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Structural Reform, Democratic Governance, and Institutional Design in Latin America

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Abstract

This essay reviews four important books about the origins and consequences of market-based reforms during the past two decades in Latin America. It suggests that we need to accelerate the integration of what remain four separate subfields of study: public opinion, the political economy of structural reform, the components of democratic governance, and the nature of institutional design. Each is a core element of what the literature under review analyzes and one that is centrally concerned with identifying the electoral and institutional incentives for and constraints to development-conducive public policies. This essay contributes to this research agenda by examining political science and economic research that explains why only some institutional designs make governments responsive to voters's preferences while also building a consensus in favor of structural reform.

Resumen

Este ensayo analiza cuatro libros importantes sobre los orígenes y consecuencias de las reformas estructurales durante las pasadas dos décadas en América Latina. El trabajo sugiere que necesitamos acelerar la integración de lo que siguen siendo cuatro diferentes subcampos de estudio: opinión pública, la política económica de la reforma estructural, los componentes del gobierno democrático y la naturaleza del diseño institucional. Cada uno es un elemento central de la literatura analizada y que está principalmente interesada en identificar los incentivos y las restricciones electorales e institucionales para la elaboración de políticas públicas que promueven el desarrollo. Este ensayo contribuye a esta agenda de investigación mediante el examen de las investigaciones en el campo de la ciencia política y de la economía que explican por qué sólo algunos diseños institucionales hacen que los gobiernos sean sensibles a las preferencias de los votantes y también construyan consensos en favor de las reformas estructurales.

Introduction

Kurt G. Weyland, *The Politics of Market Reform in Fragile Democracies: Argentina, Brazil, Peru, and Venezuela* (Princeton: Princeton University Press, 2002).

Jorge I. Domínguez and Michael Shifter, eds., *Constructing Democratic Governance in Latin America*, 2nd ed. (Baltimore: Johns Hopkins University Press, 2003).

Raúl L. Madrid, *Retiring the State: The Politics of Pension Privatization in Latin America and Beyond* (Stanford: Stanford University Press, 2003).

Scott Mainwaring and Christopher Welna, eds., *Democratic Accountability in Latin America* (Oxford: Oxford University Press, 2003).

The four books address the origins and consequences of market-based reforms during the past two decades. The radical shift in development strategy was a product of the 1982 debt crisis, in whose aftermath Latin American economies stopped growing for most of this decade. Persistent balance of payments deficits, aggravated by fixed exchange rates, were the proximate causes of ten years of economic stagnation. Protection for domestic manufacturers was a structural factor that prevented countries from developing export industries able to finance growing volumes of imports. Unaccountable governments and political instability in many countries also was an underlying structural weakness that contributed to the debt debacle. Because governments found it easier to contract debts from international banks (more than willing to recycle petrol dollars) than to construct a political consensus in favor of raising chronically low tax rates, most countries of the region piled up public debts in foreign currencies (at unfixed interest rates) that became unsustainable by the 1980s.[1]

Kurt Weyland's *The Politics of Market Reform in Fragile Democracies* analyzes why Latin American presidents succeeded or failed to enact first-generation structural reforms, policies aimed at restoring macro-economic health in the 1980s. In general, first-generation reforms focused on reducing inflation and reigniting economic growth. Weyland not only offers an explanation for why radical neoliberal experiments took or did not take hold in Argentina, Brazil, Peru, and Venezuela, but challenges the use of rational choice to make sense of Latin American politics. Jorge Domínguez and Michael Shifter's collection of essays entitled *Constructing Democratic Governance*

[1] The literature on the causes and consequences of the 1980s debt default is enormous. A good place to begin is Víctor Bulmer-Thomas, *The Economic History of Latin America since Independence*, 2nd ed., (New York and Cambridge: Cambridge University Press, 2005), pp. 313-91. An early collection of essays that remains useful is Rudiger Dornbusch y Sebastian Edwards, eds., *The Macroeconomics of Populism in Latin America* (Chicago: NBER and the University of Chicago Press, 1991).

examines the political impact of market-based reforms in the region. Thematic and country-specific chapters analyze how well (or badly) political systems are building the political consensus to promote democratic consolidation.

The last two books explore institutional design issues relevant for effective social programs and second-generation structural reforms—the strengthening of courts and regulatory bodies that improve economic competitiveness.[2] In *Retiring the State*, Raúl Madrid analyzes why the Chilean government privatized their social security systems while others did not. What to do with old-age pensions not only has fiscal implications, but also raises questions about how states should meet social obligations and should be restructured to improve efficiency and competitiveness. The articles in *Democratic Accountability in Latin America*, edited by Scott Mainwaring and Christopher Welna, discuss the effectiveness of horizontal accountability in select countries of the region.

These books do little to suggest that, outside of a few cases, citizens and the state are collaborating to produce effective democratic governance or that the region is on its way to becoming economically developed. While virtually all Latin Americans live in formally democratic systems, most have good reasons to complain about the quality of their political systems.[3] Even by the late 1990s, Latinobarometer surveys indicate that less than 40 percent of those surveyed are very or partly satisfied with democracy in their countries; only in Costa Rica and Uruguay do these percentages exceed 60 percent. In contrast, an average of 50 percent of the citizens of the fifteen countries of the European Union responds that they are very or partly satisfied with democracy.[4] Despite two decades of reforms, development is as elusive as ever, even if macro-economic and political stability now exists in most countries. By the end of the twentieth century, the average per capita GDP rate in the region reached about $4,000 (in 1987 PPP US$), barely doubling in more than 50 years. In the interim, average per capita GDP in the developed world has gone from about $5,000 to nearly $14,000.[5]

For critics of market-based reforms, these less than impressive results prove that development does not hinge upon free trade and markets. For neoliberals, unimpressive growth rates mean that Latin American societies need to deepen structural reforms. Just when the speed of reforms should pick up, however, surveys suggest that public opinion is turning against them.[6]

[2] The distinction between first and generation reforms is from Moisés Naím, "Latin America: The Second Stage of Reform," *Journal of Democracy*, 5, 4 (October 1994): pp. 32-48.

[3] Programa de las Naciones Unidas Para el Desarrollo, *La Democracia en América Latina* (New York: PNUD, 2004).

[4] Ibid, p. 164.

[5] Inter-American Development Bank, *Development, Beyond Economics* (Washington, D.C.: IADB, 2000), p. 2.

[6] Eduardo Lora, Ugo Panizza y Myriam Quispe, "Reform Fatigue: Symptoms, Reasons, and Implications," *Federal Reserve Bank of Atlanta Economic Review* (2004): pp. 1-28.

Whether neoliberals or their critics are right, these books suggest that governance —the construction of political consensus around short- and long-term goals and of institutions and procedures to implement them— suffers from serious ailments, drawbacks that prevent the enactment of the institutional and regulatory reforms necessary for democratic legitimacy and economic growth.

My reading of these books suggests that we need to start integrating what remain four separate subfields of study: public opinion, the political economy of structural reform, democratic governance, and institutional design. Each is a core element of what should be the new political economy of the region, one concerned with identifying the electoral and institutional constraints to development. A next step in this agenda requires explaining why some institutional designs make governments responsive to voters's preferences while also build a consensus in favor of structural reform. Particular attention should focus on building upon Weyland's findings (and related work discussed in this essay) about why public opinion has become skeptical about more market-based reforms. More thinking also is necessary about better ways of measuring democratic governance, a concept central for measuring the overall effectiveness of political systems and that permits comparing and contrasting political system performance.

1. First-Generation Structural Reforms

Why did several Latin American presidents liberalize trade, lift price controls, and privatize state companies, actions guaranteed to offend powerful interest groups? Why did voters accept the pain in some places, but not in others? In *The Politics of Market Reform in Fragile Democracies*, Weyland argues that conventional rational choice approaches, based upon expected utility calculations, cannot answer these questions. The probability of enacting these reforms is low or difficult to calculate, even if the political rewards for taming inflation may be high. In these circumstances, the rational thing may be to do nothing.

Weyland borrows from prospect theory, a set of hypotheses developed by psychologists, to explain counter-intuitive behavior. If rational choice presumes that humans are incessantly calculating the risks and rewards of different options, prospect theory assumes that the costs of acquiring and processing information are high enough to turn humans in creatures of routines. Once they get used to responding to constraints in a certain way, they stick with their behavior, even if conditions have changed. This is when the status quo or *prior option* becomes a powerful constraint on the present. If the prior option was well regarded, changes in conditions may only make decision-makers into stubborn defenders of the status quo.

Prospect theory hypothesizes that people react to their environment depending on whether they are in the *domain of gains* or the *domain of losses*. In the domain of gains, they are risk-averse. They do not disturb the status quo because they fear the unintended and unknown consequences of change. If, however, a decision-maker is in the domain of losses, he may actually become a risk-taker. If a crisis—which I define as a highly probable, but uncertain change of the status quo—is looming, decision-makers may decide to take risks, even huge ones. Curiously, they may even become less risk-averse than is rational (!), in an effort to escape from the domain of losses.

The Politics of Economic Reform in Fragile Democracies uses these insights to explain the failures and successes of market-based reforms. Weyland dissects the decision-making of Presidents Carlos Saúl Menem (1989-1999; 2 terms) of Argentina, Fernando Collor de Mello (1990-1992; impeached on corruption charges) of Brazil, Alberto Fujimori (1990-2000; 2 terms and an *auto-coup* in 1992) of Peru, and Carlos Andrés Pérez (1974-1979; 1989-1993; 2 terms) in Venezuela. The first three were able to implement drastic reforms because their societies were experiencing hyperinflation (In 1988, the inflation rate in Argentina was 387 percent, in Brazil it was 1,037 percent, and in Peru it was 1,722 percent). In each case, the president was able to use the bully pulpit to build public support for radical economic reforms because enough citizens also believed they were in the domain of losses. In contrast, Pérez had to reverse many of these reforms because few Venezuelans accepted the president's argument that their country was in the antechamber of economic crash. While inflation was not low at 29.5 percent in 1988, it was not spiraling away at epic proportions. To his credit, Weyland uses narratives of reform experiences to shed light on expected utility and prospect theory approaches.

This is a powerful and provocative book. Without abandoning methodological individualism —the theoretical stance that decision-making must be comprehensible in the light of the tastes, preferences, and beliefs of individuals— Weyland offers a psychological and systematic account to explain counter-intuitive political choices.[7] In many ways, Weyland's use of prospect theory echoes the arguments made by Herbert A. Simon.[8] Like Weyland's politicians and voters, Simon's firms "satisfice" or find a satisfactory way of doing things because incomplete information makes it too hard to calculate costs and benefits required by utility maximization.

[7] In my own work on institutional reform, I also find that rational choice approaches cannot explain why they sometimes reform laws to increase the uncertainty of electoral competition. See Fabrice Lehoucq and Iván Molina, *Stuffing the Ballot Box: Fraud, Democratization, and Electoral Reform in Costa Rica* (New York and London: Cambridge University Press, 2002).

[8] Herbert A. Simon, *The Sciences of the Artificial*, 3rd ed. (Cambridge, Mass.: The MIT Press, 1996).

Focusing on four cases —three of which experience major neoliberal restructuring and one does not— ends up privileging the sort of psychological factors that Weyland finds amendable, though the concluding chapter does assess the utility of his approach in a larger sample of cases from Africa, Eastern Europe, and the rest of Latin America. Analyzing a larger number of cases and figuring out how to operationalize difficult-to-measure concepts would have made his case stronger. This is the strategy that Susan Stokes pursues in *Mandates and Democracy*.[9] By examining 42 elections in 15 Latin American countries between 1982 and 1995, Stokes shows that highly competitive elections and institutionalized party systems discourage politicians from implementing neoliberal reforms. Similarly, Eduardo Lora and Mauricio Olivera, in a paper using a dataset of aggregate electoral returns, institutional features, and economic conditions between 1985 and 2002 from 17 Latin American countries, point out that incumbents who push pro-market reforms pay high electoral costs, even when such reforms improve macroeconomic performance.[10] Both of these arguments are consistent with Weyland's and show how a quantitative research design would have complemented his case study approach.

Weyland shows that voters endorsed macroeconomic stabilization if they were in the domain of losses. More than 70 percent of those surveyed in Argentina and Brazil endorsed radical economic reform. Forty-nine percent of those surveyed in Peru supported shock therapy. Presidential approval rates remained in excess of 50 percent in Argentina, Brazil, and Peru, even after presidents implemented shock therapy. Each of these countries was also suffering from hyperinflation, Weyland's principal indicator of whether a society is in the domain of losses. In contrast, Weyland's data shows that Venezuelans turned against President Pérez's shock therapy and did not believe the president's claim that their economic problems would soon worsen. Inflation was only 29.5 percent. While these facts are consistent with his argument, it would be useful to see the results of individual-level models showing that perceptions of inflation are statistically related to support for shock therapy. Whether social class or membership in the formal or informal sector mediates this relationship would also shed additional light on Weyland's arguments. Arguably, members of the informal sector should be more likely to support shock therapy because reducing inflation —even while cutting social benefits for the formally employed— would be in their interest.

Public opinion is the topic of Marta Lagos's chapter in Jorge I. Domínguez and Michael Shifter, eds., *Constructing Democratic Governance in Latin*

[9] Susan C. Stokes, *Mandates and Democracy: Neoliberalism by Surprise in Latin America* (New York and London: Cambridge University Press, 2001).

[10] Eduardo Lora and Mauricio Olivera, "The Electoral Consequences of the Washington Consensus," *Economica*, 5 (Spring 2005): 44. Also, see Allyson Lucinda Benton, "Dissatisfied Democrats or Retrospective Voters: Economic Hardship, Political Institutions, and Voting Behavior in Latin America," *Comparative Political Studies*, 38 (2005): pp. 417-42.

America (2nd ed.). She provides a synthesis of Latinobarometer, the region-wide effort to plumb public opinion she coordinates.[11] Her central message is that Latin Americans have a low opinion of their politicians. They also display low levels of interpersonal trust, which she believes limits democratic consolidation. Latin Americans also have the least confidence in parties and legislatures with less than an average of 10 percent of the population claiming that they have "a lot of confidence" in these institutions. They have the most confidence in the church; on average, about half of the respondents say they have a lot of trust in these institutions. The armed forces come in second place with between 15 and 20 percent. The executive and judiciary only do marginally better than legislators and parties.

Lagos's psychological approach to public opinion, however, raises more questions than it answers. For example, Bolivians and Costa Ricans have the most pessimistic expectations of their own and their country's future economic performance, a truly bizarre finding given that GDP per capita rates are more than 3 times lower in this Andean country than its Central American counterpart. Domínguez, in his conclusion to *Constructing Democratic Governance in Latin America*, also notes that there is no explanation for why only 55 percent of respondents support democracy in Chile while, in Uruguay, the comparable figure is 80 percent. And, while we can all lament the low level of trust in the region, it is not clear that this is a cause of low quality democracy. In a paper she does not cite, Edward Mueller and Mitchell Seligson use data from a large number of cases to show that trust is more of an effect than a cause of democracy.[12]

Nevertheless, something like Lagos's approach is necessary to make sense of why public opinion sometimes supports market-based reforms and sometimes does not. This is, broadly speaking, another way to emphasize the theoretical implications of prospect theory. Information asymmetries and cognitive biases make for complex judgments, ones not always in line with simple and neat models of rational behavior. Lagos suggests that expectations and core beliefs have something to do with why electorates sometimes trust their elected leaders and sometimes do not. This is very much the research agenda that Lora and Olivera call for in their own effort to show that voters often turn against market-based reforms, even when their results improve aggregate economic outcomes and welfare because they reject the allegedly immoral character of these policies.[13] Public opinion research, of which there is too little, needs to help us to assess these and other claims. These are important research questions because the credibility of policy reform in a

[11] For an update, see "The Latinobarometer Poll: Democracy's Ten-Year Rut," *The Economist*, 377 (29 October 2005): 39-40.

[12] Edward Mueller and Mitchell A. Seligson, "Civic Culture and Democracy: The Quest for Causal Relationships," *American Political Science Review*, 88 (September 1994): 635-52.

[13] Lora and Olivera, "The Electoral Consequences of the Washington Consensus."

modern democracy requires obtaining the electorate's support. Electoral backing is the ultimate binding device for long-term policy change in modern democracies.

Discussions of electoral support for structural reform raise questions of whether neoliberal reforms have been successful. Javier Corrales's chapter in *Constructing Democratic Governance in Latin America* suggests that the countries that timidly adopted the neoliberal agenda were the "worst performers" as far as economic growth and fiscal deficits are concerned. During the 1990s, the aggressive reformers—Argentina, Bolivia, Chile, Mexico, and Peru—had average annual growth rates of 4.48 percent. Intermediate reformers—Brazil and Colombia—had average annual growth rates of 2.5 percent. Shallow reformers—Ecuador, Paraguay, and Venezuela—grew at an average annual percent of 2.66. Corrales argues that the neoliberal approach worked best when technocrats worked with politicians to strengthen states, especially by increasing bureaucratic competence and raising tax revenues.[14]

While this is good argument, it is hard to replicate its findings because Corrales does not provide criteria for classifying countries into one of these three categories. As a result, his classification of cases involves questionable judgments. Eduardo Lora's structural reform index, a systematic effort to compare structural reform efforts cross-nationally and longitudinally in Latin America, suggests that Mexico, for example, is not one of the region's aggressive reformers.[15] Sure, Presidents Miguel de la Madrid (1982-1988) and Carlos Salinas de Gotari (1988-1994) radically liberalized international trade and privatized many small and money-losing state corporations.[16] But, neither they nor Ernesto Zedillo (1994-2000) nor Vicente Fox (2000-2006) have been able to reform a 40 year old Labor Code. Nor did they open up the energy sector to private sector investment, a constitutionally based restriction that makes Mexico the most energy nationalist country in the world. And no one has been able to raise chronically low tax rates (approximately 10 percent of GDP), a longstanding neoliberal objective and one typically requested by multilateral institutions like the World Bank. Petroleum exports account for roughly a third of total federal government revenues and leave the public oil company with little money for exploration and development. Without private sector investment in the energy sector or tax reform (or both), the Mexican state is squandering its oil reserves, which are not expected to last beyond 15 years. Yet, in these and other areas, policymakers have been unable to build the consensus to continue reforming the Mexican economic and political

[14] Javier Corrales, "Market Reforms," in Jorge I. Domínguez and Michael Shifter, eds., *Constructing Democratic Governance in Latin America,* 2nd ed., (Baltimore, MD: Johns Hopkins University Press, 1996, 2003), pp. 74-99.

[15] Eduardo Lora, "Structural Reforms in Latin America: What Has Been Reformed and How to Measure It?" Research Department Working Paper No. 466, Washington, DC: Inter-American Development Bank (December, 2001).

[16] Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: PennState University Press, 2005).

system.[17] Reform stagnation therefore explains why Mexico has always stayed below the regional mean on Lora's structural reform index and perhaps why its growth rates have not approximated those of Chile's, a point that would have strengthened Corrales's own core finding.

1.1 Democratization and Governance

In a region where many countries saw alternation between military and civilian regimes, the consolidation of competitive elections is an achievement, one whose consequences are a central preoccupation of *Constructing Democratic Governance in Latin America*. This collection of articles examines the workings of democracy in 7 countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela) and progress on 6 issue areas (public opinion, presidentialism, and representative institutions, market reforms, the military, labor, and women), several of which I have already discussed.

There have been very few coups since 1978, a point that Domínguez plays up in the concluding essay to *Constructing Democratic Governance in Latin America*. Between 1978 and 2003, only one government has fallen because of a military or, better yet, a self-styled auto-coup that allowed the incumbent to govern alone (in 1992, President Alberto Fujimori closed Congress with implicit military support). Most governments have finished their terms in office, though 19 percent (14 out of 74) of all governments during these years have not.[18] John Carey, in his essay on presidentialism and representative government, observes that inter-branch conflicts no longer end in military coups.[19] Since the 1980s, failed presidents end with incumbents tendering their resignation before Congress. This is marked contrast with earlier decades, when the threat of a military coup was ever present, either because the government (or factions therein) was planning to stay in power or because the opposition was conspiring with the military to obtain state power. Between 1945 and 1982, 38 percent (or 51 of 133) of presidential administrations ended their terms with a coup while 62 percent (or 82 of 133) ended their terms with an election.[20]

As a result of democratization, the military's role in politics has changed. Rut Diamint's chapter on the armed forces in Latin America in *Constructing Democratic Governance in Latin America* notes that the military's presence in

[17] Fabrice Lehoucq, et al., "Political Institutions, Policymaking Processes, and Policy Outcomes in Mexico," Working Paper, Latin American Research Network Paper No. 512, Inter-American Development Bank, Washington, D.C., 2005.

[18] Gabriel L. Negretto, "Minority Governments and Types of Presidential Systems in Latin America," *Latin American Politics and Society, f*orthcoming, Fall 2006. Also, see Kathryn Hochstetler, "Rethinking Presidentialism: Challenges and Presidential Falls in South America," *Comparative Politics*, 38 (July, 2006).

[19] John M. Carey, "Presidentialism and Representative Institutions," in Domínguez and Shifter, eds., *Constructing Democratic Governance in Latin America*, pp. 11-42.

[20] Barry Ames, *Political Survival*: *Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1987).

society has decreased in most countries. As a share of GDP, defense expenditures have only increased in Brazil and Colombia since the mid-1980s from less than 2 percent to 3.2 percent of GDP. On a per capita basis, defense expenditures have increased in these societies as well as in Chile and in Mexico. Unfortunately, as Diamint points out, civilian authorities of the region have still not developed effective ways of overseeing the military. The war on drugs, in fact, has expanded the internal policing functions of the military in many countries. All of these facts weaken the rule of law.[21]

Constructing Democratic Governance in Latin America also puts a spotlight on governance, that is, the ability of governments to build consensus to solve fundamental economic and social problems. Judging from the essays in this book, only a handful of societies in the region are well governed. Most do not have systems of representation that foment accountability. Their policymaking is not very transparent. They do not develop a long-term consensus of the public interest to guide policymakers. In many cases, private interests capture regulatory bodies and rule in favor of narrow interests. The rule of law in the region is a mixed bag. It is a depressing combination, one that makes citizenries who are often poor or living near the margin enormously cynical, as Latinobarometer surveys indicate, about politicians and the political system.

Figure 1 is a scatterplot of GDP per capita rates (with 2000 PPP rates) and a country's rating on the 2003 Bertelsmann's Management Index (BMI), a composite measure of the ability of a political system to build agreements to solve governance problems.[22] The simple correlation coefficient is –0.531, suggesting that governance and economic development is related. It also shows that the countries with the best political systems are the ones with the longest democratic traditions. Chile, Costa Rica, and Uruguay tend to rank very well among 116 developing countries. So does Brazil, a country with a shorter history of democracy. Haiti is at the other extreme. Most Latin American countries are located between 40th and 80th position, indicating that they have serious governance problems, though many do not fall in the category of the worst run political systems in the world.

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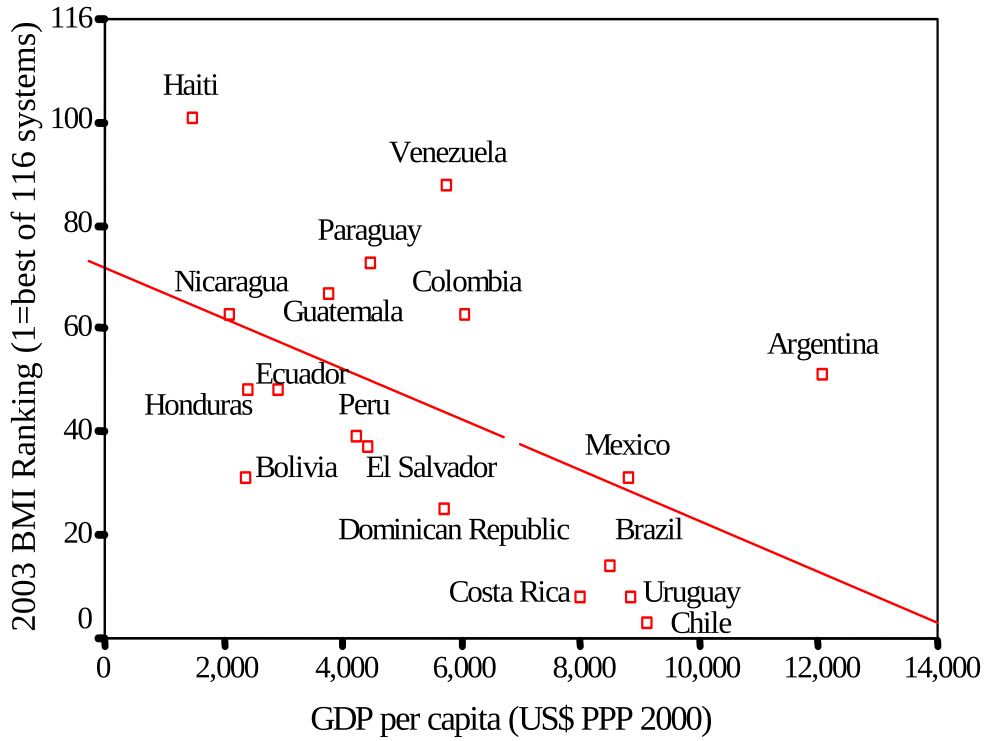
[21] Rut Diamint, "The Military," in Domínguez and Shifter, eds., *Constructing Democratic Governance in Latin America*, pp. 43-72.

[22] The BMI asks country specialists to answer more than 50 questions inquiring about a political system's ability to pursue goals reliably, effectively use resources, governance capabilities, and ability to build consensus. It asks analysts to assess a political system's performance on more than 50 specific dimensions and uses an ordinally ranked series of answers that facilitate cross-country comparisons. The overall project also involves democratic and market economy status indexes. See the Bertelsmann Stiftung, *Bertelsmann Transformation Index 2003: Political Management in International Comparison* (Gütersloh, Germany: Bertelsmann Stiftung, 2005). GDP rates are from: The Economist, *Pocket World in Figures*, 2003 ed. (London: Profile Books, 2002), pp. 232-5.

Figure 1

Governance and Level of Economic Development, CIRCA 2000



Sources: See footnote 22.

The country-specific chapters in *Constructing Democratic Governance in Latin America* examine both the better and the worse governed societies. Though there is no systematic comparison between the cases, the findings of these chapters are consistent with the BMI. The modal governance countries—those in the broad middle of the Bertelsmann's Index—that get attention include Argentina, Colombia, and Peru. Steven Levitsky surveys the 1990s in Argentina, especially on the political fallout from the 2002 debt default. He argues that the economic collapse had little to do with political causes like clientelism and corruption.[23] Levitsky has a point: both problems may be no greater in Brazil and Mexico and these two did not undergo a comparable

[23] Steven Levitsky, "Argentina: From Crisis to Consolidation (and Back)," in Domínguez and Shifter, eds., *Constructing Democratic Governance in Latin America*, pp. 244-268.

crisis in 2001-2002, even though Brazil (14th) and Mexico (31st) get better rankings on the BMI index than Argentina (41st). Yet, Argentina could not grow itself out of its economic recession because of its currency board, which kept the Argentine peso overvalued at 1 peso to 1 US dollar, undermined the country's ability to export itself out of recession. Unlike Argentina, Brazil devalued and improved the competitiveness of its exports. The currency board itself was a radical solution to the lack of credibility that the Argentine political system had and still has.[24]

Governance is equally trying in Colombia and Peru, 63rd and 39th on the BMI, respectively. Fernando Cepeda Ulloa analyzes the acceleration of civil war in Colombia during the 1990s. He also shows how the 1991 constitution failed to deliver on its promise to renew a closed, two-party system that contributed to the rise of insurgencies of the left and right. Cepeda Ulloa suggests that it has atomized the party system, politicized the judiciary, and brought about a fiscal crisis.[25] Carlos Iván Degregori examines the 1990s in Peru. Originally elected in 1990, Fujimori closed Congress two years later and established an electoral authoritarian regime, one where periodic elections were held, but with few doubts as to who would win them. Degregori traces the beginning of the end of Fujimori's government to his declining popularity in mid-1996. Fujimori's regime rapidly disintegrated after videotapes showing his shadowy security chief, Valdimiro Montecinos, bribing Congressmen surfaced in 2000.[26]

Brazil (14th) and Chile (3rd) are the two relatively well-governed societies that get coverage in the book. Bolívar Lamounier credits Fernando Henrique Cardoso (1995-2002) with developing quasi-parliamentary practices (using cabinet positions to cement oversized legislative coalitions) that improved governance in Brazil.[27] This is an important point because the image of Brazil as an ungovernable country, one that got nothing done, is one that newer research and, more importantly, newer times appear to be changing.[28] As a result, the Brazilian political system was able to kill inflation, reform fiscal federalism, and to begin to modernize its public sector.

In his chapter on Chile, Felipe Agüero shows how democracy and political consensus have replaced polarization and authoritarian government in the

[24] Mariano Tommasi, Sebastían Galiani, and Daniel Heymann, "Great Expectations and Hard Times: The Argentine Convertibility Plan," *Economía* 3 (Spring 2003): pp. 109-160.

[25] Fernando Cepeda Ulloa, "Colombia: The Governability Crisis," in *Constructing Democratic Governance in Latin America*, pp. 193-219.

[26] Carlos Iván Degregori, "Peru: The Vanishing of a Regime and the Challenge of Democratic Rebuilding," in *Constructing Democratic Governance in Latin America*, pp. 220-243.

[27] Bolívar Lamounier, "Brazil: An Assessment of the Cardoso Administration," in Domínguez and Shifter, eds., *Constructing Democratic Governance in Latin America*, pp. 269-291.

[28] For a systematic discussion of this important trend, see Octávio Amorim Neto, Gary W. Cox, and Mathew D. McCubbins, "Agenda Power in Brazil's Câmara dos Deputados, 1989-98," *World Politics*, 55 (July 2003): pp. 550-578. Also, see Lee J. Alston, et al., "Political Institutions, Policymaking Processes, and Policy Outcomes in Brazil," Latin American Research Network Paper No. 506, IDB, Washington, D.C., 2006.

1990s. Chile not only stands out for having revived and strengthened its democracy, but also because it grew an average of 6 percent during the 1990s. Policy consensus has also led to tax reform, the decentralization of public administration, judicial reform, and progress on educational and health policy. The persistence of what Agüero calls an *incomplete transition* made for slow progress on eliminating military prerogatives. The 1980 constitution, one written and approved during the military dictatorship of General Augusto Pinochet's (1973-1989), created a National Security Council to supervise the political system, non-elected senators, and gave the military the autonomy to name its own leaders and secure sources of funding.[29] In early 2005 (and after Agüero's chapter went to press), elected officials eliminated most of these authoritarian vestiges. Agüero's chapter therefore provides background on key developments in one of the region's success stories, even if it does not explain why politicians have forged a broad social consensus to enact key reforms and how these are related to impressive rates of economic growth.

Mexico gets a BMI ranking of 31 out of 116 countries. It does better than the modal cases, but not as well as Brazil or Chile (or Costa Rica or Uruguay). Denise Dresser's portrait of Mexico in the 1990s does a good job of explaining how democratization has transformed the country's politics, but has not made Mexico a much easier country to govern. She points out that divided government complicates governance, especially since Mexico's separation of powers system fragments power virtually as much as the US political system. Unlike his predecessors, Vicente Fox can count upon less legislative support for his bills because no party, including his National Action Party (PAN), holds a legislative majority. She also argues that the only partial existence of the rule of law undermines democratic governance in Mexico. Less than 5 percent of crimes, for example, end up with a conviction and detention. This, she suggests, is not only the result of government inaction, but also of a society that tolerates widespread violation of rules and social norms, both of which inhibit the formation of a political consensus to advance second-generation structural reforms.[30]

Venezuela is the worst governed country, according to the BMI, examined in *Constructing Democratic Governance in Latin America* by Michael Coppedge. By the late 1990s, the failure to implement structural reforms led to economic stagnation and the disintegration of the old two-party system. It is in this context that Chávez managed to win the presidency in 1998 (after spending time in jail for the 1992 failed coup attempt), gained public approval for the 1999 constitution, and was reelected in 2000 under the new constitution. He retains the support of enough Venezuelans, even as he has

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[29] Felipe Agüero, "Chile: Unfinished Transition and Increased Political Competition," in Domínguez and Shifter, eds., *Constructing Democratic Governance in Latin America*, pp. 292-320.

[30] Denise Dresser, "Mexico: From PRI Predominance to Divided Democracy," in Domínguez and Shifter, eds., *Constructing Democratic Governance in Latin America*, pp. 321-350.

eliminated horizontal accountability in the country's political system. Coppedge's is a good point to make: like or not, Chávez has the political support that endows him with the power to design a state to suite his tastes. Venezuela nevertheless gets a low BMI ranking (88th) because political and policy preferences have polarized and state capacity has declined.[31]

Governance is still a huge challenge and it might be getting more complex, something that I wish the volume edited by Domínguez and Shifter might have addressed more systematically. Though each chapter provides essential background material on countries and issues, the fact that the authors do not use a set of common indicators makes it hard to compare governance across cases or through time. The utility of the concept of *governance* —the construction of political consensus around short- and long-term goals and of institutions and procedures to implement them— depends upon identifying indicators to measure its dimensions. The BMI presents the same contextual information that is the strength of *Constructing Democratic Governance in Latin America*, but places it in a framework that makes it much easier to test theories of why some societies become governable and others do not.[32]

2. Second-Generation Reforms and Questions of Institutional Design

If first-generation reforms focus on macro-economic stabilization, second-generation reforms focus on improving the longer-terms prospects for governance and economic competitiveness. *Retiring the State* asks why some governments can privatize a major government function, that of administering old-age pensions. The partial or complete privatization of such programs involves the redesign of a major state responsibility and raises the question whether neoliberal approaches can do a better job of promoting political consensus and social solidarity. Explaining the effectiveness of states also requires understanding horizontal accountability, that is, how the parts of government interact to ensure that elected officials and bureaucrats do not violate the public interest —the central objective of the essays in *Democratic Accountability in Latin America*.

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[31] Michael Coppedge, "Venezuela: Popular Sovereignty versus Liberal Democracy," in Domínguez and Shifter, eds., *Constructing Democratic Governance in Latin America*, pp. 165-92.

[32] Pablo T. Spiller and Mariano Tommasi develop a policy-based approach to measure governance. See their "The Institutional Foundations of Public Policy: A Transactions-Costs Approach with Application to Argentina," *Journal of Law, Economics, and Organization*, 19 (2003): 281-306. This approach is the basis of a multi-country study of governance and public policies in Latin America that the IADB organized between 2003 and 2005. For a summary of results, see Ernesto Stein, et al., *The Politics of Policies: Economic and Social Progress in Latin America*, 2006 Report. (Washington, D.C.: Inter-American Development Bank and the David Rockefeller Center for Latin American Studies, Harvard University). See Alston, et al., and Lehoucq, et al., for studies of Brazil and Mexico, respectively.

Madrid's *Retiring the State* is a comprehensive study of why some governments privatized public pension systems (Bolivia, Chile, Dominican Republic, El Salvador, Mexico, and Nicaragua), why some created private accounts to supplement public pension systems (Argentina, Colombia, Costa Rica, Peru, and Uruguay), or why others did not (Brazil, Ecuador, Guatemala, Honduras, Panama, Paraguay, and Venezuela). Throughout the twentieth century, Latin American governments established autonomous and semi-autonomous bodies to administer this classic welfare state program. Few countries provided universal coverage; most established programs for public sector workers and other politically influential groups. By the late 1980s, social security systems included more than 70 percent of the economically active population only in Argentina, Brazil, Chile, Costa Rica, and Uruguay.[33]

Madrid uses case studies and cross-national statistical models to test different arguments about social security privatization. The statistical chapters evaluating the impact of financial and political factors unusually follow the chapter-long case studies of Mexico, Argentina, and Brazil. This way of arranging the empirical materials makes it harder to understand Madrid's overall argument, though this study is nevertheless a model of a solid research design. It is hard not to walk away impressed with the breath of scholarship in *Retiring the State*.

Madrid argues that financial pressure and the search for domestic savings only explain a part of the variance between cases. If a pension system is mature, then the high costs of privatizing it will discourage governments from replacing publicly funded programs. If the domestic savings rate is low, then privatization looms as a way not only to divest government of an expensive social program, but also of a way of generating capital to invest in the domestic economy. Governments that had a legislative majority were also more likely to privatize. Another key variable was whether the country was the target of a World Bank pension reform mission. Each of these variables is significant in Madrid's probit models of 82 middle and upper-income countries. Moreover, a regional dummy variable suggests that the Chilean model, one where the state completely privatized its pension system in 1981, influenced its neighbors.[34]

The case studies of Mexico, Argentina, and Brazil illustrate the causal dynamics behind social security privatization. In Mexico, policymakers did not have to arrange for payment of an overly mature system. In the mid-1990s, the Mexican pension system for private sector workers was still basically solvent, despite problems with contribution evasion over the years and the

[33] Carmelo Mesa-Lago, *Changing Social Security in Latin America: Toward Alleviating the Social Costs of Reform* (Boulder, CO: Lynne Rienner, 1994), p. 22. This figures includes both health care and old-age pensions. The figure for old-age pensions is probably smaller than this one.

[34] For more on diffusion, see Kurt G. Weyland, "Theories of Policy Diffusion: Lessons from Latin American Pension Reform," *World Politics*, 57 (January 2005): pp. 262-95.

inability of past social security fund administrators to invest surpluses for the future. As a share of public pension spending, it was only 0.40 percent of GDP in 1996. The Zedillo presidency also held a large majority in Mexico's bicameral Congress, a condition that Madrid argues is fundamental for explaining why Mexico privatized so many pension systems. Finally, neoliberal economists held sway in an administration headed by a Yale-trained economist, one who believed that privatizing as much of a large and typically inefficient state could only help the Mexican political economy.

In Argentina and Brazil, Madrid points out, wholesale privatization did not occur because most of these conditions were absent. As a share of public spending, pensions accounted for 6.2 percent of GDP in Argentina and 4.9 percent in Brazil in the mid-1990s. So, any effort to privatize public pensions would generate large transition costs, even if influential neoliberal economists were championing the virtues of the Chilean model. Though Menem's administration held a majority in the Argentine legislature, President Fernando Henrique Cardoso did not. Even Menem had to water down the bills he originally sent to the legislature because Peronist labor unions balked at privatizing old-age pensions, even if they were formally part of the same *Justicialista* Party.

Madrid's findings are important for several reasons: 1) economic crisis, as measured by inflation or recession, does not lead to pension reform. Unlike first-generation reforms, these are reforms with diffuse, long-term benefits and costs; 2) each of the case studies reveals that a key interest group in developed societies —that of pensioners themselves— was not a relevant player in pension privatization politics in Latin America. Only when pension system members belonged to powerful labor unions (Argentina) or public sector unions (Brazil and Mexico) did technopols have to modify pension privatization bills. In Mexico, highly organized public sector unions, whose members receive pensions out of all proportions to member's contributions, have thus far prevented reform of their pension systems.[35] That public pension systems remain largely unreformed, in fact, raises doubts about whether Mexico is a case of privatization, even if Madrid's overall point that only extraordinary political and economic conditions permit privatizing a core welfare state program. 3) I suspect that the regional dummy variable is not only picking up diffusion of the Chilean model, but also, with one partial exception, serious governance problems. None of the cases of pension privatization —including Bolivia, the Dominican Republic, El Salvador, Mexico, and Peru— gets impressive marks from the BMI. Though the BMI gives Chile a high rating by 2003, I also suspect that its ranking would have been substantially lower in 1981, when this country's military government radically changed its old-age pension system. Public pensions systems were often part

[35] John Scott, "Protección Básica, Cobertura Universal, Seguridad Social y Pobreza en México," *Bienestar y Política Social* 1 (November, 2005).

and parcel of rickety states, ones that required and require extensive reform. Technocrats, in fact, favor privatization because public pension systems, were or are often rife, with corruption, suffer from contribution evasion, and concentrate benefits —often out of central state revenues— in urban-based sectors. While it is fair to criticize pension privatization for reducing social solidarity, it is very much the case that public pension systems in many parts of Latin America were badly run and economically regressive.[36]

Nevertheless, it is not clear that privatization has delivered or will deliver all of its alleged benefits. It has not had a noticeable effect on boosting domestic savings rates. Madrid points out that it is debatable whether the investment boom after privatization in Chile stemmed principally from this factor. Rates of evasion still remain worryingly high. According to a World Bank study, only about one-half of the economically active population is contributing to a pension system, whether public or private.[37] Lack of coverage may very well prompt electoral demands for the return of government-sponsored retirement schemes. Indeed, by 2001, Argentine central state politicians succeeded in getting fund managers to transfer private pension funds to central state coffers or to state banks. And, once the Argentine economy crashed, the government simply stopped paying interest on these loans and slashed worker's contributions from 11 to 5 percent of their wages.

That the Argentine central government could raid private pension benefits to cover its expenditures suggests that checks and balances are not working in this country. Of course, this presupposes that the Argentine constitutional design, or that of any presidential system, encourages the parts of government to check each other. Understanding how the branches of government stay accountable to voters as well as to other parts of the state is the central concern of Mainwaring and Welna's *Democratic Accountability in Latin America*. While one half of the chapters map the conceptual terrain of accountability, the other half examines the performance of several institutions of horizontal accountability in selected countries.

Democratic Accountability in Latin America pivots around Guillermo O'Donnell's influential discussion of what he has termed *horizontal accountability*. According to O'Donnell, this is the existence of state agencies that are legally enabled and empowered, and factually willing and able, to take actions that span from routine oversight to criminal sanctions or impeachment in relation to actions or omissions by other agents or agencies of the state that may be qualified as unlawful.[38]

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[36] Indermit S. Gill, Truman Packard, and Juan Yermo, *Keeping the Promise of Social Security in Latin America* (Washington, D.C. and Palo Alto, CA: World Bank and Stanford University Press, 2005).

[37] Ibid, p. 100.

[38] Guillermo O'Donnell, "Horizontal Accountability: The Legal Institutionalization of Mistrust," in Scott Mainwaring and Michael Shifter, eds., *Democratic Accountability in Latin America* (Oxford: Oxford University Press, 2003).

O'Donnell's point is that state institutions in Latin America are not very effective at curtailing the arbitrariness of executive authority. The legislature and the judiciary do not balance against the executive very well. Mandated institutions like Comptroller Generalships, Ombudsmen, and the like are not very good at protecting against the abuse of power or at preventing corruption.

In their contribution to this book, Erika Moreno, Brian Crisp, and Matthew Shugart dispute the usefulness of this conceptualization. They argue that accountability is a principal-agent relationship. There can be no accountability between horizontally equal institutions. They conclude that horizontal accountability does not exist because Public Prosecutors, Attorney Generals, and Comptrollerships, to name a few agencies, often do not or cannot sanction elected officials, much less fire them. For these authors, the only accountability that exists in democracies is vertical. If the state violates rights and engages in corruption, it is because the relations of authority between voters and their servants are not working well.[39]

Part of what makes *Democratic Accountability in Latin America* a good read is that the thinking of James Madison pervades so many of the contributions. Moreno, Crisp, and Shugart explicitly draw on Madison to frame their discussion. If the trick, to paraphrase Madison, is to make the state accountable and effective, then many Latin Americans, they hypothesize, get bad government not because the institutions of horizontal exchange are inoperative, but because vertical accountability does not work. Latin American electoral systems, they suggest, fragment parties and make deputies little more than purveyors of favors for narrow constituencies or create centralized and unresponsive parties. Either way, this process discourages deputies (and senators, in bicameral systems) from becoming interested in policy and in making the legislature an effective overseer of executive and bureaucratic activities.

Vertical accountability may be getting better in select Latin American countries. In his chapter in *Constructing Democratic Governance in Latin America*, Carey points out that several developments are opening up democratic politics. First, a few countries —including Argentina, Brazil, Colombia (after Carey's chapter went to press), Peru, and Venezuela— have reformed their constitutions to allow presidents to seek reelection and thus let electorates decide to reward or punish incumbents. Second, parties in Argentina, Chile, Costa Rica, Mexico, and Uruguay now hold primaries to select presidential candidates. Both measures empower electorates to make more choices and thus make elected officials more responsive to public opinion. Third, legislative transparency has gotten better in some countries. Argentina, Brazil, Chile, Mexico, Nicaragua, and Peru now make roll-call votes

[39] Erika Moreno, Brian F. Crisp, and Matthew Soberg Shugart, "The Accountability Deficit in Latin America," in Mainwaring and Welna, eds., *Democratic Accountability in Latin America.*

available (in whole or in part), which permit citizens and watchdog groups to monitor the behavior of their representatives. Whether the countries that have democratized the most will result in legislators more actively policing the bureaucracy is a hypothesis worth testing. It is also one that goes to the heart of the dispute of whether dysfunctional states are a product of failures of vertical or horizontal accountability.

Regardless of how one falls on the debate between O'Donnell and his critics, these conceptual chapters force us to think about institutional design that builds upon and marks an important point of departure from ongoing debates about executive-legislative relations. If this relationship is crucial for regime survival, then it becomes important to test theories about the impact of this relationship on the production of so much code law about the way the bureaucracy, both in and outside of the executive, should work. How bureaucracies do or do not work will help us figure out why many Latin American political systems are not promoting democratic governance. Moreover, understanding the politics of institutional design will allow us to determine whether, as I suspect, second-rate public bureaucracies contribute to inter-branch conflict. After all, it is not uncommon to witness a reform-minded executive —one who claims to embody the national will— confront a legislature because it will not enact his program, one that seeks to reverse the accumulated effects of lawmaking on bureaucracies and the agencies of horizontal exchange.

It takes an uncommon combination of political conditions and institutional factors to create democratic accountability, which may explain why democratic governance has not improved in very many countries of the region. Scott Morgenstern and Luigi Manzetti compare Argentine and US political development to identify the conditions that led to the development of horizontal accountability. They conclude that public outcry for reform, along with divided government, encourage career-minded legislators to develop accountability institutions to check the power of the executive in the US, conditions absent in Argentina until the 1990s.[40]

It is not clear that constitutional framers and institutional reformers over the years in Latin America have sought to borrow from Madison, which is the theory of statecraft from which Moreno, Crisp, and Shugart draw to assess accountability in the region. The checks and balances version of the separation of powers makes two or more parts of government responsible for every function of government based on the presupposition that shared responsibilities prevent tyranny. Sure, the 1853 Argentine constitution and the 1857 (and even the 1917) Mexican constitution echo central themes of US constitutional design, but the Costa Rican and Uruguayan constitutional traditions, for example, do not. These constitutions seek to overcome the

[40] Scott Morgenstern and Luigi Manzetti, "Legislative Oversight: Interests and Institutions in the United States and Argentina," in Mainwaring and Welna, eds., *Democratic Accountability in Latin America.*

incessant conflict among the branches of government through functional specialization. Each part of government takes responsibility for one function of government. The establishment of autonomous electoral court systems throughout the twentieth century is one of the best examples of this type of statecraft. Though classical constitutional theory made the executive responsible for organizing elections and empowered the legislature to certify election results, the theory of functional specialization entrusts all electoral functions to independent agencies and courts. Electoral courts and other autonomous agencies are therefore strike at the heart of the checks and balances version of the separation of powers.[41]

The development of the decentralized state sector, one formally outside of the central state and that often includes health care, old-age pensions, and monetary policy, remains an important part of the Latin American institutional landscape. Indeed, the best governed states in Latin America —Chile, Costa Rica, and Uruguay— rely upon creating bureaucratic agencies largely outside of the central state to isolate them from the partisan bickering of the elected branches of government. With the exception of Chile, neither of these countries, for example, privatized its pension system. Instead, Costa Rica and Uruguay chose to establish individual retirement accounts, as Madrid explains, to supplement public systems that autonomous institutes continue to administer. This raises the question of whether a new separation of powers, one that allocates each function of government to an agency of the state, is a better or alternative route to promoting democratic accountability.

That Madison may not be the best inspiration to make sense of horizontal accountability is actually a point that Argelina Cheibub Figueiredo makes in her chapter on the oversight effectiveness of the Brazilian legislature. Precisely because legislative majorities have formed coalitions to support the executive— in exchange for cabinet portfolios and other benefits —they cannot effectively oversee the executive. In this institutional schema, horizontal agencies become vital ways of ringing the alarm bells when public officials violate the law.[42]

[41] Fabrice Lehoucq, "Can Parties Police Themselves? Electoral Governance and Democratization," *International Political Science Review*, 23 (January 2002): 29-46. For more complete statement of this position, see his "Constitutional Design and Democratic Performance in Latin America," *Verfassung und Recht in Übersee/Law and Politics in Africa, Asia and Latin America*, 39 (January 2006): 370-90. And, for the pioneering discussion of the old and the new separation of powers, see Bruce Ackerman "The New Separation of Powers," *Harvard Law Review*, 113 (January 2000): 634-727.

[42] Argelina Cheibub Figueiredo, "The Role of Congress as an Agency of Horizontal Accountability: Lessons from the Brazilian Experience," in Mainwaring and Welna, eds., *Democratic Accountability in Latin America*.

Conclusions

That Madison may not be the best inspiration to make sense of horizontal accountability is actually a point that Argelina Cheibub Figueiredo makes in her chapter on the oversight effectiveness of the Brazilian legislature. Precisely because legislative majorities have formed coalitions to support the executive— in exchange for cabinet portfolios and other benefits —they cannot effectively oversee the executive. In this institutional schema, horizontal agencies become vital ways of ringing the alarm bells when public officials violate the law.[43]

One promising area for research, then, is to explore political attitudes toward economic reform and the political system. Weyland suggests that macro-economic and democratic stability turns voters into supporters of the status quo. An implication of Susan Stokes's argument in *Mandates and Democracy* is that the constituency in favor of neoliberal reform is contracting because democratic elections are becoming increasingly competitive. Unlike Weyland, she does not really focus on the cognitive constraints that voters face in backing or opposing market reforms because she has a more rationalistic conception of voters. While I am unsure that Stokes believes that voters are singularly retrospective, she does think that citizens will punish incumbents for betraying promises not to implement the Washington Consensus. While Stokes and Weyland's arguments may be complementary, it is worth testing them against each other to explain the ebb and flow of market-friendly reforms.

Both of these arguments raise the issue of why so many citizens in the region are suspicious of anything that smacks of market reform. Eduardo Lora and Mauricio Olivera suggest that Latin Americans have a general aversion to such reforms. Even politicians that reduce inflation only break even after discounting for the negative effects of being labeled as *neoliberals*. Political scientists need to examine the psychology of anti-liberal behavior and to locate its class, cultural, and electoral sources. Getting voters to endorse reforms that seem to enrich a small segment of the population is not easy to do in societies with the highest rates of inequality in the world. For voters in economically uncertain situations, I hypothesize, the promise of incremental improvements in some distant future is not enough to overcome the suspicion that such reforms only serve to maintain income disparities. The overall ill repute of the political system, as Marta Lagos and others reveal, also undermines the ability of politicians to make credible commitments about the future benefits of economic policy. With a handful of exceptions, politicians

[43] Argelina Cheibub Figueiredo, "The Role of Congress as an Agency of Horizontal Accountability: Lessons from the Brazilian Experience," in Mainwaring and Welna, eds., *Democratic Accountability in Latin America*.

in Latin America are therefore unable to gain electoral support for reforms that economists tell us will promote economic development.

Third, these books point out that second-generation reforms do not have much of a future, even if the newfound consensus in favor of macro-economic and -political democratic stability sticks.[44] Madrid argues in *Retiring the State* that only extraordinary political (e.g., the executive's control of the legislature) and economic conditions (e.g., a relatively low financial costs) empowered neoliberal economist to convince their governments to privatize their pension systems. The first condition is becoming uncommon with time, even if many second-generation reforms do not generate as many upfront financial costs (e.g., labor reforms, additional privatizations, legal and democratic reforms). If half of all governments in 1984 were single party majority ones, such governments have become a distinct minority by the end of the 1990s. More than 70 percent of all governments relied upon legislative coalitions by 2000, ones where the executive was head of a coalition drawn from parties with legislative representation.[45]

The rise of coalition government in most presidential systems since the 1980s also requires explanation. So does its impact on governance. If a virtue of presidentialism is that it promotes executive stability, then it is worth noting that recent research suggests that cabinets do not appear to be any less stable in parliamentary systems.[46] Related research shows that presidents, like prime ministers, consciously make cabinet appointments as part of their overall legislative strategy.[47] There may also be nothing new about what some call the *parliamentarization* of executive authority in Latin America. An earlier generation of research on Latin American political systems noted this, a finding that was lost with the turn to dictatorship during the 1960s and 1970s in so much of the region.[48]

To determine whether the return of coalition cabinets helps or hinders governance, we also need to devise cross-national measures of this multidimensional concept. The BMI that I cited earlier in this paper is an ambitious effort to code 116 developing countries on whether, for example, their political systems are inclusive, whether successive governments stick to

[44] Kurt Weyland, "Threats to Latin America's Market Model?," *Political Science Quarterly*, 119 (Summer 2004): pp. 291-313.

[45] J. Mark Payne, Daniel Zovatto, Fernando Carrillo Flórez, and Andrés Allamand Zavalla, *Democracies in Development: Politics and Reform in Latin America* (Washington, D.C.: Inter-American Development Bank, 2002), p. 215.

[46] See, Cecilia Martinez Gallardo, "Designing Cabinets: Presidents, Politics, and Policymaking in Latin America," unpub. Ph.D. Dissertation, Columbia University, 2005. For a case study of Uruguay, see David Altman, "The Politics of Coalition Formation and Survival in Multi-Party Presidential Democracies: The Case of Uruguay, 1989-99," *Party Politics*, 6 (July 2000): pp. 259-83.

[47] Octâvio Amorim Neto, "The Presidential Calculus: Executive Policy-Making and Cabinet Formation in the Americas," *Comparative Political Studies*, 39 (May 2006): 415-440.

[48] William S. Stokes, "Parliamentary Government in Latin America," *American Political Science Review*, 39 (June 1945), pp. 522-36.

inter-party reform-oriented agreements, and a host of related factors. The Inter-American Development Bank (IDB) also has unwritten a multi-year project to link the institutional features of a dozen Latin American governments with key characteristics of their policymaking regimes.[49] Thinking about governance systematically will not only permit charting progress, but also allow us to test hypotheses about the way institutional frameworks and systems of representation interact to push countries into more advanced and self-sustaining development trajectories.

Finally, the books under review explore the impact of institutional design on democratic governance. How the different parts of the state are structured shapes the incentives that public officials have to become accountable and therefore to promote democratic governance. The preliminary diagnosis in Scott Mainwaring and Christopher Welna's *Democratic Accountability in Latin America* is that horizontal accountability, or the effectiveness of checks and balances among the organs and agencies of the state, does not work very well in Latin America. O'Donnell suggests that the relations between the agencies of state government do not encourage them to supervise each other and therefore to advance the public interest. Moreno, Crisp and Shugart suggest that better systems of representation would activate the checks and balances in separation of powers systems.

Again, we need systematic tests of these alternative arguments to determine which institutional design best promotes democratic accountability in separation of powers systems. For all of the talk of horizontal accountability, there are very few tests of how alternative principal-agent models improve the responsiveness of state officials. There is a reasonably large literature on how Congress delegates authority to the bureaucracy and even some work on why presidents and Congress sometimes create independent agencies and other times do not.[50] Unfortunately, researchers have not yet developed criteria to measure the degree of autonomy agencies have from the executive or from the legislature. It stands to reason that the most continuously democratic countries should have the most responsive bureaucracies. Yet, the use of the new separation of powers in so many countries suggests that mechanisms of horizontal accountability are key to understand why the quality of bureaucratic services tends to be higher in Costa Rica, Chile, and Uruguay.

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[49] Stein, et al., *The Politics of Policy*.

[50] See David E. Lewis, *Presidents and the Politics of Agency Design: Political Insulation in the United States Government Bureaucracy, 1946-1997* (Stanford: Stanford University Press, 2003).

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