

Political Institutions, Accountability and Government Performance

Latin America's troubled history of economic development has often been blamed on its political leaders. Most accounts gravitate between two seemingly contradictory caricatures: elitism and populism. According to the first, Latin America has been ruled by a wealthy elite that has ruthlessly used the power of the state to enrich itself and maintain its privileges. According to the second, Latin America has been ruled by reckless populists who have sacrificed prosperity in pursuit of redistributive fantasies.

This chapter examines the connection between politics and development, but with an emphasis on the impact of political institutions instead of political personalities. In particular, it focuses on the inherent difficulties of the political process in democratic societies, and on how these difficulties often prevent democracies from increasing economic growth and advancing social justice.

This approach leaves out some key aspects of politics. It does not address the role of ideas, ideologies or political leaders, some of whom have the power to lead their countries toward prosperity or ruin. However, it does consider the role of culture and other exogenous factors, including political participation and ethnic and geographic divisions. In other words, the emphasis is not only on political institutions but also on political practices and behaviors, all in the context of democratic societies.

Most Latin American democracies find themselves today at a crucial crossroad. The initial enthusiasm that accompanied the wave of democratization that swept Latin America over a decade ago has begun to erode. It has been replaced in many cases by dissatisfaction and cynicism. Further, there is a growing consensus that far-reaching institutional reforms

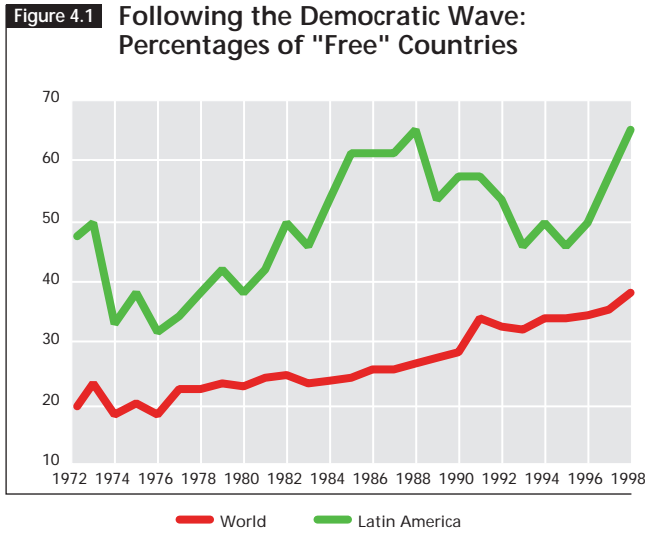
are needed to enhance economic efficiency and social equity. But unlike many of the previous reforms, which involved mostly technical matters, these reforms cannot be conceived in a political vacuum. Bluntly put, any attempt to advance what have been called "second-generation reforms" is doomed to fail if it does not take politics into account. Given that these reforms stand on the horizon, politics and political institutions are bound to take on preeminent importance in the years to come.

This chapter first describes the evolution of democracy in Latin America and presents some evidence on levels of satisfaction with democracy and democratic institutions in the region. A simple analytical framework is then put forth that seeks to understand why democracies do not always function properly. That framework is used to evaluate the status of political institutions in Latin America and to empirically explore a few connections between politics and development. Finally, the evidence from this analysis is used to explore some of the most pressing policy issues in the political realm.

The Latin American Democratic Wave

The last quarter of the final century in the millennium brought a new wave of democratization across the world that was unprecedented in its magnitude, geographical breadth and durability.¹ Figure 4.1 shows that the percentage of countries classified as "free" according to Freedom House went from 20 in 1978

¹ Huntington (1991).

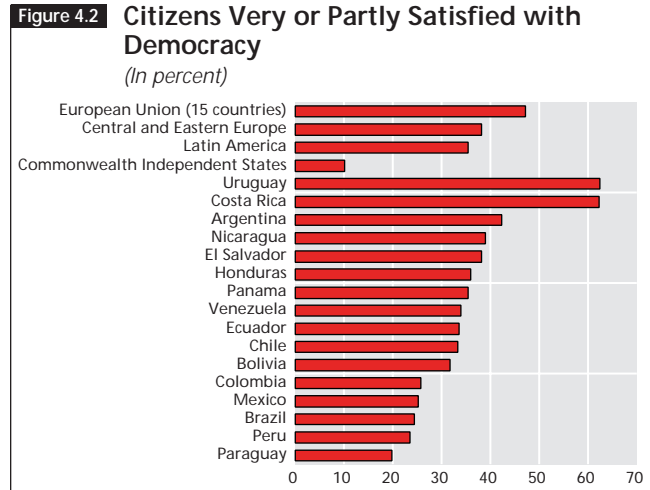


Source: Freedom House (1999).

to 38 percent in 1998.² Unlike the previous democratic wave brought about by the Allied occupation of the vanquished Axis powers after World War II, this latest surge of democracy has been widespread, citizen driven, and spontaneous.

Latin America has been on the crest of this wave of democracy. Governments led or supervised by the armed forces relinquished control throughout the late 1970s and 1980s to civilian rule, and today almost all countries in the region have elected and constitutionally-bound governments. There is better protection of civil liberties, and increased decentralization of governmental authority has enhanced the decisionmaking power of citizens regarding salient local issues. Finally, many of what were once only nominally democratic institutions have become more democratic in practice. Political parties in several countries, for example, have opened the process of selecting candidates for the presidency and other political offices.

Yet, democracy in the region is still in the process of being consolidated. It may have given people more freedom to criticize unresponsive politicians and bureaucracies, inefficient spending, and other political maladies. But it has not necessarily solved these problems. Opinion surveys consistently show that citizens are not entirely satisfied with the performance of their governments. Apathy toward politics and a seeming acceptance of political leaders who arbitrarily bend the rules has led some observers to fear that Latin



Source: *Latinobarómetro*, various years; *Eurobarometer* (1999); *Central and Eastern Eurobarometer* (1998).

America will move to a kind of “delegative democracy,” where citizens elect leaders but then summarily relinquish all policy control to them.³

Level of Satisfaction with Democracy in Latin America

The expansion of democratic freedoms and the routine use of free and competitive elections to choose political leaders have brought considerable advances in terms of protecting basic human rights and making governments more accountable to citizens. Still, the fluctuations in the Freedom House ratings for Latin America presented above show that establishing a stable and comprehensive democratic political system takes time, and is not an inevitable result of opening up public offices to electoral competition. Indeed, if democratic regimes do not maintain the broad support of citizens, they will eventually become vulnerable to individuals or groups that prefer to circumvent democratic procedures and limit citizen rights.

² The evolution of democracy around the world has been consistently monitored by Freedom House, a broad-based nonpartisan organization led by eminent politicians, business leaders and scholars (see Box 4.1).

³ O'Donnell (1994).

Box 4.1

Freedom House and Other Measures of Democracy

When is a country a democracy? If it has elected leaders? If it has a judicial system? If there are news media and active public discussion of policy? What if the elections are contests between the same small circle of people, or the judicial system is corrupt and biased toward elites, or the media is harassed for taking anti-government positions?

Dividing a large sample of countries into “democracies” and “non-democracies” inevitably involves arbitrary decisions. It is easy to observe the presence of the institutions associated with representative government, but difficult to determine whether these institutions actually facilitate rule by the people.

This box compares and contrasts the range of cross-country indices of democracy used in this chapter. Measures of democracy range from simple descriptions of *de jure* institutions to more subjective evaluations of the extent of democratic freedoms in peoples’ everyday lives. At the most basic level, the presence of elections indicates at least nominal democracy. More accurate indicators of democracy, however, consider the competitiveness of these elections and the larger process of selection of leaders, as well as the degree of protection of civil rights.

Some sections of this chapter rely on the extensive Polity III database, which focuses on the characteristics of authority in different countries.¹ Although this database contains annually coded variables for various aspects of leadership selection, political participation, and allocation of power within the government, we usually use the summary indices of institutionalized autocracy and institutionalized democracy. Institutionalized autocracy is a measure of institutionalized exclusion. It is coded on a 10 point scale, with one indicating low autocracy and 10 high autocracy. This indicator measures the presence of restrictions on competitive participation, regular selection of leaders from among the political elite, and the absence of institutional constraints on these leaders when they are in office. Institutionalized democracy, on the other hand, is a measure of the presence of institutions that facilitate participation and inclusion. The 10 point scale considers the presence of institutions that allow

citizens to express their preferences, constrain arbitrary use of power by elected leaders, and guarantee the right to participate in political processes.

The Freedom House indices (or Gastil’s Index from 1972-89) are the most subjective, and also most inclusive, measures of democracy. Researchers associated with this organization use their knowledge and judgment to rate a country’s degree of freedom along two broad dimensions: political rights and civil liberties. Each of these dimensions is measured on a seven point scale, with a score of one meaning the most free and seven meaning the least free. The political rights dimension measures, among other things, whether elections are free and fair; whether people are free to organize competing political parties; whether citizens are free from domination by the military, religious hierarchies, economic oligarchies and other powerful groups; and whether the rights of minorities are respected. The civil liberties dimension measures the extent to which there is freedom of assembly and freedom to organize, a free and independent media, freedom of religion, and equality under the law. One drawback, however, is that Freedom House aggregates different dimensions of civil liberties—ranging from property rights to the freedom of worker association—into a single score for each country. The individual facets have no defined weights in the final score, and implicit weights may vary from country to country.

The work in this chapter, which empirically links electoral systems, politicians’ incentives, and political outcomes, uses the most basic definition of democracy: the presence of nominally representative institutions. We consider all countries that have at least a partially elected parliament and are members of the International Parliamentary Union to be representative governments where politicians respond to some group of citizens.²

¹ Gurr (1996).

² Inter-Parliamentary Union (various years).

Levels of satisfaction with democracy indicate the underlying legitimacy of these new democratic institutions. We use survey data to try to get an idea of whether people perceive democratic institutions as capable of representing and reconciling diverse interests and implementing relevant policies. What we see, and what is affirmed by other studies, is

general support for the concept of democracy, but markedly less support for democracy as it is currently practiced.

We use the Latinobarómetro survey of public opinions and attitudes in Latin America to gauge the extent of public satisfaction with the performance of democratic institutions and public support for

Box 4.2

Which Citizens Are Dissatisfied with Democracy in Latin America?

As might be expected, a larger share of Latin American citizens are dissatisfied with democracy than one finds in the high-income democracies. A key to assessing the prospects for firmly establishing and deepening democracy in Latin America is to identify the types of people who are more likely to be dissatisfied with democracy.

As pointed out in the text, the survey question dealing with the level of satisfaction with democracy is somewhat vague. “Dissatisfaction with democracy” can indicate unhappiness with the particular government in power, with the state of the economy, with the degree of income inequality, with other aspects of democratic government performance (such as the ability to control crime or corruption), or with the quality of democratic institutions and procedures. Or it can indicate a more general dislike of democracy as a system of government. For any given person, a response of dissatisfaction could reflect a combination of any number of these sentiments.

Consequently, identifying dissatisfied citizens must be approached from two different perspectives. First, taking the response to the question at face value, it is necessary to examine whether people’s socioeconomic or demographic attributes are related to their likelihood of expressing dissatisfaction with democracy. Second, it must be determined which of the sentiments mentioned in the previous paragraph are more strongly associated with those feelings of dissatisfaction.

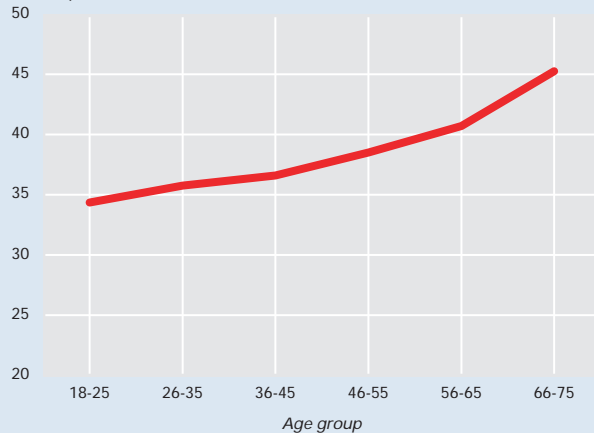
The level of dissatisfaction with democracy does not vary substantially according to the age, sex, wealth or educational attainment of the respondent. Women and men appear to have the same disposition toward the state of democracy. There is a tendency for older individuals to be more satisfied with democracy, but the effect is small: every 20 year interval increases the probability of an individual being satisfied by just 1 percent (Figure 1). And while the number of years of education appears to make no difference, higher economic status produces a slightly greater chance that an individual is content with democracy. On the whole, however, dissatisfaction with democracy would appear to be a

product of social and political attitudes not closely connected with socioeconomic or demographic attributes.

With respect to the second perspective, it is clear that dissatisfaction with democracy can involve any one of the sentiments mentioned above. The data show that people who express confidence in democratic institutions and believe that electoral procedures are fair are considerably more likely to be satisfied with democracy. Positive perceptions of current government performance regarding socioeconomic problems are also associated with higher levels of satisfaction with democracy. Among all the attitudes considered, those regarding the degree of income inequality stand out for their association with a person being content with democracy. Those who perceive current income distribution as unjust are, overall, about 20 percent less likely to express satisfaction with democracy. And, as expected, people who express only lukewarm support for democracy as a system of government are less likely to be satisfied with the way democracy is working.

Figure 1. Percent Satisfied With Democracy, by Age Group

(In percent)

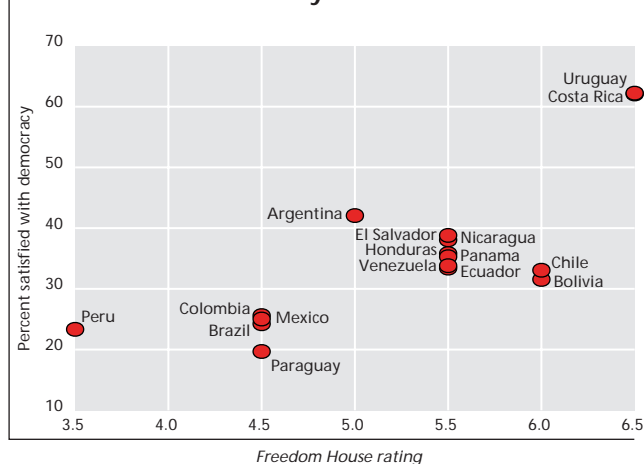


Source: *Latinobarómetro*, various years.

democratic principles.⁴ To the extent that it is possible, we use other surveys to compare Latin America with other regions of the world.

Those surveyed by *Latinobarómetro* were regularly asked the following question: “On the whole, are you (1) very satisfied, (2) fairly satisfied, (3) not very satisfied, or (4) not at all satisfied with the way democracy works in your country?” Figure 4.2 shows the per-

⁴ The main features of *Latinobarómetro* are described in the Technical Appendix. The survey includes 17 countries in South and Central America and has been conducted regularly since 1995. Throughout the chapter, we use the average of the three most recent rounds of the survey carried out in 1996, 1997 and 1998. Similar public opinion surveys are regularly administered in the European Community (*Eurobarometer*) and in Central and Eastern Europe (*Central and Eastern Eurobarometer*). Since the degree of overlap in the questionnaires corresponding to the different surveys is considerable, interregional comparisons are possible for several of the topics of interest in this chapter.

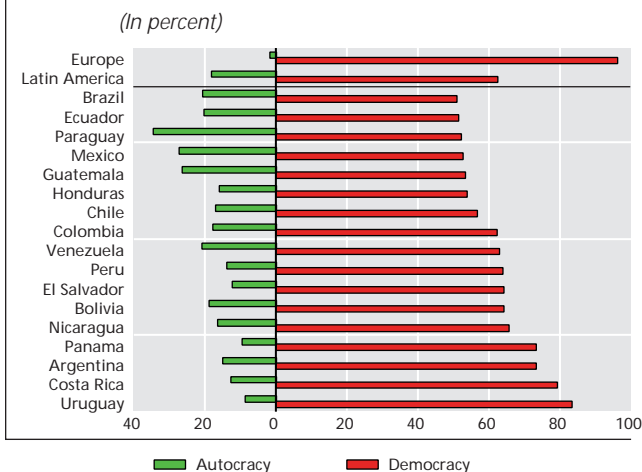
Figure 4.3 Democratic Rating and Satisfaction with Democracy

Source: *Latinobarómetro*, various years, and Freedom House (1999).

centage of respondents in Latin American countries and three European regions who report being either “very satisfied” or “fairly satisfied” with the way democracy works. Satisfaction with democracy varies widely across countries. While over 60 percent of the respondents in Uruguay and Costa Rica are satisfied with the way democracy is working, less than 20 percent of the respondents in Paraguay have a similar opinion. Large cross-country variation is also pervasive in other regions. In the European Community, for example, the range of variation is even broader, from 84 percent in Denmark to 28 percent in Italy.

There are also differences between regions, but they are less pronounced. While 47 percent of the respondents reported being satisfied with democracy in the European Community, only 35 percent did so in Latin America. Further, only in Uruguay and Costa Rica is satisfaction with democracy above the average level in the European Community. Latin American citizens, however, are almost as satisfied with democracy as are citizens in Central and Eastern Europe, and much more satisfied than citizens in the former Soviet republics.

As a measure of broad support for democracy these figures must be viewed with caution. “Low satisfaction” with democracy does not necessarily imply weak support for democratic principles (see Box 4.2). Indeed, low satisfaction could mean that citizens believe that democratic rights are still substantially restricted or democratic institutions are underdeveloped, or it could mean that citizens are not happy

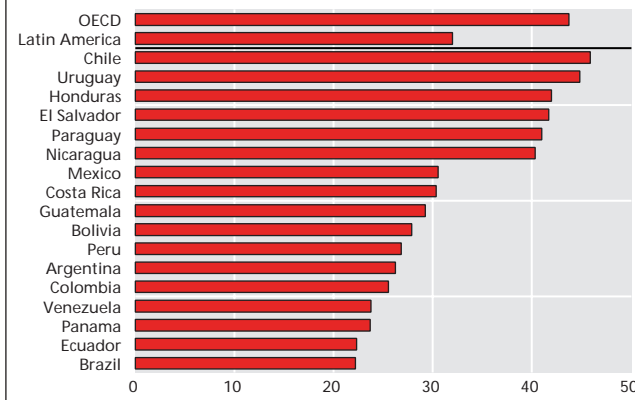
Figure 4.4 Support for Democracy as a System of Government

Source: *Latinobarómetro*, various years.

with the performance of democratic government even though they support the regime itself. The evidence shown in Figure 4.3 is roughly consistent with the former interpretation. Latin American countries with the highest ratings of political rights and civil liberties also have the highest levels of public satisfaction with democracy, while countries with the lowest ratings have the lowest satisfaction levels.

Survey respondents were also directly queried about their support for democratic ideals. Specifically, they were asked the following question: “With which of the following statements do you agree the most: (1) democracy is preferable to whatever other form of government; (2) in some circumstances an authoritarian government can be preferable to a democratic government; (3) for someone like me, a democratic or a nondemocratic regime makes no difference.” Figure 4.4 shows that, as before, there is considerable variation across countries. People are most supportive of democratic ideals in Uruguay, Costa Rica and Argentina and less supportive in Paraguay, Brazil and Mexico. The range in the proportion of respondents preferring democracy to any alternative is substantial—from a maximum of 83 percent in Uruguay to a minimum of about 51 percent in Brazil. On the other hand, the percentage of those who believe that authoritarianism is sometimes preferable does not vary much across countries, and in most cases is below 20 percent.

When compared with similar surveys taken in Europe, Figure 4.4 also shows that there is a large

Figure 4.5 Confidence in the Congress*(In percent)*

Source: *Latinobarómetro*, various years, and *World Values Survey* (ICPSR, 1991).

gap in the level of support for democracy between European and Latin American countries.⁵ Despite these differences, there is a broad consensus in Latin America about the core democratic ideal—that to be legitimate, government authority must derive from regular, free, fair, broadly participatory and competitive elections. At the same time, in some countries the level of apathy toward democracy is worrisome and, if it persists, could erode democratic norms and provide an opening for anti-democratic forces.

Survey respondents also expressed growing dissatisfaction with the overall performance of their countries. On average, only 27 percent think that their country is progressing—a figure that drops to as little as 7 percent in some countries. Further, only 19 percent think that their economic situation has improved over the previous year and only 17 percent say that they live better than their parents did. Finally, between 85 and 93 percent believe that the problems of poverty, crime, corruption, drug addiction and drug trafficking are getting worse rather than staying the same or improving.

Confidence in Institutions

The level of support for democracy can also be evaluated by examining the degree of public confidence in political institutions, which is another indicator of their legitimacy. Higher confidence in institutions implies that people think that they are effective problem-solvers; that is, that they can effectively aggregate

different preferences and implement relevant policies.

Figure 4.5 shows the percentage of respondents who express confidence in their Congress.⁶ As before, there is considerable variation across countries. While roughly 45 percent of the respondents express confidence in Congress in Chile and Uruguay, barely 20 percent do so in Brazil and Ecuador. On average, confidence in Congress is weaker in Latin America than in OECD countries.⁷

Democracy is, of course, its own reward. But in order for democratic regimes to deliver what people expect from them, they must be able to cope with a multitude of political problems. The mediocre levels of satisfaction with democracy and confidence in political institutions observed in many Latin American countries suggest that many of these problems remain unsolved. While people might like the idea—the potential—of democracy, they do not think that it is working so well in practice.

Political Failures and Development Outcomes

What are the underlying factors behind people's dissatisfaction with democracy in Latin America? We examine this question first from an analytical perspective by looking at possible sources of democratic failure and how they affect socioeconomic development. Then we evaluate Latin American democracies along the different sources of failure previously identified.

Democracies, if they are to be successful, must perform adequately in several different respects. They have to represent everybody, guarantee that representatives put the people's interests ahead of their own, and ensure that consensus can be forged from the clash of many disparate interests. We distinguish three sources of political failure in democracies: bias in representation, agency and aggregation.

⁵ The data for Europe are derived from the Eurobarometer survey of 1989. There is little reason to think, however, that the results would be substantially different today.

⁶ The data for OECD is from the 1990-91 World Values Survey (ICPSR, 1991).

⁷ For analyses of cross-national and longitudinal patterns of support for democracy across the world, see Klingemann and Fuchs (1995) and Norris (1999).

Problems of bias in representation occur if a political minority is regularly able to sway political outcomes in its favor. There are two main elements here. On the one hand, political minorities *demand* special prerogatives either by forming pressure groups or by utilizing their special command of resources (money, knowledge or status) on a more individualized basis. On the other, politicians *supply* special prerogatives in the form of targeted services and favorable bills. An important consideration is the extent to which electoral systems give politicians more or less incentives to respond to demands for special treatment. While some systems encourage politicians to be overly responsive to specific interests, others encourage them to heed broad national interests.

Problems of agency occur if politicians pursue their own goals instead of those delegated to them by their constituencies. Delegation is difficult because citizens have limited means to ensure that politicians abide by their promises. Enforceable agreements, for example, are impossible in the political realm, and elections, which can be used by citizens to oust those who have not fulfilled their promises, occur only every few years. Obviously, some institutional arrangements are better than others for coping with agency problems. An informed and involved electorate, developed political parties, and the presence of checks and balances will reduce the extent to which politicians can ignore their constituents.

Problems of aggregation occur if political representatives, once elected, are unable to reconcile the diverse interests they claim to represent. Here we emphasize the institutional elements that make some political systems particularly liable to gridlock. Some systems, for example, give voice to so many disparate interests that even policies that will benefit most people cannot rise above the ensuing cacophony. Other systems produce stalemate by empowering many actors with the ability to veto each other's initiatives.

Each of these potential sources of democratic failure can cause political outcomes to deviate from the preferences of the majority, and each may lead to poor development outcomes in the ways explained below.

The connections between politics and development are, of course, many and complex. Politics determines the level of government services and who

benefits from them, which in turn may affect individual and regional inequalities. Politics also determines what types of formal institutions are adopted and how they perform, which in turn may affect the efficiency not only of government but of the private sector as well. Finally, politics determines the extent to which democracies succeed in translating citizen preferences into effective and fair policies.

The role of politics in the creation, maintenance and performance of formal institutions must be underscored. Politics has its greatest impact on development through its effect on institutions. The logic is clear: if politics matters for institutions, and institutions matters for development, politics must matter for development.

The following sections look more closely at the links between politics and development by focusing separately on each of the different problems identified above as potential sources of political failure.

Bias in Representation

Democratic constitutions usually proclaim that all citizens are equal in political terms. In practice, however, some groups—either because they are better organized, more politically engaged, or more knowledgeable, wealthy or socially prominent—are able to gain greater attention from elected politicians than others. The extent of such bias in representation varies across democratic systems depending on such factors as the levels of political involvement by different groups of citizens, and the characteristics of electoral and other political institutions.

Bias in representation toward wealthier or better-educated citizens can clearly promote inequalities in the distribution of income and opportunities for social advancement. Thus, university education might be unduly subsidized at the expense of primary or secondary education; public works might be directed toward better-off regions or neighborhoods at the expense of disadvantaged ones; and taxes may be too low to pay for the social investments needed by the majority. Such policies will not only exacerbate inequalities, but can also produce economic inefficiencies, thus affecting economic growth and impeding social development.

Bias in representation toward narrow organized interests can lead to other sources of economic

inefficiencies. Organized interests are an important element of the political game in democracies. Some organizations represent a fairly broad cross-section of citizens, such as farmer associations, labor unions, industrial associations or consumer groups. Others represent narrower interests, such as coffee growers, textile laborers or government employees. If representation is heavily biased toward narrow interests, economic policies (including taxation, public investment, pricing, trade and exchange rate policies) will likely be inefficient, and overall economic growth will suffer as a result. Indeed, the disproportionate influence of relatively narrow interests on public policy has often been seen as a powerful element underlying the economic decline of once prosperous nations and the poor performance of developing countries, including those in Latin America.⁸

Agency Problems

Political representation involves a complex transaction: people exchange votes for a catalogue of promises. The “contracts” that regulate this transaction have two types of problems. First, they are impossible to enforce if only because no courts have jurisdiction over them. Second, they are incomplete in the sense that they specify only general guidelines, leaving much open to interpretation and making it difficult to determine and verify when a breach of contract has occurred. Although political institutions can ameliorate these problems, they can never completely solve them, meaning that politicians will always enjoy some leeway to pursue their own agendas and to extract rents.

If the public lacks the means to punish unresponsive and corrupt politicians, as will happen when agency problems are pervasive, government performance will suffer. Corruption will flourish as politicians pilfer public funds and freely engage in the business of auctioning regulations and laws. This in turn will hamper the ability of the government to provide public services, and will increase the costs of doing business and the level of uncertainty for investors. Worse yet, corruption and government inefficiency may cause many disenchanted people to withdraw from politics, giving politicians more leeway, and thus compounding the original problems. In sum, a vicious circle of agency problems and government corrup-

tion is a distinct and disturbing possibility in democratic regimes.

Moreover, the existence of agency problems impedes one of the main channels through which democracy can spur development. One of the main advantages of democracies, at least from an efficiency point of view, is that they empower people to take part in formulating solutions to their own problems. One of the main difficulties of democracy, on the other hand, is that people do not participate directly in most public matters but through their elected representatives. So if the views of citizens are lost in that process—or, more precisely, if their views are replaced with the narrow views of their representatives—a wealth of valuable local knowledge will be lost and democracy will lose much of its appeal.

Agency problems can undermine the whole idea of democracy. Simply stated, if political delegation does not work, democracy does not work. Therefore, solving agency problems not only will diminish corruption, increase government efficiency and facilitate growth, but also will restore the democratic ideal of government of the people, by the people, and for the people.

Aggregation Problems

Politics in democratic societies requires considerable give and take. There are often so many interests to reconcile and so many factions to please that the process is not always expeditious. Compromises are not always worked out, bargains not made, and conflicts not settled, which means that changing the status quo, even if favorable to the majority, can become an exercise in futility.

This difficult and laborious process of reconciling divergent interests and opinions frequently becomes a source of public disenchantment with politics. At the same time, the very essence of democracy is that the people, in all their diversity, be represented. Thus, for the democratic game of compromise to produce expeditious and fair responses to collective problems, a balance must be struck between the broad and

⁸ See Olson (1982) and Bates (1981).

equitable representation of citizens and the efficiency through which the diverse opinions are aggregated into concrete policy decisions.

Oftentimes, the inability of politicians to reconcile their distinct interests renders the political process ineffective. The consequences can be deleterious. Responses to shocks lag, long-term economic reforms are infinitely postponed, and authoritarian attempts to bypass the Congress gain legitimacy.

This is not to say that the absence of political constraints on too-eager government officials and representatives is always desirable. There is a clear tradeoff here. On the one hand, political systems should allow for periodic overhaul of the status quo and should give public officials some discretion to respond to unexpected shocks. On the other, political systems should be immune to faddish and myopic attempts to change policy and should allow for the consideration a broad spectrum of societal perspectives. In short, flexibility is desirable, but not to the point that it compromises credibility, due reflection, and broad representation.

Evaluating Political Failure in Latin America

While the previous section looked at broad types of political problems that to some degree affect all democratic regimes, this section evaluates the status of democracy in Latin America by using several indicators that measure each of the problems identified above. Because all the relevant aspects of each case cannot be measured, it is not possible to draw definitive conclusions about the magnitude of these problems. The analysis does, however, shed considerable light on what is right and wrong with Latin American democracies.

Bias in Representation

Bias in representation is measured here in two different dimensions: first, in the various ways that citizens try to stand out in the political arena; and second, through the incentives that drive politicians to be more responsive toward more salient and organized groups of citizens. Stretching the often over-stretched market metaphor, we will call the first dimension the demand for special treatment, and the second dimension the supply of special treatment.

Representation requires participation. Obviously, the preferences of somebody who decides not to exercise the right to vote will find no direct representation in social decisions. But voting is only one of the many dimensions of participation. Intensity of participation is also important, because more informed and vocal citizens are more likely to have their preferences taken into consideration in social decisions.

If more educated people participate in politics more assiduously than others, social decisions will be biased toward them and away from the wishes of the majority. The reasons why participation may differ across different social actors are too numerous and complex to examine here. We should mention, however, the disturbing possibility that low political participation may be self-reinforcing—that is, some groups do not participate in politics because they have been regularly left out, and they have been left out because they do not participate. Needless to say, breaking these mutually reinforcing trends can prove extremely difficult.

In theory, the whole story about political outcomes in a democracy could be told in terms of who participates and how intensely. The transformation of citizen inputs to outputs would be obvious, and one could predict the outputs based on knowledge of the inputs. In reality, this is rarely the case because of the complex steps that stand between citizens expressing their interests and preferences and policy outputs.⁹ We thus look at inputs as a possible source of policy distortions, but do not expect equitable inputs to be a sufficient condition for equitable policy outputs.

How does political participation differ across social groups in Latin America? The inequality of political participation can be examined in three distinct dimensions: education, wealth and age. Five forms of participation are considered: voting, paying attention to political news, talking about politics with

⁹ The link between participation and policy is comparable to an input-output model in which citizens input preferences, politicians output policies, and there is a black box of institutions in the middle. Citizens express their preferences by voting, electoral institutions translate these votes into representation with varying degrees of accuracy, and the constitutional structure and divisions of powers determine how the range of represented preferences are aggregated to produce policy outcomes.

Table 4.1 Political Participation by Education

Political activity	Participation by years of schooling (%)					Ratio
	Primary or less	Some secondary	Secondary	Some college	College or more	Primary/College
Vote	66.1	68.6	68.0	67.4	70.0	1.060
Pay attention to news	43.4	47.4	52.1	59.6	69.6	1.605
Talk about politics	24.0	27.2	31.1	37.6	46.4	1.931
Try to influence others	14.2	14.3	16.4	18.1	20.8	1.463
Work for a candidate	9.7	9.0	10.7	13.6	15.1	1.546

Source: *Latinobarómetro, various years.*

Table 4.2 Political Participation by Income

Political activity	Participation by income quintile (%)					Ratio
	First	Second	Third	Fourth	Fifth	5th/1st
Vote	64.1	67.2	69.5	68.7	66.9	1.043
Pay attention to news	40.1	44.8	51.1	54.1	58.0	1.449
Talk about politics	21.6	25.5	29.3	32.2	36.8	1.703
Try to influence others	12.8	13.7	15.8	16.3	18.4	1.435
Work for a candidate	10.2	8.9	8.9	11.0	13.2	1.296

Source: *Latinobarómetro, various years.*

friends, trying to convince others in political matters, and working for a political candidate.¹⁰

Table 4.1 shows average patterns of political participation across five education groups: primary or less, some secondary, secondary, some college (including technical training), and college. Differences in participation are small for voting but large for the other forms of participation. College educated individuals are twice as likely as those with only primary education to talk about politics with friends, but only slightly more likely to vote. In sum, substantial inequality of political participation across education groups is only apparent as one moves from voting to more involved forms of political engagement.

The patterns of political participation by income quintile are shown in Table 4.2. As expected, the results closely mirror the previous table; there is no discernible trend for voting and there is a steady increase in participation across quintiles for the other types of political participation. The demographics of political participation are shown in Table 4.3. Sur-

prisingly, participation changes very little across age cohorts, though it is slightly smaller for the youngest and oldest cohorts. This pattern is very similar for all the types of participation considered here, except that it holds less clearly in the case of paying attention to political news.

Are the patterns of political participation in Latin America any different from those of other regions of the world? A tentative answer to this question is no. The available evidence shows, for example, that the patterns of political participation across education and income categories are, if anything, flatter in Latin America than in the United States.¹¹ Similarly, political participation in the United States varies much more with age than it does in either Latin America as a whole or in any Latin American country individually.

¹⁰ A detailed analysis of the patterns of political participation in Latin America is presented in Gaviria, Panizza and Seddon (1999).

¹¹ See Wolfinger and Rosenstone (1980) for a comprehensive analysis of patterns of political participation in the United States.

The World Values Survey also offers some evidence indicating that political participation in Latin America is not particularly unequal by international standards.¹² The data show that for the European countries as a whole, individuals in the top quintile of the income distribution are 1.87 times more likely to talk about politics with friends than those in the bottom quintile. The corresponding figure for Latin America is 1.88. Similar numbers are obtained for the category of working for a political candidate—2.24 for Europe and 2.18 for Latin America.

To what extent can policy outcomes in Latin America be explained by participation differentials? Although answering this question is difficult, we can establish the extent to which the observed higher rates of participation among more wealthy individuals can potentially bias social decisions in their favor. A natural way to address this question is by computing the location of the median participant in politics—that is, the percentile of the person with the median income among those who participate in the political activity under consideration. Obviously, if political participation is evenly distributed, the median participant will be located in the 50th percentile, meaning that the income of the median participant would

Table 4.3 Political Participation by Age
(In percent)

Political activity	Age			
	18-29	30-44	44-60	>60
Vote	66.8	67.0	68.3	67.8
Pay attention to news	47.0	51.1	51.4	52.2
Talk about politics	27.5	31.2	31.2	27.1
Try to influence others	15.5	16.2	16.2	13.1
Work for a candidate	9.5	11.4	12.0	9.2

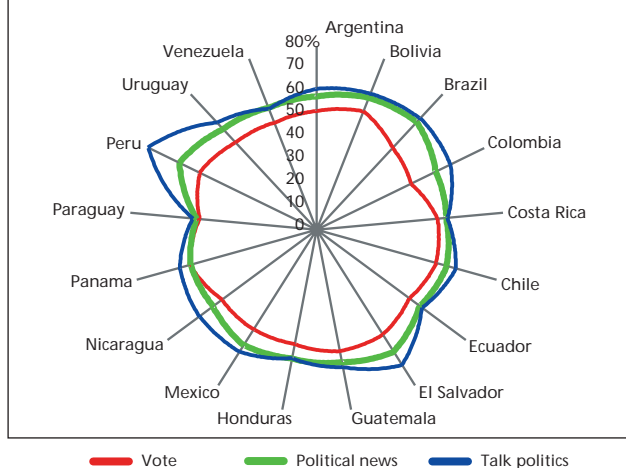
Source: *Latinobarómetro, various years.*

match that of the median citizen. Higher values indicate that the median participant is richer than the median citizen and lower values the reverse.

The locations of the median participant for three distinct forms of participation and 17 countries are depicted in Figure 4.6. If voting is all that matters, the distortions caused by inequality of participation will be minimal. However, if other types of political engagement matter as well (as would be the case if better informed and more vocal individuals are more successful in attracting the attention of politicians), inequality of participation could introduce significant distortions in some countries (including, in particular, Peru, El Salvador and Panama). However, definitive conclusions are impossible without information about the relative efficacy of the different forms of political participation.

No discussion of political representation is complete without mention of its organizational aspects, since participation is often a collective endeavor. Individuals with common interests usually find it to their advantage to join forces in their quest for representation. Collective participation is difficult to sustain, however, because individuals have strong incentives to free ride on the effort of others. When and how political organizations can overcome these incentives is still an open question, but the microeconomics of group formation unambiguously indicate that small groups will, all things being equal, be more successful than large ones. This advantage

Figure 4.6 Location of the Median Participant in Political Activities



Source: *Latinobarómetro, various years.*

¹² This survey includes 17 European countries and four Latin American countries (Argentina, Brazil, Chile and Mexico).

Box 4.3

Index of Incentives to Cultivate Personal Relations with Voters

This index has three components: ballot, pool and vote. Each component measures a specific aspect shaping politicians' incentives to build personal reputations, and is measured on a scale from zero to two. Higher values indicate higher incentives to cultivate personal reputations, and lower values indicate higher incentives to stand by one's party.¹

The ballot component measures the ease with which a candidate can get his or her name on the ballot in a position that makes winning a seat likely. Closed-list systems, where parties determine the candidates as well as their order in the ballot, are scored as zero. Systems where party nominations are required for a viable candidacy, but voters can determine the order of candidates on the party's list, are scored as one. Finally, systems where party nomination is not required for a successful campaign are scored as two.

The pool component measures the extent to which a candidate can benefit from the votes of other candidates from his or her own party. The assumption here is that candidates who do not expect to receive spillover votes from other candidates from the same party will try harder to build personal reputations. Proportional representation systems where votes are pooled across candidates are scored as a zero, systems where parties present multiple lists are scored as one, and systems where votes accrue only to individual candidates are scored as two.

The vote component measures whether voters cast votes primarily for candidates or parties. Systems where voters can only choose among parties are scored as zero. Systems where voters can express preferences for multiple candidates—either within party lists, across parties or through a two-stage election (i.e., primaries or runoffs)—are scored as one. Finally, systems where voters cast only one vote, either for a candidate or a party faction, are scored as two.

The scores of the three components are averaged to create a summary index of the various dimensions affecting politicians' incentives to build personal reputations. The index value for unicameral systems, where all legislators are elected by the same set of rules, is a simple average of the three components. In mixed systems, where different legislators are elected by different rules, the average indices for each subset are averaged to obtain the country index. The two houses in bicameral systems are each given a weight of .5.

¹ The intricacies of the computation of the index are presented in Gaviria et al. (1999). The main source of background data is the Parline online database maintained by the International Parliamentary Union. This database is updated regularly on the basis of official information provided by national parliaments. It covers 245 legislative chambers in 180 countries. The entry for each country includes a description of constituencies, voting procedures, candidacy requirements, and the legislature. We use the *Handbook of Electoral System Design* by the International Institute for Democracy and Electoral Assistance to fill in some cases in which the entries are incomplete or missing.

implies that policies for which the benefits are concentrated and the costs diffused will prevail.¹³

The logic of collective action is implacable: the interests of well-organized minorities will often be foisted on the majority because majorities literally cannot get their act together. This logic is inherent in the political process, however, and thus cannot be invoked to explain why political representation works well in some countries and poorly in others.

However, the incentives that politicians have to respond to narrow interests vary from one country to the next. Electoral and other political institutions can aggravate or mitigate problems of bias in representation by giving politicians more or less incentives to cater to narrow regional, sectoral or class interests. Lax campaign financing regulations, for example, may allow economically powerful interests to buy political influence. Electoral institutions that make politicians overly responsive to narrow geographical interests can also aggravate bias, especially when geo-

graphical interests overlap with economic and social ones (e.g., industrial sectors tend to cluster around narrow geographical areas).

The extent to which electoral institutions give politicians incentives to respond to narrow geographical interests may vary substantially from country to country. Many institutions encourage politicians to pay special attention to regionally specific interests at the expense of more national ones. Such is the case with federalist systems and, in general, with all systems where regional forces are prominent in national politics. Incentives to respond to geographical interests can also vary according to the degree to which electoral institutions encourage politicians to cultivate personal reputations.

¹³ Olson (1965) is the seminal work on the “industrial organization” of political influence (i.e., what makes an organization successful in coping with problems of collective action).

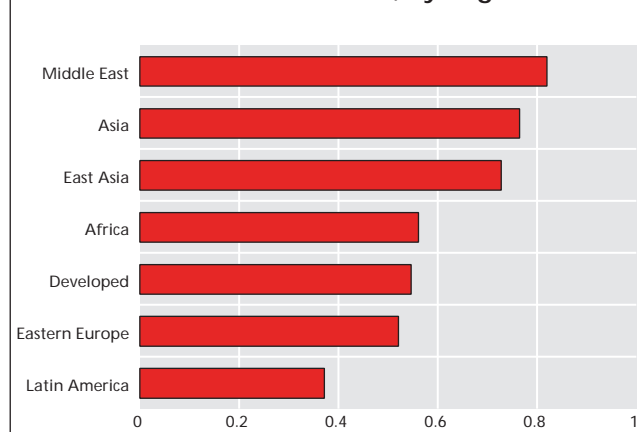
Some electoral systems give politicians incentives to cultivate personal followings, while others give strong incentives to adhere to their parties' directives. In the first case, the careers of politicians will hinge on whether they are able to establish strong links with their constituents. In the second, their careers will depend on whether they remain on good terms with the party leadership. In principle, politicians who concern themselves more with their personal relationship with voters will be more likely to fall prey to geographically concentrated interests. Conversely, politicians who care mostly about their parties will be more likely to respond to broader national interests, assuming that parties have a strong national following and party leadership is relatively centralized.

However, electoral systems that dispose politicians to care mostly about parties may also undermine effective representation. Politicians in these systems, worried about staying on good terms with the party bosses, will have weak incentives to find out what voters want. As a result, the ties between politicians and voters will loosen, which may in turn allow narrow class or sectoral (but not necessarily geographic) interests to gain undue representation. In sum, while heavily party-centered political systems can reduce biases of representation toward geographically concentrated interests, they can actually exacerbate biases in representation toward other narrow nongeographical interests.

Box 4.3 presents an index to measure the differences across countries in the extent to which electoral institutions give politicians more or less incentives to cultivate personal relationships with voters.¹⁴ A high score in the index indicates a high proclivity among politicians to cultivate a personal following with voters, and, in our interpretation, a high proclivity to respond to narrow geographic interests. A low score indicates a high proclivity among politicians to follow the directives of their party leaders, and, in our interpretation, a higher proclivity to respond to national interests.

Figure 4.7 compares Latin America to other regions of the world in terms of the index. The evidence suggests that politicians in Latin America have more incentives to be on good terms with party leaders than do politicians anywhere else in the world. So Latin American parties are strong in this particular sense—they hold the keys to political power. In our

Figure 4.7 Index of Incentives to Cultivate Personal Relations with Voters, by Region



Source: Parline Online and IDB calculations.

interpretation, this implies that electoral systems in Latin America provide relatively weaker incentives to respond to geographically based demands for special treatment.

There are substantial differences within the region regarding the extent to which electoral systems entice politicians to establish personal links with voters. Table 4.4 shows the scores of the index and its components for most countries in Latin America.¹⁵ Closed lists are the most common ballot structure in the region, which explains why most countries have a ballot score of 0. Chile's open lists and Colombia's multiple party lists are the main exceptions. Most countries have proportional systems in which votes are pooled across the entire party. The main exception is Colombia, which has a peculiar system in that parties present multiple lists and votes are pooled only across candidates within a single party list. Similarly, most countries have systems in which citizens cast single votes for parties. The main exceptions are Mexico, where a large portion of the legislators are elected in single member districts, and Brazil, where voters can choose individual candidates within party lists.

Do Latin American democracies suffer from unusual problems of bias in representation? The evidence presented above is not conclusive. On the one

¹⁴ The index is based on the theoretical work of Carey and Shugart (1995) and Shugart (1999).

¹⁵ The English-speaking Caribbean countries were not included, as one house of the bicameral legislatures is usually appointed and the lines of accountability for these legislators are not clear.

Table 4.4 Index of Incentives to Cultivate Personal Relations with Voters

Country	Components of the index			Index
	Pool	Ballot	Vote	
Argentina	0	0	0	0.00
Bolivia	0	0.3	0.5	0.27
Brazil	1	2	1.5	1.50
Chile	0	1	0	0.33
Colombia	1	1	0	0.67
Costa Rica	0	0	0	0.00
Dominican Republic	1	0.5	0.5	0.67
Ecuador	0	0	0	0.00
El Salvador	0	0	0	0.00
Guatemala	1.6	0	1.6	1.07
Haiti	1	1	1	1.00
Honduras	0	0	0	0.00
Mexico	0	0	1.1	0.37
Nicaragua	0	0	0	0.00
Panama	0	0	0	0.00
Paraguay	0	0	0	0.00
Peru	0	0	0	0.00
Uruguay	0	1	0	0.33
Venezuela ¹	0	0	0	0.00

¹ Venezuela has up to three (out of 57) senators elected at the national level to compensate for disproportional seat/vote shares. In the lower house, up to five house seats (out of 206) per party are distributed according to national vote totals and assigned to underrepresented constituencies.
Source: Parline Online.

hand, inequality of political participation is, if anything, less serious a problem in Latin America than it is in advanced industrial democracies. Further, electoral systems in Latin America do not appear to provide large incentives for politicians to respond to geographically concentrated interests. On the other hand, political systems in some Latin American countries are heavily centered around parties, which may allow narrow interests (especially those that can successfully court party leaders) to gain undue representation. Further, campaign financial regulations (and electoral regulations in general) are not only lax in many Latin America countries, but are also rarely enforced, which may also allow organized interests to buy political influence.

Agency Problems

The extent of agency problems depends on many factors. Four are considered here: levels of political participation, the freedom of the press, the strength of political parties, and the presence of institutional checks and balances.

Elections are the main mechanism through which citizens can enforce political contracts in democratic societies. It goes almost without saying that elections are more effective when people participate in politics and are better informed about all that politicians have said and done. In general, greater political participation means that politicians face more scrutiny and enjoy less leeway to pursue their own agendas.

Political Participation

How do the levels of political participation in Latin America compare with those in other regions of the world? While the previous section looked at *inequality* in participation—which can bias social choices toward the more politically active citizens—this section examines differences in *levels* of participation, which can influence the ability of citizens to monitor politicians.

Figure 4.8 shows that voter turnout in Latin America is midway between the high levels of European countries and the low voter turnouts of African countries. (Differences in voter turnout are discussed

Box 4.4

Cross-country Differences in Voter Turnout¹

Few would deny that higher levels of political participation should result in a better functioning democracy. Greater participation can ameliorate not only agency problems, but representation problems as well. Little is known, however, about how to turn apathy into passion in the political realm.

Cross-country comparisons can provide some clues as to which socioeconomic and political factors are associated with higher levels of political participation. Voter turnout, for example, is consistently related to per capita income. Turnout is, on average, lower in poor and rich countries, and higher in middle-income countries (Figure 1). Turnout is also higher in countries where voting is compulsory. In a sample of 73 democracies, compulsory voting laws appear to increase turnout by 10 percentage points over the average voter turnout. But compulsory voting laws are variably and incompletely enforced, and their effectiveness may depend on institutional details not observed here.

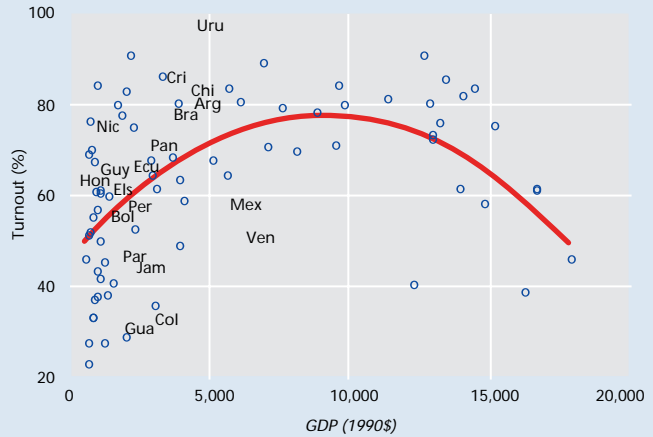
Political participation is also higher in new democracies, but eventually declines as the initial enthusiasm gives way to indifference or cynicism. Moreover, participation differs substantially from one election to the next. Presidential elections usually draw more voters than local elections. Closer electoral contests also draw more voters, as do elections that are dominated by a single issue.

Voter turnout at the country level is not noticeably connected with institutional factors (extensive civil rights, political stability, party development, political fractionalization, and presidentialism), demographic variables (age distribution of the population), or education levels (literacy rates and percentage of adults with high school diploma).

On the whole, differences in turnout between world regions and among countries within regions remain largely unexplained. Ultimately, turnout is likely to be related to cultural and historical factors, perhaps in complex ways. In this sense, turnout is not very different from interpersonal trust or any other form of social capital that a society may (or may not) inherently possess, and that is not easily amenable to political manipulation.

¹ Based on Gaviria, Panizza and Seddon (1999).

Figure 1. Voter Turnout and GDP Per Capita

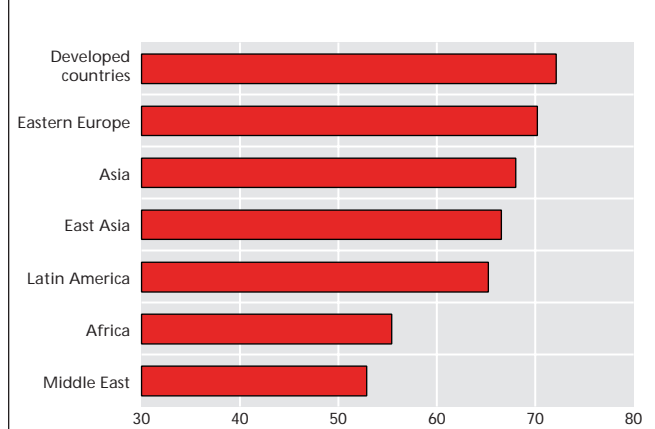


further in Box 4.4.) One could make the case, however, that turnout rates in Latin America are artificially inflated because of the prevalence of compulsory voting laws in the region.¹⁶

Figure 4.9 shows that among the Latin American countries, there is wide variation in levels of voter turnout—above 80 percent in Uruguay and Costa Rica and below 30 percent in Colombia and Guatemala.

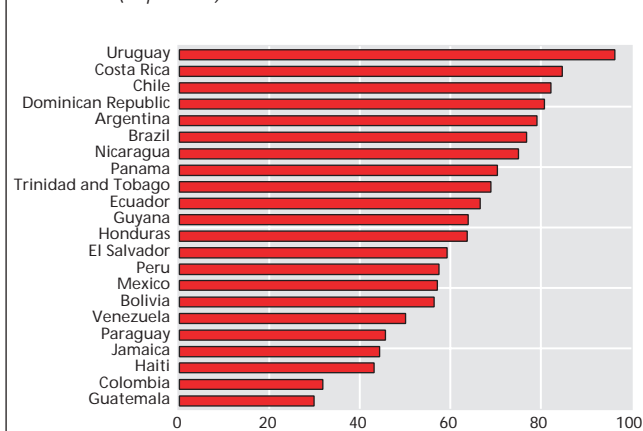
¹⁶ Half of the Latin American countries in the sample have compulsory voting laws. For other regions, the proportion of countries with such laws are 33 percent for Central Europe, 33 percent for East Asia and the Pacific, 28 percent for the OECD countries, and none for the others. Of course, another relevant issue is how effectively such laws are enforced. Given the variation across regions in terms of the extent to which these laws are observed and enforced, compulsory voting laws may not bias the comparison as much as might otherwise be expected.

Figure 4.8 Voter Turnout around the World, 1990-95 (In percent)



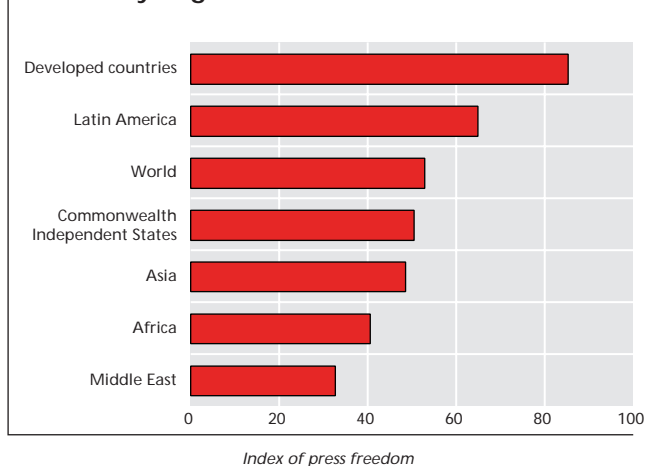
Source: IDEA (1997).

Figure 4.9 Voter Turnout in Latin America, 1990-95
(In percent)



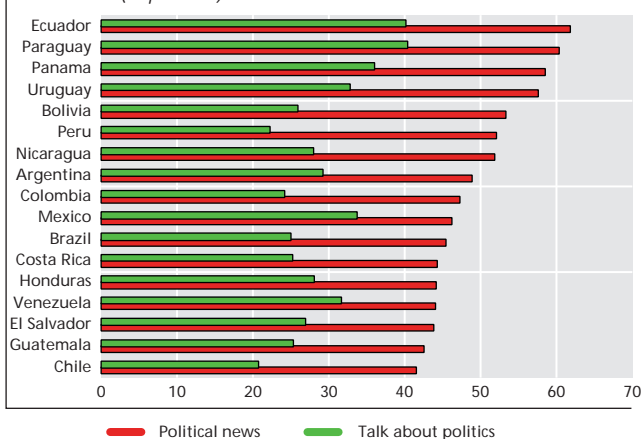
Source: IDEA (1997).

Figure 4.11 Freedom House Rating of Press Freedom, by Region



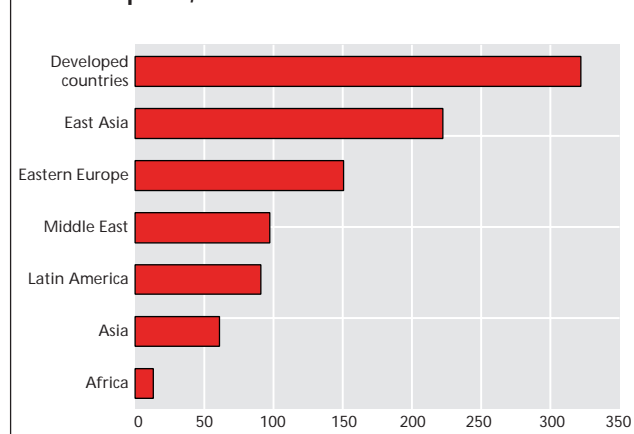
Source: Freedom House (1999).

Figure 4.10 Alternative Forms of Political Participation in Latin America
(In percent)



Source: Latinobarómetro, various years.

Figure 4.12 Circulation of Daily Newspapers per 1,000 Inhabitants



Source: World Bank (1998).

Other measures of political participation also show large differences within the region. In terms of people who self-report paying attention to political news and talking about politics with friends, Ecuador and Paraguay are at the top and Chile and Guatemala at the bottom (see Figure 4.10). Surprisingly, there is no association between voter turnout and these more sophisticated forms of political engagement.

Press Freedom

When trying to use elections to punish or reward politicians, voters can face some serious information problems. Voters observe some general outcomes and have some vague ideas about policy. But they are usually

very uncertain about how outcomes relate to policies, and they often have little information about the track record of politicians running for office.

The media has traditionally played an important role in providing information about political matters. An inquisitive media can provide vital information to help voters evaluate the extent to which the actions of politicians conform to their electoral promises. Similarly, the media can uncover and publicize corrupt practices by politicians and their associates. In sum, a free and independent media can diminish the ability of politicians to breach electoral contracts and to extract rents.

Freedom House has recently put together an index to measure the extent to which journalists are

free to follow their leads and report their findings without being harassed by the government or by other powerful elements of society.¹⁷ Although one can quarrel endlessly about the ranking of this country or that, the index provides a useful comparison of press freedom around the world. As Figure 4.11 shows, Latin America as a whole has a relatively free press compared to other regions of the world—less free than more developed countries, but more so than other developing regions.

Press freedom is not the only important variable in terms of the availability of information for voters. Two societies can differ substantially in terms of the ability of the media to monitor politicians, even if they have similar constraints on press freedom. The key element in this respect is the degree of inquisitiveness of the society in question. More inquisitive societies can be expected to have more and better information outlets, and therefore will find it easier to monitor politicians. Figure 4.12 shows, for example, that circulation of daily newspapers in Latin America is well below the level one would expect given the region's level of development and its higher degree of press freedom.

Political Parties

Another factor that can affect the enforceability of political contracts is the strength of political parties.¹⁸ If parties are reasonably cohesive and disciplined and have fairly deep roots in society, they can improve the effectiveness of democratic delegation by reducing the information costs of voting, making it easier for citizens with little time and political information to participate in politics. In contrast, if political parties are weakly organized and undisciplined, voters will not trust them as conveyors of reliable political information and hence will face the daunting task of becoming informed about the policy positions and records of each individual candidate.¹⁹

Political parties can also ameliorate agency problems by constraining the actions of elected politicians. The power of parties in this regard increases to the extent politicians have something to gain by not deviating from their parties' general directives. If parties lack continuity and cohesion, politicians will be more prone to deviate from party ideals in order to satisfy personal political ambitions. Thus, relatively

institutionalized political parties can provide a check on excessive political entrepreneurialism.

There is a subtle but important distinction between the role of parties emphasized here and that which was underlined earlier. The previous section argued that political parties are important because they are more likely than individual candidates to articulate the wishes of the majority. This section argues that parties are important because they convey information about complex political issues and monitor elected politicians. The problem there was bias in representation; the problem here is agency. The emphasis there was on the electoral laws that give parties power over individual politicians; the emphasis here is on the extent to which parties are cohesive and rooted in society.

The attributes of political parties that contribute to effective democratic delegation are, for the most part, encapsulated by three conditions: (1) party support is relatively stable over time; (2) parties have relatively solid and stable roots in society; and (3) parties are perceived as central to determining who governs and as indispensable for the progress of the country.²⁰

The first dimension of the strength of party systems can be measured by an index of volatility in electoral support for parties from one election to the next. This index is computed by adding the net change in the percentage of seats (or votes) gained or lost by each party from one election to the next, and then dividing by two.²¹ Table 4.5 shows a wide variation in electoral volatility for congressional elections (lower

¹⁷ In constructing this index, Freedom House considers not just the formal laws and the constitution but also current and practical constraints on the press. If journalistic freedom is impeded by threats from armed groups or criminals, or by illegal government-led acts of intimidation, then this counts against press freedom potentially as much as legal restrictions.

¹⁸ Studies on political parties in Latin America include Mainwaring and Scully (1995) and Hagopian (1998).

¹⁹ See Lupia and McCubbins (1998) for insightful information on the cognitive dimension of political participation.

²⁰ See Mainwaring and Scully (1995).

²¹ Although large shifts in voter support for parties and changes in the identity of the major parties may complicate agency problems, they could be a positive sign. A relatively high degree of volatility could reflect an efficient response to the emergence of new critical issues dividing the electorate, an opening of the political system to greater competition through electoral reforms, or a broad rejection of traditional parties perceived as ineffective or corrupt.

Table 4.5 Electoral Volatility in Latin America

Country	Lower chamber seats			Presidential vote		
	Time span	No. of electoral periods	Mean volatility (%) (A)	Time span	No. of electoral periods	Volatility (%) (B)
Uruguay	1971-94	3	9.9	1971-94	3	9.9
Colombia	1970-98	8	10.6	1970-90	7	13.5
Costa Rica	1970-98	7	14.9	1970-98	7	11.8
Chile	1973-97	3	12.4	1970-93	2	15.4
Argentina	1983-97	7	13.3	1973-95	3	29.5
Paraguay	1983-98	3	16.7	1989-98	1	26.2
Venezuela	1973-98	5	22.9	1973-98	5	22.5
Mexico	1982-97	5	24.7	1982-94	2	24.2
Bolivia	1979-97	5	31.8	1979-97	5	35.7
Ecuador	1978-92	5	32.5	1979-92	3	43.2
Brazil	1982-98	4	28.9	1960-98	3	55.4
Peru	1978-95	3	52.7	1980-95	3	57.4

Source: Data are from Mainwaring and Scully (1995, Table 1.1) and extended by the authors to include recent elections.

chamber) and presidential elections for 12 Latin American countries. The greatest stability in the patterns of partisan support is found in Uruguay, Colombia, Costa Rica and Chile. By contrast, volatility is particularly high in Brazil, Peru, Ecuador and Bolivia. If one looks at individual electoral periods (not shown in the table) in volatility ranges from 3 percent in Colombia (1978-82) to 62.5 percent in Peru (1980-85).²²

The levels of electoral volatility in five of the 12 Latin American cases are extremely high when compared with advanced industrial democracies. A recent study of 303 electoral periods in 13 western European countries from 1885 to 1985 found that the highest party volatility was 32.1 percent in Germany from 1919 to 1920, a figure that is still lower than the mean volatility for four Latin American countries.²³ Moreover, France's mean volatility of 15.2 percent, which was by far the highest in Europe, was less than that of eight of the 15 Latin American cases presented in Table 4.5.

Electoral volatility could also be used as an indirect measure of the second dimension of party strength, which is whether parties have firm roots in society. If parties play an important role in orienting the political activity of citizens, one would expect that a significant proportion of electoral support for a given party would be fairly stable from one election to the

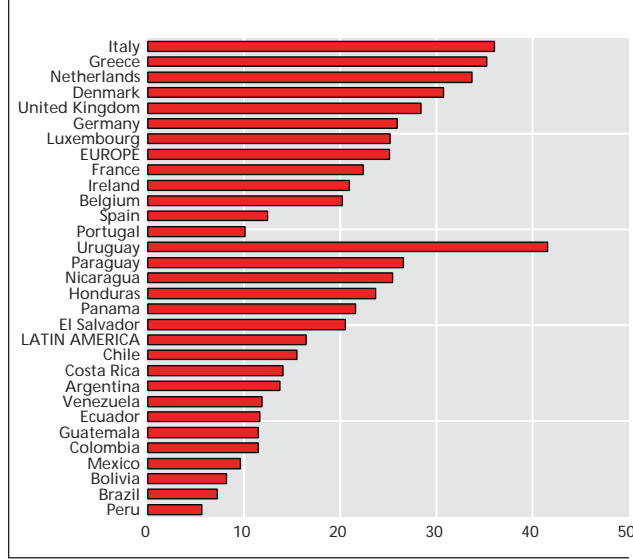
next. However, electoral volatility has a retrospective character and may not be a good predictor of how parties are likely to evolve in the future. A more direct indicator of the depth of parties' roots in society, which may also more accurately forecast the future, is the share of citizens who identify with (or feel close to) a particular party. Figure 4.13 shows that while over 40 percent of respondents feel very close or fairly close to a political party in Uruguay, only some 5 percent do in Peru, Brazil and Bolivia. On the whole, there is a high association between party volatility and the proportion of citizens who self-report feeling close to political parties. However, there are some notable exceptions. Chile, Costa Rica and, in particular, Colombia, have lower levels of party identification today than might be expected given their (relatively low) past levels of electoral volatility. This suggests that in these countries there could be greater shifts in patterns of partisan support in the future.

What is also clear from Figure 4.13 is that despite an erosion of partisan voting in European and other advanced industrial democracies since the early

²² Mainwaring and Scully (1995).

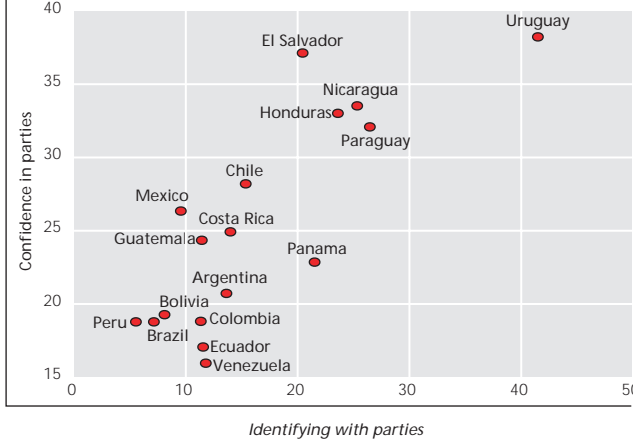
²³ See Bartolini and Mair (1990). These values are not completely comparable because in the European sample volatility is calculated on the basis of seat shares, whereas in the Latin American sample it is calculated on the basis of vote shares.

Figure 4.13 Percentage of People Who Feel Very Close or Fairly Close to a Political Party



Source: *Latinobarometro, various years, and Eurobarometer (1991).*

Figure 4.14 Party Identification and Confidence in Parties in Latin America (In percent)



Source: *Latinobarometro, various years.*

1970s, attachment to parties is still comparatively low in Latin America. With the sole exception of Uruguay, Latin American countries fall below the European average with respect to the percentage of citizens who identify with a political party.

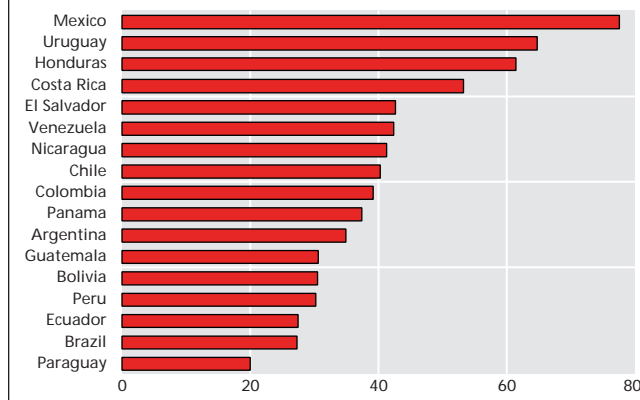
The potentially positive benefits of parties with strong societal links must be tempered by considering the mechanisms by which such ties with citizens are established and maintained. As happened in many U.S. cities in the late 19th and early 20th centuries, many Latin American parties have established

loyal followings by distributing state jobs, providing favors, and otherwise directly or indirectly buying votes. If the political contract between citizens and politicians becomes an exchange of votes for the delivery of an individual benefit (such as a job for a family member or a special benefit for a family business), elections do not serve to transmit voters' preferences for the provision of collective goods or to ensure that politicians follow these expressed preferences. Although data are not available to measure the comparative importance of such clientelistic practices, it is probable that free market reforms and the reduction in the scope of the state in most countries have reduced the amount of resources available for purchasing political support. Further, less clientelism could partially account for the apparent decline in party loyalty and the increase in electoral volatility experienced in some countries during the 1980s and 1990s.

The third dimension proposed to measure the strength of political parties is the degree to which citizens and societal groups perceive that parties are central actors in determining who governs and in shaping the country's policy direction and rate of progress. One obvious measure of the centrality of parties is the degree to which citizens place confidence in them. If parties are distrusted or viewed unfavorably, citizens, organized interests and politicians will tend to eschew them as intermediaries in the political process. Figure 4.14 shows that confidence in political parties is closely related to the degree to which citizens identify with them. According to both indicators, parties seem particularly relevant in Uruguay, Paraguay, Nicaragua and Honduras, and less important in Peru and Brazil.

Figure 4.15 shows the percentage of people in selected Latin American countries who consider parties as indispensable to the progress of the country. The results show a familiar pattern. While relatively few respondents mentioned parties as essential in Brazil, Ecuador, Peru and Bolivia, the opposite was true in Uruguay, Honduras, Costa Rica, and Chile. Mexico and Paraguay, however, deviate significantly from their previous positions. Even though Mexican citizens do not appear to identify closely with parties and have only moderate confidence in them, they do see parties as indispensable to the progress of the country. In Paraguay, the opposite pattern is observed.

Figure 4.15 Percentage of Respondents Who View Political Parties as Institutions Indispensable to National Progress



Source: *Latinobarómetro*, various years.

While citizens appear to trust and feel close to parties, they do not see them as indispensable to progress.

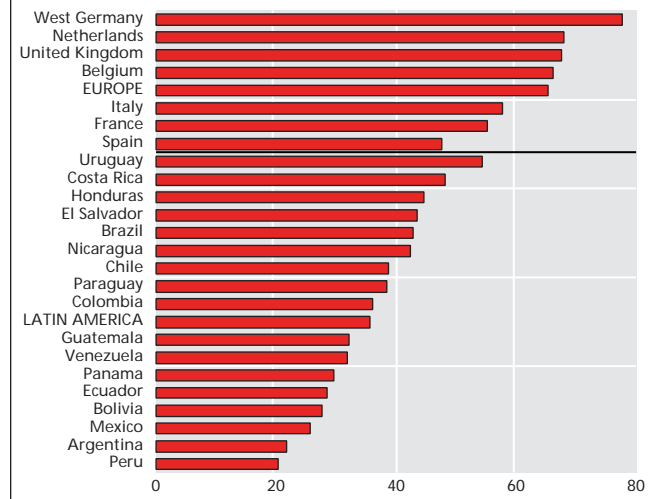
How strong, then, are political parties in Latin America? The overall picture that emerges from this analysis is that parties appear to be especially strong in Uruguay and still relatively strong, but perhaps weakening, in Chile, Costa Rica, Honduras, Mexico and Paraguay. Parties also seem to organize public opinion and be relatively well valued in El Salvador and Nicaragua. On the other end of the spectrum, parties are relatively weak and distrusted in Bolivia, Brazil, Ecuador and Peru.

Institutional Checks and Balances

Political contracts involve a commitment by elected officials to fulfill electoral pledges, follow the law and respect the constitution. This is important because, once elected, politicians have an incentive to try to change the nature of the political game in order to augment their power or to increase their chance of retaining this power in the future. Politicians may also be tempted to use their positions of power for personal enrichment. Democracy thus requires institutions that protect the extant rules and safeguard public interests from unchecked politicians.

If politicians are to be prevented from ignoring or modifying the rules of the game in order to suit their needs, the constitution must define the division of responsibilities between the different branches of government and specify fairly stringent

Figure 4.16 Confidence in the Judiciary in Latin America vs. Western Europe, 1985 (In percent)



Source: *Latinobarómetro*, various years, and *Eurobarometer* (1986).

procedures through which the constitution can be changed. In addition, if the constitution and other laws of the land are to be more than just words, there must be an independent and effective judicial system that enforces them. Finally, abuses of authority, mismanagement or deception are not likely to be exposed unless there is a legislature in which opposition parties can scrutinize the conduct of government officials, openly question and criticize government performance, and launch criminal investigations.

The agency problems presented by relatively weak legislative institutions are compounded by the relative weakness of the judicial branch. Constitutions provide for the independence of the judiciary in all Latin American countries, yet the independence of the courts has not always been guaranteed. This is evidenced by the frequent abrogation of judicial independence, dismissal, transfer and reassignment of judges, and denial of enforcement of judicial decisions.

This traditional lack of judicial independence in Latin America, along with the perception of inefficiency, has contributed to the low level of trust in the judiciary. Figure 4.16 shows that trust in the judicial system in Latin America is below that of Europe.²⁴ Although levels of confidence in the judiciary do vary

²⁴ The information in Figure 4.16 dates to the mid-1980s because recent Eurobarometer surveys have not included the question on confidence in the judiciary.

Box 4.5

Presidentialism

Presidential regimes have two defining characteristics: first, the government and the legislature are elected independently, and second, the terms of both the president and the legislators are fixed (that is, unless they commit serious crimes, presidents or cabinet members cannot be removed from office by the congress). By contrast, in parliamentary regimes voters elect legislators who are then responsible for forming a government. The government, headed by the prime minister, then depends on the ongoing support of a majority in the legislature to remain in office. If the government loses this support (or wants to solidify its backing), it can call new elections. As explained below, these characteristics entail advantages as well as disadvantages.¹

Critics of presidentialism contend that separate elections for the president and the legislature often cause political stalemate, which in turn may hamper the ability of the government to advance socioeconomic reforms. Separate elections often bring to power opposing parties that may be reluctant to cooperate with one another for a variety of reasons. Opposition parties are not likely to receive credit if their cooperation results in policy accomplishments by the government. And opposition parties do not face the threat that a frustrated government will call new elections. These problems are less serious in parliamentary systems, where a coalition cabinet and backbenchers (legislators from the governing parties not serving in the cabinet) must cooperate in order to keep their positions of power.

Thus, even though the president is the only public official who can claim to represent the whole nation and is, in principle, endowed with great powers, he or she may quickly become a lame duck. Further, without the ability to force new elections to overcome political stalemate, the president may be tempted to resort to extra-constitutional measures, and even authoritarian aspirants to power may be able to justify their means.

Critics of presidentialism also contend that fixed terms of office, often compounded by restrictions on reelection, introduce a rigidity that can threaten democracy in times of crisis. Though decisive governmental action is demanded in such times, it is often impossible in presidential regimes to extend the term of a popular and successful president, to remove an incompetent or unpopular one, or, more commonly, to simply overcome stalemate on policy.

In addition, critics of presidential regimes often lambaste the winner-take-all nature of presidential elections. Victory in a direct popular election to the highest office of the land gives the president a sense that he or she does not need to make concessions to the opposition. As a result, “winners and losers are sharply defined for the entire period of the presidential mandate [and] the losers must wait at least four

or five years without any access to executive power and patronage.”²

Finally, critics of presidentialism contend that the direct popular election of presidents, especially in the age of television, allows political outsiders with little experience in party or congressional politics to capture the presidency. This discourages the institutionalization of political parties and allows for people to come to power with little party backing and with a greater incentive to govern through populist appeals.

There are, however, defenders of presidentialism. The first two advantages of the system are obvious. First, presidential regimes provide voters with more electoral choices, allowing them to choose governments and representatives that reflect their preferences more closely. And second, presidential regimes give voters a direct mechanism to punish or reward the government for its conduct in office.

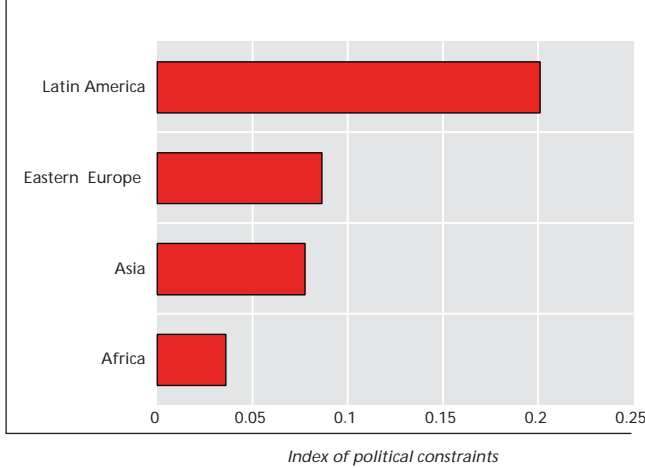
The third advantage is subtler. Presidential regimes may give legislators more freedom to debate alternative policy options. Because governing party legislators in presidential systems do not have to worry about the consequences of their actions for the survival of the government, they are more free to consider issues openly and on their merits.

Finally, the greater rigidity of presidential regimes may prove advantageous. In parliamentary regimes, the ability to change leaders and governments can itself contribute to political crisis, especially in the presence of a fragmented and relatively polarized party system. The fixed terms of presidential regimes can provide greater predictability and continuity in policymaking than the flexible terms of parliamentary regimes.

In sum, it is difficult in the abstract to make a case that one regime is better than another. In practice, the performance of parliamentary and presidential regimes depends on broader institutional arrangements and societal characteristics. It may be that the best course for alleviating a perceived governance crisis in a presidential system is to reform other institutional features of the political regime—such as the constitutional powers of the president and the legislature, or the electoral system—rather than to shift to a parliamentary style of government.

¹ A critical evaluation of the effect of presidentialism on Latin American politics can be found in Linz and Valenzuela (1994). The essays collected in Mainwaring and Shugart (1997) evaluate the effects of presidentialism in the context of other political institutions and emphasize the heterogeneity of presidential systems. Carey and Shugart (1992) analyze how additional characteristics of constitutional design can affect whether presidential systems will be stable and produce efficient governments.

² Linz (1990).

Figure 4.17 Political Gridlock in Developing Regions, 1985-94

Source: IDB calculations based on Henisz (1998).

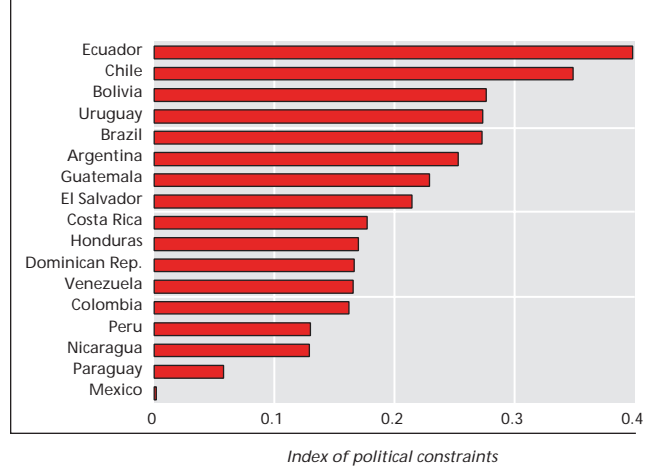
within the region—ranging from a high of almost 55 percent in Uruguay to a low of about 20 percent in Peru—there appears to be widespread doubt in many Latin American countries about the capacity of the judicial system to make impartial decisions and to uphold the law and the constitution.

Several conclusions follow from this section. Participation in politics is low in many Latin American countries, political parties are weak (and becoming weaker), as are the judicial and legislative branches, and societal inquisitiveness (as measured by newspaper circulation) is relatively low. Along with the low levels of confidence in political institutions observed throughout the region, these findings clearly indicate that agency problems are ubiquitous in the Latin American political landscape.

Aggregation Problems

Aggregation problems can arise when control of the executive and the legislature is divided between opposing political parties or when there are serious conflicts within the legislature.

Almost all Latin American countries have presidential systems. While the debate over the pro and cons of presidential regimes will likely remain unresolved (see Box 4.5), it is clear that such systems require cooperation between the executive and the legislature to advance policy initiatives. This is not always easy because the two branches often represent different interests, and hence may have different policy preferences.

Figure 4.18 Political Gridlock in Latin America, 1985-94

Source: IDB calculations based on Henisz (1998).

An index can be constructed to measure the extent of the constraints on policymaking caused by the presence of two distinct political actors (the executive and legislative branches) that have the power to veto each other's initiatives. The index measures the probability that disagreements between the executive and the legislature will preclude changes in the status quo.²⁵ An index of 0.20 will mean that, on average, 20 percent of all policies are off limits because of conflicts between the executive and the legislature. The index thus measures the ability of either branch to move at will through the policy space. No constraints mean that every point is reachable. Full constraints mean that the status quo is very much a forgone conclusion.

The degree of political gridlock is closely related to the degree of association between the preferences of the executive and legislature. If both actors have the same preferences, there will in effect be only one actor, and hence no political constraints. If both actors have independent preferences, the political constraints will be substantial, spanning over 40 percent of the policy space. And if both actors have opposing preferences, the political constraints can span the whole policy space and gridlock will be inevitable.

In constructing the index we use the composition of the legislature to approximate the degree of association between the preferences of the executive

²⁵ The index of political gridlock is explained in Gaviria et al. (1999).

and the legislature. We assume that the party of the president controls over two-thirds of the legislature, the preferences of both branches will be completely aligned. Similarly, we assume that if the main opposition party controls over two-thirds of the legislature, the preferences of both branches will be independent. For the points in between, the degree of association between the preferences of both branches of government depends on the number of seats controlled by the party of the president.

Figure 4.17 compares Latin America to other developing regions in terms of the gridlock index. It includes only countries with presidential regimes, since only in these cases can the executive and the legislature be considered independent political actors.²⁶ The figure shows that there is more political gridlock in Latin America than in any other developing region. Some caution is needed in the interpretation of this result, however, since it could partly reflect greater inter-party competition rather than a particular propensity to gridlock.²⁷

Figure 4.18 shows that the degree of gridlock varies widely among the Latin American countries. Ecuador, Chile and Bolivia have the worst tendency for gridlock, while Mexico, Costa Rica and Paraguay have the least, with the remaining countries tightly packed in the center.

Table 4.6 shows the mean share of seats controlled by the governing party for 16 Latin America countries. This table complements the previous information because it includes more recent elections as well as previous democratic episodes. It shows that in several countries, the president's party typically controls well below half the seats in the congress. Moreover, if the results of individual elections were considered instead of averages over fairly long periods, an even larger share of the countries would show

Table 4.6 Average Share of Congressional Seats of the Party of the President
(In percent)

Country	Period	Number of elections	President's Party	
			Lower chamber	Upper chamber
Argentina	1983-97	8	48.5	52.9
Bolivia	1980-97	5	31.6	47.4
Brazil	1985-98	6 ^a	23.2	23.2
Chile	1989-97	3	28.8	28.6
Colombia	1945-49, 1974-98	12	53.5	54.5
Costa Rica	1953-98	12	48.9	
Dominican Republic	1962, 1966-98	9	48.3	56.3
Ecuador	1978-98	8	22.9	
El Salvador	1985-97	6	48.3	
Honduras	1981-98	5	53.3	
Mexico	1982-97	6	60.3	86.3
Nicaragua	1984-96	3	58.7	
Paraguay	1993-98	2	50.7	48.1
Peru	1980-95	4	48.9	41.1 ^b
Uruguay	1984-94	3	37.7	
Venezuela	1958-98	8	39.2	44.5

^a Includes the indirect election of 1985.

^b Does not apply to 1995; Peru moved to a unicameral legislature with the constitution of 1993.

Source: Based on data in Mainwaring and Shugart (1997, Table 11.1) and updated by the authors to include recent elections.

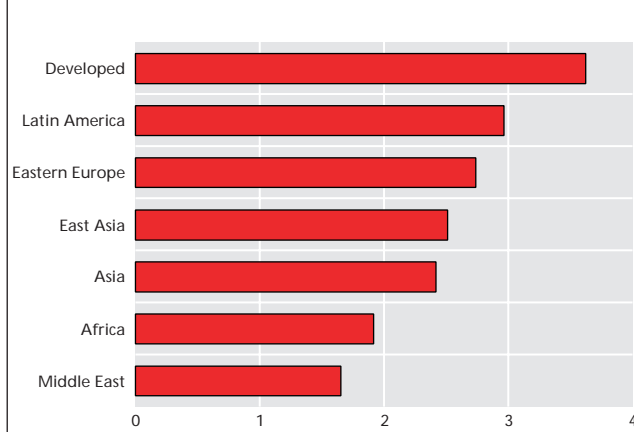
instances in which presidents lacked significant partisan support in the legislature. In sum, divided governments are certainly common in Latin America.

The index of gridlock does not consider the judiciary, which could further restrain policy change. There is, however, an important distinction to be drawn here. While the executive and the legislature are proactive institutions (their intent is often to change extant policies), the judiciary is usually a commitment institution (its intent is often to safeguard the extant order against arbitrary moves). This distinction is important because it allows an unambiguous interpretation of the index of political constraints. Indeed, had the judiciary been included as an extra

²⁶ There are 65 countries with presidential systems in our sample: 20 from Africa, 17 from Latin America, 16 from Eastern Europe, and 12 from Asia and the Middle East.

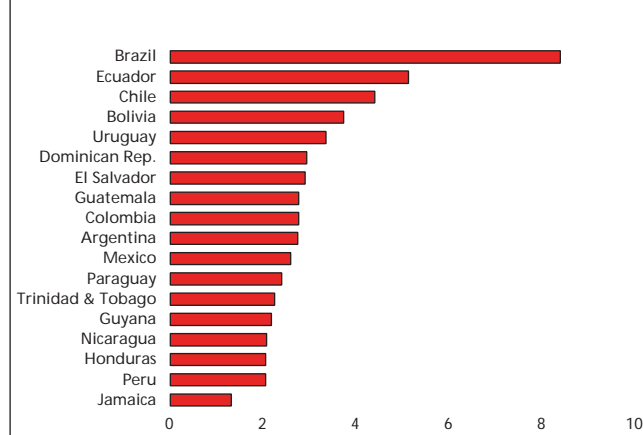
²⁷ Cross-country comparisons of the propensity to political gridlock should also take into account the extent of political rights. Nevertheless, the results of Figure 4.17 hold up even after we control for political rights, whether measured by Polity III or Freedom House.

Figure 4.19 Effective Number of Political Parties around the World



Source: Henisz (1998).

Figure 4.20 Effective Number of Political Parties in Latin America



Source: Henisz (1998).

actor, the index would have become less an indicator of political constraints and more an indicator of the ability of a government to make credible promises not to arbitrarily change policy.²⁸

Conflict between the executive and the legislature is not the only source of gridlock in the political realm. To be sure, conflict *within* the legislative branch can produce similar if not more serious consequences. As argued earlier, the presence of many parties and factions in the legislature can impede change, even if the majority favors it.

Figure 4.19 shows that Latin American legislatures have more party fragmentation than do similar bodies in other regions of the world.²⁹ Of course, a large number of parties will point to a large diver-

sity of interests within the legislature. The aggregated results shown in Figure 4.20 mirror closely the corresponding results for political constraints. Inside the region, party fragmentation is particularly accentuated in Brazil, Ecuador and Chile.

To sum up, political gridlock caused by divided governments and excessive party factions is a serious problem in Latin America that can be partially traced to the highly proportional electoral systems and the high levels of geographical fractionalization that are ubiquitous throughout the region (Boxes 4.6 and 4.7).

Empirical Illustrations of Politics and Development Outcomes

This section will examine selected cases that clearly illustrate the role of politics in relation to key development outcomes, with an emphasis on the extent to which differences in political institutions and behaviors can account for differences in the quality of government. The importance of this goes back to Chapter 1, which showed that the quality of government plays a pivotal role in explaining differences in human development across nations. The section also examines the effects of political participation on the size of government, and the effects of political constraints on the speed of economic reform.

Politics and the Quality of Government

How can it be determined that one government is better than another? Answering this question requires identifying the constituent dimensions of the quality of government, determining the relative importance of each one and developing comparable measures of these dimensions.

We consider four different dimensions of government quality: the ability of government to enforce contracts and protect the lives and property of its citi-

²⁸ See Gaviria et al. (1999) and Henisz (1998) for a thorough discussion of the different ways to interpret an index of political constraints that incorporates the judiciary branch.

²⁹ Party fragmentation is defined as $Ns=1/\sum s_i^2$, where s_i is the proportion of seats that party i has in the lower house.

Box 4.6

Proportional versus Majoritarian Electoral Systems

The structure of competition between political parties differs greatly from one electoral system to another. While in majoritarian systems legislators compete in small districts for a few seats (usually only one), in proportional systems legislators compete in large districts for a large number of seats. Thus, while in majoritarian systems winning a seat requires large support in at least one electoral district, in proportional systems winning a seat requires some national visibility but no regional prominence.

The basic tradeoff in this respect is well known: proportional systems achieve broader and more nuanced representation at the cost of greater fractionalization. A very fragmented legislature, especially in the context of a presidential regime, exacerbates coordination problems between the executive and the congress, as well as within the congress, and blurs the lines of responsibility for policy (thus complicating agency problems). In sum, proportional systems ameliorate representation problems, but exacerbate agency and aggregation problems.

Electoral systems can be classified as majoritarian or proportional according to the average number of representatives elected per district (i.e., district magnitude).¹ Of

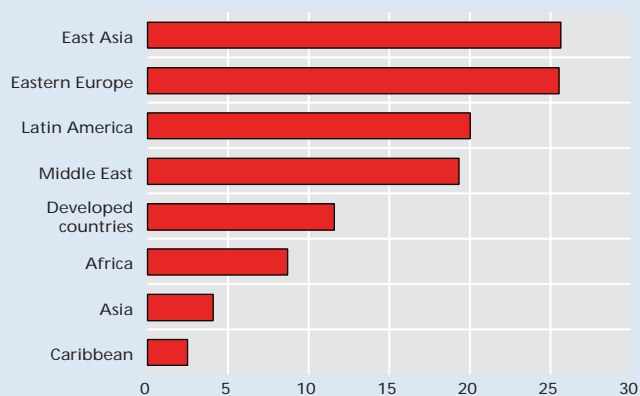
course, the degree of proportionality of an electoral system increases with district magnitude. The options here run the gamut from systems where all legislators are elected by a plurality vote in single member districts, to systems where all legislators are elected in a unique nationwide district and seats are allocated strictly in accordance with the percentage of the vote they receive.

Figure 1 compares the average district magnitude for various regions of the world. On average, district magnitude is relatively high in Latin America and very small in the Caribbean. Figure 2 compares district magnitude within Latin America. District magnitude is very high in Peru and Colombia and very low in Panama, Chile and Haiti.

In sum, while proportional systems have been adopted by most countries in Latin America (nationwide districts are particularly common), majoritarian systems dominate the political landscape in the Caribbean.

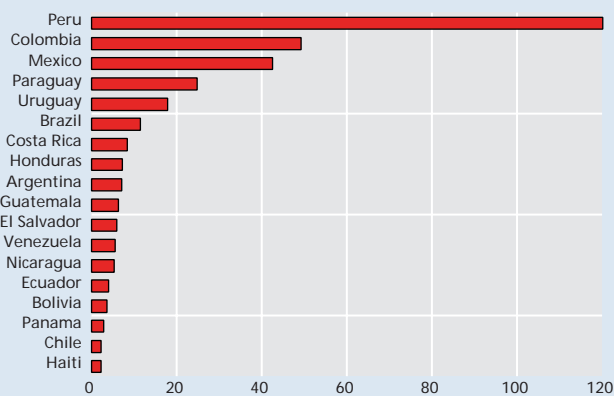
¹ Average district magnitude is the weighted average (weighted by the number of seats in each house) of the district magnitude of the upper and lower house.

Figure 1. Average District Magnitude around the World



Source: IDB calculations based on Parline Online.

Figure 2. Average District Magnitude in Latin America



Source: IDB calculations based on Parline Online.

zens; the absence of corruption; the efficiency of government in delivering public services; and the absence of burdensome and distortionary government regulations.³⁰ We measure each dimension on the basis of indices computed by the World Bank.³¹ Then we construct an index of government quality as a weighted average of the four indices, where the weights are de-

termined so as to maximize the amount of information contained in the index.³²

³⁰ Figures 1.46 and 1.47 compare Latin America with other regions of the world along these four dimensions.

³¹ See Kaufmann, Kraay and Zoido-Lobaton (1999).

³² We use the statistical technique of principal components to compute the weights.

Box 4.7

Indices of Ethnic and Geographic Fragmentation

Ethnic and geographic fragmentation can greatly reduce the governability of a society, whether democratic or otherwise. The explanations are all variations on the same theme: fragmented societies face the daunting task of reconciling too many diverse and often opposing interests in order to obtain an elusive common good.

Fragmentation can be measured as the probability that two individuals taken at random from the population do not belong to the same group. This measure goes from zero (which corresponds to a completely homogenous society) to one (which corresponds to a completely fragmented society in which each individual belongs to a different group). In general, fragmentation will increase as the number of groups grows and the weight of the different groups equalizes.

The two different forms of fragmentation studied here are ethnolinguistic fragmentation, which measures the probability that two individuals taken at random do not belong to the same ethnic group, and geographical fragmentation, which measures the probability that two individuals taken at random do not live in the same ecozone (see Chapter 3 for a definition).

While ethnolinguistic fragmentation has received a great deal of attention from economists and other social scientists, geographical fragmentation has usually been neglected. This is surprising because many social and economic cleavages have geographical underpinnings. Culture may vary between peoples of different ecozones. Similarly, the com-

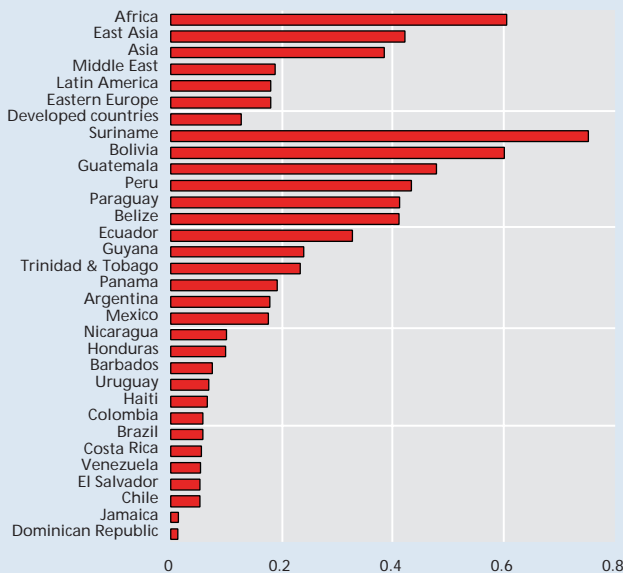
position of the economy may vary between ecozones (e.g., crops, minerals, and proximity to the sea are in general very different from one zone to another). Thus, geographic fragmentation is a significant dimension of social conflict and as such can play a pivotal role both in politics and policymaking.

Figure 1 shows that Latin America's level of ethnolinguistic fragmentation is relatively low compared to other developing regions. In many countries there is a predominant language (Spanish or English) spoken by all but a fraction of the population. In others, however, ethnolinguistic fragmentation is substantial. Suriname is at the top of the list, followed by Bolivia, Guatemala and Peru.

Figure 2 shows that from a geographical standpoint, Latin America is more fragmented than any other region of the world. The differences within the regions are substantial, however. The most geographically fragmented countries are Ecuador, Colombia and Peru, and the least are Uruguay, El Salvador and Trinidad and Tobago.

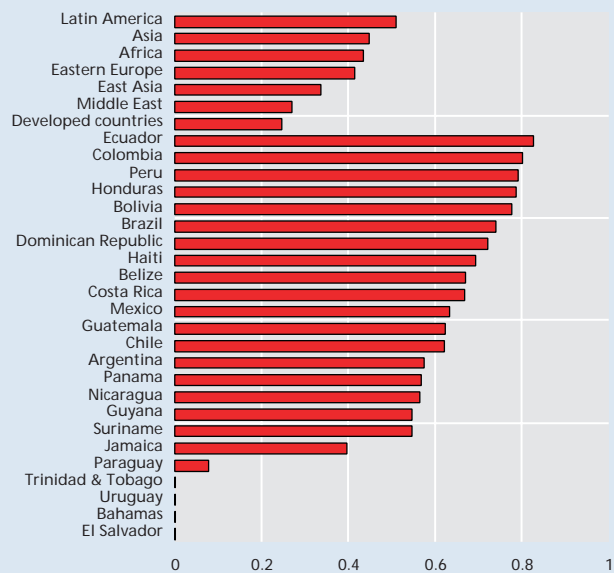
The conclusion that emerges is that the main lines of social fracture in Latin America are less ethnic than geographical. Although geographical divisions are not as enduring as ethnic divisions, they may introduce an element of conflict into the political game that is hard to dismiss. In this light, it is not at all surprising that politics in some Latin American countries often boils down to a tug of war between the inhabitants of two different ecozones.

Figure 1. Index of Ethnolinguistic Fragmentation



Source: La Porta et al. (1998).

Figure 2. Index of Geographic Fragmentation



Source: IDB calculations based on HIID data.

Figure 4.21 shows the distribution of countries according to the index of government quality. The distribution is bimodal, with a large concentration of countries at mediocre levels of government quality and a smaller concentration at good levels. Most Latin American countries are located between the two peaks—that is, they have better governments than the typical bad countries, but worse governments than the typical good ones.

A caveat is in order. Exploring the extent to which political variables account for the quality of government requires establishing causal links—no simple feat in statistical analysis. Since it will not always be possible to establish such causal connections, the goal here will be more modest; namely, to describe the political features of those countries that enjoy good governments or suffer bad ones.

As mentioned earlier, political systems where politicians are relatively unconstrained by the public at large (e.g., participation is low) or by other branches of the government (e.g., the judiciary is not independent) are more likely to have corruption, poor government services and burdensome regulations.

Political problems will be more serious in fragmented societies for three reasons. First, ethnic and geographical cleavages usually give rise to many political parties and factions within parties which complicate the aggregation of preferences. Second, participation is lower, which gives politicians more leeway to extract rents and cater to vested interests.³³ Third, the demand for government services tends to be smaller because citizens are often reluctant to pay for something that will accrue to people of different ethnic groups or regions. As argued in previous sections, these political problems will likely result in inferior government quality.³⁴

The available empirical evidence lends considerable support to the connection between political participation and societal fragmentation, on the one hand, and quality of government, on the other. Figure 4.22 shows a strong association between voter turnout and the index of government quality. This association is not only noticeable but qualitatively important: a rise in turnout of 20 percentage points would lead the typical Latin American country to gain more than eight positions in a ranking of countries based on the government quality index (see Technical Appendix).³⁵

Figure 4.21 Cross-Country Histogram of Government Quality

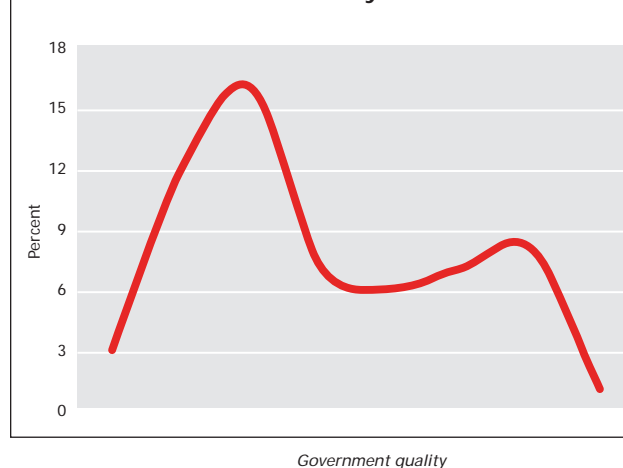
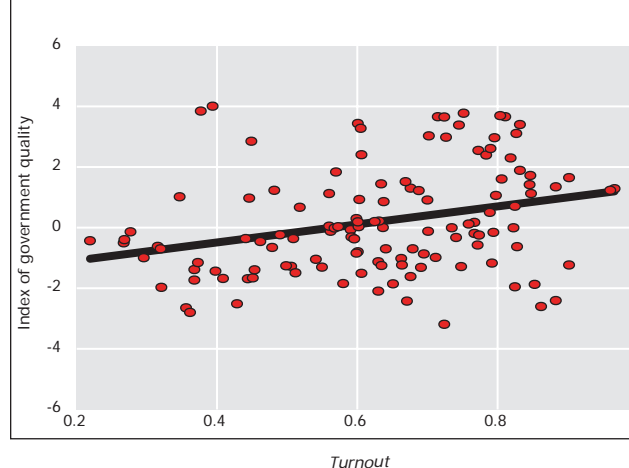


Figure 4.22 Quality of Government and Voter Turnout



Source: IDEA (1997) and Kaufmann, Kraay and Zoido-Lobaton (1999).

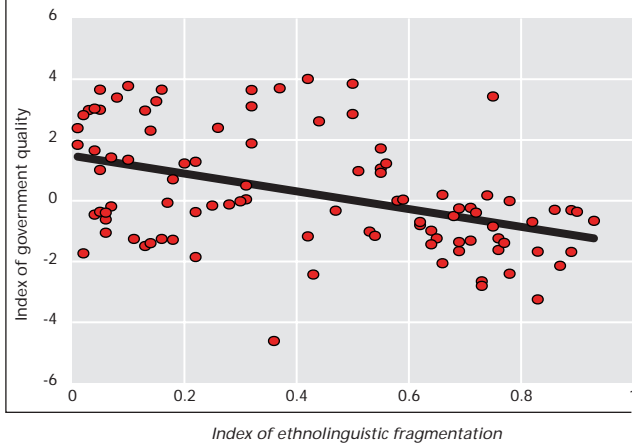
Figures 4.23 and 4.24 show that government quality steadily decreases as societal fragmentation increases, be it ethnolinguistic or geographical. Fragmentation is measured as the probability that two random individuals either do not speak the same language or do not live in the same ecozone (the indices used to measure this effect are described in Box 4.7). The effects here are also qualitatively important: a reduction

³³ Alesina and La Ferrara (1999) report a strong connection between ethnic diversity and participation in the United States.

³⁴ The connection between ethnic fragmentation and development outcomes has been explored by Mauro (1995), Easterly and Levine (1997), and La Porta et al. (1998).

³⁵ Almost identical results are obtained if we focus exclusively on corruption (a particular dimension of our definition of government quality).

Figure 4.23 Quality of Government and Ethnolinguistic Fragmentation



Source: La Porta et al. (1998) and Kaufmann, Kraay and Zoido-Lobaton (1999).

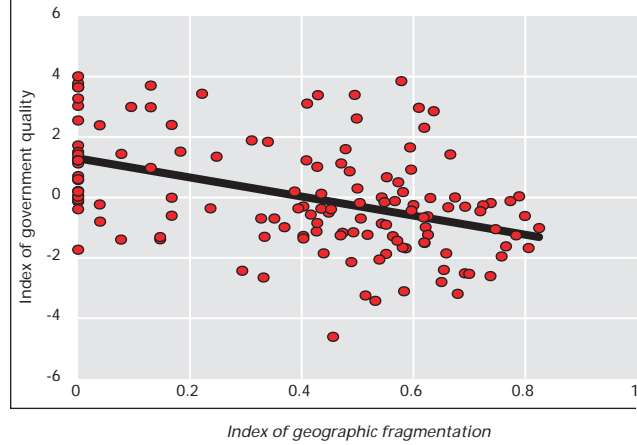
of one standard deviation in either index would make the typical Latin American country leapfrog at least seven countries in the ranking of government quality.

In sum, more participatory and homogenous societies tend to have better governments. This result lends partial support to two previously mentioned points. First, public supervision over politicians and elected officials is key to achieving good government; and second, governing homogenous societies is always easier than governing societies riddled with conflicting interests. These variables alone can account for as much as 35 percent of the cross-country variation in the quality of government.

Finally, are governments better in more inquisitive societies? At least two arguments support an affirmative answer. First, because inquisitive societies exert greater control over what politicians do with public funds, corruption and government waste are curbed. And second, inquisitive societies are more likely to foresee which policies will lead to good government and are more determined to press for their implementation.

Figure 4.25 shows the association between newspaper circulation (a proxy for people's inquisitiveness) and government quality.³⁶ There is a strong quadratic association between these two magnitudes: government quality rapidly increases as one moves from countries without newspapers to countries with very low circulation, and then continues increasing, although less swiftly, as one moves toward countries with newspaper circulation of several hundred per 1,000 inhabitants.

Figure 4.24 Quality of Government and Geographic Fragmentation



Source: IDB calculations based on Harvard HII data and Kaufmann, Kraay and Zoido-Lobaton (1999).

Figure 4.25 Quality of Government and Newspaper Circulation



Source: World Bank (1998).

There are several reasons to believe that this association is more than a statistical curiosity. First, the association survives even after controlling for income per capita, and even after restricting the sample to include only developing countries or, alternatively, only developed ones. Second, no other variable (and we have tried hundreds of them) seems to exhibit such a strong degree of association with government quality.

³⁶ In the long run, it seems likely that greater demand for information will result in greater newspaper circulation. It is this demand-creates-its-own-supply rationale that justifies the use of newspapers to proxy for the inquisitiveness of the inhabitants of a country.

Of course, this does not mean that the best way to improve government quality is to subsidize the purchase of newspapers. Rather, it means that there is something about inquisitive societies—and newspapers flourish in them—that promotes better governments.

In summary, good governments are more common in more homogenous, politically engaged and inquisitive societies. In one way or another, these societies are better able to cope with bias of representation, agency and aggregation problems.

What, then, explains the relatively poor performance of governments in Latin America? Although there is no smoking gun, at least two elements stand out as being at least partially responsible. First, many Latin American countries exhibit meager levels of political engagement and have few means to convey political and civic information. Second, most countries in Latin America are geographically heterogeneous; that is, their populations are spread over more diverse geographical zones than are those of any other region of the world. Arguably, these elements contribute to the poor government performance of the presidential democracies that today dominate the Latin American political landscape.

Through several channels, good or poor government performance reinforces itself in ways that either promote or hinder social and economic development. And although governability is not immutable, there is no simple formula to improve performance (see Box 4.8).

Political Gridlock and the Speed of Reform

Most Latin American countries embarked on an ambitious program of economic reform beginning around the mid-1980s. The reforms were wide in scope and deep in scale: trade barriers were reduced and simplified, tax codes streamlined, labor market regulations partially dismantled, and state-owned companies privatized.³⁷ Although definitive conclusions are still elusive, most studies have found that the structural reforms had a positive, albeit moderate, effect on economic growth. The question here is whether structural reform proceeded more slowly in those countries with higher levels of political gridlock.

Determining whether political divisions slow down economic reforms requires sorting out the multitude of factors that may push a country toward the

path of reform (or away from it, for that matter). Do successful reforms require brash political leaders? Economic crises? Foreign aid? All or none of the above? These questions are difficult to answer not only because it is hard to measure the degree of economic reform and its potential determinants, but also because information is limited since so little time has elapsed since the inception of the reforms.

In order to gauge the speed of reform, we use an index developed by researchers at the IDB, which measures the extent of market freedom allowed by economic reform policies in five different areas: international trade, labor markets, financial markets, privatization, and tax regulations.³⁸ The index covers 17 countries in Latin America and the Caribbean and covers the period from 1984 to 1995. We focus here on the general index (computed as a simple average of the five specific indices) and, particularly, on the index of tax policy (arguably the most divisive dimension of the five, and thus the more likely to be affected by political gridlock).

In order to gauge the effects of political gridlock on the speed of economic reform, we first compute the change in the index of economic reform every three years, from 1984 to 1987, from 1987 to 1990, from 1990 to 1993 and from 1993 to 1995. We then examine the degree of association of these changes with the index of political gridlock at the beginning of the period.³⁹ The presumption is that the greater the range of policies over which the executive and the legislative branches can agree—that is, the lower the initial index of political gridlock—the quicker will be the advancement of economic reform.

The effects of political gridlock on the speed of reform are noticeable but not overwhelming. Thus, if gridlock is reduced by 20 percent, tax reform will proceed at a speed 6 percentage points faster than before (an increase of approximately 100 percent over the average speed in the sample). The magnitude of the effect does not depend on whether we account for the effect of macroeconomic crises, defined as either periods of hyperinflation or prolonged stagnation. As shown in the Technical Appendix, weaker ef-

³⁷ For a comprehensive description of the region's structural reforms, see IDB (1997, Part 2).

³⁸ See Lora and Barrera (1997).

³⁹ The main results of this exercise are presented in the Technical Appendix.

Box 4.8

Political Participation, Government Spending and the Precariousness of the Welfare State

One can hardly write about economic development without any mention of vicious or virtuous circles. Figure 1 summarizes the pillars of the successful welfare state: social control over public delegates, voluntary compliance with formal rules, and strong ability of the central government to raise revenue. We can start discussion of this figure at the top left corner with the red arrow going from greater political participation to less corrupt governments. This connection should be familiar by now: lower participation entails less public supervision, more leeway for politicians and their associates, and hence more opportunities for the extraction of rents. The second connection is also simple: more corruption will usually result in lower confidence in public institutions (and the government in general), if only because more corruption will make institutions more inefficient. The third connection has two elements. If people do not trust their government, raising taxes to pay for federal programs will be more difficult, and collecting taxes will be more costly because lack of confidence in the government will reduce voluntary compliance. The last two connections are also simple. Diminished government revenues will translate into fewer government programs (including basic social security and health programs), which in turn will lower participation as people realize that their fates depend less and less on what the central government does for them.

The blue lines represent other possible connections: more confidence in the government will surely increase political participation; less corruption means more spending given the same level of revenues; and more social spending, to the extent that it is allocated without much waste, will increase confidence in the government.

The evidence presented in Figure 2 is broadly consistent with this idea. This figure shows the surprisingly strong association between voter turnout and central government spending in Latin America. As shown, Costa Rica and Uruguay, the epitomes of the successful welfare state in Latin America, have both high turnouts and big governments.

Unfortunately, these findings do not provide any prescription of how to create a successful welfare state from scratch. On the contrary, the point is that much can go wrong, and policymakers have limited control. The few countries that

Figure 1. Political Participation, Corruption and the Size of Government

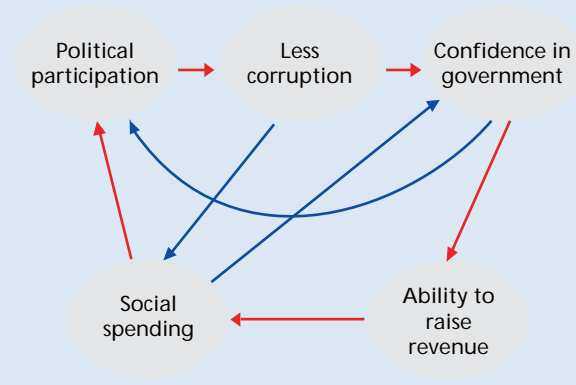
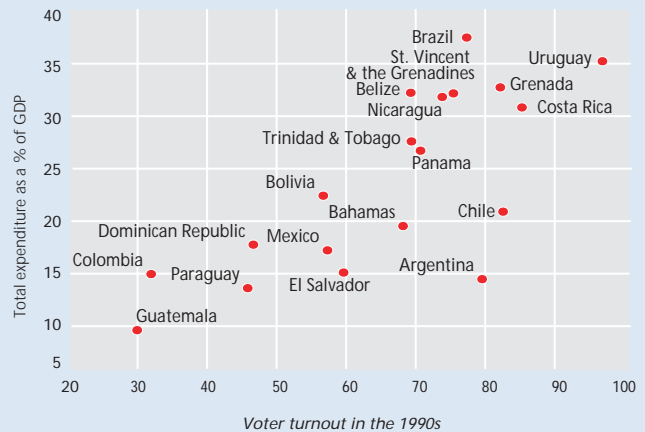


Figure 2. Electoral Participation and the Size of Government (In percent)



Sources: IMF (1995) and IDEA (1997).

have achieved success have done it though a complex process that no social planner, no matter how well intentioned, could replicate. The moral is clear: it is easier to describe successful systems than to replicate or even safeguard them.

fects are obtained for the index of general reform, indicating that the effects of political gridlock are mainly circumscribed to tax reform.

These results lend some credence to the idea that political gridlock stemming from divided governments can slow down the pace of economic re-

form. The results suggest, on the other hand, that the effects are modest. That is, political constraints are speed bumps and not roadblocks along the avenue of economic reform. What still remains unresolved is the exact nature of the connection between the speed of reform and political gridlock. At first glance, a non-

linear association seems more likely: constraints matter if above a certain limit and do not matter if below it. The evidence, however, does not allow a clear-cut test of this hypothesis.

Policy Issues

There is growing sentiment among citizens and political and business leaders in many Latin American countries that political reform is necessary. Disenchantment with the functioning of democracy and the conduct of politicians has fueled this call for reform. Thankfully for the future of many of Latin America's young democracies, those calling for reform have mostly been defenders rather than detractors of democracy.

This section looks at some of the most contentious political reforms being discussed in the region. While specific recommendations would have to take into account the particularities of each country and each moment, an objective analysis of the tradeoffs involved provides a starting point for analysis of the potential reforms.

Areas where political reformers might focus their attention include electoral systems, the division of authority between central and subnational governments, the internal structure of political parties, the judiciary and the legislature, and political participation.⁴⁰

In terms of electoral systems, the options range from highly majoritarian systems, where legislators are elected one by one in single member districts, to highly proportional systems, where legislators are elected all at once in a single nationwide district. In the majoritarian system, only the candidate with the largest amount of votes is elected. In the proportional system, each party receives a share of seats roughly equivalent to its share of the total vote. Proportional systems achieve broader and more precise representation at the cost of a more divisive legislature and a greater likelihood that the executive will lack legislative support (Box 4.6). Majoritarian systems, for their part, may prevent minority groups or interests from receiving adequate representation, which is especially problematic in societies that are sharply divided along ethnic, regional or religious lines.⁴¹

Most Latin American countries have opted for proportional systems, resulting in some cases in

fractionalized legislatures. In addition, because in many of these highly proportional systems the parties do not represent distinct sets of socioeconomic, ethnic or other social cleavages, no great gains in terms of representation have been realized.

Excessive legislative fractionalization could be lessened by reducing the size of electoral districts, changing the formula for translating votes into seats, or establishing a minimum electoral threshold that parties must obtain in order to gain representation. Making presidential and legislative elections concurrent would also discourage party splitting and increase the likelihood that the president's party would control a relatively large share of congressional seats. At the same time, these reforms would tend to concentrate political power in fewer hands, thus perhaps increasing the probability of bias in representation.

Political decentralization is another reform that has been pursued by numerous countries in the region. It entails both the decentralization of governmental responsibilities to subnational levels as well as the institutionalization of direct popular elections of mayors, governors and municipal and regional representatives. Decentralization holds the potential to increase the responsiveness of elected officials to the preferences of the majority of the electorate. Political decentralization allows voters and candidates to focus on policy issues relevant to the offices at the particular governmental level, thus permitting closer citizen evaluation of governmental performance and even enhancing the ability of citizens to express specific preferences. Decentralization also gives local officials greater freedom to provide the mixture and level of public goods desired by their constituents.

But decentralization will only result in the outcomes desired by the majority of citizens if two conditions are met. First, the rules governing the division of spending and taxation must specify clear lines of responsibility and force subnational governments to bear the costs of their spending decisions. And second, the structure of the electoral system must en-

⁴⁰ The larger issue of presidential versus parliamentary regimes is discussed at length in Box 4.5.

⁴¹ See Shugart (1999) for an insightful defense of mixed member systems—where legislative seats are elected from a mixture of single-seat and nationwide districts—as one possible solution to the competing tradeoffs between majority and proportional systems.

Box 4.9

Cultural Change and Policy Interventions

Values, attitudes and codes of conduct often override self-interest in human behavior. Thus, most people obey the law even when punishment is virtually impossible. Most borrowers pay their dues even when mere rational considerations call for less virtuous actions. And many citizens participate in politics even though it does not make sense from the standpoint of simple cost-benefit calculations. In short, self-interest and opportunism alone cannot account for the behavior of people in markets and other social environments.

Moving from the individual to the community or even national level, however, one often finds large differences in values and codes of conduct (such as the prevalence of individuals who never free ride or who obey the law as a matter of principle). These differences are often deemed as key to understanding differences in economic performance between nations (North, 1990; Putnam, 1993; Landes, 1998).

Thus, values and codes of conduct seem to matter a great deal. They cannot be changed at will, however, a point often forgotten by some historians and many would-be reformers who view culture as a choice amenable to normative considerations.¹ This view misses a fundamental point: a society does not choose its beliefs, let alone its values.

This begs a difficult question: where does culture come from? There is no shortage of hypotheses about the origin and evolution of values, norms and beliefs. Sociologists often claim that values and beliefs will ultimately reflect the main precepts that govern social interactions. Putnam (1993) argues that trust and civic participation are habits formed during a long history of “horizontal associations,” and that trust can be nurtured, by repeated participation in formal and informal groups (church groups, trade unions, political parties). Putnam also argues that both hierarchical religions and authoritarian governments discourage the formation of trust by imposing and fostering a vertical structure on society. The empirical evidence here is mixed: Knack and Keefer (1997) find no relationship between group membership and trust in a cross-section of countries, but La Porta et al. (1997) find a negative relationship between trust and hierarchical religions and authoritarian governments.

In a related point, the importance of “habituation” in forming values and attitudes has often been emphasized by sociologists studying the so-called “erosion of morals” in many U.S. urban areas. Wilson (1996) has argued that “the more often certain behavior such as the pursuit of illegal income is manifested in a community, the greater will be the readiness of the community to find that behavior not only convenient but also morally appropriate.” Although the empirical evidence in this respect is still unimpressive, some studies lend credence to the idea that values and norms are ultimately shaped by social interactions at the community level (Case and Katz, 1991).

All this suggests that values are unintended by-

products of community interactions, when in fact values can also be deliberately shaped. This seems to be the goal of many social organizations that devote considerable time and effort to the inculcation of good values. The point is that differences in culture among regions may be partially accounted for by differences in the efficacy and prevalence of their institutions that mold those values. Although the evidence remains scant, the large investments (and long speeches) devoted to the inculcation of good values suggest, at the very least, a belief in the possible efficacy of such efforts.

In clear contrast to the social emphasis of the previous hypotheses, there have been some attempts to explain cultural differences on the basis of differences in natural environments. Kaplan (1998) argues that collectivist societies are more common in arid regions where there is a more urgent need for water-sharing arrangements (and, more recently, for public goods to store and distribute water). Similarly, coffee growing communities in Latin America have long been regarded as important reservoirs of social capital, which perhaps reflects both the social organization of coffee production (there are no large-scale economies, so small holdings are common) and the importance of public goods in the production and marketing of green coffee (water, again, is essential here). To sum up, cultural differences among regions may in part reflect social responses to differences in geography, weather and other exogenous factors.

External environments affect values in even subtler ways. There is some evidence showing a positive connection between home ownership and civic behavior (DiPasquale and Glaeser, 1998). There is also evidence of a negative connection between ethnic dispersion and income inequality, on the one hand, and social trust and civic participation, on the other (Knack and Keefer, 1997). And there is evidence of a positive connection between city size and social trust (see Figure 3.21). Thus, differences in ethnic composition, urbanization and even home ownership may explain some of the observed differences in social capital across regions and even countries.

Despite this evidence, many social scientists remain skeptical about attempts to change people’s morals, values or beliefs. Should public policy move beyond simply trying to get the incentives right into the murkier waters of cultural change and molding values? One can argue either that theories of cultural change are still too fuzzy for political activism, or that the potential payoffs of such involvement could be huge. Cohen (1995) estimates that the value to society of saving a high-risk youth may be as high as \$2 million.

¹ Landes (1998) approaches cultural change from a normative perspective, arguing that “if we learn anything from the history of economic development, it is that culture makes all the difference.” But he offers few clues as to what determines culture. His advice to backward countries seems simple enough: adopt the values of successful countries. A similar approach is used by Apuleyo, Montaner and Vargas Llosa (1994).

sure that local citizens can both hold local politicians accountable and use elections to express their preferences about local issues. Local elections will be less likely to enhance accountability if they are held at the same time as national elections, when voters are forced to choose between competing closed party lists and cannot vote separately for different local and state offices, and when reelection of subnational officials is barred.

Another important element of political reform has to do with the structure of political parties. Although they control the ballots in many countries of Latin America, political parties have often squandered this power, since they do not appear to have firm roots in society and have failed to build consistent followings. Not surprisingly, traditional parties in some Latin American countries have run the course of many inefficient monopolists—that is, they have simply fallen apart when faced with unexpected competitors. In principle, greater political competition forces parties to be more responsive to the needs and preferences of their constituencies. Many parties may crumble, but at the end of day those that survive will be invigorated and more capable of playing their role of aggregating and articulating citizen preferences. Campaign finance laws, the sequencing of elections, and the existence of restrictions on both independent candidacies and the formation of coalitions are some of the key elements that influence the degree of competition among parties and factions within parties.

The reform of judicial systems and legislatures is also important to political reform because it serves the dual purpose of enhancing accountability and improving the fairness of representation. Only if

the appointment, promotion and tenure of judges is free from undue political influence will the judiciary be able to independently interpret and enforce laws and check abuses of power. And only if legislatures have sufficient constitutional authority and professional, financial and organizational resources will they be able to effectively monitor representatives and government officials and play an active role in policy-making.

Finally, political reforms should not be conceived in a vacuum, which is to say that ethnic and geographic divisions as well as historical conditions must be considered in any attempt to change political institutions. A change in the electoral rules in a geographically fragmented country must ensure that all regions are represented and that the balance of power allows diverse regional interests to forge compromises. The greater the regional divisions, the greater the difficulty of reconciling the competing goals of representation and efficiency.

One last point should be made. The importance of various civic and cultural factors in understanding why some democracies thrive while others do not has been a recurrent theme in this chapter. These factors include the levels of spontaneous political participation and societal inquisitiveness. While the role of public policy in this realm is limited (Box 4.9), the role of nongovernmental organizations is fundamental, at least with respect to the supervision of elected officials and the generation and dissemination of political information. Direct public involvement in public matters is paramount to solve the inherent difficulties of democratic government.

TECHNICAL APPENDIX

Data Sources

Latinobarómetro

Latinobarómetro is a public opinion survey that has been regularly conducted in 17 Latin America countries since 1995. Approximately 1,500 individuals have been interviewed in each country each year. Although there have been some adjustments to the survey's question and answer formats, many questions have remained the same and are comparable over time. The sampling method varies slightly from country to country because implementation is contracted out to national polling firms, but in most cases the selection includes some quotas to ensure representation across gender, socioeconomic status and age. Throughout the chapter, we combine the three available annual data sets (1996, 1997 and 1998) to create a larger sample size and to reduce the degree to which the country means are influenced by contextual factors, such as elections.

The survey is restricted to urban populations. Individuals from richer households were over-sampled in all countries and all years. We use weights throughout to alleviate this problem.¹ The weights are designed in such a way that, for each country, the distribution of individuals across education groups in the sample matches the actual distribution of the urban population in the country under scrutiny.

Latinobarómetro contains detailed information about the demographic characteristics of both the respondent and the head of the household. While the survey does not contain information on household income or wealth, it does include two sets of questions related to the socioeconomic status of households. The first set includes questions about household ownership of appliances and durable goods (respondents are asked if any member of the household owns a car, computer, television or washing machine), and the second set includes questions about housing (respondents are asked if their place of residence has access to electricity, water, telephone and sewerage).

In principle, one can use a weighted average of these variables to construct an index of long-term socioeconomic status. The problem is how to weight the different attributes. We use the statistical technique

of principal components to compute the relative weight of the different household attributes. This technique is often used to summarize the information contained in a large set of variables into a smaller set of mutually orthogonal components (each component corresponds to a different linear combination of the underlying variables). The first principal component is, by construction, the combination that captures the most common variation of the underlying data.

We first use principal components to construct an index of long-term economic status, and then use the index to define wealth quintiles. We do this separately for each country, so the quintiles measure relative positions with respect to other households in the same country.

Overall, Latinobarómetro allows comparisons of political attitudes and opinions not only across countries, but also across social categories within countries. Although some doubts remain about the quality and coverage of the samples, the surveys offer a unique glimpse of the changing realm of Latin American politics.

Other Data Sources

The main democracy indicators used in the chapter come from Freedom House and Polity III and are discussed at length in Box 4.1. All the raw data used to compute the index of political particularism comes from the Parline Online Database (<http://www.ipu.org/parline-e/parlinesearch.asp>). The voter turnout data comes from the Institute for Democracy and Electoral Assistance (1997). The indices of political gridlock and the number of effective parties were computed on the basis of a cross-country data set put together by Henisz (1998). The data on government quality was taken from Kaufmann, Kraay and Zoido-Lobaton (1999) at the World Bank. This data set incorporates almost all previously available information on government quality.

¹ This is a common problem in large opinion surveys. The World Values Survey and Eurobarometer also over-sample higher socioeconomic groups. Similar weighting methods are used with them to correct the sample.

Regression Results

Economic Estimations of Government Quality

Appendix Table 4.1 Political Determinants of the Quality of Government

Dependent variable: Quality of institutions index						
Independent variables	1	2	3	4	5	6
Turnout	3.15* (3.30)			2.00* (2.34)		0.264 (0.41)
Ethnolinguistic frag. index		-2.45* (-4.48)		-1.76* (-3.43)		-0.08 (0.20)
Geographic frag. index			-2.98* (-4.95)	-2.63* (-4.78)		-1.050* (2.46)
No. of newspapers					0.0175* (8.13)	0.0153* (6.01)
No. of newspapers squared					-0.0000172* (-4.06)	-0.000014* (-3.13)
Constant	-1.61* (-2.62)	1.16* (4.76)	-1.43* (-3.65)	-1.76* (-3.42)		
R ² adjusted	0.10	1.17	0.18	0.35	0.66	0.68
No. of observations	103	103	103	103	101	101

Note: t-statistics in parentheses.

* Significant at 5 percent or more.

Appendix Table 4.2 Speed of Tax Reform

Political constraints index	-0.242* (-2.276)	-0.252* (-2.325)
Dummy for recession		-0.003 (0.111)
Dummy for hyperinflation		0.023 (0.876)
R ²	0.078	0.084
N	53	53

Notes: t-statistics in parentheses. Dummy for hyperinflation=1 if inflation greater than 1,000 percent a year at least once in the period. Dummy for recession=1 if GDP growth was negative at least once in the period. Constant not included.

* Significant at 5 percent or more.

Appendix Table 4.3 Speed of All Reforms

Political constraints index	-0.087 (-1.15)	-0.111 (-1.303)
Dummy for recession		0.027 (1.203)
Dummy for hyperinflation		0.071 (1.891)
R ²	0.020	0.193
N	53	53

Note: t-statistics in parentheses. Constant not included.

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