

*Presidential Address*

## The Institutional Foundations of Public Policy

Throughout the last couple of decades, Latin America has been undergoing a process called market-oriented reform in some circles (like the readership of *Economía*) and neoliberal reform in others.<sup>1</sup> At the height of that movement, several authors, including me, were involved in creating a literature known as the political economy of reform. Ten years ago I wrote a paper with Andrés Velasco, in which we take stock of the previous thinking on those issues.<sup>2</sup> The word reform had a very specific meaning: as described by Stiglitz, “reforms are now those changes that ‘we’ approve of, while changes that we do not condone can be labeled with a term of censure such as ‘backsliding.’”<sup>3</sup> That is, the reforms were a set of policies of universal applicability that economists “knew” would benefit the developing countries adopting them. The political economy of reform was basically about finding a way to implement these reforms in political systems stacked with stubborn entrenched special interests that had resisted those policies thus far. Once that magical moment of reform was over, the economists could just sit back, relax, and enjoy watching the countries embark on a healthy development path.

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This paper draws from joint work with several collaborators, in particular Spiller, Stein, and Tommasi (2003), Stein and Tommasi (2005), and IDB (2006). I thank Ernesto Stein for allowing me to draw freely from our ongoing work. I also thank the main institutions that have supported me while developing this agenda: the Center of Studies for Institutional Development (sponsored by Fundación Gobierno y Sociedad) and the Universidad de San Andrés.

1. The fact that different epistemic communities use a different terminology is in itself an important, yet overlooked, issue in relation to the lack of sound consensus on the application of these measures.

2. Tommasi and Velasco (1996).

3. Stiglitz (2000, p. 551).

Things have been a lot more complicated than that, and the results of that quest have been rather disappointing. Even though most countries undertook a large number of measures in what was supposedly the right direction, the growth and distributional implications have been far from spectacular, and public opinion in most countries today does not favor the reforms.<sup>4</sup>

Despite the fact that things did not go as well as planned, many actors such as international financial institutions see no reason for major changes in the strategy. They claim that countries should keep pushing for some missing reforms, while developing a battery of complementary measures related to crisis proofing, institutional (or sometimes second-generation) reforms, and microeconomic policies.<sup>5</sup>

At the analytical level, some authors call for an end to the business of producing universal policy recipes. One of the most clearly articulated arguments in this area is presented in a paper by Lindauer and Pritchett in a previous issue of this journal, with comments by Rodrik, Eckaus, and Velasco.<sup>6</sup> “Lindauer and Pritchett argue that the first step is to discard the very idea of a big idea. This does not mean that anything goes. Some economic principles ought to be reflected in sound economic policies. As discussant Dani Rodrik points out, however, these principles can underlie a host of different policies, applied through an array of different institutions. For example, allowing interest rates to clear credit markets is an inevitable conclusion of sound economic analysis, whereas choosing the American over the German model for organizing the banking industry is not.”<sup>7</sup>

Current recommendations, whether in their more mainstream variety (that is, to keep pushing for an enlarged set of reforms) or in their more eclectic variety (namely, to find out what specific policies and institutions could work under different circumstances), all place a heavy burden of responsibility on the countries’ capacity to develop and implement complex public policies. That leads me to the topic of this lecture, which is related to my own research agenda: what determines the ability of different polities to undertake the task of producing effective public policies? This question takes on major importance once the analyst moves away from a simplistic universal recipe that, once implemented in a magical moment of reform, leads to everlasting happiness.

4. Lora and Panizza (2002).

5. Rodríguez-Clare (2005).

6. Lindauer and Pritchett (2002).

7. Velasco (2002, p. viii).

Policymaking is a continuous and ongoing process. Aspects of that very process affect the economic and social impact of the policies themselves. This idea is exemplified by one characteristic of policies that has received a lot of attention in modern economic theory: credibility. The effects of policies on the final economic and social outcomes of interest depend on the actions and reactions of economic and social agents, who take into account their expectations about the future of the policies in question before deciding on their responses. As Rodrik explains in reference to trade reform, “it is not trade liberalization per se, but *credible* trade liberalization that is the source of efficiency benefits. The predictability of the incentives created by a trade regime, or lack thereof, is generally of much greater importance than the *structure* of these incentives. In other 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.”<sup>8</sup> Credibility is part of a set of policy characteristics that influence their effect on development outcomes. These characteristics, in turn, are derived from the process by which policies are discussed, decided, implemented, evaluated, and modified.

Before looking into this policymaking process, I provide an example of a market-oriented reform undertaken in many Latin American countries, which in some cases has been a resounding failure for the reasons emphasized in this lecture. The example is that of the so-called privatization of the pension system, and I use the specific case of Argentina.<sup>9</sup> Pension policy has transaction characteristics that make it particularly prone to trouble. The underlying economic transaction consists of taking money from people currently working (in the formal sector) in exchange for returning that money thirty years from now, when the worker reaches retirement age.<sup>10</sup> So many things could go wrong in those thirty years that it is no wonder that pension systems are such a hot political problem in almost every country.

Argentina has had its share of problems with the pension system. It was created by President Juan Peron as a pay-as-you-go system. At that time, most of the population was uninsured against impoverishment in old age or late death, so the program was very popular. Regrettably, the system was

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

9. This example is taken from Spiller, Stein, and Tommasi (2003) and Spiller and Tommasi (2006).

10. Pension systems clearly serve other purposes, such as redistribution and insurance “against” long life.

running large deficits within a few years of its creation. Pension funds were managed discretionally (and clientelistically) by the executive, to finance a wide range of social programs and other activities. Moreover, the system's underlying demographic and economic assumptions were totally unrealistic, particularly for those groups that received special treatment (such as public employees). Minor reforms were implemented in the 1970s and 1980s, but none of them solved the problem. The large deficit of the social security system was one of the causes of the hyperinflation crisis in the late 1980s. Among the many problems of the system, the low rate of contribution was salient, with a large fraction of people avoiding contributing to the system.

The main problems of the public system were low compliance by individuals and opportunistic political manipulation by the government, which often translated into stealing people's pensions. In 1993, after several years of debate (including the accommodation of union demands by letting them run their own pension companies), the public pay-as-you-go system was replaced by a multipillar system, based on private individual contributory accounts, complemented by a public redistributive fund. The individual accounts are managed by private fund administrators (AFJPs), which are regulated by a newly created agency (Superintendence of AFJPs). The reform was characterized as a privatization, and it was claimed that the new system was invulnerable to political discretion. Contributions were expected to increase under the new system of individual accounts, given that workers now had a clear property right to their individual savings.

Unfortunately, none of those expectations were fulfilled. People apparently anticipated that the privatization of the funds was not a sufficient guarantee against expropriation, because compliance declined. And their pessimistic expectations were dutifully fulfilled by the government during the crisis of the early 2000s, when the AFJPs were forced to hold government paper, on which the government later defaulted.

This example illustrates that public policies are more than their titles and that what really matters for policies to induce good performance and outcomes are some fundamental state capabilities, such as the ability to commit to not expropriating, or the ability to enforce compliance. The example suggests that Argentina lacked those capabilities, both in the period of the public pay-as-you-go pension system and in the period of the private system of individual accounts. These weaknesses in Argentine policies and policymaking are much more general than this example of pensions.<sup>11</sup>

11. See Spiller and Tommasi (2006, chap. 7).

The next section introduces the framework my colleagues and I have been using to study policymaking and summarizes some of the main steps undertaken in this agenda so far. The paper then provides a first glimpse at some empirical evidence that has arisen from this research.

## **Studying Policymaking: Framework and Agenda**

The discussion so far suggests that discovering how policies influence behavior and hence aggregate outcomes, exploring the conditions under which some reforms are most likely to give good fruits, and identifying effective ways to improve development outcomes requires an understanding of the processes within which countries instrument policies. Analysts need to understand policymaking processes. This raises the question of what determines a country's ability to design, approve, and implement public policies effectively.

The prism I have chosen for looking into these processes uses an eclectic and interdisciplinary approach, which might loosely be called a framework, that draws on both economics and political science. This framework predicts that the extent to which some desirable policy characteristics (such as stability, adaptability, consistency, and public regard) obtain depends on the behavior of political actors in the policymaking process. Players in this game include official state actors and professional politicians (for instance, presidents, party leaders, legislators, judges, governors, and bureaucrats), as well as business groups, unions, the media, and other members of civil society. The policymaking process is viewed as a series of bargains and exchanges among these actors, whose behavior depends on their interests, incentives, and constraints and on their expectations about the behavior of other actors. These interactive patterns of behavior constitute equilibria of the policymaking game. These behaviors and equilibria, in turn, are conditioned by the rules of the policymaking process. In democratic polities, like those in most of Latin America over the last several years, these rules relate to the workings of political institutions such as the legislature, executive-legislative relations, the political party system, the judiciary, and public administration.

The type of analysis I am advocating has some connections to important recent literatures in economics and political science. There are some specificities, however, in the way I approach these problems, and it might be helpful to clarify that by contrasting it with those literatures.

Engerman and Sokoloff, together with Acemoglu, Johnson, and Robinson have recently led one of the most vibrant lines of exploration on the determinants

of economic development.<sup>12</sup> They argue that having good institutions (including property rights, equal opportunity for a broad cross-section of the population, rule of law, and constraints on politicians) is crucial for economic development. These good institutions, in turn, are derived from geographical, productive, and population-settlement conditions at the time of colonization, and they seem to persist over time. Illuminating as those lines of research are, they leave many questions unanswered. Moreover, they do not seem directly useful for undertaking institutional or policy reform in the modern era or for anticipating the effects that some types of interventions (such as market reforms) are likely to have in different polities.<sup>13</sup>

My agenda centers on the effect of institutions, especially political institutions, on the qualities of public policies, but the relevant observation period is years or decades, as opposed to centuries. In a sense, this represents an intermediate view with respect to the issue of the endogeneity or exogeneity of institutions. Institutions are clearly endogenous to past arrangements and events and, to some extent, to more recent configurations of political power, socio-economic structures, and other deep determinants. Nonetheless, I attempt to focus on the impact of particular configurations of political institutions on policymaking processes and thus on policies. Understanding those constraints is crucial for the development of policy proposals that are attuned to the institutional realities of each country. At the same time, political institutions are being debated and even reformed in country after country, and these debates are not just smoke screens for blunt exercises of power. Rather, they are informed by discussions on the possible effects of reform on political practices and outcomes. I therefore take a middle path, aiming to increase the awareness of the importance of political practices and institutions in the policymaking process, without falling into a totally deterministic mode in which everything that happens is determined by forces absolutely beyond the control of contemporary actors.

A lot of work in political science and political economy links political institutions with political and economic outcomes. Standard references in the

12. Engerman and Sokoloff (1997, 2002); Acemoglu, Johnson, and Robinson (2001, 2002).

13. Furthermore, some of their main predictions linking preexisting conditions to institutions and outcomes do not seem to work well at higher frequencies—say, to understand the developments of the last couple of decades in Latin America. According to those theories, Chile, a highly unequal country, should have bad institutions and poor growth performance, while Argentina, a grain economy, should have developed egalitarian (and thus effective) institutions and should be doing quite well. This is exactly the opposite of what has occurred lately.

economics camp include Drazen and Persson and Tabellini.<sup>14</sup> Most of that work is designed to search for the effects of particular explanatory variables, rather than for the causes of a particular empirical outcome. The type of concern guiding my research takes me in a somewhat different direction. My expected end product is not the empirical confirmation or rejection of a single-factor hypothesis (such as whether more or less proportional electoral systems are associated with larger or smaller government budgets), but the explanation of particular features of public policies in a given country. To adjust policy recipes to institutional capabilities or even to think about reforms of political institutions that might improve policymaking processes, one needs a country-based approach conveying detailed knowledge of the institutional context and historical background, which facilitates an understanding of the interactions among factors that affect policymakers' incentives.<sup>15</sup> Regularities emerging from abstract modeling of political institutions and cross-country empirical analysis are a very important input in this quest, but they need to be complemented by details of the interactions at play in each polity. The goal is to look for principles of good policymaking processes and then understand how the details of each country's polity facilitate or impede the operation of such principles. One such principle is political cooperation.

Important features of public policies depend on the ability of political actors to reach and enforce intertemporal agreements: that is, to cooperate. In political environments that facilitate such agreements, public policies tend to be higher in quality, less sensitive to political shocks, and more adaptable to changing economic and social conditions. In settings that hinder cooperation, policies are either too unstable (subject to political swings) or too inflexible (unable to adapt to socioeconomic shocks). They tend to be poorly coordinated, and investments in state capabilities tend to be lower.<sup>16</sup>

Under what conditions is cooperation more likely to emerge? The theory of repeated games suggests that cooperative outcomes are more likely if there

14. Drazen (2000); Persson and Tabellini (2000).

15. This relates to a question posed by Drazen at the beginning of his textbook: "How much political detail?" "One can err in either direction: one can specify institutions and differentiate decisionmaking processes in such detail that no regularities emerge; or one can represent institutions on so abstract a level that the result tells us little about what to expect from real-world institutions" (Drazen, 2000, p. 62). My work falls under a more detailed and less abstract representation of political institutions than that in, say, Persson and Tabellini (2000).

16. This link between cooperation and features of public policies such as stability, adaptability, and coordination is modeled in Spiller and Tommasi (2003, 2006, chap. 2). For some foundational ideas and modeling in this line, see Dixit (2003) and Dixit, Grossman, and Gul (2000).

are good aggregation technologies, so that the number of actors with direct impact on the policymaking game is relatively small; if the arenas for political exchange are well institutionalized; if key actors have long time horizons; and if there are good enforcement technologies (such as the presence of impartial and effective arbiters and the possibility of effective delegation of the implementation of agreements).

Verifying whether such conditions are present in practice requires substantial empirical knowledge about the workings of policymaking and political institutions. These conditions are associated with some incentives and characteristics of key players and arenas such as congress, the party system, the judiciary, and the bureaucracy. This approach is heavily demanding in terms of identifying the details of institutions and policymaking in each country. The first phases in the agenda have therefore focused on detailed country studies.

I started, around 1997, working on the Argentine case with Pablo Spiller and a number of collaborators. We wanted to understand why public policies in Argentina tend to be so dysfunctional, especially in comparison with the country's level of human development. We concluded that the workings of political institutions in Argentina were contrary to the requirements for effective policymaking.<sup>17</sup>

Based on that pilot work on Argentina, we developed a more general framework and launched a comparative project studying ten Latin American countries: namely, Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.<sup>18</sup>

After advancing those country comparisons, we undertook the next step of the agenda as background work for the Inter-American Development Bank's 2006 Economic and Social Progress in Latin America Report, entitled *The*

17. That research is reflected in a number of papers examining Argentine political institutions (congress, intergovernmental relations, party politics, provincial politics, the judiciary, and public administration) and the policymaking in several specific policy areas and policy episodes. Most of that work is summarized in Spiller and Tommasi (2006).

18. The framework is presented in Spiller, Stein, and Tommasi (2003). The project was developed through the Inter-American Development Bank's Research Network and was coordinated by Ernesto Stein, Pablo Spiller, Carlos Scartascini, and myself. Each country study had the input of practitioners and academics from several disciplines. The country studies are available at [www.iadb.org/res/network\\_study.cfm?st\\_id=82](http://www.iadb.org/res/network_study.cfm?st_id=82) and will be forthcoming in an edited volume. Several of the studies exploited variation across time in political institutions, including Colombia before and after the 1991 constitution, Venezuela before and after the election of governors, Paraguay during and after the Stroessner dictatorship, and Mexico during and after the PRI hegemony.



*Politics of Policies.* For that report, we looked deeper into cross-country comparisons of the roles and characteristics of the main actors and arenas of the policy process.<sup>19</sup> This stage involved developing new indicators of policy characteristics and properties of political systems for eighteen countries. Comparative case studies in a number of policy areas were also developed, including tax policy, education, privatization and regulation of utilities, and budget processes.<sup>20</sup>

The rest of this section provides a few examples of the insights obtained in these rich studies. The rest of the paper then describes some of the empirical indicators being built and highlights some preliminary correlations between the workings of the political system and policy characteristics.

One early insight is that there does not seem to be a magic bullet in terms of political reforms that will produce good policymaking under all circumstances. Understanding the overall workings of the political and policymaking processes in each country, with their specific historical trajectories, is a crucial prerequisite for developing appropriate reform proposals, not only in terms of policies, but also in terms of political institutions.<sup>21</sup>

Take, for instance, the case of Chile. As shown in the next section, Chile presents the best policies in the region. Such consistent policies are the outcome of a well-institutionalized system in which the two stable coalitions of center-left (*Concertación*) and center-right (*Alianza*) political parties play a crucial role.<sup>22</sup> The stability and characteristics of this party system are influenced by a binomial electoral system that fosters the formation and stability of moderate coalitions. The binomial electoral system for congress plays an important stabilizing role. That role, however, is conditioned by a configuration of factors specific to the Chilean case, and I would not recommend that other Latin American countries move to a binomial system.

Similarly, institutional reforms that seem a good idea when considered in isolation (in partial equilibrium) could have unexpected negative consequences when filtered through the political system of specific countries. For

19. The actors and arenas studied include political parties and party systems (Jones, 2005), legislatures (Saiegh, 2005), cabinets (Martínez-Gallardo, 2005), the bureaucracy (Zuñanic and Iacoviello, 2005), subnational political actors (Monaldi, 2005), the judiciary (Sousa, 2005), businesses (Schneider, 2006), and the media (Hughes, 2006).

20. On tax policy, see Cárdenas, Junguito, and Pachón (2005); on education, see Navarro (2005); on utilities privatization and regulation, see Bergara and Pereyra (2005); on the budget process, see Filc and Scartascini (2005).

21. See Tommasi (2004) for a scheme of multiple institutional levels, in which political institutions are more fundamental than policies.

22. Aninat and others (2006); IDB (2006).

instance, most experts on the budget process would argue that presidential budgetary discretion is not a desirable trait of the budget process. Nonetheless, Alston and others argue that the budgetary discretion of the Brazilian president plays a key role in enforcing efficient political transactions between the president and legislators, thereby enabling the implementation of policies that promote the general welfare.<sup>23</sup>

International organizations and other actors have been pushing for the decentralization of the public sector in Latin America. Decentralization is supposed to bring about a more accountable and responsive public sector, closer to the people. Decentralization has indeed brought democratization and enhanced efficiency in some cases, but it has also fragmented policy-making and weakened the national policymaking arena, with deleterious consequences, in other cases. In Argentina, for instance, decentralization seems to have reinforced subnational political machineries, which is one of the country's key problems in national policymaking.<sup>24</sup>

The rest of the paper presents some empirical indicators on the qualities of public policies and on several organizational and behavioral measures of the workings of political institutions for eighteen Latin American countries. The preliminary analysis of these data buttresses the insights from the framework. The paper concludes by pointing toward the next steps in the agenda.

## Characteristics of Public Policies in Latin America

In ongoing work, Ernesto Stein and I are constructing indicators of the dependent variable for our analysis—namely, the quality of public policies. We have developed or borrowed a number of concepts to capture policy characteristics that affect their quality and, hence, their effects. The public policy features we examine include the following: 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 regard (the degree to which policies pursue the public interest); and efficiency

23. Alston and others (2005). The opposite seems to be the case in the Dominican Republic (IDB, 2006; Filc and Scartascini, 2005).

24. Spiller and Tommasi (2006).

(the extent to which they reflect an allocation of scarce resources that ensures high returns).

We draw on two main sources of data: internationally available data, such as the Executive Opinion Survey of the World Economic Forum's *Global Competitiveness Report* (GCR), and an opinion survey that we developed and that was conducted by the Inter-American Development Bank (IDB). The survey encompasses more than 150 experts in eighteen Latin American countries, including public policy analysts, economists, political scientists, and former policymakers.<sup>25</sup> Combining those two sources we came up with indicators of the above policy characteristics, which I summarize here.<sup>26</sup>

The first indicator measures stability. Some countries seem to be able to sustain policies over time, while others frequently reverse policies, reflecting shifts in the political winds. In countries with stable policies, change tends to be incremental and pragmatic, building on the achievements of previous administrations, and it tends to occur with some amount of consensus among the key actors. Volatile policy environments are characterized by large swings and by a lack of consultation with different groups in society. Our framework associates policy stability with the ability of political actors to forge and enforce intertemporal agreements that allow certain fundamental policies to be carried across administrations. The notion of policy stability is closely linked to the notion of policy credibility.

Our measure of policy stability is built from six indicators: the coefficient of variation of a (detrended) index of economic freedom published by the Fraser Institute; the extent to which policy changes affect firms' planning capacities (from the GCR survey); the extent to which governments honor the commitments of previous governments (from the GCR survey); the capacity of the state to set and maintain priorities; the extent to which governments ensure policy stability; and the extent to which the state makes and maintains international commitments (the last three are from our Latin American survey).<sup>27</sup> The second column of table 1 presents the values of the stability index for the eighteen countries in our sample.

Our second measure captures adaptability. Countries need to be able to adapt policies to changing conditions and to change policies when they are

25. The survey was called the state capabilities survey, since it was an extension of a number of questions on state capabilities originally developed in Weaver and Rockman (1993).

26. See Stein and Tommasi (2005) for additional details.

27. For brevity, I do not describe the components of the index for every one of the policy characteristics. See Stein and Tommasi (2005) for the details behind the construction of the policy indexes.

**TABLE 1. Features of Policies in Latin American Countries**

Country	Stability	Adaptability	Enforcement and implementation	Coordination and coherence	Public regard	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

Source: Stein and Tommasi (2005).

obviously failing. Political circumstances, however, might prevent such changes from happening, for instance, in the case of opposition from entrenched veto players or rigidities that were built into the policy mechanisms to prevent political opportunism. Countries with low policy adaptability will be unable to respond to shocks adequately, and they may get stuck in bad policies for extended periods. The assessment of each country with regard to policy adaptability is presented in the third column of table 1.

Our third measure—namely, coordination and coherence—takes into account the fact that 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. This is not always the case, however. Policymaking often involves a large number of agencies and layers of government that do not communicate or cooperate adequately with one another. Lack of coordination often reflects the uncooperative nature of political interactions. Country assessments are presented in the fourth column of table 1.

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. Our fourth indicator thus measures the quality of policy implementation and enforcement, which is quite poor in many countries in Latin America. This study's index of implementation and enforcement was constructed with four components: the extent of enforcement of the minimum wage (from the GCR survey); the extent of control on tax evasion (from the GCR survey); the consistency of environmental regulation (from the GCR survey); and the extent to which the state ensures effective implementation of public policies (from our state capabilities survey). Country assessments are presented in table 1.

Our fifth indicator, public regard, was first suggested by Cox and McCubbins.<sup>28</sup> It refers to the extent to which policies produced by a given system promote the general welfare and resemble public goods (that is, they take public well-being into account) or, alternatively, funnel private benefits to certain individuals, factions, or regions in the form of projects with concentrated benefits, subsidies, or tax loopholes.<sup>29</sup>

28. Cox and McCubbins (2001) use the phrase public regardedness to describe a policy's consideration of the general welfare.

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

Finally, a key aspect of good policymaking is the state's ability to allocate its scarce resources to those activities in which they have the greatest returns. Our index of efficiency has two components: whether the composition of public spending is wasteful (from the GCR survey), and whether resources are targeted where they will be most effective (from our state capabilities survey). The characterization of countries along this policy dimension is presented in the second-to-last column of table 1.

The six indexes presented above can be combined in different ways to come up with an overall index of the quality of public policy. The last column of table 1 presents a quality index that is a simple average of the previous six columns.<sup>30</sup>

Figure 1 uses the index subcomponents that come from international data sets to place Latin American countries in the international context. Latin American countries as a group do not rank well in policy quality indexes. Chile ranks high in the international comparison, a few countries (namely, Brazil, Costa Rica, El Salvador, Mexico, and Uruguay) cluster around the world median, a set of countries (including Colombia) is in the second-lowest quintile, and a pack of countries fall at the lowest end of the distribution.

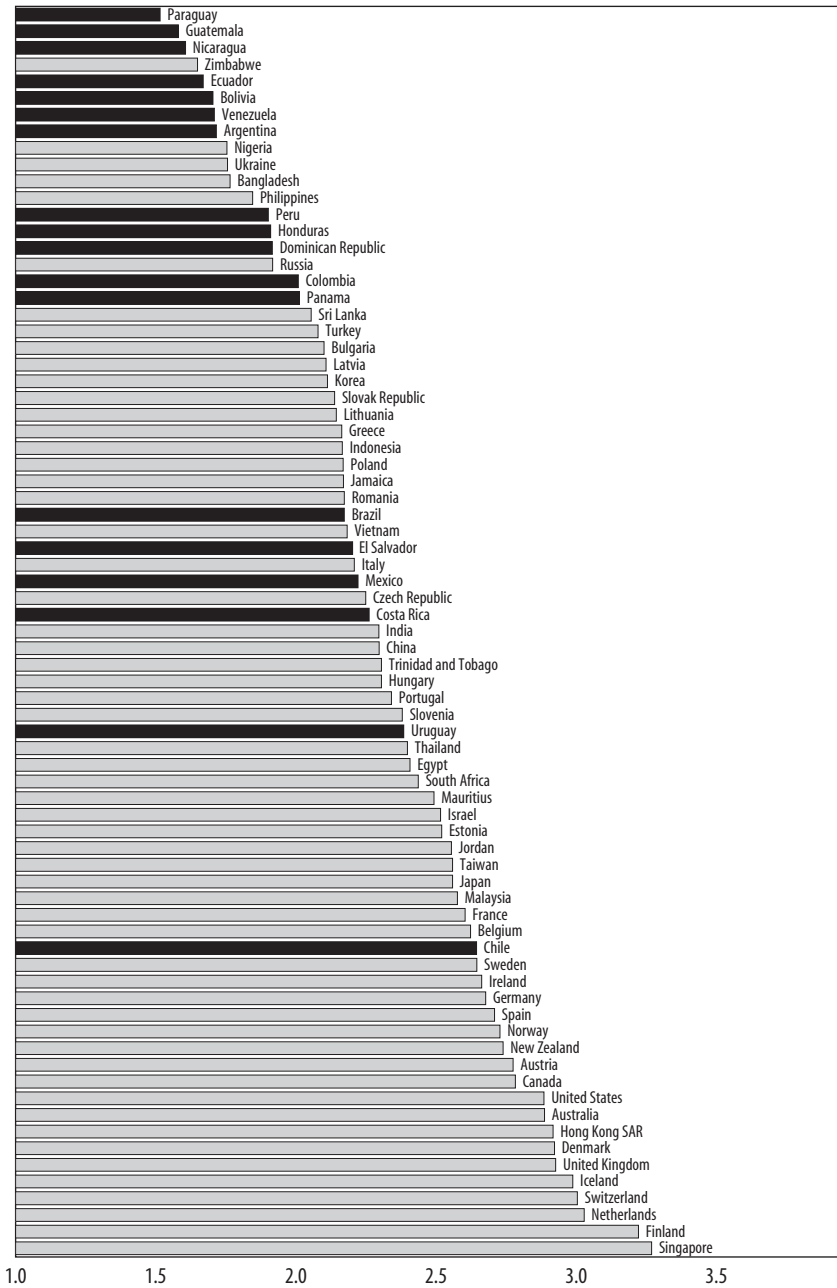
An important assumption behind the development of these indexes was that the policy features being measured, such as stability, adaptability, and the quality of implementation, should be important ingredients for economic development. Table 2 provides some evidence in support of this hypothesis, by showing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

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 Latin American countries, using the indexes that combine international data with the state capabilities survey. The lower panel illustrates a similar exercise for a wider sample of developing countries, using international data only. In each cell, the top number represents simple correlations, while the bottom number shows partial correlations, controlling for the effects of initial (1980) per capita GDP to account for potential convergence effects.

The policy index is positively associated with each of the measures of development. The association is statistically significant in fourteen out of sixteen correlations. In some cases, the correlations are very high. Correlations

30. The results are robust to other weighting schemes, as discussed in Stein and Tommasi (2005).

**FIGURE 1. The Quality of Policies: Latin American Countries in the World Context<sup>a</sup>**



Source: Stein and Tommasi (2005).

a. International components of the policy index. Latin American countries are represented by black bars.

**TABLE 2. Features of Public Policies and Economic Development\***

<i>Country group and explanatory variable</i>	<i>Stability</i>	<i>Adaptability</i>	<i>Coordination and coherence</i>	<i>Implementation and enforcement</i>	<i>Public regard</i>	<i>Efficiency</i>	<i>Policy index</i>	<i>No. observations</i>
Latin American countries								
GDP per capita growth	0.643*** 0.455*	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	0.602***	0.186	0.519**	0.199	0.375	0.376	18
Poverty reduction	0.418* 0.467*	0.782*** 0.455*	0.428* 0.427*	0.711*** 0.322	0.464* 0.353	0.592*** 0.372	0.614*** 0.439*	18 17
Welfare index (Sen)	0.339 0.791***	0.377 0.685***	0.268 0.950***	0.235 0.688***	0.177 0.839***	0.226 0.856***	0.300 0.871***	17 16
Welfare index (Atkinson)	0.649*** 0.791***	0.610** 0.630***	0.800*** 0.949***	0.590** 0.635***	0.639*** 0.817***	0.739*** 0.826***	0.730*** 0.843***	16 16
Developing countries								
GDP per capita growth	0.489*** 0.491***	n.a. n.a.	n.a. n.a.	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	n.a. n.a.	n.a. n.a.	0.585*** 0.567***	0.485*** 0.476***	0.249* 0.283*	0.400*** 0.393***	52 47
Poverty reduction	0.511*** 0.514***	n.a. n.a.	n.a. n.a.	0.332** 0.327**	0.222 0.202	0.448*** 0.445***	0.461*** 0.450***	42 37

Source: Stein and Tommasi (2005); World Economic Forum (various years); Gasparini (2004).

n.a. Not available.

\* Statistically significant at the 10 percent level.

\*\* Statistically significant at the 5 percent level.

\*\*\* Statistically significant at the 1 percent level.

a. Simple correlations between policy qualities and political variables are shown in the first row of each subgroup. Partial-out correlations, in which I control for GDP per capita in 1980, are shown in italics in the second row of each subgroup.



tend to be higher for the Latin American sample, where the similarities among the countries are strong, than for the worldwide sample. The level of significance is highest for the developing country sample, however. This is not surprising, given the increase in the sample size. The individual indexes 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 requires further exploration).

## **Relating Political Institutions and Policy Outcomes**

The framework presented earlier emphasizes that good policymaking can be facilitated if political actors have relatively long horizons and if the arenas for discussing, negotiating, and enforcing political and policy agreements are relatively encompassing and well institutionalized. This section explores some of the characteristics of key political actors and arenas that might enhance good policymaking. The statistical exercises below are severely limited by the small sample size, and they should be interpreted as suggestive evidence in need of further exploration.

### *The Policymaking Capabilities of Congress*

National legislatures are the most natural arena for discussing, negotiating, and enforcing political agreements. Since they include broader representation than the executive, they might serve as an arena for forging intertemporal 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.

Ernesto Stein and I constructed an index that captures the extent to which congress has the capability to serve this policymaking function. The index considers aspects of the organization of congress and characteristics of the legislators. The index and its components are presented in table 3.<sup>31</sup> Figure 2 presents a scatter plot relating the index of congress's policymaking capabilities to the aggregate index of policy qualities. The positive relation between the two variables is quite clear. The correlation is 0.699, and it is significant at the 99 percent level of statistical confidence.

31. The main source for the congressional data is Saiagh (2005). Details of the construction of the index and of additional sources are available in Stein and Tommasi (2005).

**TABLE 3. Policymaking Capabilities in Latin American Legislatures**

Country	Confidence in congress <sup>a</sup>	Effectiveness of lawmaking bodies <sup>b</sup>	Average experience of legislators (years)	Percentage of legislators with university education <sup>c</sup>	Average no. 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	...	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

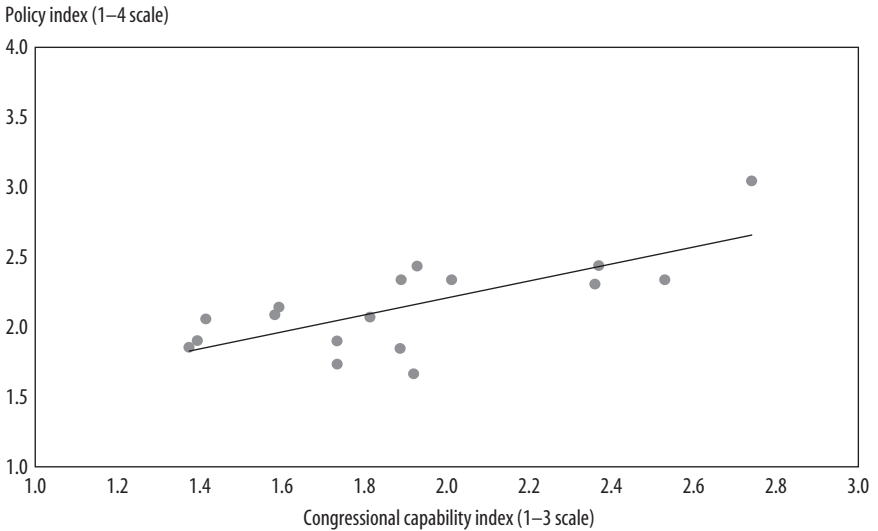
Source: Stein and Tommasi (2005)

... Not applicable. The Dominican Republic was included only in the 2004 survey, so no average is shown.

a. Latinobarometer, Average for 1996–2004.

b. World Economic Forum (2004–05).

c. PELA (2002).

**FIGURE 2. Congressional Capabilities and the Quality of Policies**

Source: Stein and Tommasi (2005).

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. We therefore checked whether the link between these variables survives after we control for the level of per capita income in 1980.<sup>32</sup> It does. We conducted similar checks for 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 the previous section and each of the political and institutional variables discussed.

### *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. This section focuses on

32. We used partial correlations instead of simple correlations. In the case of partial correlations, the idea is to check whether countries whose congressional capabilities indexes are higher than expected, given their income level, tend to have policy indexes that are also higher than expected, given their income level.

**TABLE 4. Correlations of Institutional and Political Variables with Features of Policies<sup>a</sup>**

<i>Institutional or political variable</i>	<i>Stability</i>	<i>Adaptability</i>	<i>Coordination and coherence</i>	<i>Implementation and enforcement</i>	<i>Public regard</i>	<i>Efficiency</i>	<i>Policy index</i>	<i>No. of observations</i>
Congress index	0.740***	0.570**	0.754***	0.503**	0.624***	0.614***	0.699***	18
	0.772***	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**	0.617***	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
Stability of effective no. of legislative parties	-0.140	0.060	-0.168	0.019	-0.082	-0.261	-0.110	18
	-0.227	-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

Source: Stein and Tommasi (2005); Jones (2005); Martínez-Gallardo (2005); Zuvanic and Iacoviello (2005); and World Economic Forum (2004).

\* Statistically significant at the 10 percent level.

\*\* Statistically significant at the 5 percent level.

\*\*\* Statistically significant at the 1 percent level.

a. Simple correlations between policy qualities and political variables are shown in the first row of each subgroup. Partial-out correlations, in which I control for GDP per capita in 1980, are shown in italics in the second row of each subgroup.

characteristics of parties and party systems that make parties more encompassing policy players, and it 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 are more likely to encourage long horizons and to prevent individual politicians from behaving opportunistically, particularly when parties are programmatic. They can also facilitate intertemporal 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 policymaking process also depends 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 entities, 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. Long-lasting, well-institutionalized parties could be consistent long-term policy players and contribute to generating intertemporal cooperation.

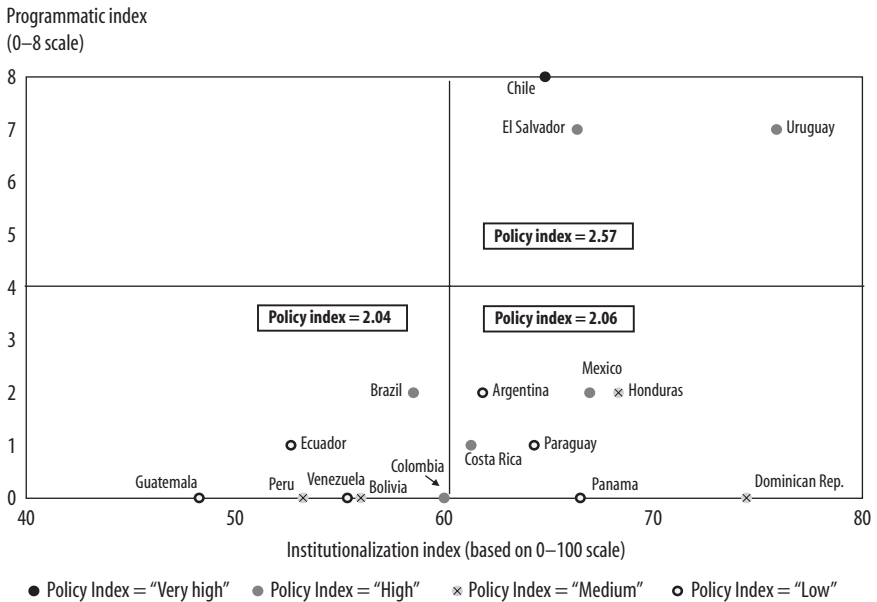
A relatively small number of parties that are expected to be around for a long time, alternating in government, are likely to respect some basic rules of interaction and to establish somewhat consensual sustained policy stances on crucial issues.<sup>33</sup> Interactions among institutionalized parties 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. The institutionalization of the party system is therefore expected to have positive effects on key features of policies, such as stability.

The association between an index of party institutionalization developed by Jones and the policy index discussed above (0.25) is not very tight, although it is positive (see table 4).<sup>34</sup> The reason is that the impact of this variable is not

33. At the same time, party systems can be 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 and others (2005).

34. Jones (2005). The Jones index incorporates the four dimensions of party system institutionalization identified by Mainwaring and Scully (1995): stability of interparty competition; extensiveness of party roots in society; legitimacy of parties and elections; and strength of party organization. For more detail, see Jones (2005); IDB (2006).

**FIGURE 3. Party System Institutionalization, Programmatic Orientation, and the Quality of Policies<sup>a</sup>**

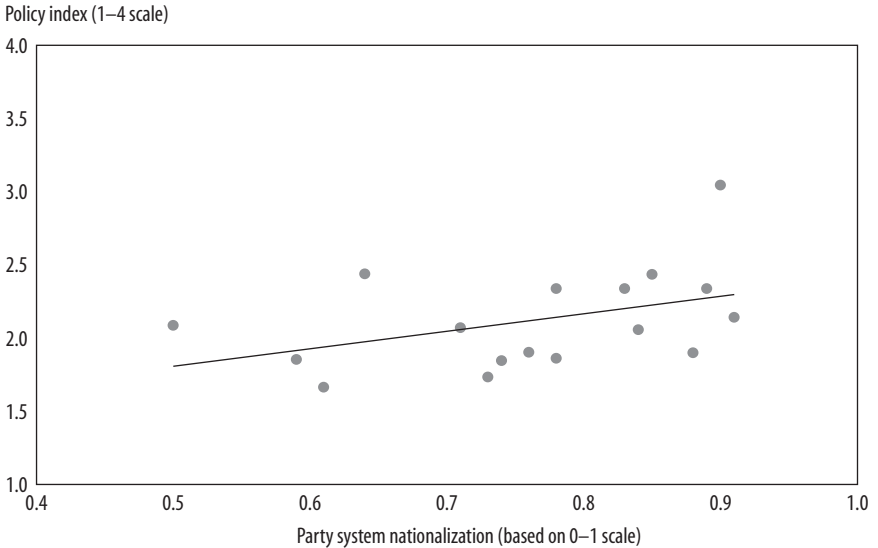


Source: Stein and Tommasi (2005), based on information from Jones (2005).

a. The 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 the programmatic and institutionalization indexes can be misleading.

straightforward. In some countries, like Brazil and Colombia, policies are relatively effective, despite the fact that their party systems are not very 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 arena captured in the index of party system institutionalization used in this study. In other cases, parties are reasonably institutionalized, but they are more focused on maintaining relatively narrowly based (often geographic) support networks than on the nature of public policies. Figure 3 shows the values of the policy index for different configurations of party system institutionalization and the extent to which parties are programmatic.<sup>35</sup> No countries included in the figure have programmatic parties that are not institutionalized

35. This last variable is also taken from Jones (2005).

**FIGURE 4. Party System Nationalization and the Quality of Policies**

Source: Stein and Tommasi (2005), based on information from Jones (2005).

(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 both institutionalized and programmatic.<sup>36</sup>

**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. In a highly nationalized party system, national issues are likely to be central in legislators' careers. Weak party nationalization, however, will lead legislators and politicians to be less focused on national public policy questions.

Relatively more encompassing parties are thus likely to help generate better national policies. This study uses a party system nationalization score from Jones as an index of party system nationalization.<sup>37</sup> Figure 4 plots the policy index against party system nationalization. The correlation between the two variables is 0.420, and it is significant at the 90 percent level. The correlations

36. These results must be interpreted as suggestive of issues requiring further exploration, given the very small sample size.

37. Jones (2005).

are even stronger in the exercise controlling for GDP per capita. This result suggests that while having a more geographically decentralized political system may be beneficial in some respects (namely, getting government close to the people), it may also have some harmful effects on the quality of national policymaking.<sup>38</sup> Argentina is an example of a political system that is too strongly anchored in provincial politics, and provincial political careers weaken the national policymaking system.<sup>39</sup>

### *Implementation and Enforcement*

Policies with good properties are most likely to emerge in cooperative policymaking environments. Adequate enforcement and implementation facilitate such cooperation and thus 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, so its characteristics and capabilities are likely to have an effect on the quality of implementation. The quality of the bureaucracy can also affect the ability of other political actors to bargain and enforce intertemporal policy agreements. In fact, delegation to a competent bureaucracy might in some cases be the way to enforce the intertemporal 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 characteristics of the judiciary, the cabinet, and the bureaucracy affect the properties of public policies.

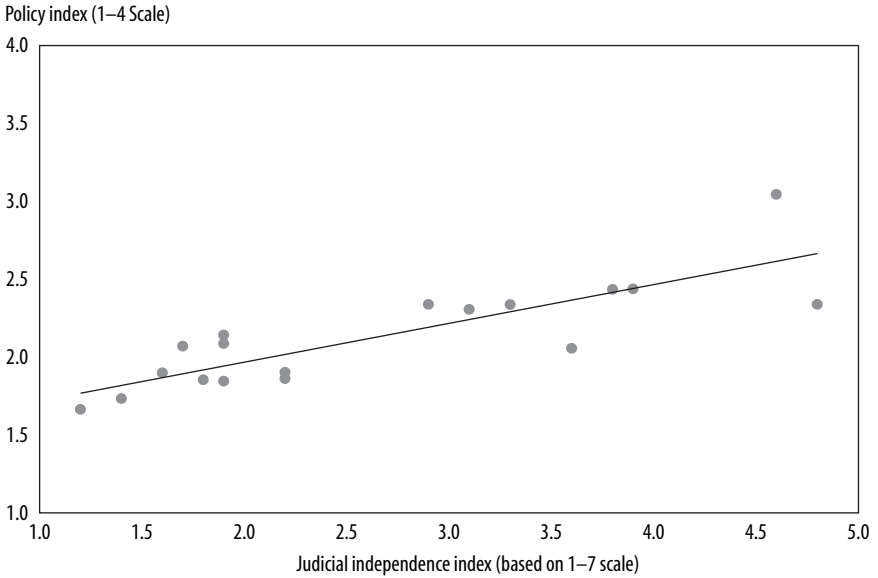
**THE JUDICIARY.** Of all the roles that the judiciary plays in the polity, one is especially important for our framework: the intertemporal enforcement of prior political and policy decisions, as reflected in constitutions and laws. A judiciary that plays this role effectively will improve some properties of public policies, such as stability and the quality of enforcement. The supreme court or equivalent institution is usually in charge of ensuring that the president does not overstep congress and that neither branch violates the constitution. The judiciary will not be able to perform this role adequately if it is not independent of the executive in power. Figure 5 relates a ranking of *de facto* judicial independence in Latin America to our policy index.<sup>40</sup> The correlation

38. 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 by IDB 2006, chap. 7.

39. Spiller and Tommasi (2003, 2006); Ardanaz, Leiras, and Tommasi (2005).

40. The ranking is based on indexes constructed by the World Economic Forum (2003–04). See also Sousa (2005).



**FIGURE 5. Judicial Independence and the Quality of Policies**

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

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.

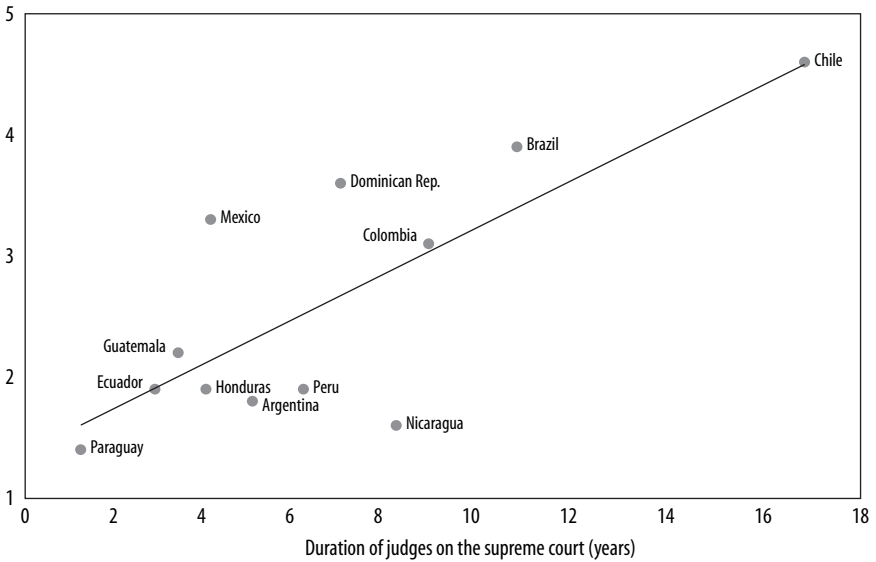
Building an independent judiciary is a complex business, which usually takes a long time. This is supported by figure 6, which shows a strong correlation of judicial independence with the duration of justices on the bench (0.771, significant at the 99 percent level). Clearly, a supreme court whose members change too often is unlikely to establish much independence. Since the president nominates justices in most countries, a short tenure would imply that most of the country's supreme court justices had been nominated by the sitting president. Individual justices who owe their position to the sitting president are less likely to show independence from the executive in their rulings.<sup>41</sup>

**THE CABINET.** Cabinet ministers, in turn, play key roles in every stage of the policy process in Latin America. Characteristics related to the formation,

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

**FIGURE 6. Supreme Court Tenure and Judicial Independence**

Judicial independence index  
(based on 1–7 scale)



Source: Stein and Tommasi (2005), based on information from World Economic Forum (2004) and Henisz (2000).

operation, stability, and structure of cabinets are likely to have important effects on the properties of public policies. For instance, a certain degree of cabinet stability is likely to be necessary to promote long-term policies and to allow ministers to see programs and policy implementation through to completion. Frequent turnovers in cabinet ministries is likely to promote a short-term orientation to policy and frequent policy switches. Long tenures are also conducive to improving relationships with permanent bureaucrats, which are essential for implementing policy efficiently. Frequent changes in the cabinet can leave leadership vacuums that may contribute to bureaucratic inertia and even corruption. Long tenure allows ministers to accumulate valuable expertise specific to the policy area in which they work and to develop political and managerial skills that should improve the quality of their performance in their different policymaking functions.

Of the many characteristics of cabinets that might affect the features of policies, we focus on two that are particularly consistent with our emphasis

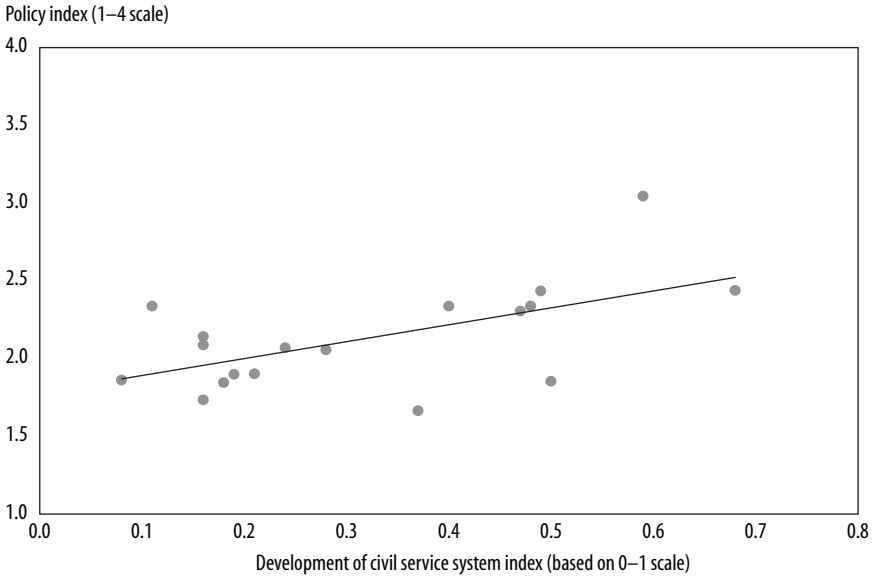
on long horizons and institutionalization: the stability and durability of ministers (the inverse of the number of ministers per portfolio in each administration) and the fraction of the cabinet and the top political appointees that come from a civil service career (an indicator of institutionalization).<sup>42</sup> As shown in table 4, both variables have positive correlations with this study's policy features. 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 a civil service background also correlates positively with several of the public policy dimensions discussed earlier, in particular with policy stability (0.613).<sup>43</sup>

**THE BUREAUCRACY.** Finally, a strong and capable bureaucracy is likely to improve the quality of public policy implementation. It also has positive feedback effects on other stages of the policy process. Having a competent and independent bureaucracy to which some policy decisionmaking and implementation may be delegated might facilitate intertemporal agreements, particularly in policy areas that are prone to politicization and political opportunism. When there is a choice between rules and discretion, and if discretion may lead to political opportunism, delegation to a technically competent bureaucracy can facilitate adaptability while keeping political opportunism at bay. Conversely, policies are more likely to deviate from the public interest in the absence of a competent bureaucracy. For instance, businesses affected by economic regulation or taxation are likely to focus their efforts on evading regulation or taxation at the implementation stage. We used data from Zuvanic and Iacoviello to construct an index of the development of civil service systems in Latin American countries.<sup>44</sup> 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 policies that promote the general welfare. The correlation with the overall policy index is 0.588, significant at the 95 percent level (see figure 7).

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

43. The correlation of the 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.

44. Zuvanic and Iacoviello (2005).

**FIGURE 7. Development of the Civil Service and the Quality of Policies**

Source: Stein and Tommasi (2005); Zuvanic and Iacoviello (2005).

### *Electoral Rules, Party System Fragmentation, and the Partisan Powers of Presidents*

Several characteristics of presidential democracies (other than those emphasized so far in this section) have received considerable attention because of their potential impact on governability (and thus policymaking). Preliminary analysis suggests that several of those predictions do not hold for the measures and countries included in this study, at least at the level of simple and partial correlations. For brevity, I only briefly discuss one example in this subsection, namely, the degree of proportionality of representation induced by electoral rules.

More proportional electoral rules are expected to lead to better representation, but lower policy effectiveness.<sup>45</sup> They are also associated with more fragmented party systems and with presidents that have lower partisan powers.<sup>46</sup> The last three rows of table 4 present traditional measures of these concepts (that is, the proportionality of the electoral system, the effective number

45. Payne and others (2002).

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

of legislative parties, and the presidential party's lower or single chamber contingent) and their correlation with policy characteristics. None of these measures seems to correlate significantly with this study's measures of policy effectiveness. This suggests that it is difficult to generalize about the direct effects of institutional rules and political configurations on the nature of policymaking and the characteristics of policies. This highlights the need for a more interactive and nuanced analysis than is currently available. That is a strong motivation for the type of country focus advocated here.

## Summing up and Further Steps

Table 5 summarizes the information about some of the main correlations identified in this paper.<sup>47</sup> I have ordered the countries as a function of the value of their policy index. Countries with high values of the policy index tend to have high values on many of the institutional variables emphasized in this study. Chile has the highest policy index value, as well as high values in every category except party institutionalization.<sup>48</sup> At the other end of the spectrum, countries with the lowest values of the policy index tend to have low to intermediate values on the individual categories. More generally, the table clearly demonstrates that some of the main behavioral characteristics are inter-related. The consistently high values in the upper part of the table suggest that the variables are not independent. For instance, countries with stronger congresses tend to have more independent judiciaries and better policies than countries with weaker congresses.

Such clustering of good things might be due to variables, which were omitted from the analysis, that drive all of them, or it might be due to a dynamic buildup given the existence of multiple equilibria. The next steps on this agenda are to disentangle those questions, both by looking at a larger number of cases with statistical methods and by exploring the historical dynamics in detailed country studies. Braun, Leiras, and Tommasi sketch the first steps to be undertaken in those two directions.<sup>49</sup> I devote the next few paragraphs to the "multiplicity" interpretation.

47. I have added a variable called incentives of presidents, which I have not included in the above analysis because of sample-size problems in the underlying survey. It is useful, however, in the interpretation that follows. See Stein and Tommasi (2005) for additional details.

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

49. Braun, Leiras, and Tommasi (2005).

**TABLE 5. Political Institutions and the Qualities of Policy<sup>a</sup>**

Country	Policy index	Incentives of the president	Congress index	Judicial independence	Party system institutionalization	Party system nationalization	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	87	0.78	2.00	0.40
Colombia	2.30	2.00	2.36	3.10	60	n.a.	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 Republic	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

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

n.a. Not available.

a. In the first column, countries are classified by their policy index value. In the following columns, the values for each political variable are given and colored as follows: dark gray represents a high value of that particular variable; light gray is medium; and white is low.

Several of the institutional variables under analysis, such as having an independent supreme court or a strong congress that is heavily involved in policymaking, reflect the equilibrium behavior of a number of relevant political actors. A supreme court is only able to maintain or develop its independence over time if 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 overnight, but are the outcome of processes of investing in the quality and credibility of such institutions. Such processes are interrelated.

These processes can sometimes lead to equilibria characterized by virtuous dynamics. The executive will not tinker with the composition of the supreme court, which helps increase the court's independence and reputation. Strong, independent judiciaries tend to adequately enforce the domain and prerogatives of other institutional arenas such as congress, which then enhances legislators' incentives to invest in their individual and collective capabilities. These processes, however, can also result in vicious institutional dynamics, in which the opposite tends to happen. In such cases, executives may be inclined to tinker with the judiciary and to overstep the domains of congress, lowering the incentives to invest in important legislative careers and in the institutionalization and strengthening of congress.

Presidential incentives, congressional strength, and judicial independence are thus likely to be codetermined in equilibrium, and together they are likely to have an effect on the quality of policies. This suggests the presence of multiple equilibria. If for any reason a particular political system enters into a virtuous circle, it is likely to build its strength over time. The opposite happens when virtuous circles do not have time to develop or are broken.<sup>50</sup> Particular historical events or critical political junctures, including personalities and leadership qualities, matter—inducing path dependence. Studying how such different institutional characteristics are built over time requires theoretically structured (historical) comparative country studies, which pay special attention to the interaction between institutions and the specificities of political cleavages and socioeconomic structures behind the economic and social policies implemented in each country at each point in time. Undertaking such studies constitutes the next steps in this agenda.

Papers and presentations by economists usually end with a slide on what should be done. Such policy recommendations are a slippery business in the political economy field, since this field takes policies as endogenously chosen

50. Mailath, Morris, and Postlewaite (2001).

by political actors given the rules of the game. In truth, while the rules of the political game constrain and affect the actors' choices, this happens in interaction with a number of ideational factors, so that policy advice can still usefully inform the process. One of the main points advocated in this presentation, and in the field in general, 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. Reforming the political institutions themselves similarly requires a better understanding of the systemic effects of configurations of political institutions. This paper 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.

In his Ely Lecture to the American Economic Association, Al Harberger argued that enough people are already pleading for special interests, and that economists should therefore work for the general interest, interpreted as economic efficiency. In his words, "If we are silent about the efficiency costs or benefits of policies, who else is going to represent them?"<sup>51</sup> In a similar vein, my food for thought for economists (and others) in the business of recommending and analyzing economic policies is that institutions and processes might be more important than policies. Advocates and advisors have to think twice before forcing a favorite policy onto a polity at the expense of violating principles such as a reasonable degree of societal consensus, congressional debate, or judicial independence.

51. Harberger (1993, p. 5).



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