Chapter X

How (Not) to Produce Effective Policies?
Institutions and Policymaking in Latin America

Mariano Tommasi and Carlos Scartascini

Analysts and practitioners have always searched for policy recipes to solve the economic and social problems of developing countries. The last “universal recipe” recommended and adopted throughout Latin America were the market-oriented reforms of the 1990s. The varied and less-than-stellar performance that ensued have redirected intellectual attention. The so called “Washington Consensus” has lost its intellectual appeal and has been replaced by a number of initiatives, none of which has completely gained center stage. Perhaps one of the most respected lines of reasoning is the one pioneered by Dani Rodrik and others, which calls for “home-made” as opposed to universal solutions: identify the most binding constraints to development in your country, experiment with policy or institutional innovations to see what works for you, and adjust accordingly.¹

Both the old style policy recipes and the new more eclectic approach place a heavy burden of responsibility on the countries’ capacity to develop and implement complex public policies. But, what determines the ability of different polities to undertake the task of producing effective public policies? This chapter reports on one line of inquiry which argues that the

¹ See for instance Hausmann, Rodrik and Velasco (2005). Of course the idea that it is necessary to deal with the complexity of real world cases instead of searching for all encompassing paradigms is not new. One of its most distinguished proponents was Albert Hirschman; see for instance Hirschman (1985) and (1995). See also Santiso (2000) and (2006).
relevant economic and social outcomes depend not so much on the titles of those recipes (whether the pension system is “public pay-as-you-go” or “private defined contribution”) but on a number of characteristics of the actual implementation of those policies, such as their stability, their capacity to adjust to changing circumstances, their enforcement, etc. Countries able to generate policies with such attributes reap the benefits of specific initiatives more than others. If the policies adopted do not have such attributes – no matter how good they look on paper – they are unlikely to achieve good development outcomes.

These characteristics, in turn, are derived from the process by which policies are discussed, decided, implemented, evaluated, and modified; that is, from the *policymaking process* (PMP) of each country. Policymaking is a continuous and ongoing process. Aspects of that very process affect the economic and social impact of the policies. Perhaps that is easier seen from the perspective of one characteristic of policies which 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 (1989, p.2) 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.”

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).
stability, is part of the set of characteristics of policies that influence their effect on development outcomes.

Before starting to look into that process, the policy-making process, let us provide one 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 chapter. We will use the example of the so-called privatization of the pension system in Argentina. Pension policy is an issue with 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 30 years from now, when the worker reaches retirement age.\(^3\) There are so many things that could go wrong along those 30 years, that it is no wonder that pension systems are such a hot political problem in almost any country.

Argentina has had its fair share of problems with the pension system. It was created by President Peron as a pay-as-you-go (PAYG) 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 running large deficits within a few years after its creation. Pension funds were managed discretionally (and clientelistically) by the executive, to finance a wide range of social programs and other activities. Also, the underlying demographic and economic assumptions of the system were totally unrealistic, particularly for those groups that received special treatment (such as public employees). Minor reforms were implemented during 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 late 1980s

\(^3\) Clearly, pension systems serve other purposes, such as redistribution, and insurance “against” a longer than expected life.
hyperinflation crisis. 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.

In a nutshell, the main problems of the public system were low compliance of individuals and opportunistic political manipulation by the government, which often translated into “stealing people’s pensions.” In 1993 the public PAYG system was replaced by a multi-pillar system, based on private individual contributory worker accounts, complemented by a public redistributive fund. The individual accounts were managed by private fund administrators (AFJP), 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. It was also expected that the new system of individual accounts would increase contributions, given that in the new regime workers had a clear property right to their individual savings.

Unfortunately, none of those expectations was fulfilled. It seems that people (rightly) anticipated that the “privatization” of the funds was not enough of a guarantee against expropriation, because compliance even declined. And those pessimistic expectations were dutifully fulfilled by the government of the day during the crisis of the early 2000s, by forcing the AFJPs to hold government paper, on which the government later defaulted, and even more blatantly by the administration of Cristina Fernandez de Kirchner that nationalized again the system. In November 2008, after 14 years of operation of private individual accounts, the entire system was nationalized and pension policy shifted back to a public pay-as-you-go model. Individual pension fund accumulation however no longer mattered for the calculation of benefit entitlements, which started to follow a “defined-benefit” formula based on earnings and years of contributions only. The resources accumulated in individual accounts over 14 years (worth about 9.5% of GDP in December 2008) was transferred to ANSES and put under public administration (Arza 2009). The management of these funds
has been the source of great debates, but the consensus view of most independent observers is that it has been used to cover short term government financial needs as well as to increase spending for various electoralist and clientelistic purposes.\textsuperscript{4} What is beyond debate is that the Kirchners’ reform did not do anything to solve the fundamental problems of the system.\textsuperscript{5}

Rofman, Fajnzylber and Herrera (2008) provide an interesting contrast between pension policymaking in Argentina and Chile. They argue that “in recent years authorities in both countries coincided on identifying insufficient coverage among the elderly and adequacy of benefits as the most critical problems. As a result of differences in political economy and institutional constraints, responses were different. In Chile, a long and participatory process resulted in a large reform that focuses on impacts on the medium term, through a carefully calibrated adjustment. In Argentina, instead, reforms were adopted through a large number of successive normative corrections, with little public debate about their implications, and immediate impacts on coverage and fiscal demands.” (2008:1).

This example illustrates the fact 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 not to expropriate, or the ability to enforce compliance. The example suggests that Argentina has always lacked those capabilities, in the old times of the “public PAYG pension system”, during the times of the “private system of individual accounts”, and certainly in the current times of the newly nationalized system. As explored in more detail below, these weaknesses of Argentine policies and policymaking are much more general than just the example of pensions.

\textsuperscript{4} The lack of complete agreement over the current use of pension funds is in part due to the obscurity with which the current Argentine government treats the relevant information (Urbizondo, 2010).

\textsuperscript{5} See for instance Arza (2009).
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, that is, policymaking processes.

The analytical prism we are reporting on uses an eclectic approach drawing from (institutional) economics and political science. It views the PMP as a political process that involves various actors (politicians, interest groups, citizens) who interact in a variety of arenas (such as Congress, back rooms of the presidential palace, or the street) which can be more or less transparent, and more or less adequate for achieving reasonable bargaining outcomes. The PMP is viewed as a series of bargains and exchanges among political actors whose behavior depends on their interests, incentives, and constraints, and on their expectations about the behavior of other actors. These incentives, in turn, are shaped by the workings of political institutions (the legislature, executive-legislative relations, political parties, the judiciary, and public administration) in each country.

A number of recent studies have investigated the workings of political institutions, policymaking processes and the resulting policy outcomes in Latin America, via various case studies as well as cross country empirical analysis within Latin America and more broadly.6 Space constraints preclude us from describing those studies in any detail, but we describe here a succinct summary of the conclusions of some of those studies. We start by defining the dependent variables, which are the characteristics of public policies that we believe are important to understand the performance of the countries in Latin America.

The qualities of public policies

Several characteristics of policies condition whether they deliver the expected welfare impacts. These characteristics include:

Policy Stability: the capacity to sustain policies over time (especially across changes in administration).

Policy Adaptability: the capacity to adapt policies to changing economic conditions or to change policies when they are clearly failing.

Policy Implementation and Enforcement: ability to implement and enforce public policies.

Policy Coordination and Coherence: the degree to which different policies operating over the same realities are well articulated.

Efficiency: The extent to which policies reflect an allocation of scarce resources that ensures high returns.

Public-Regardedness: the extent to which policies promote the general welfare as opposed to funneling private benefits to certain individuals, factions or regions.

In a number of studies we have tried to come up with empirical proxies for these policy characteristics for Latin American countries (for instance IDB 2005, Stein and Tommasi 2007), and for broader (but shallower) international samples (for instance Berkman et al 2008). Figure X.1 places the Latin American countries in a comparative worldwide perspective, using an aggregate index of the qualities of policies.7

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7 See Scartascini, Stein and Tommasi (2008) for details in the construction of each of the variables as well as for the construction of the aggregate index.
Figure X.1: Policy Index across countries

Source: Author’s calculation using data from Berkman et al (2008)
The studies have shown that better policy characteristics are associated with better development outcomes, as summarized in Table X.1, which presents basic and partial correlations (controlling for GDP per capita in 1990) between the six public policy variables and the policy index with two measures of development, growth of GDP and change in the Human Development Index. (See Scartascini, Stein, and Tommasi 2008 for details)

We have also found preliminary evidence that the quality of policies seems to matter for the effectiveness of public expenditures (Scartascini, Stein, and Tommasi 2008.) As summarized in Figure X.2 for the case of public spending on health: (1) if a country’s policy environment is not good, spending more on health has no clear effect on improving life expectancy, and (2) as countries develop a better policy environment, they tend to benefit more from a given amount spent.

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

<table>
<thead>
<tr>
<th></th>
<th>Stability</th>
<th>Adaptability</th>
<th>Coordination and Coherence</th>
<th>Implementation and Enforcement</th>
<th>Public Regardness</th>
<th>Efficiency</th>
<th>Obs</th>
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<td>GDP per capita Growth 90-07</td>
<td>0.443*</td>
<td>0.46**</td>
<td>0.465*</td>
<td>0.536*</td>
<td>0.695***</td>
<td>0.537**</td>
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<tr>
<td></td>
<td>0.257</td>
<td>0.307</td>
<td>0.345</td>
<td>0.400</td>
<td>0.555**</td>
<td>0.404*</td>
<td>18</td>
</tr>
<tr>
<td>Human Development Index (change) 90-05</td>
<td>0.581***</td>
<td>0.684***</td>
<td>0.71***</td>
<td>0.607***</td>
<td>0.594***</td>
<td>0.748***</td>
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<td></td>
<td>0.532**</td>
<td>0.5912***</td>
<td>0.678***</td>
<td>0.546**</td>
<td>0.544**</td>
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<td>18</td>
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<td><strong>Developing countries</strong></td>
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<td></td>
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<td>0.173*</td>
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<td></td>
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<td>0.341***</td>
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<td>0.243***</td>
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<td>0.446***</td>
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<td></td>
<td>0.192*</td>
<td>0.291***</td>
<td>0.301***</td>
<td>0.11</td>
<td>0.217**</td>
<td>0.253***</td>
<td>97</td>
</tr>
</tbody>
</table>

Note: Simple correlations between policy qualities and political variables are shown in the first row of each subgroup. Partial-out correlations (controlling for GDP per capita of 1990) are shown in it a second row of each subgroup.
* Significant at 10 percent; ** Significant at 5 percent; *** Significant at 1 percent.

Source: Authors’ calculations using data from World Development Indicators and Berkman et al (2008)

We have also found preliminary evidence that the quality of policies seems to matter for the effectiveness of public expenditures (Scartascini, Stein, and Tommasi 2008.) As summarized in Figure X.2 for the case of public spending on health: (1) if a country’s policy environment is not good, spending more on health has no clear effect on improving life expectancy, and (2) as countries develop a better policy environment, they tend to benefit more from a given amount spent.

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8 This result comes from running a simple OLS specification explaining a country’s change in the health index between 1995 and 2005 based on our Policy index, and expenditures on health and education (measured as the log of average expenditures between 1998 and 2005) and an interaction effect between the two independent variables.
What explains the quality of policies?

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

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9 See Spiller, Stein, Tommasi (2003) and Spiller and Tommasi (2007) for a more detailed account and formalization of this framework.

10 In addition to the key time dimension, there is a spatial element to these bargains, as these can take place in arenas with varying levels of “institutionalization”: while on one extreme, formal institutions such as Congress and parties are the central locus of demands by socioeconomic actors, at the other end of the spectrum, the “street” can provide the space for interest groups to deploy alternative political technologies (e.g., road blockades) to influence economic policy (Scartascini and Tommasi, 2009).
A number of features characterize the political transactions surrounding public policies: (1) politics and policymaking take place over time; (2) the relative political power of various actors changes over time; (3) there are elements of both conflict and commonality of interests in almost any relevant policy issue; (4) the socioeconomic reality in which policies operate changes over time; (5) most policies could be characterized by two decision frequencies: moments of major institutional definition and regular policymaking under those rules; (6) many of the changing realities in (4) are such that it would be impossible for political or policy agreements to cover every feasible future circumstance.

Models capturing those features have been developed, using the logic of repeated games, to analyze policymaking (Spiller and Tommasi 2007, Chapter 2). As a result of such analysis it is possible to explain the characteristics of policies and ultimately certain patterns of development. The ability of a polity to cooperate determines whether certain characteristics of policies are attainable. For example, in less-cooperative policymaking environments, policies might be too volatile and/or too rigid, poorly coordinated, and in general of low quality due to insufficient investment. (Spiller and Tommasi 2007: 41-42).

A number of characteristics of policymaking processes and political institutions have been found to matter to promote more cooperative policymaking and hence policies of high quality. These include:

Well Institutionalized political parties (especially parties that have national, programmatic orientations). Institutionalized programmatic parties tend to be consistent long-term players. A political system with a relatively small number of institutionalized parties (or coalitions) is

11 IDB (2005), Stein and Tommasi (2007), Scartascini, Stein and Tommasi (2009).
more likely to generate inter-temporal cooperation, and to lead to the emergence of consensual sustained policy stances on crucial issues (*Políticas de Estado*).

**A legislature with strong policymaking capabilities.** Legislatures are the ideal arenas for the striking of efficient political bargains. Policies tend to be better when legislatures develop policymaking capacities and constructively engage in national policymaking, rather than when they simply adopt a subservient role, rubber-stamping the wishes of the executive (or blindly opposing in a non-constructive manner).

**An independent judiciary.** A well functioning and independent judiciary can be a facilitator of exchanges, fostering bargains among political actors by providing enforcement that binds them to their commitments, and by ensuring that none of the players oversteps its boundaries.

**A well-developed civil service.** A strong and technically competent civil service can contribute to the quality of public policies by making policies more stable, by enhancing the overall quality of implementation, and by preventing special interests from capturing the benefits of public policy.

In previous work we have constructed indicators of several of these institutional capabilities for a number of Latin American countries (IDB 2005, Stein and Tommasi 2007) and also shallower indicators for a larger number of countries from international data sources (Scartascini, Stein, and Tommasi 2008, 2009).\(^1\) Figure X.3 summarizes some of that

\(^{12}\) For instance, for the international index of congressional capabilities, we used the average of two data sources: the effectiveness of lawmaking bodies (from the Global Competitiveness Report) and the population’s confidence in parliament (from the World Values Survey). In the more detailed construction of the variable for the Latin American subsample, we additionally include measures of legislators’ characteristics (average experience, education) and organizational and political characteristics of the legislatures (specialization in committees, strength of committees, whether they are the place to build political careers, whether they are
empirical work by plotting an index of the quality of public policies against an aggregate indicator of those institutional capabilities.

Table X.2 provides some summary information for a number of Latin American countries which indicates that stronger institutional capabilities are connected to better policy qualities.

endowed with technical expertise). The correlations between the variables available at the international level and the more detailed variables for the Latin American sample are quite high (IDB 2005, Saiegh 2010, and references there.) The index attempts to capture characteristics of legislators and legislatures that impinge upon the capacity of Congress to participate constructively in the making of policy.
<table>
<thead>
<tr>
<th>Country (by Policy Index level)</th>
<th>Congress Capabilities Index</th>
<th>Judicial Independence</th>
<th>Party system Institutionalization</th>
<th>Party system nationalization a,b</th>
<th>Programmatic Parties b</th>
<th>Bureaucracy Index</th>
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<td>2.82</td>
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</tr>
</tbody>
</table>

- not available

a Adequate data for party system nationalization are not available for Colombia for 2002. For the case of Ecuador, party system nationalization data correspond to 1998. b Jones (2005)

Note: Countries are classified according to their policy index values. The values for each country on each variable are shaded such that dark gray represents "high" values, light gray represents "medium" values, and white "low" values.

Source: Author’s calculation using data from Berkman et al (2008)
The table visually summarizes the main findings, where dark grey represents high values of variables, light grey intermediate values and white low values. Countries with high (low) values on the policy index tend to have high (low) values for many of the institutional variables. The table clearly shows that many of these institutional characteristics are interrelated. The high concentration of dark cells in the upper part of the table suggests that the variables are not independent.

That is not surprising from our perspective. 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 actors (such as the president) not to meddle with the supreme court in pursuit of short-term political benefits. Strong congresses and independent judiciaries are not built overnight, but are the outcome of processes of investing in the quality and credibility of such institutions, and 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. Executives will be inclined to meddle 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.
Coincidentally, the actions of citizens and pressure groups will tend to reinforce the strength or weakness of these institutional actors and arenas. When Congress and the political party system are effective conduits of preference aggregation and political bargaining, various relevant actors place their bets (investments) in those institutions, most citizens believe that those are the spaces where relevant decisions are made, and this whole logic reinforces and become self-fulfilling. On the contrary, if such institutional arenas are not taken seriously and everybody knows that the way of getting something out of the political system is to blockade a road or to bribe the president, those investments in the institutionalization of Congress and/or parties are not undertaken and the weakness of formal institutions is reinforced. Polities might be stuck with higher or lower levels of institutionalization (Scartascini and Tommasi 2009).

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 are likely to have an effect on the quality of policies. This suggests the presence of multiplicity of equilibria, in technical language. If for any reason a particular political system enters into 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.13 This suggests that particular historical events or critical political junctures, including personalities and leadership qualities, will matter— inducing path dependence.

The next section explores such interdependencies in one particular country case which illustrates the workings of institutions, policymaking and the resulting policy characteristics, in general equilibrium. For brevity we focus here on the case of Argentina; a comparative collection of country case studies is presented in Stein et al (2008).

The reason for focusing on countries one at a time relates to another important aspect of our diagnostic. Contrary to a simplistic interpretation of the political economy literature relating political institutions to policy outcomes, the average “partial equilibrium” connection between one specific institutional trait (say one characteristic of the electoral system) and the qualities of resulting policies identified in cross-national empirics cannot be extrapolated to a universal recommendation in favor of that particular institutional trait.14 Countries are characterized by a vector of institutional traits that interact to determine equilibrium behavior, and the county studies we are relying on (Stein et al 2008) have suggested that often “secondary” institutional rules such as budget procedures (see Alston et al 2008 on Brazil) or federal fiscal arrangements (as we will argue below for the case of Argentina) turn out to be crucial determinants of policymaking. In order to think about reforms of political institutions, one needs a country based approach conveying detailed knowledge of institutional context and historical background, allowing an understanding of the interactions among factors that affect the incentives of the makers of policy (Spiller, Stein, and Tommasi 2003.)15

14 Some of the founding fathers of that literature are well aware of that, as reflected in Alesina, Persson and Tabellini (2006: 206), when they say that they “are skeptical of unequivocal claims about the superiority of one set of institutions over all others. …. In a given situation, a set of institutions may be clearly preferable to others. But a normative judgment requires detailed knowledge of the concrete situation and its specific social and historical ramifications. Knowing the average effects of institutions is unlikely to be enough.”

15 Similarly, authors such as Rodden (2009) have recently showed the importance of relying more on analytical narratives than cross-country regressions for understanding institutions across the world.
Public Policies and the Policymaking Process in Argentina

Argentina is a country of consistent economic and social underperformance. Various authors have identified its policy volatility and, more generally, the low quality of its public policies as one important factor in explaining such underperformance (Hopenhayn and Neumeyer 2005, Mody and Schindler 2006, Prados de la Escosura and Sanz-Villarroya 2009).

The most noticeable characteristic of Argentine policies is their instability. This can be seen quite clearly in the wide swings in overall economic policy orientation. Spiller and Tommasi (2008) present an index of economic policy volatility; Argentina ranks as the 4th country with the most volatility in a sample of 106 countries. The contrast between the pro-market reforms of the Menem administrations (1989-1999) and the statist stance of Kirchners’ administrations since 2003 show that “lack of direction” in a dramatic manner. This policy volatility occurs also at a more micro level. Social programs, for instance, are frequently reshuffled when new ministers or secretaries take office, a frequent event in Argentina. Often this re-shuffling involves substantial tinkering with the geographic distribution of funds. Argentina also shows great volatility in policies as crucial as trade policy and fiscal policy (Spiller and Tommasi 2007, Mody and Schindler 2006) and this volatility has been identified as one of the key factors in the poor growth performance of the country (Hopenhayn and Neumeyer 2005).

Argentina not only suffers from policy volatility, but it is also a weak enforcer of its policies, near or at the bottom of the international list in its ability to enforce tax collection, social security contributions, and payment of minimum wages (Spiller and Tommasi 2008).

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16 This and the next sections of the chapter are based largely in Tommasi (2008) and Spiller and Tommasi (2003, 2007, 2008), and references there.
Bouzas and Pagnotta (2003) describe the policymaking process in relation to international trade negotiations (a crucial policy area for a country with the size, economic structure, and location of Argentina) in the following terms: deficient coordination and wasteful competition among multiple offices; diffuse assignment of responsibilities (which has a negative impact on efficiency and effectiveness of policies); lack of an adequate arena or institutionalized procedure for deliberation, consensus creation, or for the definition of general direction of policy; no formal coordination mechanisms; sporadic and haphazardous Congressional intervention; interbureaucratic struggles; unstable bureaucratic structures; high rotation of top level civil servants; use of temporary top personnel which prevents the accumulation of institutional experience, precisely in an area were knowledge is so strategic; low level of institutional learning; and lack of effective coordination also across units in the federal structure. (2003: 90-92).

All these characteristics are also present in the making of policy in various other areas reported in Spiller and Tommasi (2007), including social policies, pension policy, fiscal federalism, and public utilities. The characteristics of the policymaking process include deficiencies of the budget process, which gives excessive discretion to some executive actors; insufficient involvement by Congress; instability of the bureaucratic structures in charge of implementation; instability of top bureaucratic personnel; noncooperativeness of the interactions between national authorities and provincial authorities; noncooperativeness of interactions among and within national ministries; provincial governors who appear as relevant actors in national policy; and promises that are not fulfilled.
Political Institutions and Policymaking in Argentina

Why does Argentina, historically a country of relatively high human capital and high levels of human development, have such a dysfunctional way of making public policies? At least part of the explanation seems to lay on the institutional factors identified earlier in the paper. As it can be seen in the comparison of Table X.2, and is abundantly documented in Spiller and Tommasi (2007), Argentina presents very low values for in all institutional domains identified as conducive to good long term policymaking, especially if one adjusts for the country’s level of human development. It has a very weak national Congress, it lacks a party system which is programmatically institutionalized, the Judiciary is highly politicized and does not provide for the adequate enforcement of intertemporal agreements, and its public bureaucracy has consistently declined in professionalism in relative terms for many decades.

The reasons behind those very weak institutional capabilities are complex. Certainly there is no magic bullet as in the simplistic early institutionalist literature; it is not because it is presidential rather than parliamentary (look at Chile); neither is the fact that it has “proportional representation” in its electoral system. It is the combined outcome of a number of institutional features, in particular those organizing the federal political and fiscal structure of the country, coupled with some historical legacies and to the reinforcing dynamics generated by the behavior of various actors towards these institutions in the current Argentine equilibrium.

More broadly and more specifically than the institutional indicators used in cross-country comparisons, Spiller and Tommasi (2007 and 2008) characterize the Argentine policymaking

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17 A more detailed contrast between Argentina and Chile, a country of similar level of development and cultural background but profound policymaking differences, is provided in Tommasi (2008) and references there.
process in a number of propositions about the behavior of some of the main actors and characteristics of the main institutional arenas, as follows:

1. Congress is not an important policymaking arena.

2. The executive has often substantial leeway to take unilateral policy action.

3. Provincial political powers (especially provincial governors) are very important in national policymaking.

4. There is a symbiotic interaction between national and provincial policymaking that operates through political and federal fiscal channels.

5. Fiscal federalism considerations are a factor in almost every policy issue, adding transaction difficulties and rigidities to policymaking.

6. Given the incentives of the executive of the day, of legislators, and of provincial governors, there is little investment in policymaking capacities in several spheres.

7. The bureaucracy is not an effective corps to which to delegate the technical implementation of policy bargains.

8. The judiciary does not provide much intertemporal “glue” to political or policy agreements.

9. Nongovernmental actors in the policy process (such as business groups and unions), lacking a well-institutionalized environment for political exchange, usually follow strategies that attempt to maximize short-term benefits.

In a nutshell, the national policymaking arena of Argentina is populated by actors who have little incentives and few instruments to engage in intertemporal policy agreements. This policymaking environment is the one that generates policies that change with every administration (if not faster), and that leads to lack of coordination, poor enforcement and low quality implementation. The reasons behind this peculiar policymaking environment leading to poor quality policies and hence poor economic and social outcomes are a mix of
historical legacies from the many democratic interruptions of the twentieth century, some particularities of political and fiscal institutions in the country, as well as the reinforcing effects of the behavior of political actors over time.

As stated, this is in part the carryover outcome of decades of political instability since 1930 to 1983. Political instability has left an imprint through path-dependent behavior in Congress, the courts, the bureaucracy, and the federal fiscal system, as well as through the actions and expectations of nongovernmental actors.¹⁸

Political instability, however, is not the only factor contributing to short-sighted behavior and lack of capabilities for the development of “Políticas de Estado”. Other reasons, of more weight almost three decades after the return to democracy, stem from the incentives generated by current electoral rules and partisan practices, and by the federal fiscal system of Argentina. These variables arrange in a way that the most important policy initiatives undertaken in Argentina originate in the Executive, who then attempts to get its favored polices through a Congress with little capabilities for the serious discussion and analysis of the effects of alternative policies, and where the necessary votes for the passage of the Executives initiatives are obtained via exchanges with provincial leaders, who are much more interested in fiscal favors to run their local political machineries, than in the specific contents of policies.

The weaknesses of the national legislature, and the main focus of the powerful governors on fiscal favors, leaves the national policymaking arena of Argentina inhabited by short sighted

¹⁸ The frequent switches back and forth between democratically elected governments and military dictatorships lead to the frequent replacement of all Supreme Court Justices, which limited the independence of the Court and weakened its role in the consideration of citizens and other actors. Similarly, the absence of legislative power during military dictatorship taught interest groups to work directly with the Executive.
executives, transient by nature, who try to maximize political advantages in the short term. The two most successful presidents of the post-democratization period, Carlos Menem and Nestor Kirchner have undertaken important changes in national policies of exactly opposite sign, but utilizing the same political logic of exchanges with their fellow provincial patrons. This mode of policymaking is one of the explanations for Argentina’s infamous policy volatility, which in turn relates to the lack of credibility of policy, and hence to the failure to achieve desirable economic and social outcomes.19

In what follows we summarize some of the building blocks of the picture above: the weakness of Congress, the (provincial) electoral connection, politics in the provinces, fiscal federalism, and the reinforcing dynamics among these factors.

As it can be seen in Table X.2 Argentina ranks quite low within the Latin American sample in the index of policymaking capabilities of Congress (the value of the index is almost 1/3 of Chile’s.) Argentine legislators do not invest in developing strong Congressional institutions, do not specialize in technical committees, and tend to have quite brief legislative careers. (Saiegh 2010, Jones et al 2002.) Their reelection rates are 17% a number which is quite low when compared with the 43% of Brazil or the 59% of Chile; let alone the 83% of the U.S.). Looking at the determinants of high turnover, one discovers that it is not the result of voters’ rejection. Most legislators simply do not appear on the provincial party list for the next election. Those that do, have a two-thirds probability of being reelected. That conditional

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19 For brevity we are describing the Argentine policymaking game in its “President on top” stage. The Argentine policymaking game switches between that stage and a stage in which the President can’t do anything and the country is virtually paralyzed, often followed by dramatic economic crises such as the hyperinflation of the late 80s or the downfall of the Convertibility regime in the early 2000s. The switch between stages responds to the political alignment of governors for or against the president, which in turns depends on whether the fiscal situation allows the executive to buy enough wills (Tommasi 2008.)
reelection rate is lower than the 94 percent in the United States, but comparable to that of many other countries that have, nonetheless, much higher unconditional reelection rates. The short tenure of Argentine legislators arises from the fact that those in charge of compiling the list of candidates (the “selectorate”) simply do not reappoint them. Given that electoral districts coincide with provinces, and given the mechanisms of internal candidate selection, this selectorate is constituted by provincial party elites (De Luca et al. 2002, Jones 2008).

These *amateur* legislators are, however, *professional* politicians. After serving a term in Congress they are shifted to other political activities in the party, the province, or the federal government. (Jones et al 2002, Jones 2008). Argentine legislators, by and large, are responsive not to any particular group of citizens, but to the leaders of their party in the province, especially when those leaders coincide with the provincial executive. In order to better understand the main exchanges of Argentine politics, then, it is necessary to understand the incentives of those subnational players. To do that, we “scale down” and look into the politics of Argentine provinces.

Even though there is an important degree of inter-provincial heterogeneity, most Argentine provinces are polities with restricted political competition and high concentration of power in the hands of the governor, in which the main political linkages with the citizenry are clientelistic rather than programmatic. Those features, especially the weak division of powers, have been reinforced over time since the return to democracy in 1983 through changes in provincial constitutions and electoral laws, as well as through judicial manipulation introduced by powerful governors in favorable political junctures. The political

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20 Leiras (2006) provides a cogent argument of why, unlike the case in other federations, national political parties reproduce this geographical political fragmentation and hence do not act as general aggregators of substantive national economic interests either.

21 The next paragraphs draw from Ardanaz, Leiras and Tommasi (2010) and references there.
domination that many governors exercise over their province is largely based on the (exclusive political access to) financial resources provided by the peculiar federal fiscal arrangements of Argentina.

Provincial governments undertake a large share of total spending in Argentina, yet they collect only a small fraction of taxes. That means that provincial politicians enjoy a large share of the political benefit of spending, yet pay only a small fraction of the political cost of taxation. On average, provinces finance only 35% of provincial spending with their own revenues. This fiscal imbalance is uneven across provinces and extremely large for some of them. In a large number of less populous provinces, the transfers received constitute over 80% of provincial revenue. The difference between spending and revenues, the vertical fiscal imbalance, is financed from a common pool of resources, under the country’s Federal Tax-Sharing Agreement. Even though the Argentine tax sharing agreement appears on paper to be fairly automatic, in practice there has been over the years a number of channels by which the national government has had discretion at the margin in the allocation of funds to the provinces. The methods by which these channels have been modified are multiple, and their relative use and importance has varied over time, depending on various economic and political circumstances, but the underlying political logic has always been the same. (Ardanaz et al 2010, Wibbels 2003).

In this logic, most provincial governments are resource hungry political units eager to extract fiscal favors from the national government. In turn, the federal government needs votes in Congress to implement nationwide economic policies. This situation creates potential gains from trade between presidents and governors while Congress merely serves as the “ratifier” of agreements that are struck in other more informal arenas.
Since the Executive in practice has exclusive policy initiative, and the powerful institutional actors with whom he/she has to negotiate only care about fiscal exchanges, there is very little institutional room for the representation of substantive socioeconomic interests\textsuperscript{22} or for programmatic discussion. Faced with this institutional playing field, socioeconomic actors and societal interest tend to take whatever short term road is available to them in order to obtain favorable policies. In the case of large business interests, the most effective mode of influence is often attempting to bribe the executive (Schneider 2010). In the case of actors in a lower niche of the socioeconomic scale but with capacity of physical mobilization, the strategy and venue of choice have been to blockade the streets and roads of the country, pressuring and imposing costs in those arenas as a way of having their voice heard (Scartascini and Tommasi 2009).\textsuperscript{23}

This behavior from the part of socioeconomic actors has reinforcing effects on the quality of institutions. The fact that socioeconomic actors take such short-cut actions outside institutionalized political arenas like parties or the legislature reinforces the weaknesses of those arenas and hence becomes a self-fulfilling prophesy. These equilibrium mechanisms are the ones leading to the strong correlation of strength across institutional domains in the Latin American sample summarized in Table X.2.

\textsuperscript{22} This is related to the fact that the Argentine political system strongly under-represents middle class, ideological, programmatic, urban voters (Torre 2003) – the type of voter that tend to demand higher standards of accountability (Stokes 2006).

\textsuperscript{23} This logic applies not only to the unemployed in the by now famous \textit{piquetes}, but it applies to any case in which the \textit{de jure} power of a relevant set of political actors tends to under-represent them in comparison to their ability to put collective action together and threaten economic disruption. The very visible 2008-2009 demonstrations of rural producers in Argentina against large increases in export taxes by the Cristina Fernández de Kirchner administration are a case in point. Those demonstrators were not the dispossessed, but an economic sector underrepresented in the Argentine political system.
Conclusions

Coming back to the opening issues, one insight coming out the agenda the chapter reports on 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 process and of the policymaking process in each country, with its specific historical trajectory, is a crucial prerequisite for developing appropriate reform proposals not only in terms of policies, but also in terms of political institutions.

During the market-oriented reform era, many economists in developing circles were enthusiastic about the potential effects of those reforms in countries like Argentina. As emphasized in this chapter, changing those “grand titles” of policies might not be the way of improving outcomes, if some more fundamental characteristics of policies remain deficient. That suggests that policy reforms should be undertaken with a good diagnostic of the politico-institutional environment in which they will operate.

When focusing at a higher level\(^24\) on attempting to modify basic institutions, caution and good diagnostics are also recommended. There are instances in which 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 instance, international organization 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 some democratization and efficiency enhancement in some cases, but it

\(^24\) See Tommasi (2004) for a scheme of multiple institutional levels, in which political institutions are more fundamental than policies.
has also fragmented policymaking and weakened the national policymaking arena with deleterious consequences in some other cases.\textsuperscript{25} For instance in Argentina, decentralization seems to have reinforced subnational political machineries, increasing the subnational drag to national policymaking, one of the key problems of the Argentine case.

We close the chapter by repeating a point we have made in earlier work (Tommasi 2006). In his Ely Lecture to the American Economic Association, Al Harberger argued that there are enough people out there pleading for special interests, and that we economists should plea 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?” (Harberger 1993: 5). We want to conclude on a somewhat similar note. Our 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. We have to think twice before forcing our favorite policy onto a polity at the expense of violating principles such as a reasonable degree of societal consensus, congressional debate, or judicial independence.

\textsuperscript{25} Monaldi (2010) describes some of the impacts of decentralization on the policymaking in Latin America in the last couple of decades.
References


