

Overview

The significant problems we face today cannot be solved at the same level of thinking we were at when we created them.

—Albert Einstein

Beyond Technocratic Policies

The history of economic and social development in Latin America is dominated by the search for new paradigms: simplified ways of understanding how the economy and society function that offer governments a variety of policy alternatives. Latin America has ridden the waves of successive paradigms from the State-run, inward-looking development of the postwar era to the macroeconomic discipline and trade liberalization of the Washington Consensus in the 1990s. As with other paradigms, the region's enthusiasm for the Washington Consensus has waned, and it is now in search of a new paradigm that offers better economic results, more stability, and greater equity.

This report questions the logic behind this search. The Fountain of Youth and the City of Gold were fantasies, and so are magic formulas for accelerating growth and eradicating poverty. Certain simple ideas can help to mobilize society, but they are rarely sufficient for understanding the processes of fundamental change. Sadly, there are no shortcuts to the Promised Land of sustainable development and prosperity for all.

Previous editions of this report have analyzed various aspects of economic, social, and institutional reform and have discussed the pros and cons of diverse policy options. What is clear is that, whatever the policy area, there is no single formula applicable to all circumstances; policies' effectiveness depends on the manner in which they are discussed, approved, and implemented. Therefore, instead of focusing on the substance and orientation of particular policies, this report concentrates on the critical processes that shape these policies, carry them forward from idea to implementation, and sustain them over time. It takes as its starting point the premise that the processes of discussing, negotiating, approving, and implementing policies may be at least as important as the specific content of the policies themselves.

A strictly technocratic approach toward policymaking short-circuits these steps of discussion, negotiation, approval, and implementation, which have at their core the messy world of politics. This report views the political process and the policymaking process as inseparable. To ignore the link between them when pursuing policy change may lead to failed reforms and dashed expectations.

This study, like the background research and accompanying analysis it draws upon, takes a detailed look at the institutional arrangements and political systems at work in Latin America, as they shape the roles and incentives of a variety of actors (some of them professional politicians, others members of civil society) that participate in the policy-making process. It then goes on to explore the way in which this process contributes to shaping policy outcomes and takes a long look at the political economy of specific countries and sectors: the dynamic between politics and economics that is so central to a nation's development.

This body of work additionally advances a framework of the policymaking process that helps in understanding the complex variables and interactions that come into play as policies are discussed, approved, and executed. Taken together, the framework, research, case studies, and analysis can help demonstrate that, while some worthwhile changes can take place, not every reform is politically or institutionally feasible.

The hope is that this study will be of use to those who participate in policymaking processes and want to understand the limitations and the potential of public policies and attempts at reform. However, this report does not offer recipes or magic potions. On the contrary, it serves as a warning to those who believe that a policy's chances for success can be judged abstractly on its theoretical or technical attributes without considering the institutional, political, and cultural context in which it is applied.

This report does not cover countries with parliamentary systems. The core institutional setup of these countries is different from that of the countries in Latin America with presidential systems. Not only do the former have parliamentary political regimes, but they have also inherited, from their institutional tradition, party systems, professional bureaucracies, and justice systems that differ from those in the rest of Latin America. The study of institutions, policymaking processes, and policy outcomes in these countries constitutes a very important next step in the research agenda. This next step has already begun, with a study of policymaking in Jamaica, which is reflected in Box 3.1 in Chapter 3.

A Varied Landscape

For the last 15 years, Latin America has experimented with a wide range of policies and reforms. Nonetheless, the success of those reforms and more generally, the quality of public policy, have varied considerably.

- While some countries can maintain the basic thrust of their policies for long periods of time, thus creating a predictable and stable environment, other countries experience frequent changes in policies, often with every change in administration.

- While some countries can adapt their policies rapidly to changes in external circumstances or innovate when policies are failing, other countries react slowly or with great difficulty, retaining inappropriate policies for long periods of time.
- While some countries can effectively implement and enforce the policies enacted by congress or the executive, others take a great deal of time to do so or are ineffective.
- While some countries adopt policies that focus on the public interest, in others, policies are filled with special treatment, loopholes, and exemptions.

Why this variation? What determines the ability to design, approve, and implement effective public policies? To answer this question, this study brings to bear an eclectic and interdisciplinary approach, described in Chapter 2, drawing on both economics and political science. It also draws on a wealth of background research produced by a network of researchers across Latin America, which provides insights into the workings of the policymaking process and its impact on policy outcomes. This background material includes:

- Detailed studies of the workings of political institutions and policymaking processes in 13 countries.
- Studies that focus on the role of different actors (legislators, political parties, presidents, business, the media, and others) as they participate in the policymaking process in a variety of arenas.
- Comparative studies focusing on the link between policymaking processes and policy outcomes in a number of specific sectors, such as education, health, social protection, decentralization, budget processes, and tax policy, as well as the privatization and regulation of public utilities.

The research agenda and this study build on other work, notably the effort that culminated in the publication by the Inter-American Development Bank (IDB) in 2002 of the book *Democracies in Development: Politics and Reform in Latin America*.¹ That document was primarily concerned with the effect of alternative arrangements of democratic institutions on a broad definition of democratic governability. It focused on a number of distinct institutional dimensions of democratic systems (such as legislative electoral systems), one at a time.

This report is part of a further effort, focusing more explicitly on the process of policymaking and on the characteristics of the public policies that result from different policymaking environments. Rather than taking institutional traits one at a time, it looks into the interactive effects of multiple institutional rules on political practices, as well as the effect of these practices on policymaking.

Since the approach is systemic, this report does not evaluate the performance of individuals responsible for making or implementing policy. However, this does not imply that the report ignores the important role that the leadership and competence of public

¹ Payne and others (2002).

actors play in policy outcomes. Instead, the systemic approach simply attempts to understand the constraints and incentives that condition the actions of presidents, legislators, judges, public servants, and other actors that participate in the policymaking process.

Given an emphasis on complex interactions, part of the research agenda behind this report takes a country-centered, historically grounded approach. A first output of that effort is reflected in the Political Institutions, Policymaking Processes, and Policy Outcomes project, conducted under the auspices of the Latin American Research Network of the IDB.²

This report takes an additional step in advancing that agenda. It looks deeper into *cross-country comparisons* of the roles and characteristics of the main actors and arenas of the policy process. It develops *new indicators* of policy characteristics and of some properties of political systems. And it develops *comparative cases* in a number of policy areas.

This report should be taken as one stage of a work in progress. It raises more questions than it answers. Unlike previous editions of *Economic and Social Progress in Latin America*, which presented the culmination of years of research, this report is still writing an agenda. Research, analysis, and synthesis will continue. The main messages of the work to date are summarized in the rest of this chapter.

² The results of the project, which benefited from the input of practitioners and academics from several disciplines, are available for examination at http://www.iadb.org/res/index.cfm?fuseaction=LaResNetwork.StudyView&st_id=82.

Main Messages

Ten main messages can be extracted from this year's report.

1. Processes matter!

The process by which policies are discussed, approved, and implemented (the policy-making process) has an important impact on the quality of public policies, including the capacity of countries to provide a stable policy environment, to adapt policies when needed, to implement and enforce policies effectively, and to ensure that policies are adopted in pursuit of the public interest.

2. Beware of universal policy recipes that are supposed to work independently of the time and place in which they are adopted.

Recent experience of countries in Latin America with the reforms of the Washington Consensus shows that reforms with similar orientation and content can have very diverse results. One of the pitfalls of advocating the adoption of universal policy recipes—and one of the driving motivations for this report—is that policies are not adopted and implemented in a vacuum. Rather, they must proceed within the context of a country's political institutions. These political institutions, as well as the policymaking processes they in turn help shape, can have a profound impact on the success or failure of any policy.

3. Certain key features of public policies may be as important in achieving development goals as their content or orientation.

The impact of public policies depends not only on their specific content or particular orientation, but also on some generic features of the policies. An "ideal" policy that lacks credibility and is poorly implemented and enforced may be more distortionary than a "suboptimal" policy that is stable and well implemented. This study examines six such key features: *stability, adaptability, coherence and coordination, the quality of implementation and enforcement, public-regardedness* (public orientation), and *efficiency*. These key features have a great deal of bearing on whether policies can actually enhance welfare, can be sustained over time, and can contribute to overall development.

4. The effects of political institutions on policymaking processes can be understood only in a systemic manner.

Policymaking processes are very complex, as a result of the multiplicity of actors with diverse powers, time horizons, and incentives that participate in them; the variety of arenas in which they play the game; and the diversity of rules of engagement that can have an impact on the way the game is played. A focus on a few institutional characteristics (such as whether the country has a presidential or parliamentary system, or whether the electoral rules are of the plurality or proportional representation variety) will only pro-

duce a very fragmented and unsatisfactory understanding of these processes. In order to understand them more fully, the institutional setup needs to be addressed by a systemic or “general equilibrium” approach.

5. Political and institutional reform proposals based on broad generalizations are not a sound reform strategy.

A corollary of the previous point is that the merits of potential changes in political and institutional rules must be considered carefully, with an understanding of how these rules fit within the broader institutional configuration. Broad generalizations about the merits of different political regimes, electoral systems, or constitutional adjudication of powers among branches are not very useful. Partial equilibrium views that stress the importance of a single institutional dimension may lead to misguided institutional and policy reforms. Understanding the overall workings of the political process and of the policymaking process in each specific country, with its specific historical trajectory, is a crucial prerequisite for developing appropriate policy reform proposals and institutional reform proposals.

6. Policy or institutional reforms that have important feedback effects on the policymaking process should be treated with special care, and with an understanding of the potential ramifications.

Policy reforms often have feedback effects on the policymaking game. In some sectors, these feedback effects are likely to alter the specific sector’s policy game by creating new actors or changing the rules of engagement among them. But some reforms (particularly in sectors such as decentralization, budget processes, or civil service reforms) can have a much broader impact and alter the dynamics of the country’s policymaking process. Policy or institutional reforms that have important feedback effects on the policymaking process should be considered with special care, and with an understanding of the potential ramifications.

7. The ability of political actors to cooperate over time is a key determinant of the quality of public policies.

Multiple actors (such as politicians, administrators, and interest groups) operate at different points in time over the policymaking process. Better policies are likely to emerge if these participants can cooperate with one another to uphold agreements and sustain them over time. In systems that encourage cooperation, consensus on policy orientation and structural reform programs is more likely to emerge, and successive administrations are more likely to build upon the achievements of their predecessors.

8. Effective political processes and better public policies are facilitated by political parties that are institutionalized and programmatic, legislatures that have sound policymaking capabilities, judiciaries that are independent, and bureaucracies that are strong.

- **Well-institutionalized political parties (especially parties that have national and programmatic orientations).** Institutionalized, programmatic parties tend to be consistent long-term policy players. A political system with a relatively small number of institutionalized parties (or coalitions) is 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.** 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.
- **An independent judiciary.** A well-functioning and independent judiciary can be a facilitator, 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 (which often choose to wield their influence during the policy implementation stage) from capturing the benefits of public policies.

9. Most of these “institutional blessings” are not granted overnight. Building them, and keeping them in place, depends on the political incentives of key political actors.

The incentives of professional politicians such as presidents, legislators, and party leaders (as well as their interaction with the rest of society) are crucial for the workings of institutions. Improving the capabilities of congress requires that legislators have incentives to develop such capabilities. Independent judiciaries are built only over time, but they can be destroyed overnight. Adopting the best civil service law in the world will not work if patronage involving positions in the bureaucracy remains an important currency used by politicians to reward their partisan base.

10. Leadership, if functional, can be a vital force for institution-building.

Individual leaders can play a vital role as catalysts in the development of institutions. Functional leadership can encourage deliberative processes that allow policies and institutions to adapt to the needs and demands of society. Leadership, however, can also be dysfunctional. Rather than contributing to institution-building, dysfunctional leaders can have the opposite effect. Their accumulation of power allows them to get things done, but at the expense of weakening institutions.

