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# **Political Institutions, Policymaking, and Economic Policy in Latin America**

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# Political Institutions, Policymaking, and Economic Policy in Latin America

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## Abstract<sup>1</sup>

This paper surveys selected themes in the *political economy* of policymaking in Latin America, with an emphasis on recent research focusing on actual decision and implementation processes, and on the political institutions and state and social actors involved in those processes. In particular, the paper addresses how political rules work for or against intertemporal cooperation among political actors. The document shows that the extent to which polities obtain the key policy features that seem to determine development depends on the workings of political institutions, which define *how* the policymaking game is played, on the characteristics of the arenas of interaction, which define *where* the policymaking game is played, and on certain characteristics of key socioeconomic groups, which define *who* interacts with professional politicians in pursuing different policy preferences.

**Keywords:** Political institutions, Public policies, Economic policy, Government capabilities, Development, Latin America.

**JEL:** D72, D78, H10, H50, O10.

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## 1. Introduction

Economists have been traditionally interested in understanding which policies work best for increasing welfare and providing adequate policy recommendations. In their quest, they have generally studied policymaking using models in which economic policies are chosen by a benevolent social planner. The point of departure of this document is that policies are not chosen by benevolent planners (or similar constructs), but are instead the outcome of strategic interactions among a number of key participants (voters, economic interest groups, politicians, technocrats) each with its own motivations and incentives. Moreover, it is also necessary to consider that policy decisions have an intertemporal component (i.e., policies usually have an impact beyond the period in which they are discussed, and political actors usually interact over time). Thus to understand policies—and the features of those policies relevant for their impact on behavior and welfare—it is necessary to study strategic political interactions over time. By doing so it is possible to understand better what aspects of the functioning of the institutions of democracy are relevant for explaining the features of policies and henceforth for explaining patterns of development.

This document presents a brief and selective overview of some themes in the *political economy* of policymaking Latin America. The first section selectively reviews some of the key contributions to the study of political economy of Latin America during its major phases of economic and institutional development. It briefly covers stop-and-go cycles, bureaucratic authoritarianism, dependency theory, the political economy of import-substituting industrialization, and the political economy of market-oriented reforms. It walks roughly along a time line of actual events and of academic understanding and methodological vintages attempting to explain those events. It focuses on major economic policies (such as macro, trade regime, state or private ownership) and macro political outcomes (such as the switches between dictatorship and democracy).<sup>2</sup>

The rest of the document focuses more narrowly on a strand of recent research that concentrates on actual decision and implementation processes, and on the political

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<sup>2</sup> An earlier draft of this document (Ardanaz, Scartascini and Tommasi, 2009) provides a slightly longer review of that earlier literature on the political economy of Latin America. In choosing to follow a virtual timeline of events and research, we have left out of some important recent work in political economy, such as the economic theories of dictatorship and democracy of Acemoglu and Robinson, and Engerman and Sokoloff's work on path dependence, inequality and development across the Americas (see, for instance, Acemoglu and Robinson, 2006; Engerman and Sokoloff, 2002).

institutions and state and social actors involved in those processes. The motivation for such an emphasis is twofold, relating to a timeline of events and academic vintages. On the one hand, in relation to the usual concerns of development economists, it is important to emphasize the importance of home-grown development strategies adapted (among other things) to each country's institutional capabilities. On the other, after two decades of democratic practice, it is plausible to rely on deeper knowledge about the inner workings of democratic institutions to understand the actual functioning of the policymaking process in each country. This way, this paper complements and "piggybacks" on a wealth of new research in political science.

## **2. Big Themes in the Political Economy of Latin America**

During much of the twentieth century two facts shaped the research agenda of political economy scholars in Latin America: the political fact was that democracies were unstable regime types, with military rule as the often substitute. The economic fact was the prevalence among policymakers of a growth strategy, known as Import Substitution Industrialization (ISI), characterized by a variety of macro and micro policies consisting of high levels of trade restrictions coupled with active state involvement in the productive process (Hirschman, 1968).

These facts gave rise to research questions or puzzles among political economy scholars such as i) why are democracies in Latin America unstable? And ii) what types of coalitions and economic interests support different regime types and economic policies? The theoretical frameworks of the time (modernization theory, structuralism, or the dependency school) provided clues for solving those puzzles. While each of these frameworks differ along important dimensions, the three have in common a focus on deep *structural socioeconomic* factors (such as level of development, class or sectoral structure, the international division of labor) that are outside the immediate control of individuals but that affect group behavior and thus political and economic outcomes.

For example, in trying to explain the instability of democracy among Southern cone countries, Guillermo O'Donnell looked at the impact of economic cycles ("stop-go") and distributive conflicts between interest groups (urban vs. rural sectors, "popular" sectors vs. the "elite") on the political system. Basically, in each cycle, different coalitions are formed

and the interests of those coalitions determine policies. During the “go” phase, the internal market alliance made up of the working class and organized middle-class workers along with and the “local” national urban bourgeoisie, encompassing the smaller, less efficient domestic firms, pursued their preferred economic policies. Thus, export restrictions and trade taxes made possible the transfer of resources from the rural to the “popular” ISI sector through real wage increases and industrial subsidies. However, balance of payments crisis marked the end of the expansive phase of the cycle and thus created the opportunity for a different type of coalition to shift the course of economic policy: a coalition made up of rural interests, and internationally oriented businesses, that benefited from exchange rate devaluations. In terms of political regime dynamics, this coalition provided the social base of support for the inauguration of military governments which O’Donnell (1979) dubbed *bureaucratic authoritarian*.

At the same time as political scientists were trying to explain political regime instability in Latin America, economists and other social scientists were debating the roots of Latin America’s economic underdevelopment. Many intellectual strands came together (economists working at ECLAC, sociologists, economic historians, etc.) in the 1960s with the elaboration of a more general and comprehensive theoretical framework that came to be known as the “dependency school.” While there is some heterogeneity in the depth and logic of the arguments stressed by different scholars within this perspective, a common assumption made by *dependentistas* is that the underdevelopment of Latin America can only be understood in connection with the region’s historical insertion into the international division of labor. Contrary to comparative advantage assumptions common in neoclassical economics, dependentistas claimed that the distribution of the gains from trade between developed (the “center”) and developing (the “periphery”) nations consistently disadvantaged developing economies, such as those in Latin America (Cardoso and Falleto, 1969). In particular, the region’s insertion into the international economy as producer and exporter of raw materials and foodstuffs for the industrial center and importer of manufactured goods made it vulnerable to declines in foreign trade and terms of trade deterioration, and undermined local capital accumulation, thus contributing to its underdevelopment.



The severity of the external constraint on the economies of the region reached a peak during the 1930s, provoking a switch in development strategy that led to the inauguration of ISI. During this period, governments such as those in Argentina, Brazil, Chile, and Peru engaged in fiscal and monetary expansion and exchange rate appreciation intended to shift income to “popular” groups in the service and ISI sectors. All of them discounted the risks of inflation posed by expansive fiscal and monetary policies and relied instead on extensive price controls and foreign exchange rationing to subsidize ISI industries. Most important, as foreign exchange reserves were depleted and fiscal pressures mounted, the policies in each of these cases ended in inflationary disasters and economic collapse.

In order to understand this *macroeconomic populism* (Dornbusch and Edwards, 1991) or *facilismo macroeconómico* (Ocampo, 2004) the crucial point from a political economy perspective is to understand the political support base and incentives of populist leaders, whose origin can be traced in part to class and sectoral divisions in the economy. For example, Sachs (1989) argues that high income inequality in Latin America contributes to intense political pressures for populist macroeconomic policies that raise the incomes of lower income groups. However, because there is little or no intraregional correlation between populist policy cycles and income distribution, a focus on sectoral divisions that emerged within the context of ISI and the primary export sector seemed to provide a better explanation for the persistence of populist cycles across Latin America (Kaufman and Stallings, 1991).<sup>3</sup>

While Latin America grew at an annual average rate of almost 6 percent between 1950 and 1980, certain features of ISI steadily undermined the long-term sustainability of this growth strategy. By the 1980s, most Latin American economies were in disarray, heavily weighed down by accumulated external debt, delayed adjustment to negative external shocks and a desperate need for reserves. As a result of the debt crisis, economic policy views in the region began to converge on a different set of fundamentals based on market forces, international competition, and a more limited role for the government in

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<sup>3</sup> Similarly, Frieden (1991) presents an analytical framework based on class (capital vs. labor) and sectoral cleavages within the business community (asset-specific vs. liquid asset holders) to explain variation in economic policy reactions to fluctuations in the supply of foreign credit in five major LAC countries (Argentina, Brazil, Chile, Mexico, and Venezuela).

economic affairs. These views were connected to a climate of ideas which had a focal point in the so-called “Washington Consensus,” a list of policy prescriptions considered capable of restoring growth in Latin America. The combination of economic reform with democratization shaped the research agenda of subsequent political economy scholarship.<sup>4</sup>

For example, during the 1980s and 1990s, economists and other social scientists working on the political economy of Latin America were involved in creating a literature known as the “political economy of reform,” an attempt to understand the strategies and conditions leading to different reform sequences and outcomes in the various countries.<sup>5</sup> A large portion of the reform literature, at least on the side of economics, worked on the premise that the reforms that countries needed to undertake were technically obvious; reform was therefore a matter of figuring out the way to implement those reforms in the context of a collective action problem due to the fact that losers from reform are concentrated, whereas beneficiaries are diffused. Following this logic, several Latin American scholars focused on the role of key socioeconomic interest groups (e.g., business, labor unions) and “distributional” coalitions in shaping the reform process and its outcomes.<sup>6</sup>

However, the transformations in the political economy of Latin America during the 1980s and 1990s were not only economic. In the political realm, as transitions to democracy encompassed nearly the whole region, political science scholars began to debate the promise and peril of alternative institutional designs for consolidating democratic regimes. In particular, one of the main issues on the agenda was whether Latin America should switch to parliamentary forms of government or stick with presidential constitutions. The facts informing the debate were by then clear: presidential democracies were unstable in comparison to parliamentary ones. Latin America, a region historically characterized by the preponderance of presidential constitutions, offered the highest level of regime instability, understood as shifts between democracy and dictatorship (Cheibub, 2007). The question then was whether presidentialism was to blame for that record.

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<sup>4</sup> See Geddes (2002) for a more general overview on the impact of such changes to the study of politics in developing countries.

<sup>5</sup> See Rodrik (1996), and Tommasi and Velasco (1996).

<sup>6</sup> See Schneider (2004a) for a review of this literature.

Starting with the seminal contribution of Juan Linz (1990), a lively debate in both academic and political circles emerged around the relative merits and perils of presidentialism in Latin America. Linz argued that presidentialism is inherently prone to regime breakdown, given that this form of government does not provide incentives for cooperation between president and legislatures. While some authors offered responses to Linz in defense of presidentialism,<sup>7</sup> the Linzian view remained popular among academics as they recommended the adoption of parliamentary systems in particular countries of the region, and soon some of these proposals even reached the policy agenda.<sup>8</sup> Both the literature on the market reform period by economists and the analysis of alternative institutional arrangements by political scientists provides a nice background for the line of research to be presented in the next section.

### **3. Political Institutions, Policymaking, Policies and Outcomes in Latin American Democracies**

Economists have tended to focus on uncovering which are the best policies that countries should adopt in order to develop. The last “universal recipe” recommended and adopted throughout Latin America were the market-oriented reforms of the 1990s. The varied and less-than-stellar outcomes of that effort have redirected intellectual attention. This paper reports on one particular line of inquiry which emphasizes that economic and social outcomes are the results not so much the specific contents of policies and titles of institutions (whether utility companies are public or private) but rather of several characteristics of these policies. As will be shown later, countries able to generate policies with such attributes will reap the benefits of specific economic reforms more than others. If the policies adopted do not have such attributes—no matter how good they look on paper—they are unlikely to achieve good development outcomes.

Rodrik (1995), for instance, analyzed six countries that implemented a set of policies that shared the same generic title—“export subsidization”—but had widely

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<sup>7</sup> Shugart and Carey (1992), Mainwaring and Shugart (1997).

<sup>8</sup> In Argentina, a presidentially appointed commission in the 1980s studied the issue of regime type and recommended a move toward parliamentarism, but the proposal did not make headway among politicians. Similar proposals were debated, but not adopted, in Chile. In Brazil, politicians put the question before voters in a 1993 referendum that offered not only parliamentarism, but also the option for returning to a monarchy, as alternatives to presidentialism (Carey and Siavelis, 2005).

different degrees of success. He relates their success to such features as the consistency with which the policy was implemented, which office was in charge, how the policy was bundled (or not) with other policy objectives, and how predictable the future of the policy was. Rodrik's insights resonate well in the context of Latin America, a region that embarked on a process of market-oriented reforms during the last couple of decades, and in which, despite a similar orientation and content of policy packages, have had very diverse results in practice (Forteza and Tommasi, 2006).

This example illustrates that public policies are more than their titles. More important for performance and outcomes are fundamental state capabilities, such as the ability to commit to not expropriating, or the ability to enforce compliance. However, such capabilities do not fall from the sky, nor are they provided by benevolent social planners. They are instead derived from the process by which policies are discussed, decided, implemented, evaluated, and modified. In a nutshell, policies are endogenous to the *policymaking process* (PMP), which by definition, is a political process that involves a multiplicity of actors (such as professional politicians, economic interest groups, and common citizens) who interact in a variety of formal and informal arenas (such as Congress or the street), which can in turn be more or less transparent.

As noted above, development outcomes depend on the features of public policies more than on their titles. But what are these features specifically? This study focuses on several dimensions that seem to capture the necessary conditions for policies to have a positive impact on welfare. Those conditions include the *stability* or credibility of policy, *adaptability* of policies to changing economic conditions, *coordination and coherence* of policies across areas and levels of government, *quality of implementation and enforcement*, *public regardedness*, and *efficiency*.<sup>9</sup> What explains variation in such policy features? It has been argued in previous work that the extent to which some desirable policy characteristics are attained depends on the behavior of political and socioeconomic actors in the policymaking process in general, and in particular on their capacity to *cooperate*, that is, to reach and enforce intertemporal agreements.<sup>10</sup> The PMP is viewed as a series of bargains and exchanges among political actors whose behavior depends on their interests, incentives,

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<sup>9</sup> The next section provides definitions and empirical counterparts to each of these dimensions.

<sup>10</sup> See, for instance, Spiller, Stein and Tommasi (2003), Spiller and Tommasi (2007), and Scartascini, Stein and Tommasi (2009).

and constraints and on their expectations about the behavior of other actors. These interactive patterns of behavior constitute equilibria of the policymaking game, which are conditioned by the rules of the policymaking process and by some characteristics of the players. In democratic polities, these rules of the game relate to the workings of *political institutions* such as the legislature, executive-legislative relations, the political party system, the judiciary, and the civil service. Thus, political institutions play a key explanatory role in understanding the determinants of political cooperation, and thus, its effects on policy features and socioeconomic outcomes.

Political institutions have occupied center stage in explaining both economic policy<sup>11</sup> and development outcomes<sup>12</sup> across the political economy research field. In the context of Latin America, the study of democratic political institutions lagged behind much of the developed world for an obvious reason: for much of the twentieth century, democracies in the region were the exception rather than the rule. For example, as late as the 1970s only around a third of Latin American countries could be considered democracies, following standard definitions in political science.<sup>13</sup>

The late 1970s and 1980s were the time of democratization in Latin America. With the 1989 democratic elections in Brazil and Chile, all Latin American countries, with the exception of Cuba, had elected constitutional governments, marking a significant transformation in the region away from long periods dominated by military authoritarianism. As countries in the region started to experience more or less stable democratic rule, the study of political institutions expanded dramatically. Thus, a new breed of researchers has been deploying some of the tools originally developed to study American Politics (and later European Politics) to study the details of the workings of political institutions in Latin America.<sup>14</sup> In this document we draw on this scholarly work to show how political institutions work in shaping the incentives of politicians and other players in the PMP, thereby affecting economic policy in the region. Below we sketch the

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<sup>11</sup> See Persson and Tabellini (2000; 2003) for surveys.

<sup>12</sup> Rodrik, Subramanian and Trebbi (2004).

<sup>13</sup> Such as the criteria of Przeworski et al. (2000).

<sup>14</sup> Some excellent books focusing on institutional features of Latin American polities are Mainwaring and Scully (1995) on party systems, Mainwaring and Shugart (1997) on constitutional and partisan powers of the president, Carey and Shugart (1998) on the executive decree authority, Morgenstern and Nacif (2002) on legislative politics, and Gibson (2004) on federalism. A recent report by UNDP (2004) brings together parts of this rich literature to explore the functioning of democracy in Latin America.

main insights of a framework developed to explore the institutional determinants of policy outcomes.<sup>15</sup>

### ***3.1 Modeling the Policymaking Process as an Intertemporal Game***

The policymaking process in modern-day democracies can be understood as a process of bargains and exchanges among various political and socioeconomic actors. Some of these exchanges are consummated instantly (spot transactions), while in many other cases current actions or resources are exchanged for promises of future actions or resources (intertemporal transactions). Issues of credibility and the capacity to enforce political and policy agreements are crucial for political actors to be able to engage in intertemporal transactions.<sup>16</sup>

A number of features, amenable to analysis from a transaction cost perspective, characterize the political transactions surrounding public policies: (1) politics and policymaking take place over time; (2) the relative political power of various actors changes over time; (3) there are elements of both conflict and commonality of interests in almost any relevant policy issue; (4) the socioeconomic reality in which policies operate changes over time; (5) most policies could be characterized by two decision frequencies: moments of major institutional definition and regular policymaking under those rules; (6) many of the changing realities in (4) are such that it would be impossible for political or policy agreements to cover every feasible future circumstance.

Models capturing those features have been developed, using the logic of repeated games to analyze policymaking (Spiller and Tommasi, 2007, Chapter 2). As a result of such analysis it is possible to explain the characteristics of policies and ultimately certain patterns of development. The ability of a polity to cooperate determines whether certain characteristics of policies are attainable. For example, *in less-cooperative policymaking environments, policies might be too volatile and/or too rigid, poorly coordinated, and in*

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<sup>15</sup> See Spiller, Stein, Tommasi (2003) and Spiller and Tommasi (2007) for a more detailed account and formalization of this framework.

<sup>16</sup> In addition to the key *time* dimension, there is a *spatial* element to these bargains, as these can take place in arenas with varying levels of “institutionalization”: while on one extreme, formal institutions such as Congress and parties are the central locus of demands by socioeconomic actors, at the other end of the spectrum, the “street” can provide the space for interest groups to deploy alternative political technologies (e.g., road blockades) to influence economic policy (Scartascini and Tommasi, 2009).

*general of low quality due to insufficient investment.*<sup>17</sup> These properties of policies are among the dependent variables explored below.

### **3.2 The Characteristics of Policies**

As previously mentioned, several characteristics of policies condition whether they deliver the expected welfare impacts. Among them are the six discussed immediately below.

**Policy Stability:** Having stable policies does not mean that policies cannot change at all, but rather that changes tend to respond to changing economic conditions or to failure of previous policies, rather than to slight shifts in political winds. Some countries seem capable of sustaining most policies over time (such as Chile). In other countries, policies are frequently reversed, often at each minor change of political winds, leading to a highly volatile policy environment.

**Policy Adaptability:** It is desirable for countries to be able to adapt policies to changing economic conditions and to change policies when they are clearly failing. Policy adaptability can be hindered either by a policymaking process prone to gridlock or by rigidities introduced explicitly to avoid opportunistic manipulation of policy. That is, in order to limit opportunism by the government of the day, some countries may choose to resort to fixed policy rules that are difficult to change (as in the case of Argentina's Convertibility Rule). This, of course, would limit policy volatility, but at the cost of reducing adaptability. As shown in the experience of Argentina, it may prove to be a costly trade-off.

**Policy Coordination and Coherence:** Public policies are the outcome of actions taken by multiple actors in the policymaking process. Ideally, different agents acting in the same policy domain should coordinate their actions to produce coherent policies. In some cases coordination across policy areas is crucial (e.g., fiscal and monetary policy, health and education, and so on.) If agencies do not coordinate, even the best individual policies might not deliver to their full potential. The ability to coordinate is strongly related to the ability of actors to cooperate and to invest in their capabilities.

**Policy Implementation and Enforcement:** A policy could be well thought out and pass through the appropriate legislative debate yet be completely ineffective if it is not well

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<sup>17</sup> See Spiller and Tommasi (2007) for proper formalization.

implemented and enforced. In many countries, the quality of policy implementation and enforcement is quite poor. This is associated in part with the lack of capable and independent bureaucracies, as well as the lack of strong judiciaries. To an important degree, the quality of policy implementation and enforcement in a given country will depend on the extent to which policymakers in that country have incentives and resources to invest in such policy capabilities.

**Policy Efficiency:** Whatever policy direction a government decides to follow (redistribute to the poor, clean the environment, promote non-traditional exports), it can do so with varying degrees of efficiency—that is, by making better or worse use of its human and economic resources. Efficient policies imply, for example, that public spending is not wasteful. Efficient policies, however, might not necessarily be public-regarded (the government could be very efficient in targeting a very small subset of the population).

**Public-Regardedness of Policies:** Public-regardedness refers to the extent to which policies produced by a given system promote the general welfare and resemble public goods (that is, are “public-regarding”) or tend instead to funnel private benefits to certain individuals, factions, or regions (Cox and McCubbins, 2001).<sup>18</sup>

We have created various empirical measures of these policy characteristics for most countries in Latin America, originally using opinion survey data encompassing more than 150 experts in 18 Latin American countries, and, later expanding the analysis to a larger cross-section by drawing from available international data sources.<sup>19</sup> As expected, these policy features have a positive association with some measures of economic development (Table 1).

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<sup>18</sup> With the partial exception of the sixth policy characteristic (public-regardedness), the reader might be puzzled by the absence of equity or distributional aspects of public policy in this list. This omission does not mean that we are not aware of or concerned by the obvious fact that inequality is a major issue in Latin America, one of the most unequal regions in the world. We have tried to focus on characteristics of policies independently of their distributional content (and of other “contents”) to highlight the importance of these policy qualities in attaining the desired societal objectives, including equity concerns. For instance, in Machado, Scartascini, and Tommasi (in progress), it is shown that countries with stronger policymaking capabilities as those highlighted here, are better able to achieve coverage objectives in policy areas such as education and health.

<sup>19</sup> Such as the World Economic Forum’s Global Competitiveness Report, Columbia University State Capacity Survey, the Profils Institutionnels database, the Bertelsmann Transformation Index (BTI), and the Economic Freedom of the World Project (Fraser Institute).



**Table 1. Features of Public Policies and Economic Development**

	Stability	Adaptability	Coordination and Coherence	Implementation and Enforcement	Public Regardness	Efficiency	Obs
<b>Latin American countries</b>							
GDP per capita Growth 90-07	0.443*	0.46**	0.465*	0.536*	0.695***	0.537**	18
	0.257	0.307	0.345	0.400	0.555**	0.404*	18
Human Development Index (change) 90-05	0.581***	0.684***	0.71***	0.607***	0.594***	0.748***	18
	0.532**	0.5912***	0.678***	0.546**	0.544**	0.708***	18
<b>Developing countries</b>							
GDP per capita Growth 90-07	0.392***	0.304***	0.328***	0.173*	0.197**	0.238***	113
	0.296***	0.333***	0.341***	0.199**	0.243***	0.248***	107
Human Development Index (change) 90-05	0.379***	0.401***	0.458***	0.312***	0.418***	0.446***	97
	0.192*	0.291***	0.301***	0.11	0.217**	0.253***	97

Note: Simple correlations between policy qualities and political variables are shown in the first row of each subgroup. Partial-out correlations (controlling for GDP per capita of 1990) are shown in it a second row of each subgroup.

\* Significant at 10 percent; \*\* Significant at 5 percent; \*\*\* Significant at 1 percent.

Source: Authors' calculations using data from World Development Indicators and Berkman et al. (2009)

Table 2 summarizes how each country of Latin America fares in each one of the indices and in a composite index we call “Policy Index.”<sup>20</sup> Countries have been ordered according to this composite index.

**Table 2. Features of Public Policies in Latin American Countries**

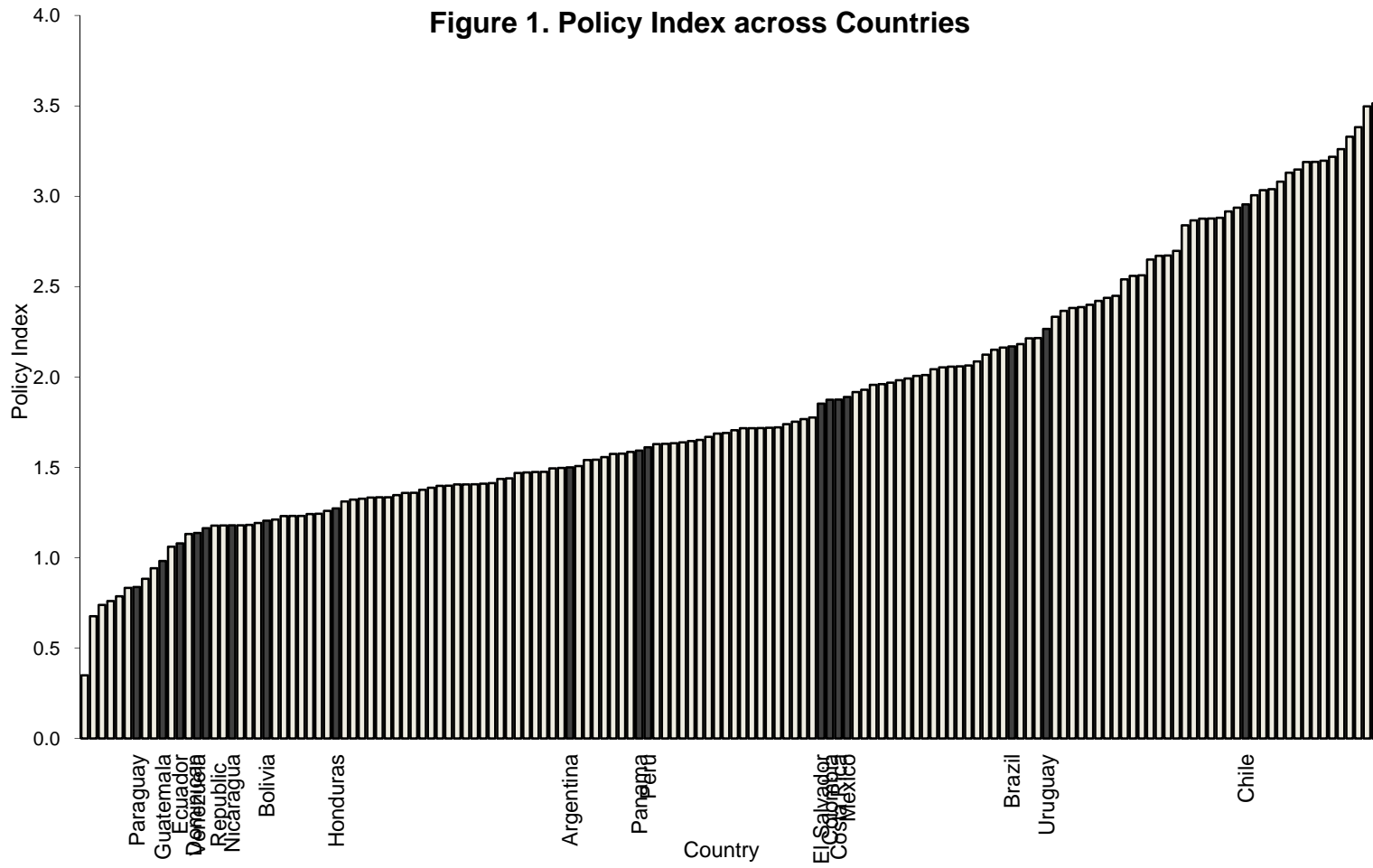
Country	Stability	Adaptability	Implementation and Enforcement	Coordination and Coherence	Public Regardness	Efficiency	Policy Index
Chile	3.3	3.2	3.1	2.1	2.8	3.0	3.0
Uruguay	3.1	2.8	2.2	n.a	2.3	1.7	2.3
Brazil	3.0	2.6	2.3	2.0	1.5	1.5	2.2
Mexico	2.8	1.9	1.9	1.5	1.7	1.8	1.9
Costa Rica	2.8	2.0	2.2	1.3	1.9	1.0	1.9
Colombia	2.7	2.4	2.1	1.5	1.2	1.5	1.9
El Salvador	2.6	1.5	2.1	0.7	2.0	1.7	1.9
Peru	2.6	1.9	1.5	0.8	1.8	1.1	1.6
Panama	2.2	1.7	1.7	1.8	1.3	1.4	1.6
Argentina	2.7	1.8	1.3	1.4	1.1	1.4	1.5
Honduras	2.4	1.3	1.6	0.0	0.9	0.8	1.3
Bolivia	1.7	1.5	1.6	1.0	0.9	1.0	1.2
Nicaragua	2.1	1.3	1.4	1.3	0.7	1.1	1.2
Dominican Republic	1.9	1.4	1.5	1.3	1.3	0.6	1.2
Venezuela	2.0	1.1	1.4	1.0	1.2	0.5	1.1
Ecuador	1.7	1.6	1.3	1.3	1.2	0.6	1.1
Guatemala	1.9	1.0	0.8	0.9	1.0	1.0	1.0
Paraguay	1.8	1.3	1.0	0.4	0.3	0.6	0.8

Source: Authors' calculations using data from Berkman et al. (2009).

<sup>20</sup> The specific components of each index can be found in Berkman et al (2009).

Figure 1 puts these values in international context. Latin American countries as a group do not rank very highly in indices of policy quality, but there is substantial intra-regional variation. Chile ranks high in the international comparison; a few countries (Uruguay, Costa Rica, Mexico, El Salvador, and Brazil) appear around the median of the world, a set of countries including Colombia is in the second quintile from the bottom, and then there is a pack of countries at the low end of the distribution.

Figure 1. Policy Index across Countries



Source: Author's calculation using data from Berkman et al. (2009).

### ***3.3 Political Institutions, Cooperation, and Policy Outcomes***

We have argued that the ability of political and socioeconomic actors to cooperate is an important determinant of the characteristics of policies. The next question, then, is *what conditions make policy cooperation more likely?* Drawing insights from the theory of repeated games, some of the factors that affect the degree of cooperation in equilibrium outcomes are the following:

- *Number of political players.* The larger the number of players, the smaller the set of other parameters for which cooperation obtains. In a complex modern polity, the empirical counterpart of this abstract concept might relate to the capacity for aggregation of institutions such as the political party system, or of other structures of political participation of socioeconomic interests.
- *Intertemporal linkages among key actors:* The intertemporal pattern of interactions among specific individuals in formal political positions (such as legislators, governors, bureaucrats, and business or union leaders) matters for developing cooperative outcomes. It is not the same to have a legislature in which the same individuals interact over extended periods of time as to have a legislature where individuals change frequently. Cooperation is less likely in the latter.
- *Delegation:* Other than self-enforcement through repeated play, certain forms of cooperation could be achieved by alternative institutional means. Delegating policy to an independent bureaucracy is one such alternative. Similarly, societal actors such as business interests are more likely to enter the policymaking process in a non-particularistic and long-term way if they have invested in building more permanent structures of interaction with policymakers such as encompassing business associations and think tanks.
- *Availability of enforcement technologies:* As in transaction cost economics, intertemporal cooperation is easier to achieve if there is good

third-party enforcement. The presence and characteristics of a potentially impartial umpire and enforcer of political agreements, such as an independent judiciary, will vary from country to country, providing variance in the degree of enforcement of intertemporal political cooperation.

- *Characteristics of the arenas where key political actors undertake their exchange:* The complex intertemporal exchanges required for the implementation of effective public policies could be facilitated by the existence of exchange arenas that are organized in ways that make cooperation easier to enforce. For example, it might be easier if transactions are part of legislative debate than if they are the outcome of closed backroom negotiations. Seminal work on the U.S. Congress debates the role that different institutional arrangements have in facilitating legislative bargaining. While these studies suggest that most of the policy “action” takes place in institutionalized arenas such as Congress, the legislature certainly does not exhaust the possible locus of exchange among socioeconomic and political actors, especially in developing countries such as those of Latin America. Whether the legislature is the arena where these transactions take place is adequately institutionalized depends on several factors, including legislators’ incentives and capabilities.

To sum up, political cooperation leading to effective public policies is more likely if: (1) the level of aggregation at which political actors enter the policy process is high; (2) those actors have long horizons and/or strong intertemporal linkages; (3) good delegation technologies are available; (4) good enforcement technologies (such as a strong court to arbitrate) are available; and (5) the key political exchanges take place in arenas where properties (1)-(4) tend to be satisfied.

What are the actual characteristics of political institutions and of the organization of actors that make political cooperation (and hence good public policies) more or less likely? The theoretical elements of the description of the game listed above could be mapped to observable features of policymaking environments. For example, judicial independence

seems to be a natural proxy—though not necessarily the only one—for the existence of enforcement technologies. Similarly, the quality of the civil service seems to approximate the existence of delegation mechanisms.<sup>21</sup>

We have shown elsewhere (Stein and Tommasi, 2007, for Latin America, and Scartascini, Stein and Tommasi 2009 for a broad cross-section of countries) that proxies for these characteristics of institutions are highly significant for explaining the features of policies emphasized before. Below we describe some of these characteristics of institutions in the Latin American context.

**(1) Congressional Policymaking Capabilities:** Congress is the democratic arena par excellence for the bargaining and enforcing of intertemporal policy agreements. Legislatures are critical to the functioning of democracy and act as an important arena for discussing and negotiating policy. A legislature made of up professional legislators (with technical capabilities for discussing and overseeing policies) and adequate organizational structures can facilitate the development of relatively consensual and consistent policies over time.

During the last decades important contributions in political science have advanced the understanding of legislatures in Latin America.<sup>22</sup> Against the backdrop of earlier stylized views of the functioning of presidential systems in the region,<sup>23</sup> and by drawing on seminal studies of the U.S. Congress, this new scholarship suggests that while legislatures in Latin America in general may not be heavily involved in formulating and advocating

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<sup>21</sup> Interestingly, some of these concepts also embody qualities that are the result of the intertemporal equilibrium in which the polity happens to be at a given point in time. That is, having a highly skilled and professionalized civil service is by no means the result of a random drawing by nature or the result of a de jure institution imported from abroad. On the contrary, it is the result of years of investments in the capabilities of the civil service and self-restraint by a government that does not use the bureaucracy as a political instrument for patronage and clientelism. These behaviors are only possible in polities interested in long-run welfare, and they would seldom occur in polities where taking short-term advantage of political power is a higher priority.

<sup>22</sup> See the edited volume by Morgenstern and Nacif (2002) and references therein for details, especially the chapters by Morgenstern and Cox and Morgenstern.

<sup>23</sup> That stylized view of political systems in the region, associated with the notion of *hyperpresidentialism*, emphasizes personalization of power, disdain for institutions, and confrontational political style. In that view, Latin America legislatures are no checks to presidential powers, and “delegative democracies” (O’ Donnell 1994) are the norm. According to some views, when the president enjoys a governing majority, then the legislature is simply a rubber stamp to executive decisions and plays a subservient role; in contrast, in situations of divided or minority governments, the legislature solely plays an obstructionist role, which leads to impasse or deadlock. In our view, that is a mode of interaction that obtains *in equilibrium* in some countries, but not in others.

policy change, they are nonetheless relevant to policy outcomes. Although it is true that in executive-legislative interactions legislatures are usually relegated to play a “reactive” role and presidents a more “proactive” one, the image of a recalcitrant assembly vis-à-vis an imperial president is by no means the only pattern of legislative politics in Latin America. Legislatures in some countries are in fact *active* in policymaking not only by performing the role of veto players blocking legislation proposed by the executive, but also by negotiating policy issues behind the scenes with the executive or in amending or reformulating executive legislative initiatives.

What factors affect whether legislatures play an active role in policymaking? Among other institutional features, *electoral rules* are key determinants of legislators’ career prospects, and hence can contribute to or undermine investment in the development of legislature’s policymaking capacities (Morgenstern and Nacif, 2002). In other words, if legislators do not intend to remain in the legislature, they are unlikely to take an interest in institutionalizing the body so that it can develop a collective interest in policy and oversight responsibilities. In contrast to the U.S. Congress, in which the “electoral connection” works in the direction of long legislative careers and a strong committee system, the rates of immediate reelection to the congress in Latin America are low on average, although there is some important variation within the region (Saiegh, 2010). In some countries, low reelection rates have conspired against the development of policymaking capacities of legislatures. In these countries, legislators typically have an incentive to work toward advancing a career outside the legislature (such as in national, state, or local government) and are also less experienced. Their career objectives are often furthered by satisfying (in some cases, provincial) party leaders rather than centering their attention on satisfying constituents’ interests and demands (Coppedge, 1998; Jones et al., 2002). As a result, the technical expertise and strength of committee systems in these legislatures tends to be lower than in countries with higher reelection rates (e.g., Chile or Uruguay).

**Table 3. Summary of Some Measures of Legislature Capabilities**

Country	Confidence in Congress, Average 1996-2004 <sup>a</sup>	Effectiveness of Law-Making Bodies <sup>b</sup>	Average Experience of Legislators (Years)	Percentage of Legislators with University Education <sup>c</sup>	Average Number of Committee Memberships per Legislator	Strength of Committees	Place to build career	Technical expertise	Congress Capability Index
Argentina	20.5	1.6	2.9	69.6	4.50	Medium	Low	Low	Low
Bolivia	19.9	1.8	3.3	78.4	1.66	Medium	Medium	Medium	Medium
Brazil	24.9	3.1	5.5	54.0	0.92	Medium	High	High	High
Chile	36.0	3.7	8.0	79.4	1.95	High	High	High	High
Colombia	20.3	2.7	4.0	91.6	0.86	High	High	Medium	High
Costa Rica	29.9	2.2	2.6	80.4	2.09	High	Medium	Low	Medium
Dominican Rep.	n.a.	2.0	3.1	49.6	3.54	Low	High	Low	Low
Ecuador	13.3	1.7	3.5	83.1	1.26	High	Medium	Low	Medium
El Salvador	27.7	2.1	3.9	64.0	2.44	Medium	High	Low	Medium
Guatemala	19.9	1.8	3.2	68.4	3.24	Low	Medium	Low	Low
Honduras	30.8	2.6	3.0	73.1	2.34	Low	Low	Low	Low
Mexico	27.4	2.0	1.9	89.5	2.43	High	Medium	Medium	Medium
Nicaragua	23.1	1.6	3.5	85.6	1.96	Low	Medium	Medium	Medium
Panama	22.5	1.8	5.8	81.3	1.86	Medium	High	Low	Medium
Paraguay	25.0	2.2	5.5	75.4	3.15	Low	High	Low	Medium
Peru	22.1	1.7	5.2	92.9	2.44	Low	Low	Low	Low
Uruguay	38.2	2.7	8.8	68.4	0.98	High	High	Low	High
Venezuela	27.8	1.4	4.9	74.6	0.97	Medium	Medium	Low	Medium

Note: n.a. Not applicable. The Dominican Republic was included only in the 2004 survey, no average is shown.

a. Latinobarometer; b. World Economic Forum (2004-05). C. PELA (2002).

Source: PELA (various years); Saiegh (2005).

Following these insights, IDB (2005) developed an index that attempts to capture the policymaking capabilities of Latin American legislatures with reference to some aspects of congress as an organization, as well as on some characteristics of legislators. The index includes both objective and subjective variables, such as the strength and specialization of congressional committees, the confidence that the public has in congress as an institution, the level of education and legislative experience of legislators, their technical expertise, and the extent to which congress is a desirable career place for politicians (see Table 3).

Saiegh (2010) examines the robustness of such characterization when only the quantitative indicators are included, using multidimensional scaling (MDS) techniques. Comparing 18 Latin American legislatures to identify the main differences in their organizational structures, institutional features, and membership characteristics, Saiegh confirms that those legislatures with greater capabilities are the ones that play more constructive roles in the PMP, enabling intertemporal agreements and long time horizon policies.<sup>24</sup>

<sup>24</sup> Some of these measures on legislative capabilities, capturing opinion about the effectiveness of lawmaking bodies and confidence in Parliament are available for a large sample of countries (Berkman et al., 2009), and



**(2) Judicial Independence:** The Judiciary, especially the Supreme Court or Constitutional Tribunal is a natural candidate for the enforcement of those political or policy agreements reflected in constitutions and laws. In its role as an independent referee, the judiciary can provide a “durability mechanism” that can increase the probability of reaching intertemporal agreements. A judiciary that effectively plays its role may contribute to better public policy outcomes, such as enhanced policy stability, and policy implementation and enforcement.

Magaldi de Sousa (2010) provides a typological framework for categorizing and comparatively assessing the scope of *judicial activism*, that is, the extent of courts’ involvement in the PMP across Latin America. The extent to which the judiciary can veto new legislation, shape legislative content, enforce the implementation of existing rules as an impartial referee, and act as an alternative representative of society in the PMP define the four main characteristics and roles discussed by the author. However, the extent of judicial activism is a function, among other things, of the level of judicial independence. Although judicial independence has various interrelated dimensions, a de facto independent judiciary is one that issues rulings that are respected and enforced by the legislative and executive branch; that receives an adequate appropriation of resources; and that is not compromised by political attempts to undermine its impartiality. Without institutions that guarantee budgetary autonomy, a uniform, transparent, and merit-based appointment system, stable tenure for judges, and promotion procedures based on evaluation of performance, Latin American courts simply would not be able to veto policies, shape their content, or act as a referee and a societal representative. To put it differently, judicial independence is a necessary (although not sufficient) condition for judicial activism.

Table 4 shows the relative rankings of judicial independence for selected Latin American countries in 1975 and 2005. Chile, Brazil, and Uruguay achieved considerable higher levels of judicial independence, while Venezuela and Argentina seem to have moved in the opposite direction.

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Scartascini, Stein and Tommasi (2009) show that these measures seem to be a good predictor of the policy features introduced in the previous section.

**Table 4. Relative Judicial Independence, Selected Latin American and Caribbean Countries, 1975 and 2005**

Ranking	1975	2005 <sup>a</sup>
1 More judicial independence	Costa Rica	Uruguay (15)
2	Venezuela	Costa Rica (1)
3	Colombia	Chile (16)
4	Argentina	Brazil (12)
5	Mexico	Dominican Republic (7)
6	El Salvador	Mexico (5)
7	Dominican Republic	El Salvador (6)
8	Peru	Colombia (3)
9	Panama	Guatemala (11)
10	Ecuador	Bolivia (14)
11	Guatemala	Honduras (13)
12	Brazil	Peru (8)
13	Honduras	Argentina (4)
14	Bolivia	Panama (9)
15	Uruguay	Paraguay (18)
16	Chile	Ecuador (10)
17	Nicaragua	Venezuela (2)
18 Less judicial independence	Paraguay	Nicaragua (17)

*Source:* Compilation by Magaldi de Sousa (2010) using the following data sources: For 1975, Verner (1984, p. 479). For 2005, World Economic Forum (2005). a. 1975 rankings are in parentheses.

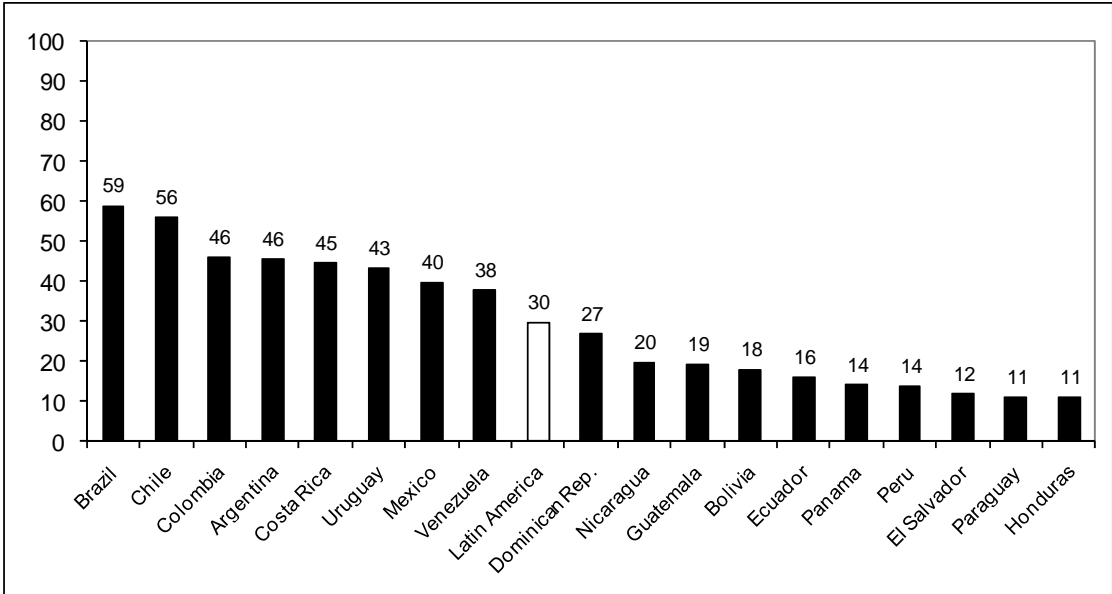
The evidence presented by Magaldi de Souza supports the argument that courts are increasing their impact on the PMP in Latin America. Furthermore, while countries with broad judicial activism seem to present rather stable and adaptable public policies, the democracies with narrower levels of judicial activism show more volatility and rigidity in their policies. In line with this argument, Scartascini, Stein and Tommasi (2009) show that a proxy of judicial independence, which captures whether the judiciary is subject to interference by the government or other political actors, correlates well with policy features such as stability, adaptability, coherence and coordination, implementation and enforcement, in a large sample of countries.

**(3) Civil Service Capacity:** A strong, independent and professional bureaucracy seems the most natural vehicle for the flexible enforcement of political agreements via delegation. An effective and capable bureaucracy is likely to improve the quality of implementation of

public policies, as well as their coordination across ministries. The competence and independence of the bureaucracy may decrease the susceptibility of likelihood that policy will be prone to politicization and political opportunism, and could increase policy adaptability to changing circumstances by relying on technical expertise.

Zuñanic and Iacoviello (2010) discuss some characteristics of Latin American bureaucracies, their role in the PMP and their capacity to put in practice long-lasting agreements. Their characterization is based on a model where two dimensions—autonomy of political power and technical capacity—are considered. They group bureaucracies in four types: patronage, administrative, meritocratic, and parallel. Based on this typology, they present evidence that characterizes Chile, Brazil and Costa Rica as cases that stand out in the region because of the higher level of development of their civil services. At the other extreme, the most critical situation occurs in Bolivia, Peru, Paraguay, Ecuador, and various Central American countries. Considering both dimensions simultaneously, Figure 2 groups Latin American countries according to their levels of bureaucratic development.<sup>25</sup>

**Figure 2. Civil Service Development Index**



Scale: 0 to 100.  
 Source: Zuñanic and Iacoviello (2010).

<sup>25</sup> Scartascini et al. (2009) use cross country regressions to show that a similar proxy for the degree of professionalism of the bureaucracy has a significant positive effect on the overall quality of public policies.

**(4) Party System Characteristics:** Mainwaring and Scully (1995) introduced a central concept into the study of Latin American party systems: *party system institutionalization* (PSI).<sup>26</sup> An institutionalized party system is a natural aggregator that reduces the effective number of players at the bargaining table and increases the horizons of individual political actors. The structure and organization of political parties and party systems can have an important influence on the policymaking process, both by playing a direct role and through interactions with other institutions. Political parties can influence policy debates, affect executive-legislative relations, enhance or constrict the possibilities for coordination in congress, or manage the incentives of politicians at both the national and local level. In sum, institutionalized party systems serve as facilitators of intertemporal policy compromise.

Several indicators have been developed to measure the different dimensions of PSI in Latin America. For example, the stability of inter-party competition is usually measured using the level of vote or seat volatility in different elections. Latin America presents a wide range of variation in electoral volatility, with countries such as Chile and El Salvador possessing volatility levels comparable to those found in Western Europe. In these democracies the same parties tend to win comparable vote and seat shares over time. In contrast, the region is home to other countries with extremely high levels of volatility, such as Peru, Guatemala, and Venezuela. Here, parties that were among the most relevant in the country either ceased to exist or saw their popular support plummet over a very short time period. At the same time, parties that either did not exist or were inconsequential players only a few years earlier later became some of the most prominent in the country (Jones, 2010).

The dimension of PSI that refers to the extent political parties enjoy stable roots in society is related to a broader theme in the party politics literature: that of linkages between citizens and parties. The puzzle motivating this research is observed variation in the types of interactions between parties and voters in democratic polities. Two stylized types have been developed: *programmatic and clientelist linkages* (Kitschelt 2000). Whereas

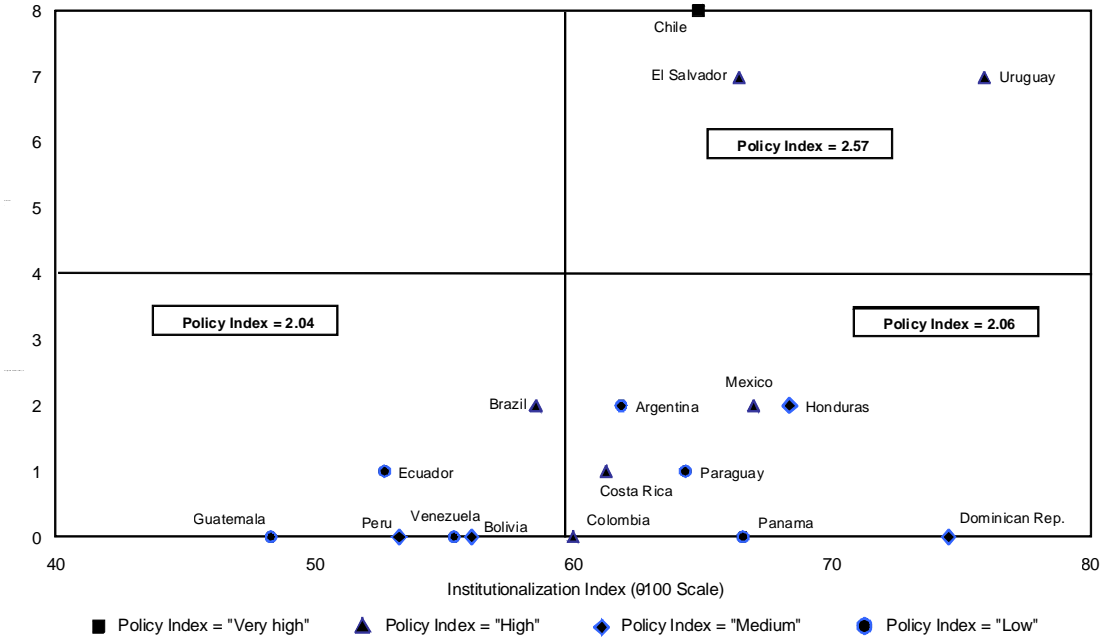
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<sup>26</sup> Party systems can be considered institutionalized when four conditions are present: the patterns of interparty competition are relatively stable; parties have fairly stable and deep bases of societal support; parties and elections are viewed as legitimate and as the sole instruments for determining who governs; and party organizations are characterized by reasonable stable rules and structures (Mainwaring and Scully, 1995).

programmatic linkages deal with impersonal and indirect exchanges between voters and politicians who trade vote for public policies, in clientelist linkages the exchange is direct and personalized, and public policies are substituted by the proffering of private goods for votes.<sup>27</sup> The goods traded for electoral support come in many forms: public employment, selective incentives such as cash or minor consumption goods, and public programs.

Figure 3 shows the values of the quality of policies index for different combinations of measures of party system institutionalization and the extent to which parties are programmatic developed by Jones (2010). Two important points emerge from this figure. First, there are no countries with programmatic parties that are not institutionalized (that is, the left quadrant of the figure is empty). Secondly, party system institutionalization *per se* does not tend to correlate with high-quality policies.<sup>28</sup> Policies only seem to get better when party systems are both institutionalized *and* programmatic.

**Figure 3. Party System Institutionalization, Programmatic Orientation and the Quality of Policies**



Note: Boxes show the average value of the Policy Index for the countries in each quadrant.  
Source: Jones (2010).

<sup>27</sup> Of course, no political party system falls exclusively into a “pure” programmatic or “pure” clientelist category. Even in the most programmatic party systems, parties employ some forms of clientelistic practices.

<sup>28</sup> Scartascini et al (2009) confirm this point using a larger sample of countries.

This last point on interactions can be made more general. One of the key lessons that we have learned from the study of the institutional determinants of policymaking is that political institutions tend to work interactively (Tsebelis, 2002). Previous literature on political institutions tended to use a single criterion to identify the main characteristics of a polity.<sup>29</sup> The relations and interactions among all those dimensions were underdeveloped. However, to understand the policymaking process of a given country, it is not enough to simply aggregate the generic effects induced by each of its institutional features. As the case studies in IDB (2005) and country chapters in Stein et al. (2008) show, these interactions are *non-additive*, in the sense that the effect of one particular institutional characteristic depends on the whole array of institutions in the system.

**(5) Socioeconomic interest groups and the PMP:** No matter how important a role political institutions play in affecting the level of cooperation in the PMP and the quality of policies, they are only one among a range of factors that help explain this variation. While so far we have concentrated on the incentives of professional politicians and state actors to cooperate and hence, produce policies of high quality, the nature of policymaking and the characteristics of resulting policies are also affected by some characteristics and organization of key socioeconomic actors in each polity.<sup>30</sup> These include players such as business groups and labor unions whose diverse constituencies make leaders pursue different types of policies. For space reasons, in this section we focus on business. Thus, what characteristics of business groups affect whether cooperation in the PMP obtains in equilibrium?

One important determinant is the *level of aggregation* and form of articulation of economic interests. The types of demands pursued in the political arena will be different depending on whether, say, business actors enter that arena individually (as firms), at the industry level (textile, metallurgic), at the sectoral level (industry, agriculture), or as economy-wide associations. Even though the relationship is not strictly monotonic, in general higher levels of association lead to internalization of various externalities, more

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<sup>29</sup> Using dichotomies such as presidential/parliamentary, majoritarian/proportional, two-party/multiparty, federal/unitary institutions, for example.

<sup>30</sup> In incorporating these groups into the analysis, we follow the rich tradition of political economy scholarship reviewed in Section 1, which focused on the collective action capacity of socioeconomic interest groups, the level of aggregation of their demands, and the links between these interest groups and policymakers.

encompassing interests, and demands more oriented towards improving the general business environment (better judicial system, more infrastructure, more credit, etc.).

In his analysis of the role of business groups in the PMP, Schneider (2010) presents evidence supporting the argument that the more encompassing the organization representing business is, and the more transparent is the policy process, the more business influence in politics will push policy toward the public-regarding continuum.<sup>31</sup> A feature of business participation that favors longer intertemporal commitments among policymakers and business people is the representation of business on policy councils.<sup>32</sup> Both policymakers and business representatives have incentives to develop reputations and not to renege on agreements reached in the policy council. An example of this type of policies is found in export promotion policies in Brazil, Chile, and Mexico.

Of course, the level of aggregation in which different actors are organized is not exogenous. For example, one of its determinants is the structure of the economy; in some cases a few large sectors can lead the collective action of the whole business sector (as was formerly the case in Colombia with coffee growers and the national association of businessmen, known by its acronym ANDI). Also, the level of aggregation of business participation in politics depends on past state action organizing such interests (Schneider, 2004b).

In some countries, policymaking is highly concentrated and decisions related to productivity are handled by a small and cohesive group of public officials. In that context, groups may benefit by organizing themselves in a similarly concentrated fashion. When decision-making is more fragmented, either because more people have a say in policy matters or because decisions are made at a more decentralized level of government (locality instead of central government) groups may choose to influence policies in a more fragmented way (as is the case in Colombia nowadays, where business groups have fragmented) or to concentrate efforts on trying to affect policies at the local level (which

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<sup>31</sup> On the other hand, business influences that favor the private-regarding end of the continuum are likely to arise in instances of narrow policies, and when business representation occurs predominantly through channels that are less transparent and that involve small numbers of firms or individuals.

<sup>32</sup> Of course, having policy councils is not always enough. In some cases, they may serve no purpose if business organization is highly fragmented. For additional information on this see Scartascini and Tommasi (2010). Eslava and Meléndez (2009) discuss this issue in the context of Colombia.

seems to be the case in Brazil, where businesses are more prone to individually seek tax exemptions at the state level than to collectively negotiate for lower taxes).

**(6) The arenas of policymaking: institutionalized or not?** As noted above, the arenas where exchanges among political and socioeconomic groups interact to make policy matters for the resulting policy outcomes. While in developed democracies most of the policy action can be observed through the workings of formal political institutions (Congress, the Judiciary) and stylized forms of participation (voting, lobbying), to study policymaking in developing countries one needs to incorporate additional arenas of interaction, with varying levels of institutionalization. Within this “extra” space, socioeconomic groups in turn can deploy a variety of participation mechanisms, which can be referred to as “*alternative political technologies*,” including activities such as protests, road blockades, the disruption of economic activity, and the like.<sup>33</sup>

While political actions such as voting or lobbying according to the rules of the game, and participating in blockades or bribing may be complementary, one can think of examples in which certain socioeconomic groups will take different roads depending on what the institutional environment has to offer (making such decisions *substitutes* in practice). For instance, there will be circumstances in which business interests will invest more resources in strengthening right-wing political parties and think tanks that defend their general interests (as they do in Chile) than in bribing politicians, judges, or bureaucrats to get special privileges for their firm or sector (as they do in other countries of the region). These different types of decisions have an important investment component and are likely to reinforce the degree of institutionalization or lack thereof over time.

One of the implications of this line of argument is that particular institutional equilibria will affect the investment decisions of players towards different types of political participation, thus reinforcing the form of institutionalization (or lack thereof) prevalent. For example, Scartascini and Tommasi (2009) provide empirical evidence that proxies for

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<sup>33</sup> This section draws on Scartascini and Tommasi (2009).



institutional quality (say of Congress) as those described above tend to be negatively correlated with various measures of conflict among a large sample of countries.<sup>34</sup>

**(7) Putting things together at the country level.** The previous pages have looked into some of the main arenas and actors of Latin American policymaking, trying to draw some general comparative insights on the effects of various characteristics of those actors and arenas on policymaking and on policies. But each country has a unique configuration and a unique mode of interaction, the total is more than the sum of the parts. Space constraints prevent us from describing the policymaking processes of specific countries in its entirety. For that, we refer readers to the country chapters in the edited volume *Policymaking in Latin America* (Stein et al., 2008).

#### **4. Concluding Thoughts**

One of the main points advocated in this paper is that analysts should beware of naive economic recommendations that ignore political and institutional considerations. If economists are to offer effective policy recommendations, they need to have a solid understanding of the institutional capabilities and political realities of the polities under consideration. This document has presented some perspectives on how to approach such analysis, with a particular focus on how political rules work for or against intertemporal cooperation among political actors.

We have argued that certain key features of economic policy may be as important in achieving development goals as their content or orientation, the latter being the traditional focus of economists. As shown by the recent experience of Latin America with the market reform process, the impact of policies on growth depends not only on a particular orientation but also on some generic features of the policies. An “ideal” policy that lacks credibility and is poorly implemented and enforced may be more distortionary than a “suboptimal” policy that is stable and well implemented. Countries able to generate policies with such attributes will reap the benefits of specific economic reforms more than others. If

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<sup>34</sup> Furthermore, Machado et al. (2009) use multilevel modeling techniques to show that countries with poor quality of the institutional environment present patterns of individual protest participation different from countries with “better” institutions across Latin America.

policies adopted do not have such attributes, no matter how good they look on paper, it is unlikely they will achieve good development outcomes.

This document has shown that the extent to which polities obtain key policy features depends on the workings of political institutions, which define *how* the policymaking game is played, on the characteristics of the arenas of interaction, which define *where* the policymaking game is played, and on certain characteristics of key socioeconomic groups, which define *who* interacts with professional politicians in pursuing different policy preferences.

Fortunately, economists have started to move away from the conviction that there are recipes of universal applicability to all countries. A universal set of “right” policies does not exist. What might work at one point in time in a given country might not work in a different place or in the same place at another time. The political economy approach presented in this document offers a lens through which to shed light on these key issues.

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