

THE INSTITUTIONAL DETERMINANTS OF STATE CAPABILITIES IN LATIN AMERICA

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SUMMARY

This paper is part of an agenda in which we argue that there are some qualities and characteristics of public policies that are (to some extent) independent of grand policy “titles” (such as “public” or “private”) and that seem to lie behind their impact on behavior and outcomes. For instance, the performance of a given sector of the economy may be better or worse under either public ownership or private ownership *cum* public regulation, depending on some fundamental state capacities, such as the ability to commit to a policy course, the ability to adjust policies when circumstances change, the ability to enforce and implement policies, and the ability to focus on broad general welfare as opposed to narrow interests, etc. In a nutshell, the main tenet of this research agenda has been to move the discussion away from “universal policy recipes” towards a focus on the determinants of policymaking capabilities, including the ability to reach reasonable degrees of societal consensus as a foundation for the credibility and effectiveness of public policies.

In particular, this paper explores the politico-institutional determinants of good public policies. I draws from a framework that predicts that desirable policy characteristics (stability, adaptability, consistency, public regardedness) depend on the behavior of political actors in the policymaking process (PMP). The PMP is viewed as a process of bargains and exchanges among political actors, whose behavior depends on their interests, incentives and constraints, as well as on their expectations about the behavior of other actors. These interactive patterns of behavior constitute, in game-theoretic parlance, *equilibria* of the policymaking “game”. This behavior and equilibria, in turn, are conditioned by the “rules” of the PMP. In democratic polities, these rules relate to the workings of political institutions such as the legislature, the political party system, and the judiciary.

The framework places particular emphasis on the ability of political actors (state officials in different institutional positions, political parties, business groups, unions,

other social actors) to cooperate over time. Better policies are likely to emerge if these participants in the PMP can cooperate with one another to uphold agreements and sustain them over time. In systems that encourage cooperation, consensus on policy orientation and on development strategies is more likely to emerge and successive administrations are more likely to build upon the achievements of their predecessors.

In this paper we present some empirical indicators for our dependent variable, the qualities of public policies, and for several organizational and behavioral measures of the workings of political institutions, for 18 Latin American countries. (The data set was built from a mix of country studies, a survey of experts, and information from international data sets). Preliminary empirical analysis of these data shows evidence favoring some of the predictions of our framework. Effective public policies are facilitated by political parties that are institutionalized and programmatic, legislatures that have sound policymaking capabilities, judiciaries that are independent, and bureaucracies that are strong.

Additionally, the preliminary empirical work has uncovered no simple direct effects of some politico-institutional variables usually emphasized in the previous literature – these variables include, for instance, characteristics of the electoral system, and legislative and partisan powers of the Executive. These “non-results” are consistent with our theoretical view (and with intuitions arising from country studies) that the effects of institutional rules on equilibrium behavior are likely to be “configural” or “systemic”. Further empirical work on a broader data set is necessary in order to identify configurations that tend to produce better policies. These results could also constitute a strong antidote against simplistic universal recipes for institutional and political reform.

One additional feature suggested by our work is that the “institutional blessings” behind high quality policies and State capacities tend to develop slowly over time and tend to result of the ongoing behavior of many relevant political actors. The incentives of professional politicians and government officials, as well as their interaction with other societal actors, are crucial for the workings of institutions. Improving the capabilities of congress requires that legislators have incentives to develop such capabilities – such incentives seem to be present in some Latin American countries and absent in others. Independent and strong judiciaries are built only over time, but they can be destroyed overnight. Adopting the best civil service law in the world will not transform public administration overnight, especially if patronage in government positions remains an important political currency. Studying the way in which such different institutional characteristics are built over time would require theoretically structured comparative country studies, that could pay special attention to the interaction between institutions and the specificities of political cleavages and socio-economic structures behind the economic and social policies implemented in each country at each point in time.

Motivation

For the last few decades, Latin America has experimented with a wide range of policies and reforms. Yet, the success of those reforms and more generally, the quality of public policy, has varied considerably. Slowly, the development community is coming to take a more nuanced view of the validity of universal policy recipes. This paper is part of that movement, and puts the emphasis on some more basic “capabilities” of polities to effectively decide and instrument public policies; capabilities that impinge upon the effects that policies have on economic and social outcomes. Even within the Latin American context, some countries seem able to maintain the basic thrust of their policies for long periods of time, thus creating a predictable and stable policy environment, while other countries experience frequent changes in policies, often with every change in administration. Some countries can adapt their policies rapidly to changes in external circumstances or innovate when policies are failing, while other countries react slowly or with great difficulty, hanging on to inappropriate policies for long periods of time. Some countries can effectively implement and enforce the policies enacted by congress or the executive, while others take a great deal of time to do so or are ineffective. Some countries adopt policies that focus on the public interest, while in others, policies are filled with special treatment, loopholes, and exemptions

What determines the ability of countries to design, approve and implement effective public policies? To answer this question, the agenda to which this paper belongs brings to bear an eclectic and interdisciplinary approach, tapping both economics and political science. Instead of focusing on the substance and orientation of particular policies, we concentrate on the critical processes that shape these policies, carry them forward from idea to implementation, and sustain them over time. Our starting point is the premise that the processes of discussing, negotiating, approving, and implementing policies are at least as important as the specific content of the policy itself. We draw on a wealth of background research produced by a network of researchers across Latin America, which provides insights about the workings of the policymaking process and its impact on policy outcomes.

In a technocratic approach toward policymaking, policies are objects of choice by benevolent policymakers. Anyone interested in fostering better social outcomes would simply need to identify policies that would induce those better outcomes and communicate those policies to policymakers. Such an approach has several shortcomings; one of them is that it takes policies as exogenous: that is, as originating from outside the system. This paper is part of an agenda that examines the processes by which countries discuss, decide, and implement public policies over time. Accordingly, we treat policies (as well as some characteristics of policies) as largely endogenous. Policies are viewed as the outcome of the policymaking process. This paper focuses on the characteristics and determinants of policymaking processes, with particular emphasis on the workings of political institutions, as well as on their impact on policy outcomes.

Focusing the study on institutions and processes does not imply denying the importance of other, more structural variables on the configurations of polities, policymaking, and

policies. Social and economic structures give rise to different configurations of actors in different countries at different times; these societal and economic actors exercise influence not only on the making of policy but also on the making of institutions. Background country studies coordinated by these authors pay attention to the important role of such structures in each case.¹ The history of policymaking in Venezuela cannot be understood without reference to the political economy of an oil economy; policymaking in Argentina cannot be understood without reference to the complex relations between the national government and the provinces—which in turn are affected not only by the formal institutions of that federal republic, but by underlying economic and social structures throughout the country; and so on.

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

Recent “institutional” studies have highlighted the fact that (economic and political) institutions are themselves a product of human choice at some point. Some of the most dynamic current lines of inquiry trace the origins of institutions back to colonial times.² This paper takes an intermediate view with respect to the issue of endogeneity or exogeneity of institutions. We recognize that institutions are endogenous to past arrangements and occurrences, and to some extent to more recent configurations of political power, socioeconomic structures, and other deep determinants. This paper focuses on the *impact* of particular configurations of political institutions on policymaking processes, and hence on policies. Political institutions are being debated and even reformed in many countries in the region. These debates are not just blunt exercises of power. Instead, they are informed by a discussion of the possible effects of reform on political practices and outcomes. Hence, we try to take a middle way, attempting to increase the awareness about the importance of political practices and institutions in the process of making policy—without falling into a totally deterministic mode in which everything that happens is determined by forces absolutely beyond the control of individual or collective actors.

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

¹ These country studies were conducted as part of the IADB Research Network project on Political Institutions, Policymaking Processes, and Policy Outcomes.

² See, for example, Acemoglu and others (2001, 2002).

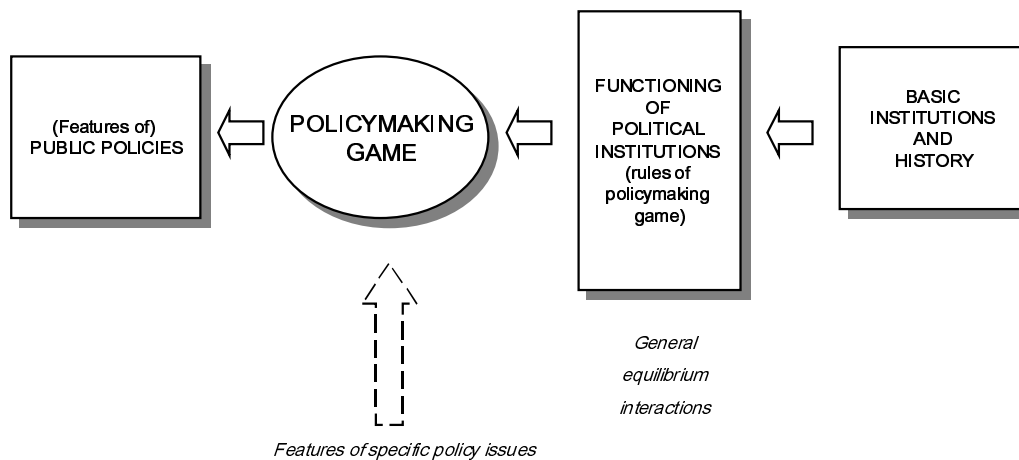
In studying these issues, we draw from an extensive literature in political science about the effects of alternative arrangements of institutions on many important political and policy outcomes.³ These alternatives include whether the political regime is presidential or parliamentary; whether the state is centralized or decentralized; whether the electoral system is majoritarian or proportional; whether parties are weak or strong, numerous or few; and so on. Since each country has a specific configuration of all these and several other important characteristics, we tend to emphasize the interactions among all these variables. Some findings here and in previous work suggest that these interactions are non-additive, in the sense that the effect of one particular institutional rule or characteristic depends on the whole array of institutional rules and characteristics.

³ These discussions have also been addressed by some important work on Political Economy by economists. For instance, Persson and Tabellini (2000) and (2003) study the impact of different forms of government and electoral rules on a number of fiscal policy outcomes. See also Drazen (2000).

Part I: Framework

While this agenda takes a rather eclectic approach drawing insights from different disciplines, it has a guiding framework, which we sketch here. (An expanded description of this framework is provided in Spiller, Stein, and Tommasi, 2003). The framework is summarized graphically in Figure 1. In keeping with the nature of the methodology, and for ease of explanation, it is best to start from the dependent variable (some key features of public policies) and work back to its political and institutional determinants.

Figure 1
Political Institutions, Policymaking Process, and Policy Outcomes



Source: Spiller and Tommasi (2003).

1.1. The Dependent Variable: Characteristics of Public Policies

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

A universal set of “right” policies does not exist. Policies are contingent responses to underlying states of the world. What might work at one point in time in a given country might not work in a different place or in the same place at another time. In some cases, some particular characteristics of policies or the details of their implementation might matter as much as the broad type of policy. For instance, Dani Rodrik (1995) analyzed six countries that implemented a set of policies that shared the same generic title—“export subsidization”—but had widely different degrees of success. Rodrik relates their success to such features as the consistency with which the policy was

implemented, which office was in charge, how the policy was bundled (or not) with other policy objectives, and how predictable the future of the policy was.

One important characteristic of policies that has been widely recognized in recent work on macroeconomics, trade policy, regulation, and other areas of economics is policy credibility.⁴ The effects of policies on the final economic and social outcomes of interest depends on the actions and reactions of economic and social agents, who take into account their expectations about the future of the policies in question before deciding their responses. As Rodrik explains, in reference to trade reform, “it is not trade liberalization per se, but *credible* trade liberalization that is the source of efficiency benefits. The predictability of the incentives created by a trade regime, or lack thereof, is generally of much greater importance than the *structure* of these incentives. In other words, a distorted, but *stable* set of incentives does much less damage to economic performance than an uncertain and unstable set of incentives generated by a process of trade reform lacking credibility.”⁵

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

The features of public policies examined include:

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

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

1.2. The Policymaking Process

⁴ See, for example, Barro and Gordon (1983); Calvo (1996, Section V); Drazen (2000, Section II); Levy and Spiller (1996); and Rodrik (1989).

⁵ Rodrik (1989, p. 2). For models formalizing the effects of policies of uncertain duration in several economic contexts, see Calvo (1996, Section V) and Calvo and Drazen (1998).

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

The PMP can be understood as a process of bargains and exchanges (or transactions) among political actors. Some of these exchanges are consummated on the spot or instantaneously (they are spot transactions). In many other cases, current actions or resources (such as votes) are exchanged for promises of future actions or resources (they are *inter-temporal transactions*). The type of transaction that political actors are able to engage in will depend on the possibilities provided by the institutional environment. Issues of credibility and the capacity to enforce political and policy agreements are crucial for political actors to be able to engage in inter-temporal transactions.

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

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

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

Such a systemic view can be accomplished only by means of detailed country studies, which take into account a variety of key institutions and their interaction, as well as historical and cultural legacies (such as fundamental cleavages, shared values, and whether a country has a history of stable democracy or has suffered frequent constitutional interruptions). This is the reason behind 13 country studies from an IADB

research network project on “Political Institutions, Policymaking Processes and Policy Outcomes” that play an important role in the arguments of this paper.⁶

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

- Who are the key actors that participate in the PMP?
- What powers and roles do they have?
- What are their preferences, incentives, and capabilities?
- What are their time horizons?⁷
- In which arenas do they interact, and what are the characteristics of those arenas?
- What is the nature of the exchanges/transactions they undertake?

The information gathered from the country studies was complemented through a series of studies focusing on the comparative role that some key actors play in the PMP across Latin America.⁸ Political actors and arenas covered by those studies include political parties and the party system, legislatures, presidents, cabinets, bureaucracies, judiciaries, regional actors, business interests, the media, workers unions, social movements, and sources of technical expertise (“knowledge actors”). In each case, the studies focused on the key roles (both formal and informal) played by these actors in the PMP, their preferences, incentives, and institutional capabilities, and the way in which they interact with other actors in different arenas.

1.3. Policymaking Processes and Policy Outcomes: The Role of Cooperation

One insight of this paper and of the broader agenda is that important features of public policies depend crucially on the ability of political actors to reach and enforce inter-temporal agreements: that is, to cooperate. In political environments that facilitate such agreements, public policies will tend to be of higher quality, less sensitive to political shocks, and more adaptable to changing economic and social conditions. In contrast, in settings that hinder cooperation, policies will be either too unstable (subject to political swings) or too inflexible (unable to adapt to socioeconomic shocks); they will tend to be poorly coordinated; and investments in State capabilities will tend to be lower.⁹

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

⁶ The papers can be found at <http://www.iadb.org/res/politicalinstitutions>.

⁷ Time horizons are very important determinants of political behavior. Actors with long horizons are much more likely to enter into the inter-temporal agreements necessary to sustain effective policies. By contrast, actors with short horizons will tend to maximize short-term political and policy benefits, to the detriment of long-term institutional build-up, and of the credibility and quality of policies. This emphasis on time horizons draws inspiration from an important literature on institutional economics, and its application to politics. See, for instance, Dixit (1996) and references there,

⁸ These papers were background studies for the 2006 Economic and Social Progress Report (IPES) of the Inter American Development Bank.

⁹ This link between cooperation and features of public policies such as stability, adaptability, and coordination has been modeled by Spiller and Tommasi (2003).

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

These conditions are associated with some characteristics of key players and arenas such as congress, the party system, the judiciary, and the bureaucracy. These intuitions about the determinants of cooperation help guide the analysis of some of the main policy actors and arenas in Part II of the paper

Part II starts by discussing and measuring the characteristics of policies that constitute the dependent variable. The rest of the paper attempts to identify aspects of the workings of the PMP that affect those characteristics of policies. According to the framework discussed above, effective public policies require political actors with relatively long horizons, as well as institutionalized arenas for the discussion, negotiation, and enforcement of political and policy agreements. Part II constructs some empirical counterparts of such characteristics, looking into the incentives of executives, the policymaking capabilities of congress, the independence of judiciaries, and the development of civil service systems, and relates them to the characteristics of policies, using statistical techniques.

Part II: Cross-country evidence

We provide here a cross-sectional view on some of the way in which (political) institutions influence political behavior and policymaking processes and, hence, the qualities and characteristics of public policies. This is complementary to other analytical cuts on the same issues, such as studies of the general aspects of policymaking in specific countries, cross-country case studies of policymaking in specific sectors, comparative cross-country analysis of the workings of specific pieces of the institutional landscape, and historical analyses of the evolution of some institutions in some countries.¹⁰

II.1.Characteristics of Public Policies in Latin America

We start this part by providing cross-country evidence on the dependent variable, the quality of public policies. The next section relates this dependent variable with several institutional variables coming out of our framework.

We draw on two main sources of data. The first is the Executive Opinion Survey of the World Economic Forum *Global Competitiveness Report* (GCR), which covers more than 100 countries and has been published annually since 1996. The second is an opinion survey conducted at the IADB. Building on intuitions developed in the project looking at policymaking in 13 countries, and drawing from the notion of state capabilities developed in Weaver and Rockman (1993), the survey questioned more than 150 experts in 18 Latin America countries, including public policy analysts, economists, political scientists, and former policymakers, regarding the capabilities of the State and characteristics of policies in a number of dimensions.¹¹

Stability

Some countries seem capable of sustaining most policies over time. In other countries, policies are frequently reversed, often at each minor change of political winds (whether a change in administration or even a change in some key cabinet member or senior bureaucrat). Having stable policies does not mean that policies cannot change at all, but rather that changes tend to respond to changing economic conditions or to failure of previous policies, rather than to political changes. In countries with stable policies, changes tend to be incremental, building upon achievements of previous administrations, and tend to be done through consensus. In contrast, volatile policy environments are characterized by large swings and by lack of consultation with different groups in society. Our framework associates policy stability with the ability of political actors to strike and enforce inter-temporal agreements that allow certain fundamental policies (“*Políticas de Estado*”) to be

¹⁰ For the first, see the countries studies at <http://www.iadb.org/res/politicalinstitutions>. For the second, see for instance Navarro (2005), Bergara and Pereyra (2005), and Lora, Cárdenas and Mercer-Blackman (2005). For comparative studies of the workings of specific political actors and arenas, see the references in section II.2. Historical analyses of the evolution of some institutions constitutes the next step in the agenda.

¹¹ See Stein and Tommasi (2005) for more details on the survey.

preserved beyond the tenure of particular officeholders or coalitions. Thus, the notion of policy stability is closely linked to the notion of policy credibility.

Our measure of policy stability relies on both the GCR Survey and the State Capabilities (SC) Survey. In addition, a variable on policy volatility based on the Fraser Index of Economic Freedom was used. That index, which has been published regularly since 1974 by the Fraser Institute, measures the degree to which policies and institutions of countries contribute to economic freedom (including dimensions such as the size of government, the protection of property rights, and freedom of international exchange). Given the focus on policy stability, we are not interested here in the level of economic freedom, but rather in its volatility. There are six components of the policy stability index: (1) the standard deviation of the Fraser Index of Economic Freedom,¹² (2) the extent to which legal or political changes have undermined firm's planning capacity (from the GCR), (3) the extent to which new governments honor the contractual commitments and obligations of previous regimes (from the GCR), (4) the capacity of the State to set and maintain priorities among conflicting objectives (a question from the SC Survey), (5) the extent to which governments ensure policy stability (from the SC Survey), and (6) the extent to which the State makes and maintains international commitments (from the SC Survey).

All the variables included in the policy stability index were normalized to vary on the same scale (from 1 to 4, with 4 indicating greater stability) and each of them was given a similar weight.¹³ The second column of Table 1 presents the values of the Stability index for the 18 countries in our sample.

¹² The series for each country was de-trended before calculating the standard deviation, so that countries that moved steadily toward more (or less) free market policies throughout the period were not characterized as having volatile policies.

¹³ On the basis of the resulting index, cluster analysis techniques were applied in order to group countries in different categories for this dimension of public policy. The country groupings for this dimension, as well as the other dimensions discussed in the following pages, are reflected in the corresponding column in dark blue (high), light blue (medium) and white (low) in Table 1 below.

Table 1

Features of Public Policies in Latin American Countries

Country	Stability	Adaptability	Enforcement and implementation	Coordination and coherence	Public regardness	Efficiency	Policy Index
Argentina	2,3	1,8	1,7	1,7	2,1	1,5	1,9
Bolivia	2,5	2,1	1,9	2,2	2,1	1,7	2,1
Brazil	2,7	3,0	2,2	2,6	2,2	1,9	2,4
Chile	3,0	3,4	3,0	3,0	3,0	2,9	3,0
Colombia	2,7	2,8	2,2	2,1	2,1	1,9	2,3
Costa Rica	2,3	3,0	2,4	2,3	2,5	2,1	2,4
Dominican Republic	2,4	2,2	2,0	2,1	1,9	1,7	2,1
Ecuador	2,2	1,9	1,8	1,8	1,8	1,6	1,8
El Salvador	2,6	2,7	2,2	2,2	2,2	2,1	2,3
Guatemala	2,3	2,0	1,7	1,9	1,9	1,6	1,9
Honduras	2,4	2,6	2,0	2,1	2,0	1,7	2,1
Mexico	2,5	2,8	2,2	2,2	2,2	2,2	2,3
Nicaragua	2,3	2,0	1,8	1,6	1,8	1,8	1,9
Panama	1,9	2,4	2,1	1,4	1,9	1,5	1,9
Paraguay	1,8	2,1	1,6	1,8	1,6	1,5	1,7
Peru	2,2	2,3	2,1	2,0	2,2	1,7	2,1
Uruguay	2,5	3,0	2,3	2,1	2,2	1,9	2,3
Venezuela	1,9	1,6	1,8	1,2	2,1	1,2	1,7

Note: The key features of public policies are classified using cluster analysis such that dark-blue represents a "high" value of that particular variable, light-blue is "medium" and white is "low".

Source: Authors' compilation.

Adaptability

It is desirable for countries to be able to adapt policies to changing economic conditions and to change policies when they are obviously failing. However, governments sometimes abuse the discretion to adapt policies by adopting opportunistic, one-sided policies that are closer to their own preferences or those of narrow constituencies. This can result in policy volatility, as policies may shift back and forth as different groups alternate in power. In political environments that are not cooperative, political actors often agree to limit such opportunism by resorting to fixed policy rules that are difficult to change. This limits policy volatility, but at the cost of reducing adaptability. This is sometimes done by embedding policies such as pension benefits or intergovernmental transfers into the constitution. In other cases, a political system regularly generates gridlock, making it difficult to achieve change. Whatever the reason, countries with low policy adaptability will be unable to respond to shocks adequately, or may get stuck in bad policies for extended periods of time.

Our index of policy adaptability has two components, both from the State Capabilities Survey. The first asks about the extent to which there is innovation when policies fail. The second asks about the extent to which governments ensure policy adaptability. Given the lack of questions in international surveys such as the GCR that are closely related to the concept of policy adaptability, this measure is not as reliable as that corresponding to policy stability, as well as some of the other indices of public policies discussed later. The assessment of each country with regard to policy adaptability is presented in Table 1.

Coordination and Coherence

Public policies are the outcome of actions taken by multiple actors in the policymaking process. Ideally, different agents acting over the same policy domain should coordinate their actions to produce coherent policies. However, this is not always the case. In some countries on certain issues, policymaking involves a large number of agencies that do not communicate adequately with each other, leading to what Cox and McCubbins (2001) have called “balkanization” of public policies. Lack of coordination often reflects the noncooperative nature of political interactions. It may occur among different agencies within the central government; between agencies in the central government and others at the regional or municipal level; or even among agents that operate in different stages of the policymaking process (such as when the complications that the bureaucracy might face during the implementation phase of a given policy are not taken into account during the design and approval stage of policymaking).

Our measure of coordination and coherence has two components, both from the State Capabilities Survey. The first question asks about the extent to which new policies are consistent with existing policies. The second question asks whether different policymakers operating over the same (or over a related) policy domain coordinate their actions effectively. Country assessments are presented in Table 1.¹⁴

Quality of Implementation and Enforcement

¹⁴ As in the case of adaptability, however, the index is based on just two questions from the State Capabilities Survey, so the rankings for this category are probably not as reliable as some of the others, which are based on a wider range of variables.

A policy could be very well designed, sail through the approval process unchanged, and yet be completely ineffective if it is not well implemented and enforced. In many countries in Latin America, the quality of 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 implementation and enforcement will depend on the extent to which policymakers have incentives and resources to invest in their policy capabilities.

This study's index of implementation and enforcement was constructed with four components: (1) the extent of enforcement of the minimum wage (from the GCR), (2) the extent of control on tax evasion (from the GCR), (3) the consistency of environmental regulation (from the GCR), (4) the extent to which the State ensures effective implementation of public policies (a question in the State Capabilities Survey). Country assessments are presented in Table 1.

Public Regardedness

This dimension, suggested by Cox and McCubbins (2001), 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 whether they tend to funnel private benefits to certain individuals, factions, or regions in the form of projects with concentrated benefits, subsidies, or tax loopholes.¹⁵

This study's measure of public regardedness has four components: (1) the extent to which public officials tend to favor the well connected in their policy decisions (GCR), (2) the extent to which social transfers effectively reach the poor as opposed to the rich (GCR), (3) the ability of the State to impose losses on powerful actors (a question from the State Capabilities Survey), (4) the extent to which the government represents diffuse unorganized interests, in addition to concentrated organized interests (a question from the State Capabilities Survey). Country assessments are presented in Table 1.

Efficiency

A key aspect of good policymaking is the ability of the State to allocate its scarce resources to those activities in which they have the greatest returns. This feature of policies is somewhat related to public regardedness since, to the extent that policymakers unduly favor specific sectors to the detriment of the public interest, they will be moving away from the most efficient allocation of resources.

Our index of efficiency has two components: (1) whether the composition of public spending is wasteful (GCR), and (2) whether resources are targeted where most effective (a question from the State Capabilities Survey). The characterization of countries along this policy dimension is presented in the second to last column of Table 1.

The Overall Index of Quality of Public Policy

¹⁵ This dimension might be tied to inequality, since those favored by private regarding policies might be the members of elites, who are the ones who have the economic and political clout to skew policy decisions in their favor.

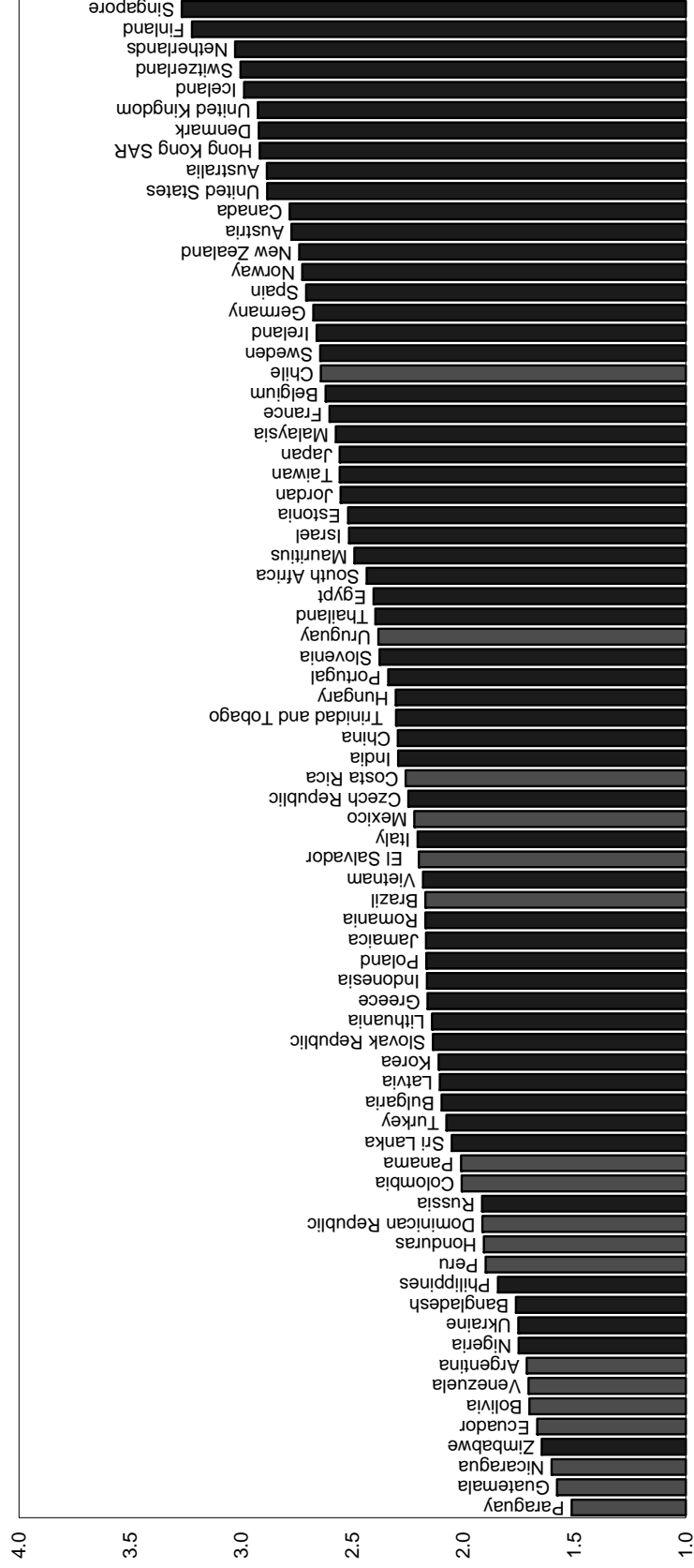
The preceding pages have identified a number of key features of public policies: stability, adaptability, coordination and coherence, quality of implementation and enforcement, public regardedness, and efficiency. While there may be other relevant characteristics of public policies that have not been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

The various indices could be combined in different ways to come up with an overall index of quality of public policies. This study gives the same weight to each of the key features discussed. That is, it uses the simple average of the different indices. However, the specific method used to aggregate the individual indices into the overall index of quality of public policies (or policy index) is not driving the results,¹⁶ or the grouping of countries in the categories shown in the last column of Table 1. As in the case of the individual indices, the groupings were done using cluster analysis. In this case Chile, which was significantly above the rest of the countries in the overall policy index, could be placed in a category of its own (“very high”).

Figure 2 utilizes those sub-components of our index of quality of policies that come from international data sets, and places the Latin American countries in the international context. The picture we get from figure 2 is consistent with our general assessment. (The correlation between our overall policy index and the index using only the international data for the countries in Latin America is 0.91.) Latin American countries as a group do not rank well in indices of policy quality. 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 lowest end of the distribution.

¹⁶ The correlation between the resulting overall index with an alternative where the different qualities are weighed according to the number of subcomponents in each of them (six in the case of stability, two in the case of adaptability, and so on) is 0.99. See Stein and Tommasi (2005) for more details.

**Figure 2: Quality of Policies – Latin American Countries in the World Context
(International Components of the Policy Index)**



An important assumption behind the development of these indices was that the features of policies being measured, such as stability, adaptability, and the quality of implementation, should be important ingredients for economic development. Table 2 below provides some evidence in support of this hypothesis, by showing the association that exists between the different features discussed, as well as the overall policy index, and a number of measures of economic development.

The measures of economic development used are the following:

- Per capita GDP growth, in U.S. dollars at purchasing power parity, between 1980 and 2002 (from the World Bank's World Development Indicators)
- The change in the value of the UNDP's Human Development Index (HDI) between 1980 and 2002. The HDI combines various measures of literacy and life expectancy with GDP per capita, in order to measure a country's achievement in terms of human development.
- The reduction in poverty rates between 1980–90 and 1995–2000 (from the World Bank's World Development Indicators).
- Two different measures of welfare, developed by the World Bank, that combine measures of income with different measures of income inequality, suggested by Amartya Sen and Anthony Atkinson, respectively.¹⁷

¹⁷ See Gasparini (2003) for a discussion of the welfare indices.

**Table 2: Features of Public Policies and Economic Development
Latin American Countries**

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

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

– Not available.

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

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 1980) are shown in italics in the second row of each subgroup.

Source: World Development Indicators (various years); authors' compilation and Gasparini (2003).

Table 2 presents the correlations between the different components and the overall policy index with each of these five measures of welfare. The top panel presents these links for the case of Latin American countries, using the indices that combine international data with the State Capabilities Survey. The lower panel does a similar exercise for a wider sample of developing countries, using international data only. In each cell, the number on top presents simple correlations, while the number in the bottom presents partial correlations, controlling for the effects of initial (1980) per capita GDP, in order to account for potential convergence effects.¹⁸

The Policy Index is positively associated with each of the measures of development. In 14 out of 16 correlations, the association is statistically significant. In some cases, the correlations are very high. Correlations tend to be higher for the Latin American sample, where the similarities among the countries are greater. The level of significance is higher for the developing country sample, however. This is not surprising, given the increase in the sample size. The individual indices also correlate well with most of the welfare measures used (with the possible exception of poverty reduction in the Latin American sample, a point which might demand further exploration.)

II.2. Relating Political Institutions and Policy Outcomes

The framework presented in Part I emphasized that good policymaking can be facilitated if political actors have relatively long horizons, and arenas for the discussion, negotiation, and enforcement of political and policy agreements are relatively encompassing and well-institutionalized. This section follows that lead, and explores some of the characteristics of key political actors and arenas that might enhance good policymaking. It is worth noting that the statistical exercises below are severely limited by the small sample size, and should be interpreted as suggestive evidence, in need of further exploration.

The Policymaking Capabilities of Congress

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

We have constructed an index that attempts to capture the extent to which congress, as an institution, has the capabilities to serve this policymaking function, with focus on some aspects of congress as an organization, as well as on some characteristics of

¹⁸ In the case of partial correlations, the idea is to check whether countries whose Policy Index is higher than expected, given their initial per capita GDP, tend to have development indicators that are also higher than expected, given their initial income.

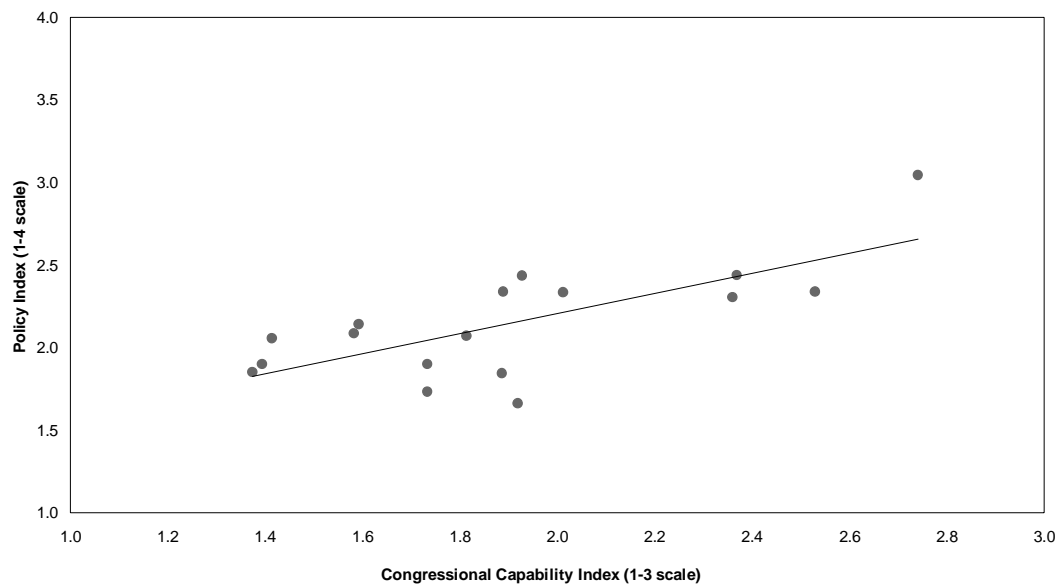
legislators. The index, which is presented in Table 3, includes such variables as the strength and specialization of congressional committees, the confidence that the public has in congress as an institution, the level of education and legislative experience of legislators, their technical expertise, and the extent to which congress is a desirable career place for politicians. The first 5 variables are more objective; the last 3 are subjective, constructed by Sebastian Saiegh (2005), based on the background material of country studies and a variety of secondary sources, mainly a University of Salamanca survey of legislators (PELA, various years).

Table 3: Policymaking Capabilities of Latin American Legislatures

Country	Confidence in Congress, Average 1996-2004 ^a	Effectiveness of Law-Making Bodies ^b	Average Experience of Legislators (Years)	Percentage of Legislators with University Education ^c	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	1,4
Bolivia	19,9	1,8	3,3	78,4	1,66	Medium	Medium	Medium	1,8
Brazil	24,9	3,1	5,5	54,0	0,92	Medium	High	High	2,4
Chile	36,0	3,7	8,0	79,4	1,95	High	High	High	2,7
Colombia	20,3	2,7	4,0	91,6	0,86	High	High	Medium	2,4
Costa Rica	29,9	2,2	2,6	80,4	2,09	High	Medium	Low	1,9
Dominican Republic	n.a.	2,0	3,1	49,6	3,54	Low	High	Low	1,4
Ecuador	13,3	1,7	3,5	83,1	1,26	High	Medium	Low	1,9
El Salvador	27,7	2,1	3,9	64,0	2,44	Medium	High	Low	1,9
Guatemala	19,9	1,8	3,2	68,4	3,24	Low	Medium	Low	1,4
Honduras	30,8	2,6	3,0	73,1	2,34	Low	Low	Low	1,6
Mexico	27,4	2,0	1,9	89,5	2,43	High	Medium	Medium	2,0
Nicaragua	23,1	1,6	3,5	85,6	1,96	Low	Medium	Medium	1,7
Panama	22,5	1,8	5,8	81,3	1,86	Medium	High	Low	2,0
Paraguay	25,0	2,2	5,5	75,4	3,15	Low	High	Low	1,7
Peru	22,1	1,7	5,2	92,9	2,44	Low	Low	Low	1,6
Uruguay	38,2	2,7	8,8	68,4	0,98	High	High	Low	2,5
Venezuela	27,8	1,4	4,9	74,6	0,97	Medium	Medium	Low	1,9

Figure 3 presents a scatter plot relating the index of policymaking capabilities of congress to the aggregate index of policy qualities. The positive relation between both variables is quite clear. The correlation is 0.699, and it is significant at the 99 percent level of statistical confidence.

Figure 3
Congressional Capabilities and the Quality of Policies



Source: Authors' compilation.

While the figure shows a strong association between the Congressional Capabilities Index and the Policy Index, association does not necessarily mean causality. For example, both variables could be explained by a third one, such as the level of economic development. For this reason, we checked whether the link between these variables survives after controlling for the level of income per capita in 1980.¹⁹ It does. Similar checks were conducted for the case of the other links between the policy index (and its components) and the other institutional variables used in this section. Table 4 presents information about the correlation of each of the policy characteristics identified in Section II.1 and each of the political and institutional variables discussed. (For each of the variables, simple correlations are presented in the first row, and partial correlations controlling for GDP per capita in the second row).

¹⁹ This was done by using partial correlations instead of simple correlations. In the case of partial correlations, the idea is to check whether countries whose Congressional Capabilities Indices are higher than expected, given their income level, tend to have Policy Indices that is also higher than expected, given their income level.

Table 4: Correlations of Institutional and Political Variables with Features of Policies

	Stability	Adaptability	Coordination and coherence	Implementation and enforcement	Public regardness	Efficiency	Policy Index	No. Obs.
Congress index	0.740 ***	0.570 **	0.754 ***	0.503 **	0.624 ***	0.614 ***	0.699 ***	18
	0.722 ***	0.543 **	0.752 ***	0.472 **	0.601 ***	0.606 ***	0.679 ***	18
Party system institutionalization	0.388	0.150	0.315	0.104	0.041	0.287	0.250	18
	0.401 *	0.164	0.321	0.120	0.054	0.295	0.263	18
Party system nationalization	0.505 **	0.367	0.409	0.313	0.132	0.496 **	0.420 *	17
	0.625 ***	0.493 **	0.481 *	0.434 *	0.221	0.584 **	0.533 **	17
Programmatic parties	0.431 *	0.478 **	0.478 **	0.351	0.385	0.616 ***	0.499 **	18
	0.446 *	0.495 **	0.486 **	0.370	0.401 *	0.626 ***	0.514 **	18
Judicial independence	0.866 ***	0.705 ***	0.808 ***	0.722 ***	0.661 ***	0.751 ***	0.835 ***	18
	0.850 ***	0.678 ***	0.809 ***	0.693 ***	0.637 ***	0.745 ***	0.816 ***	18
Cabinet stability	0.450	0.362	0.441	0.352	0.472	0.530	0.464	10
	0.442	0.350	0.440	0.339	0.466	0.525	0.456	10
Share of ministers in civil service	0.613	0.312	0.340	0.420	0.200	0.317	0.411	8
	0.669 *	0.343	0.463	0.400	0.263	0.383	0.467	8
Civil service development	0.524 **	0.562 **	0.542 **	0.536 **	0.631 ***	0.452 *	0.588 **	18
	0.526 **	0.548 **	0.611 ***	0.503 **	0.646 ***	0.482 **	0.599 ***	18
Proportionality of electoral system	-0.040	0.191	-0.210	0.036	-0.110	-0.208	-0.063	18
	-0.065	0.163	-0.224	0.004	-0.139	-0.226	-0.089	18
Effective number of legislative parties stability	-0.140	0.060	-0.168	0.019	-0.082	-0.261	-0.110	18
	-0.221	-0.018	-0.214	-0.070	-0.165	-0.325	-0.191	18
Partisan powers of the president	-0.028	-0.168	0.040	-0.043	0.034	0.161	0.001	18
	0.029	-0.108	0.070	0.031	0.100	0.207	0.062	18

* Significant at 10 percent.

** Significant at 5 percent.

*** Significant at 1 percent.

Note: Simple correlations between policy qualities and political variables are shown in the first row of each subgroup. Partial-out correlations (controlling for Gross Domestic Product (GDP) per capita of 1980) are shown in *italics* in the second row of each subgroup.

Source: Jones (2005); Martínez and Gallardo (2005); Iacoviello and Zuvanic (2005); World Economic Forum (2004) and authors' compilation.

Characteristics of Political Party Systems

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

The structure and organization of political parties and party systems in a country can have an important influence on the policymaking process. Political parties can play a direct role in the policymaking process, but they also can play indirect roles through their interaction with various other institutions. For instance, in some countries (like Chile), parties are important actors in defining and articulating broad policy programs and are able to effectively engage in public policy debates, even when they are in the opposition. But characteristics of the party system also affect the policymaking process somewhat more indirectly, such as by influencing the workability of executive-legislative relations, the possibilities for coordination in congress, and/or the incentives of elected officials to cater to narrower or broader sets of societal interests.

This section focuses on some characteristics of parties and party systems that make parties more encompassing policy players, and explores the effects of these characteristics on the quality of public policies. One important characteristic is their degree of institutionalization. More institutionalized parties and party systems, particularly when parties are programmatic, are more likely to encourage long horizons and to prevent individual politicians from behaving opportunistically. They can also facilitate inter-temporal bargains, both within a party and between parties, since the commitments made by current party leaders are more likely to be respected in the future. Another characteristic that might facilitate encompassing parties is their relative focus on national issues, as indicated by measures of party system nationalization. How effectively parties play their roles in the PMP will also depend on the main incentives and orientations of key party actors.

Party System Institutionalization and Programmatic Orientation

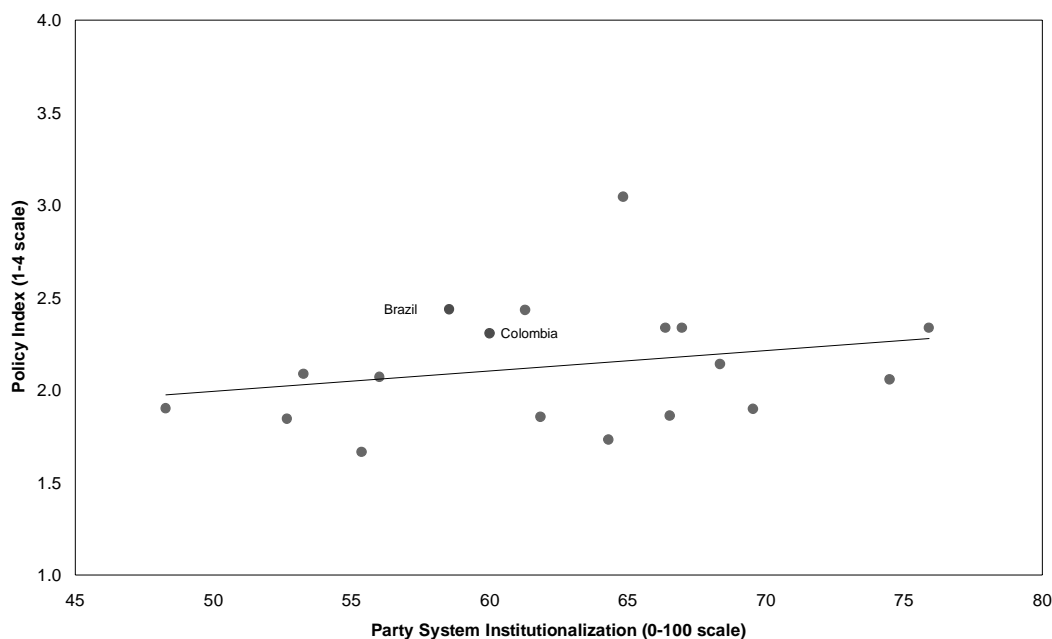
In well-institutionalized party systems, parties are likely to have longer horizons and more encompassing interests than individual citizens or individual politicians. Parties are collective identities, with an interest in maintaining or enhancing their reputation over time. Well-functioning parties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

A relatively small number of parties that are expected to be around for a long time, alternating in government, is more likely to respect some basic rules of interaction, and to establish somewhat consensual sustained policy stances on crucial issues (known as

“*Políticas de Estado*”).²⁰ Interactions among institutionalized parties with a focus on national policymaking can also add credibility and predictability to the policymaking system, complementing or even substituting for well-institutionalized legislative bargaining arenas.

Hence party system institutionalization is expected to have positive effects on key features of policies such as stability. Figure 4 presents the association between an index of party institutionalization developed by Jones (2005),²¹ and the Policy Index discussed above. The association between these two variables, although positive, is not very tight. The reason is that the impact of this variable is not straightforward.

Figure 4: Party System Institutionalization and the Quality of Policies



Source: Authors' compilation and Jones (2005).

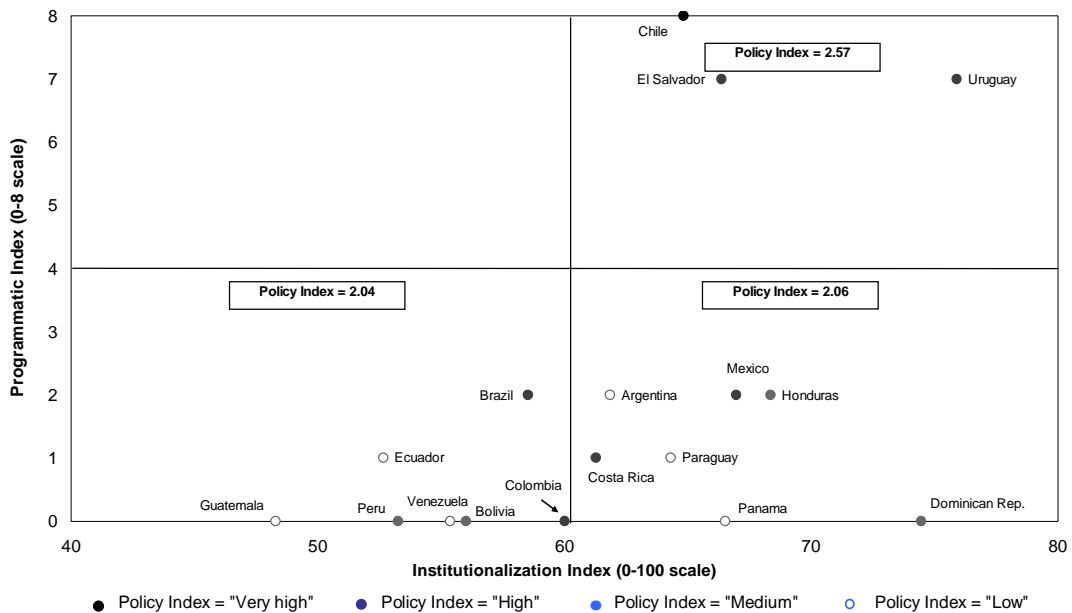
In some countries, such as Colombia and to some extent Brazil, policies are relatively effective, despite the fact that their party systems are not too institutionalized. In these countries, the institutionalization of policymaking seems to take place in other arenas such as congress and the bureaucracy. In both cases, parties are more institutionalized in the congressional arena (for instance in their role in policy committees) than in the electoral arena—which is the one better captured in the index of party system institutionalization utilized in this study.

²⁰ At the same time, there are cases in which party systems are highly institutionalized and produce relatively effective policies, but at the cost of curbing political participation. Venezuela throughout the 1960s, 1970s, and 1980s is a case in point. See Monaldi et al (2005) and references there.

²¹ The index incorporates the four dimensions of party system institutionalization identified by Mainwaring and Scully: i) stability of inter-party competition; ii) extensiveness of party roots in society; iii) legitimacy of parties and elections; and iv) strength of party organization. For more details, see Jones (2005) and IDB (2005).

On the other hand, some parties are reasonably institutionalized, but are more focused on maintaining relatively narrowly based (often geographic) support networks than on the nature of public policies. Figure 5 shows the values of the Policy Index for different configurations of party system institutionalization and the extent to which parties are programmatic (this last variable is also taken from Jones, 2005). The first thing to notice is that there are no countries with programmatic parties that are not institutionalized (that is, the upper left hand quadrant of the figure is empty). The figure also suggests that institutionalization does not translate into better policies when parties are not programmatic. Policies are better only when party systems are institutionalized *and* programmatic.²²

Figure 5
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. Nicaragua was omitted from this figure because its combined score of programmatic and institutionalization can be misleading.
Source: Authors' compilation and Jones (2005).

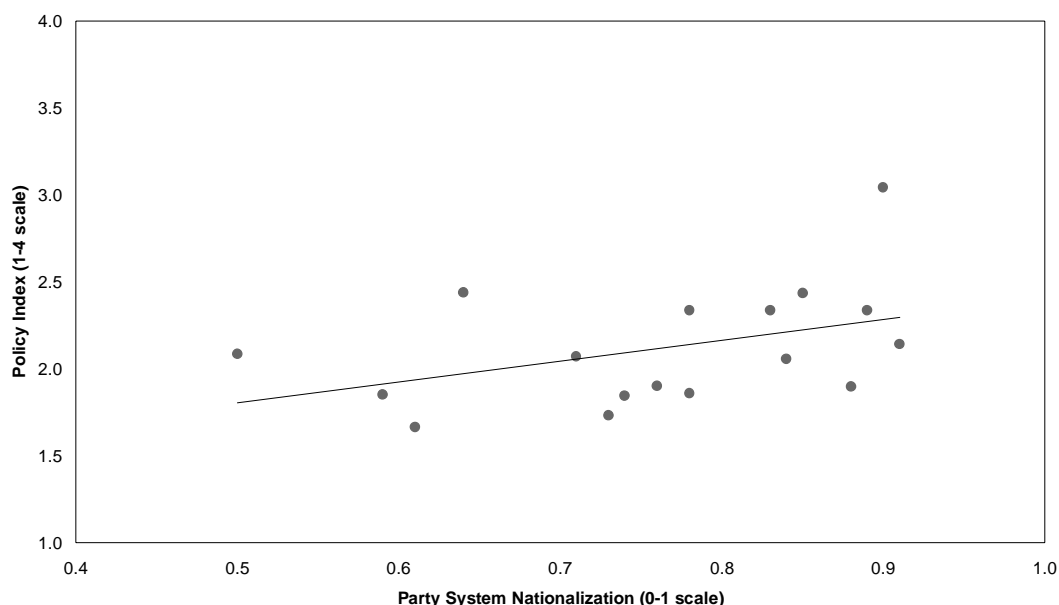
Party System Nationalization

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

²² Notice again, that the very small sample size forces to interpret these results as just suggestive of issues requiring further exploration.

More encompassing parties are likely to help generate better national policies. This study utilizes a Party System Nationalization Score from Jones (2005) as index of nationalization of the party system. Figure 6 plots the Policy Index against party system nationalization. The correlation between both variables is 0.420, and it is significant at the 90 percent level. (The correlations are even stronger in the exercise controlling for GDP per capita.)

Figure 6: Party System Nationalization and the Quality of Policies



Source: Authors' compilation and Jones (2005).

This result suggests that while having a more geographically decentralized political system may be beneficial in some respects (“getting government close to the people”), it may also have some harmful effects on the quality of national policymaking. The potential tension between increasing inclusiveness and representation, on the one hand, and complicating government effectiveness at the national level, on the other, is explored in Stein and Tommasi (2005) and in IADB (2005, Chapter 7). Argentina is case in which a political system that is too strongly anchored in provincial politics and provincial political careers weakens the national policymaking system (Spiller and Tommasi 2003 and forthcoming, Ardanaz, Leiras and Tommasi, 2005).

Implementation and Enforcement

Policies with good properties are more likely to emerge in more cooperative policymaking environments. Adequate enforcement and implementation facilitate such cooperation and hence strengthen the quality of policies. The judiciary is the most obvious enforcer in the political system. The bureaucracy plays a predominant role in policy implementation and thus some of its characteristics and capabilities are likely to have an effect on the quality of implementation. In addition, the quality of the

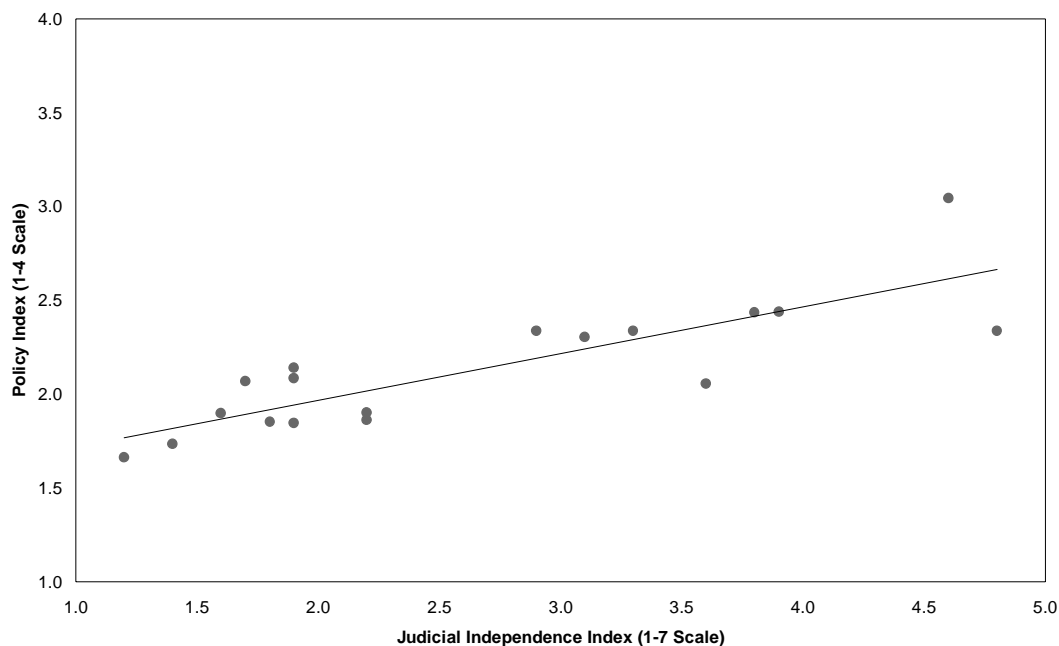
bureaucracy can also affect the ability of other political actors to bargain and enforce inter-temporal policy agreements. In fact, delegation to a competent bureaucracy might in some cases be the way to enforce the inter-temporal implementation of political agreements. Ministers and, more broadly, cabinets, also play a key role in the design, discussion, and implementation of public policies in Latin America.

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

The Judiciary

Of all the roles that the judiciary plays in the polity, one is especially important for our framework: the inter-temporal enforcement of prior political and policy decisions, as reflected in constitutions and laws. A judiciary that plays this role effectively will improve some properties of public policies, such as stability and quality of enforcement. The supreme court or equivalent institution is usually in charge of assuring that the president does not overstep congress, and that neither branch violates the constitution. The judiciary will be less able to perform this role if it is not independent of the executive in power. Figure 7 relates a ranking of de-facto judicial independence in Latin America, according to the indices constructed by the World Economic Forum (2003-2004),²³ to our Policy Index.

Figure 7
Judicial Independence and the Quality of Policies



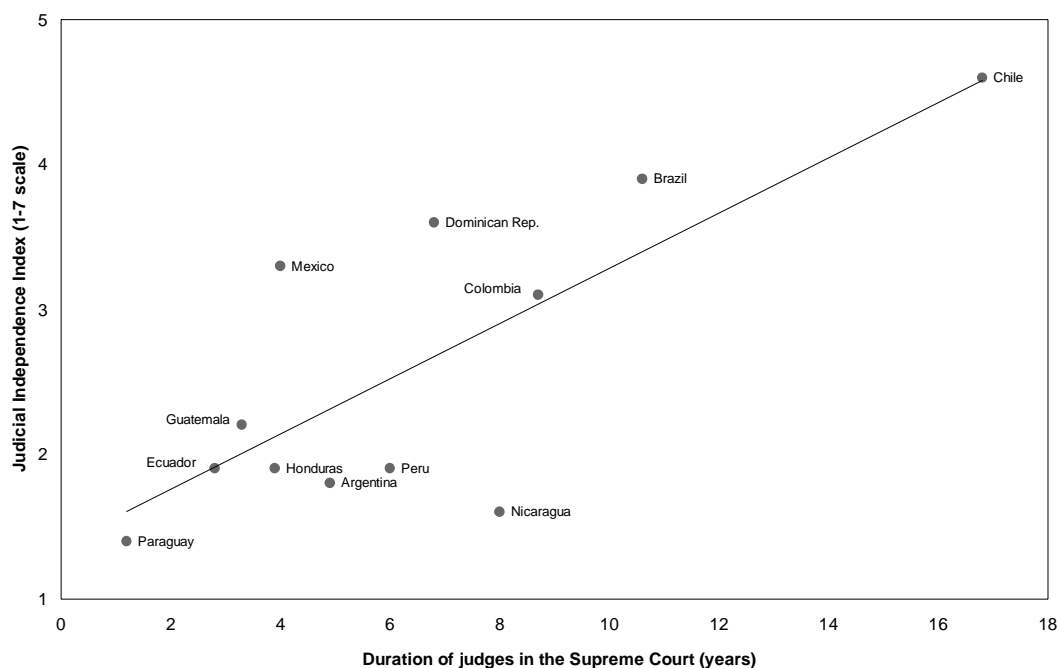
Source: Authors' compilation and World Economic Forum (2004).

²³ See also Sousa (2005).

The correlation between those two variables is 0.835, and it is significant at the 99 percent confidence level. Having a rather independent umpire turns out to be quite significant for the political game to generate good quality policies. This seems to operate across the board on all policy features analyzed here.

The build-up of an independent judiciary is a complex business, which usually takes a long time. This is suggested by Figure 8, which shows a strong correlation (0.771 significant at the 99 percent level) of judicial independence with the duration of justices in their benches. Clearly, a supreme court whose members change too often is unlikely to build up much independence. Since in most countries it is the president who nominates justices, most Supreme Court justices are likely to be nominated by sitting presidents in countries where the tenure of justices is short. Individual justices who owe their position to the sitting president are less likely to show independence from the executive in their rulings.²⁴

Figure 8
Supreme Court Tenure and Judicial Independence



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

The Cabinet

Latin American cabinet ministers, either individually or collectively, play key roles in every stage of the policy process. Characteristics related to the formation, operation, stability, and structure of cabinets are likely to have important effects on the properties of public policies. For instance, a certain degree of cabinet stability is likely to be

²⁴ See, for instance, Iaryczower and others (2002).

necessary to promote longer term policies and to allow ministers to see programs and policy implementation through to completion. Frequent turnover of cabinet ministries is likely to promote a short-term orientation to policy and frequent policy switches. Longer tenures also allow the construction of better relationships with permanent bureaucrats, which are essential to implement policy efficiently. Frequent changes in the cabinet can leave leadership vacuums that may contribute to bureaucratic inertia and even corruption. Longer tenure allows ministers to accumulate valuable expertise specific to the policy area in which they work and to develop political and managerial skills that are likely to improve the quality of their performance in their different policymaking functions.

Of the many characteristics of cabinets that might impact on the features of policies, we focused on two features that are particularly consistent with the emphasis on long horizons and on institutionalization: the stability/durability of ministers (the inverse of the number of ministers per portfolio in each administration), and the fraction of the cabinet (or the top political appointees) that come from a civil service career (an indicator of institutionalization).²⁵ As shown in Table 4, both variables have positive correlations with this study's policy features. More stable cabinets are positively correlated with policy features such as stability, adaptability, and coordination and coherence. The correlation with the overall policy index is 0.464. A large fraction of top political appointees with civil service background correlates positively with several of the public policy dimensions discussed earlier, and in particular with policy stability (correlation of 0.613), as shown in Table 4.²⁶

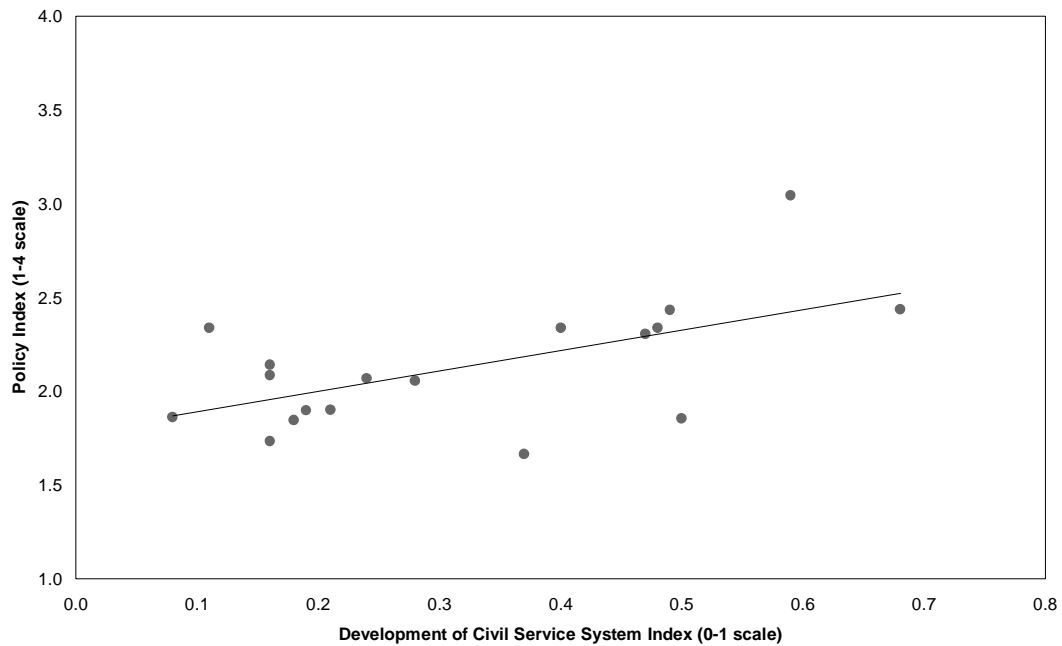
The Bureaucracy

A strong and capable bureaucracy is likely to improve the quality of implementation of public policies. It also has positive feedback effects on other stages of the policy process. Having a competent and independent bureaucracy onto which some policy decision making and implementation may be delegated might facilitate inter-temporal agreements, particularly in policy areas that are prone to politization and political opportunism. In situations in which there is a choice between rules and discretion, and discretion may lead to political opportunism, delegation to a technically competent bureaucracy can facilitate adaptability while keeping political opportunism at bay. Conversely, when a competent bureaucracy is lacking, policies are more likely to deviate from the public interest. For instance, businesses affected by economic regulation (or by taxation) are likely to focus their efforts on evading regulation or taxation at the implementation stage. From data in Iacoviello and Zuvanic (2005), we constructed an index of the development of civil service systems in each of the Latin American countries. This index has a strong correlation with most of the outer features of policy, as shown in Table 4. As predicted, a strong bureaucracy seems to prevent the excessive influence of special interests at the implementation stage, leading to public regarding policies. The correlation with the overall Policy Index, depicted in Figure 9 is 0.588, significant at the 95 percent level.

²⁵ See Martínez-Gallardo (2005) and Rauch and Evans (2000).

²⁶ The correlation of fraction of ministers with civil service careers with the overall policy index is 0.411. While it is not statistically significant, this is due to the very small size of the sample of countries (eight) for which cabinet data are available. Statistical significance is too demanding a criterion to impose on such a small sample.

Figure 9
Development of Civil Service and the Quality of Policies



Source: Authors' compilation and Iacoviello and Zuanic (2005).

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

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

The degree of proportionality of representation induced by electoral rules is a feature that has received considerable attention. More proportional electoral rules are expected to lead to better representation, but lower policy effectiveness (Payne and others, 2002). More proportional electoral rules as well as other features of the electoral system, are associated with more fragmented party systems and with presidents with lower partisan powers.²⁷

The last three rows of Table 4 present traditional measures of these concepts (proportionality of the electoral system, effective number of legislative parties, and presidential party's lower or single chamber contingent), and their correlation with

²⁷ See Jones 2005 and Payne and others, (2002) for a discussion of the various institutional sources of party system fragmentation and of partisan powers of presidents.

policy characteristics. None of these measures seems to correlate significantly with this study's measures of policy effectiveness. This seems to suggest that it is difficult to generalize about direct effects of some institutional rules and political configurations on the nature of policymaking and the characteristics of policies. As this study's framework suggests, more interactive and nuanced analysis seems to be necessary. That is a strong motivation for the type of country studies advocated here.

II.3. Summing up

Table 5 summarizes the information about some of the main correlations identified in this section. We have ordered the countries as a function of the value of their Policy Index, presented in the second column. The columns that follow present the values of some of the key variables identified in the previous analysis. (We have added a variable called "Incentives of Presidents" which we have not included in the analysis above due to sample size problems, but that is useful in the interpretation we provide below).²⁸ Cases in which the country has a relatively high value of the variable in question are shaded in dark blue. Cases of intermediate values are shaded in light blue. Cases of relatively low value are not shaded.

²⁸ See Stein and Tommasi (2005) for more details.

Table 5
Political Institutions and the Qualities of Policy

Country	Policy Index	Incentives of the President	Congress Index	Judicial independ.	Party system institut.	Party system nationaliz.	Programmatic parties	Development of civil service
Chile	3,04	2,00	2,74	4,60	65	0,90	8,00	0,59
Brazil	2,44	2,00	2,37	3,90	59	0,64	2,00	0,68
Costa Rica	2,43	2,00	1,93	3,80	61	0,85	1,00	0,49
El Salvador	2,34	2,00	1,89	2,90	66	0,83	7,00	0,11
Uruguay	2,34	2,00	2,53	4,80	76	0,89	7,00	0,48
Mexico	2,34	2,00	2,01	3,30	67	0,78	2,00	0,40
Colombia	2,30	2,00	2,36	3,10	60	0,00	0,00	0,47
Honduras	2,14	2,00	1,59	1,90	68	0,91	2,00	0,16
Peru	2,09	1,00	1,58	1,90	53	0,50	0,00	0,16
Bolivia	2,07	1,00	1,81	1,70	56	0,71	0,00	0,24
Dominican Rep.	2,06	1,00	1,41	3,60	74	0,84	0,00	0,28
Guatemala	1,90	1,00	1,39	2,20	48	0,76	0,00	0,21
Nicaragua	1,90	1,00	1,73	1,60	70	0,88	8,00	0,19
Panama	1,86	1,50	1,96	2,20	67	0,78	0,00	0,08
Argentina	1,85	1,00	1,37	1,80	62	0,59	2,00	0,50
Ecuador	1,84	1,00	1,89	1,90	53	0,74	1,00	0,18
Paraguay	1,73	1,00	1,73	1,40	64	0,73	1,00	0,16
Venezuela	1,66	1,00	1,92	1,20	55	0,61	0,00	0,37

Note: In the first column countries are ordered by their Policy index value. In the following columns the values for each political variable is given and colored accordingly such that dark-blue represents a "high" value of that particular variable, light-blue is "medium" and white is "low".

Source: Authors' compilation; Jones (2005); Iacoviello and Zuanic (2005) and World Economic Forum (2004).

Countries with high values of the policy index tend to have high values in many of the institutional variables emphasized by this study. Notice the country that has the highest value of the policy index: Chile. All the corresponding cells, with the exception of that corresponding to party institutionalization, are dark blue, indicating high values in each category.²⁹ At the other end of the spectrum, countries with the lowest values of the policy index tend to have mostly white or light blue cells.

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

This is not surprising, from the standpoint of this study's theoretical framework and the background country studies. Several of the "institutional" variables, such as having a strong congress heavily involved in policymaking, or an independent supreme court, are the reflection of the equilibrium behavior of a number of relevant political actors. If a supreme court is able to maintain or develop its independence over time, it is because it is in the best interest of other relevant actors (such as the president) not to tinker with the supreme court in pursuit of short-term political benefits. Strong congresses and independent judiciaries are not built over night, but are the outcome of processes of investing in the quality and credibility of such institutions. Such processes are interrelated.

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

But these processes can also result in vicious institutional dynamics, where the opposite will tend to happen. In such cases, executives may be inclined to tinker with the judiciary and to overstep in the domains of congress, lowering the incentives to invest in important legislative careers and on the institutionalization and strengthening of congress.

This discussion suggests that the incentives of presidents, the strength of congress, and the independence of the supreme court are likely to be co-determined in equilibrium, and all these things together are likely to have an effect on the quality of policies. This suggests the presence of multiplicity of equilibria. If for any reason a particular political system enters in to a virtuous circle, it is likely to build up its strength over time. The opposite will tend to happen when such virtuous circles do not have time to build or are broken.³⁰ This suggests that particular historical events or critical political junctures, including personalities and leadership qualities, will matter— inducing *path dependence*.

²⁹ While we use the conventional measure of party system institutionalization computed by Jones (2005), we believe that such measure underestimates the actual party system institutionalization in Chile.

³⁰ Mailath, Morris, and Postlewaite (2001).

Studying the way in which such different institutional characteristics are built over time would require theoretically structured (historical) comparative country studies, that could pay special attention to the interaction between institutions and the specificities of political cleavages and socio-economic structures behind the economic and social policies implemented in each country at each point in time. Such studies constitute the next steps in this agenda.

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