near-majorities in congress are achieved through a single party, or through a coalition, does not seem to have an impact on the incidence of constitutional interruptions. Thus, particularly in the case of multi-party systems that tend to produce fragmented congresses, the ability of presidents to form and maintain majority coalitions is a very worthwhile area of inquiry. Chapter 7 further discusses these issues of policymaking in fragmented systems, focusing on the contrasting cases of Brazil and Ecuador.

Government Type and Constitutional Interruptions

	Near-majority			Minority		
	Number of governments	Number of constitutional interruptions	Share (%)	Number of governments	Number of constitutional interruptions	Share (%)
Single party	36	2	5.6	19	5	26.3
Coalition	28	2	7.1	15	5	33.3
Total	64	4	6.3	34	10	29.4

Sources: Payne and others (2002); Chasquetti (2004); and authors' compilation.

¹ The value for the correlation between constitutional interruptions and stability is -0.667 , and is significant at the 99 percent level. Clearly, in these cases, causality is not unidirectional; the process is interactive. Constitutional interruptions are likely to induce shorter horizons, policy volatility, and poor coordination—but poor policies are likely to induce poor economic and social outcomes, which are a breeding ground for constitutional interruptions. For the purposes of this correlation, constitutional interruptions were measured as the share of presidential periods since 1978 or since the return to democracy that have been subject to interruptions, because either the president or the legislature did not complete their mandated terms.

² For example, Linz (1990).

³ For example, Mainwaring (1993).

⁴ Chasquetti (1999); Cheibub, Przeworski, and Saiegh (2004).

