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The Politics of Policies:

Revisiting the Quality of Public Policies and Government Capabilities in Latin America and the Caribbean

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Abstract[*]

Most policy analyses and academic papers deal with finding the combination of policies that may bring about the best development outcomes. However, in the long run, it is the features of public policies that seem to matter for explaining development outcomes. Unfortunately, Latin America and the Caribbean lags behind other regions in the quality of the features of public policies. Policy features depend on the quality of government institutions, but Latin America and the Caribbean countries have done particularly poorly in that area as well. Not every country, however, fares the same. While a few countries sit alongside the developed world, more than two-thirds of countries in Latin America and the Caribbean score below the median. This policy brief should encourage researchers to use the data, and it may help policymakers to identify which institutions may be reducing the possibility of moving upward and forward. Some of the policy recommendations may help to change current paths.

JEL classifications: D72, D73, D78
Keywords: Policymaking processes, Public policies, Government capabilities

Executive Summary

- The best-designed public policies may not have any effect if they are short-lived and continuously modified. Therefore, the stability of the policy environment (among other policy features) is as important as—or even more important than—the content of policies

- In the long run, the features of public policies, such as their stability (whether successful policies remain in place despite changes in political winds) and adaptability (whether failing policies are replaced) seem to matter for explaining development outcomes.

- Latin America and the Caribbean (LAC) lags behind other regions in the quality of the features of public policies.

- In particular, it has done worse in relative terms in the coordination, enforcement, and efficiency of public policies. It has performed relatively better in terms of public regardedness.

- Not every country has done poorly. Some of them, such as Chile, Costa Rica, and Uruguay, have performed alongside high-income developed countries.

- The policy features are not exogenous. They depend on the quality of government institutions such as the institutionalization of Congress, the independence of the judiciary, the quality of the civil service, and the institutionalization of political parties.

- Latin America has done particularly poorly in institutionalizing its congresses, a category in which it ranks last. It ranks also very low in terms of the independence of the judiciary and the quality of the civil service. While it ranks comparatively better in the institutionalization of parties, the absolute value of the index is still low. There is ample room for improvement.

- Once more, not every country has the same institutional quality. Countries like Chile, Costa Rica and Uruguay rank alongside the developed world. On the other hand, two-thirds of LAC countries ranked below the world median.

- Main policy recommendations:

  * Foster investment in government capabilities.

  * Try to facilitate and induce consistency over time of policy design, implementation,

    and enforcement.

  * Foster consensus and intertemporal cooperation among domestic political players.

1. Introduction

Most policy analyses and academic papers deal with finding the right policy or combination of policies that may bring the best development outcomes. Discussions such as whether public utility companies (e.g., electricity, gas, transportation) work better under private or public hands, whether providing laptops to students or using the money elsewhere in the education system, whether central banks should be independent or not and what type of monetary policy they should follow, and whether minimum wages make sense and what should their level be, are some of the issues that tend to dominate policy discussions. These discussions usually follow or are followed by swings in policy prescriptions. In Latin America in particular, it has been common to swing from state-controlled to market-centered policies and then back to having the public sector commanding large shares of the economy. Similarly, trade policies, exchange rate policies, enforcement of minimum wages, price controls, and industrial policies, have also switched radically over the years in many of the countries in the region.

While some policies tend to outperform others, a new consensus seems to be arising around the fact that a universal set of "right" policies does not necessarily exist. What might work at one point in time in a given country might not work in a different place or in the same place at another time. However, some characteristics of the policies (or the details of their implementation) might matter as much as the grand title of the policy. For instance, features such as the credibility of a policy may matter much more than its content because the fact that a policy will stay in place provides actors with the ability to adapt, invest, and respond efficiently to it. On the other hand, introducing the "best policy" in a highly uncertain environment may not deliver any benefits at all.[1]

Having credible policies does not necessarily mean that they have to be rigid. While having stable policies is a must, it is also important that they have the flexibility to change when conditions demand it. The distribution of the benefits of any policy is relevant too, particularly when compensating losers is not easy to achieve ex post.

This search for better development outcomes and the realization that no magic recipes exist helped to motivate the Research Department of the IDB in the early 2000s to lead a project for building measures of the characteristics or key features of public policies beyond their

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[1] Rodrik (1995) shows this by looking at countries that shared the same policies but had quite different degrees of success.

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specific content (e.g., whether some particular taxes are high or low). The policy characteristics identified in the project, based in pioneer work by Pablo Spiller and Mariano Tommasi, that are first summarized in the 2006 flagship IDB report *The Politics of Policies* (PoP, IDB 2005), are the following: *stability*, *adaptability*, *coherence and coordination*, *efficiency*, *implementation and enforcement*, and *public regardedness*.

What determines having more or less of these policy features? In other words, what makes new government administrations stick to the good policies introduced by opposition governments? What makes governments switch those policies that are failing even if they were introduced by the current administration? The policymaking process in modern-day democracies can be understood as a process of bargains and exchanges among various political and socioeconomic actors.[2] Each political actor tries to fulfill her or his own interest given the constraints she or he faces, such as gaining reelection or favoring those who have supported them in the past. If long-term cooperation with other actors is not possible, then each agent would probably favor short-term opportunistic policies over long-term policies that may favor others.

What are the conditions that make cooperation more likely? As *The Politics of Policies* and related work recapped, there are certain conditions that make more likely that political actors will cooperate over time despite belonging to different political groups. Among the conditions that help cooperation, 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.[3] That is, having a relatively small set of actors (individuals or political parties) that have long-term stakes in the outcomes and institutions that help to enforce agreements are some of the conditions. Only when actors can cooperate over time is it possible for policies to remain in place when a new administration takes over. Likewise, in an atmosphere of intertemporal cooperation actors can agree to change policies when they are not working, and they can also agree on policies that would benefit broader sectors of the population instead of helping only their close followers.

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

[3] 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, 2012a).

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.[4] These include the following:

- *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 more likely to generate intertemporal 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 striking 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 of 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 the work leading to the publication of *The Politics of Policies*, indicators of several of these institutional capabilities were constructed for a number of Latin American countries (IDB, 2005; Stein and Tommasi, 2007.) This data was the result of detailed studies of the political economy of the economic policymaking processes in 13 countries, some of which were later published in the volume *Policymaking in Latin America* (Stein and Tommasi, 2008, and its updated Spanish-language translated version, Scartascini et al., 2010); actor-specific studies

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[4] IDB (2005), Stein and Tommasi (2007), Scartascini, Stein and Tommasi (2009).

focusing on congress, the judiciary, the civil service, political parties, and the cabinet, which were published in the volume *How Democracy Works* (Scartascini, Stein and Tommasi, 2010); and surveys of experts. The data was later expanded to a large cross-section of countries using available indicators from international data sources (Berkman et al., 2009). Both sets of indicators, the Latin America-specific and the larger cross-country one, correlate fairly well, which has provided confidence that the data are measuring something meaningful (Scartascini et al., 2008, 2009, 2013). Additionally, whenever possible, we have crosschecked the data with more objective data which in some cases are available, albeit for much smaller samples.[5] The data have been useful for empirically examining the relationships that emerge from the conceptual framework. This work has led to several stylized facts and results.[6]

First, **government capabilities matter for better policy features**. Countries that have more capable bureaucracies, more institutionalized congresses, independent judiciaries, and institutionalized political parties tend to have policies that are more stable, adaptable, coherent, efficient, and public regarded (IDB, 2005; Stein and Tommasi, 2007; Scartascini and Tommasi, 2012b; Scartascini, Stein and Tommasi, 2013).

Second, **better policy features lead to better development outcomes**. By transitivity, **higher government capabilities lead to better development outcomes**. Basically, both better policy features and higher government capabilities have been shown to be correlated with higher rates of GDP per capita growth and improvements in the Human Development Index (Scartascini et al., 2008, 2009; Ardanaz, Scartascini and Tommasi, 2011; Palanza, Scartascini and Tommasi, 2012).

Third, **higher government capabilities lead to better policies**. Higher government capabilities have also been also shown to be positively correlated with policies that are associated with long-term gains in productivity, such as less distortive tax systems and government subsidies, a larger formal sector, higher-quality infrastructure, labor market flexibility, and ease of firm entry (Scartascini and Tommasi, 2010). Moreover enhanced government capabilities generate the conditions for higher financial development (Becerra, Cavallo and Scartascini, 2012), advance more rapidly in achieving development policy goals in

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[5] For example, we have checked the correlation of our adaptability index with indicators by Braun and Di Gresia (2002) of whether social policy adjusts well over the macroeconomic cycle, for 20 countries in Latin America for which data are available. The correlation is 0.49, and it is statistically significant. Other checks with fiscal variables are reported in Scartascini, Stein and Tommasi (2013).

[6] We add in Appendix D.2 an incomplete list of papers that have used the data.

social sector areas (Cingolani, Thomsson and de Crombrugghe, 2013), and more effective health and education spending (Scartascini, Stein and Tommasi, 2008). Countries with higher capabilities might be able to design better fiscal frameworks (Filc and Scartascini, 2012). For example, a more capable bureaucracy may help to generate the conditions for the implementation of advanced public financial management systems such as budgeting for results. These better policies seem to allow governments to respond better to external risks (Franco Chuaire, Scartascini and Tommasi, 2014).

2. The Features of Policies in 2013

Continuing work initiated a decade ago, we have updated the original database (Berkman et al. 2009) with all the available information up to date (Franco Chuaire et al., 2013). Because the concepts we are trying to capture require the use of data for a number of years (e.g., in order to define whether policies in a country are stable or not it is necessary to use long series of data) we do not have the degrees of freedom for generating time series for the variables we construct. [7] Instead, each new data point in the underlying indicators increases the confidence in the measures we are using. For the same reason, the indexes do not evaluate recent country trends but long-term equilibria. Therefore, if a country has dramatically switched its policymaking process from one that produces policies with bad features to one with virtuous policies it would not be fully captured here.

2.1 Definitions

The specific definitions of the policy features are as follows (specific sources of data are included in Appendix D):

- **Policy Stability**: While some countries seem capable of sustaining most policies over time, in others, policies are frequently reversed, often in response to minor changes in political winds. Having stable policies does not mean that policies cannot change at all, but rather that changes tend to respond

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[7] The indexes are evaluated over a long period of time in order to capture long-term trends instead of short-term variations. Consequently, the components of each index have a time span that sometimes goes from the early 1980s to the late 2000s. For instance, for the Civil Service Capacity index, we used different measures of bureaucratic quality and efficiency, including the Bureaucratic Quality Index from the International Country Risk Guide (ICRG) for the period 1980-2005.

to changing economic conditions or failure of previous policies, rather than changes in government or other political shocks.

- **Policy Adaptability:** Countries should be able to change policies when they are clearly failing, adapt policies in response to changing economic conditions and international learning about best practices. Policy adaptability can be hindered by a policymaking process prone to gridlock, or by rigidities introduced explicitly to avoid opportunistic policy manipulation, which limits volatility at the cost of reducing adaptability. [8] Low adaptability leads to inadequate response to shocks and a propensity to keep sub-optimal policies for extended periods of time.

- **Policy Coordination and Coherence:** Public policies are often the outcome of actions taken by multiple actors in the policymaking process. While these actors should coordinate their actions to produce coherent policies, this does not always occur, often leading to what Cox and McCubbins (2001) have called "balkanization" of public policies. Lack of coordination, which may occur among different agencies within the central government or between different levels of government, often reflects the non-cooperative nature of political interactions.

- **Policy Implementation and Enforcement:** A policy could be well thought out and pass through Congress, and yet be completely ineffective if it is not well implemented and enforced. In many countries, the quality of policy implementation and enforcement is quite poor. This is associated in part with the lack of capable and independent bureaucracies and judiciaries. To an important degree, the quality of policy implementation and enforcement depends on the extent to which policymakers have incentives and resources to invest in policy capabilities.

- **Policy Efficiency:** Whatever policy direction a government decides to follow (redistribute to the poor, clean the environment, promote non-traditional exports), it can do so with varying degrees of efficiency—that is, by making

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[8] This is sometimes accomplished by embedding policies (such as pension benefits in Brazil or intergovernmental transfers in Argentina) into the constitution.

better or worse use of its human and economic resources. Efficient policies imply, for example, that public spending is not wasteful.[9]

- **Public-Regardedness of Policies:** Public-regardedness refers to the extent to which policies produced by a given system promote the general welfare and resemble public goods (that is, are "public-regarding") or tend to funnel private benefits to certain individuals, factions, or regions (Cox and McCubbins, 2001).

- In addition to the specific policy features, we recalculated the overall **Policy Index**, which summarizes the information from the six characteristics just discussed.

2.2 How Does the Region Fare?

Latin America and the Caribbean (LAC) lags behind several regions of the world in all of the policy components and the overall Policy Index.[10] In the case of the Policy Index, the region scores only better than Sub-Saharan Africa and South Asia. Also, the absolute value of the index is low, not even reaching 2 on a 0-4 scale. Figure 1 summarizes this information.

Figure 1. Policy Index across Regions of the World
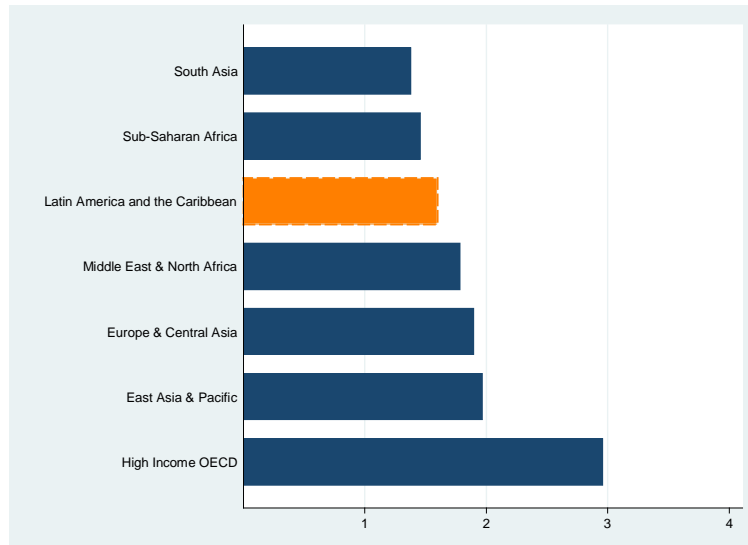
Source: Authors' compilation using data from Franco Chuaire et al. (2013).

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[9] Unlike the other policy characteristics discussed in this section, efficiency has always been a central concern of economists.

[10] We present the list of countries and the region they belong to in Appendix A.

Looking at the individual components of the index does not greatly improve the picture, as shown in Table 1, which summarizes the rankings by region; scores and figures are presented in Appendix B.1.

The gap is particularly large in the *coordination* index, which measures the ability of multiple actors in the same policy domain to synchronize their actions and implement coherent policies. This should not be surprising given that it has long been reported the fact that in Latin America and the Caribbean different ministries and different levels of government tend to have a hard time communicating with each other, and several government agencies tend to be in charge of taking care of the same policy objective at the same time (IDB, 2005; Stein and Tommasi, 2008; Bonvecchi, Johannsen and Scartascini, 2014). Similar results characterize the indexes that evaluate the *implementation and enforcement* of policies and their *efficiency*. Unfortunately, this is also old news. The region has long been considered a place where rules and regulations are not enforced. For example, tax evasion is rampant and auditing is rare (Corbacho, Fretes and Lora, 2013) and rarely are labor regulations enforced (Ronconi, 2010). The efficiency of public policies is likewise problematic. For example, high increases in education spending have not resulted in improved results, as previous country specific research (Carranza, Chávez and Valderrama, 2009) and comparative analyses (OECD, 2009) have shown.

On the other hand, it performs relatively better on public-regardedness, which implies that in LAC policies tend to promote the general welfare and resemble public goods more often than in other regions. This may be the result of heavy investment in trying to reduce poverty through extensive social protection programs (Moreno, 2011; Levy and Schady 2013). Unfortunately, the gap is still large given that the index average score is below the mean of the range of the indicator, which implies that, overall, policies still tend to funnel private benefits to certain individuals, factions, or regions rather than the public interest. While recent changes in the ideological composition of governments may have helped (Caro and Stein, Caro, 2013), other institutional restrictions that favor the status quo seem to be more permanent (Ardanaz and Scartascini, 2013).

Table 1. Policy Features Ranking by Region

Region	Stability	Adaptability	Coordination and Coherence	Implementation and Enforcement	Efficiency	Public Regardedness	Policy Index
High Income OECD	1	1	1	1	1	1	1
East Asia and the Pacific	3	2	2	2	2	4	2
Europe and Central Asia	2	3	4	3	4	5	3
Middle East and North Africa	6	6	3	4	3	2	4
Latin America and the Caribbean	4	4	5	5	5	3	5
Sub-Saharan Africa	5	7	7	6	6	6	6
South Asia	7	5	6	7	7	7	7

Source: Authors' compilation using data from Franco Chuaire et al. (2013).

As expected, not every country in the region fares the same, and the regional average masks important cross-country differences. Figure 2 presents the average Policy Index at the country level (similar graphs for the individual indexes are included in Appendix B.2).

Figure 2. Policy Index for LAC Countries
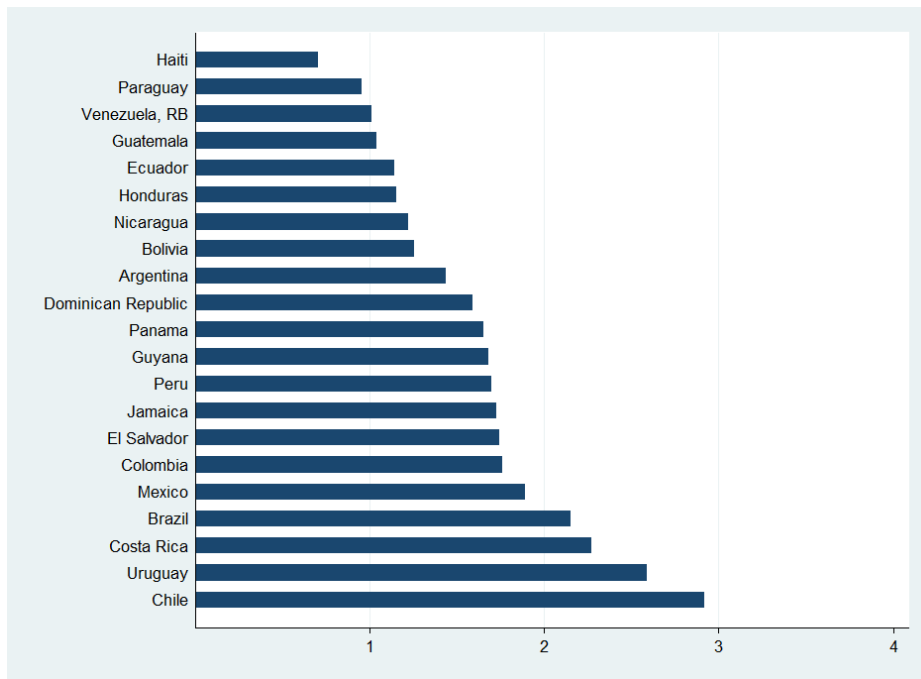
Source: Authors' compilation using data from Franco Chuaire et al. (2013).

As shown in the figure, Chile, Uruguay, Costa Rica, and Brazil stand first in the region, while countries such as Haiti, Paraguay, and Venezuela perform quite poorly in terms of the overall index of quality of public policies.

Comparing the previous two figures, it is easy to observe that while the countries at the bottom of the distribution fare worse than the average for any given region, a handful of countries at the top compare favorably well to the average high income country. This view is reinforced by performing a cluster analysis that includes all the countries in the sample and classifying the three resulting clusters as "high," "medium" and "low."

Table 2 provides a summary of where LAC countries fall in that analysis, and the table in Appendix B.3 provides the comparative information including all the countries. While countries like Chile, Costa Rica, and Uruguay belong to the group of high policymaking quality, countries like Haiti, Paraguay, and Venezuela, among others, belong to the group with the lowest quality, ranking alongside most Sub-Saharan African countries. This information is illustrated below in Figure 3.

Table 2. Latin American Countries Ranking: Cluster Analysis Worldwide Sample

Category		
(according to world sample cluster analysis using the Policy Index)		
High	**Medium**	**Low**
Chile	Argentina	Bolivia
Costa Rica	Brazil	Ecuador
Uruguay	Colombia	Guatemala
	Dominican Republic	Haiti
	El Salvador	Honduras
	Guyana	Nicaragua
	Jamaica	Paraguay
	Mexico	Venezuela
	Panama	
	Peru	

Note: Countries ordered alphabetically within each category. Full table included in Appendix B.3.
Source: Authors' compilation using data from Franco Chuaire et al. (2013).

Figure 3 complements the previous table by showing how the LAC countries fare in the overall distribution. As can be observed in the Figure, almost two-thirds of the countries lie below the world median.

Figure 3. The Policy Index across the World

Note: Somalia, Jaimaica, and Singapore correspond to the minimum, median, and maximum respectively.
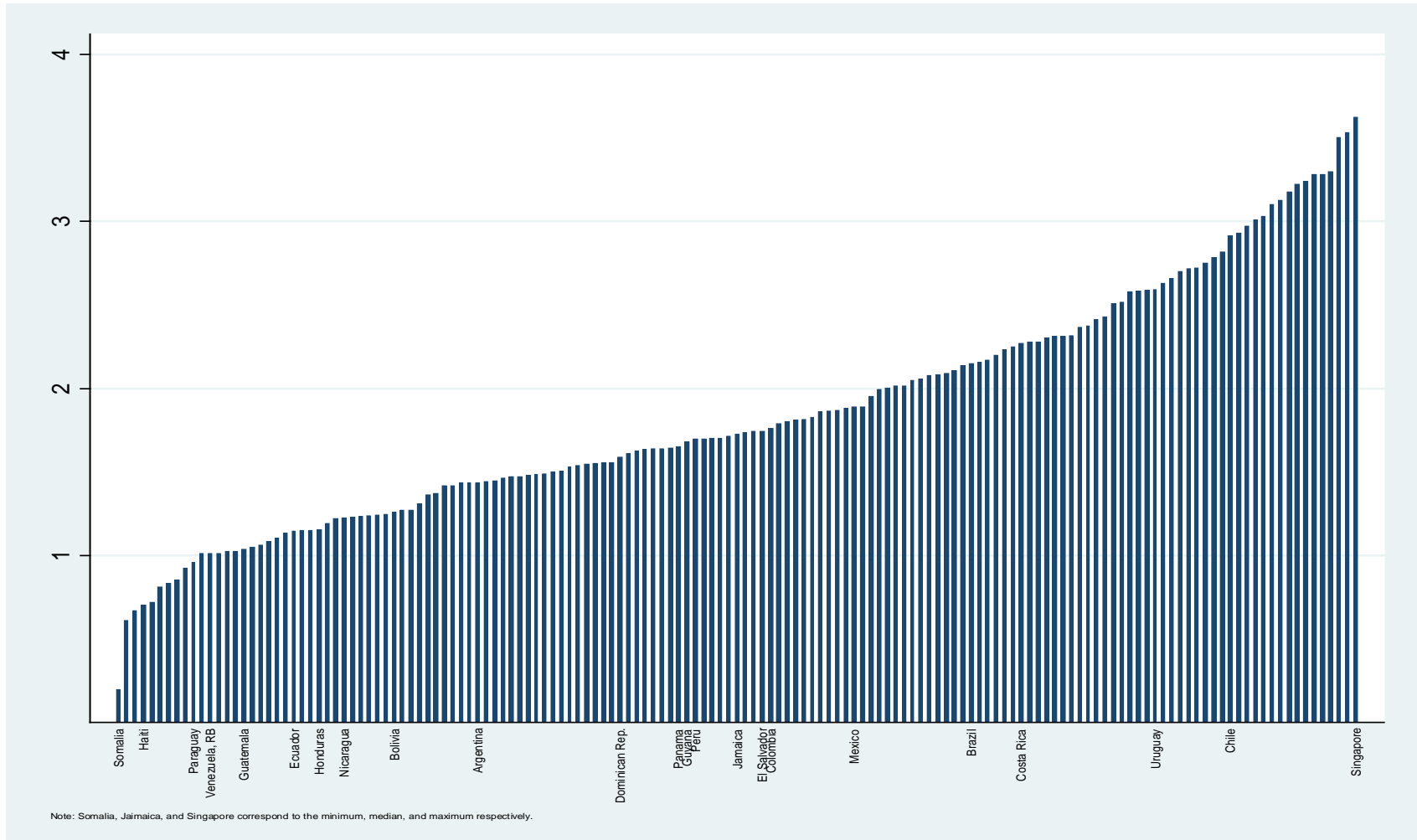
Source: Authors' compilation using data from Franco Chuaire et al. (2013).

In Table 3 we present the information disaggregated by country and policy feature. In order to make comparisons easier (and closer in spirit to IDB, 2005), we use the same cluster analysis technique (but including only the LAC countries) to classify countries as "high," "medium" or "low" according to their level of performance in the areas measured by each index. As shown, countries such as Brazil, Chile, Costa Rica, and Uruguay belong to the group of high-quality policymaking (Policy Index) while Bolivia, Ecuador, Guatemala, Honduras, Haiti, Nicaragua, Paraguay, and Venezuela constitute the low quality group. The analysis of the different policy features does not provide information that is markedly different from that performed for the Policy Index. With very few exceptions, countries tend to perform similarly across all policy features. This is explained once more by the fact that policy features depend on the overall environment in which policies are designed, approved, and implemented. This ranking would be different if countries were ranked by the content of policies at a moment in time (such as whether countries had privatized public utilities or not, or the type of pension system they had) but it would not provide a true and consistent picture of policymaking in the country. Once more, the fact that some policies may be better in one country than another at some specific moment in time does not necessarily mean long-run higher development outcomes if they end up being changed or reformed after each change in administration (e.g., Argentina's decision to switch between public and private ownership of utility companies or the pension system; see Spiller and Tommasi, 2011).

Table 3. Key Features of Public Policies since the 1990s: Cluster Analysis

Country	Stability	Adaptability	Implementation & Enforcement	Coordination	Public Regardedness	Decisiveness	Efficiency	Policy Index^
Argentina	Medium	Medium	Low	Medium	Low	Medium	Medium	Medium
The Bahamas	High*				High*			
Belize	High*				Medium*			
Bolivia	Low	Medium	Medium	Low	Low	Medium	Low	Low
Brazil	High	High	High	High	Medium	High	Medium	High
Barbados	High*				High		High*	
Chile	High	High	High	High	High	High	High	High
Colombia	Medium	High	High	Medium	Low	High	Medium	Medium
Costa Rica	Medium	High	High	Medium*	High	High	Medium	High
Rep. Dom	Low	High	High	Medium*	Medium	High	Low	Medium
Ecuador	Low	Low	Low	Medium*	Medium	Medium	Low	Low
Guatemala	Low	Low	Low	Low	Medium	Low	Low	Low
Guyana	High*	Low*	Medium*	Low*	Low	Low	Medium*	Medium
Honduras	Medium	Medium	Medium	Low*	Low	Medium	Low	Low
Haiti	Low*	Low	Low	Low*	Low	Low	Low	Low
Jamaica	Medium	Medium*	High		Medium	Medium	Low	Medium
Mexico	Medium	Medium	High	Medium	Medium	Medium	Medium	Medium
Nicaragua	Medium	Low	Medium	Medium*	Low	Medium	Low	Low
Panama	Medium	Medium	Medium	High*	Medium	Medium	Medium	Medium
Peru	Medium	Medium	Medium	Low	Medium	Medium		Medium
Paraguay	Low	Medium	Low	Low*	Low	Medium	Low	Low
El Salvador	Medium	Medium	High	Low*	Medium	Medium	Medium	Medium
Suriname					Medium		Low*	
Trinidad and Tobago	High		Medium*		Medium		Medium	
Uruguay	High	High*	High		High	High	Medium	High
Venezuela	Low	Low	Low	Medium	Medium	Low	Low	Low

^The policy Index was built including only those countries for which at most one of the components was missing.
*Countries missing half of more of the components of the given index.

Source: Authors' compilation using data from Franco Chuaire et al. (2013).

3. Government Capabilities in 2013

Following the framework briefly described above, we relate the key features of public policies to a series of political and institutional variables such as: the policymaking capabilities of the congress, party system institutionalization, judicial independence, and bureaucratic quality.

- **Congressional Policymaking Capabilities:** The *Congress Capabilities Index* attempts to capture the extent to which congress, as an institution, has the capability to serve as an appropriate arena for the discussion, negotiation, and enforcement of political agreements. A legislature made up of professional legislators, with technical capabilities for discussing and overseeing policies, and with adequate organizational structures, can facilitate the development of relatively consensual and consistent policies over time (IDB, 2005: 141).

- **Party System Institutionalization:** Political parties also play an important role in the policymaking process as they can either facilitate or hinder political bargains and interactions with other institutions. More *institutionalized parties*

and party systems, particularly when they are programmatic, are more likely to encourage long horizon commitments and facilitate inter-temporal bargains within a party and among parties (IDB, 2005: 142). This index is constructed based on the following five variables: stable, moderate, and rooted party system, confidence in political parties, vote volatility, party age, and fairness of elections.

- **Judicial Independence:** An *independent judiciary* is important in the framework presented by the PoP as it facilitates the intertemporal enforcement of prior political and policy decisions according to constitutions and laws. As such, ensuring the independence of the judicial branch from the executive can improve stability and quality of enforcement in the policymaking process.

- **Civil Service Capacity***:* High bureaucratic capabilities can improve the quality of implementation of public policies as they promote less political opportunism and allow investing resources into developing third parties that can limit the bureaucracy's discretion and enforce long-term commitments.

- In addition to the specific institutional characteristics, we have recalculated the overall **Index of Government Capabilities**, which summarizes the information from the previous four indicators.

Figure 4 presents an international comparison for the combined index of government capabilities where LAC ranks last (alongside Sub-Saharan Africa) while the figures for the individual components are included in Appendix C.1.[11]

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[11] In order to facilitate comparisons between the Policy Index and the Government Capabilities Index, we have restricted the analysis of the latter to those countries for which the Policy Index is available (i.e., those countries for which at most one of the components of the Policy Index is missing).

Figure 4. Government Capabilities: An International Comparison
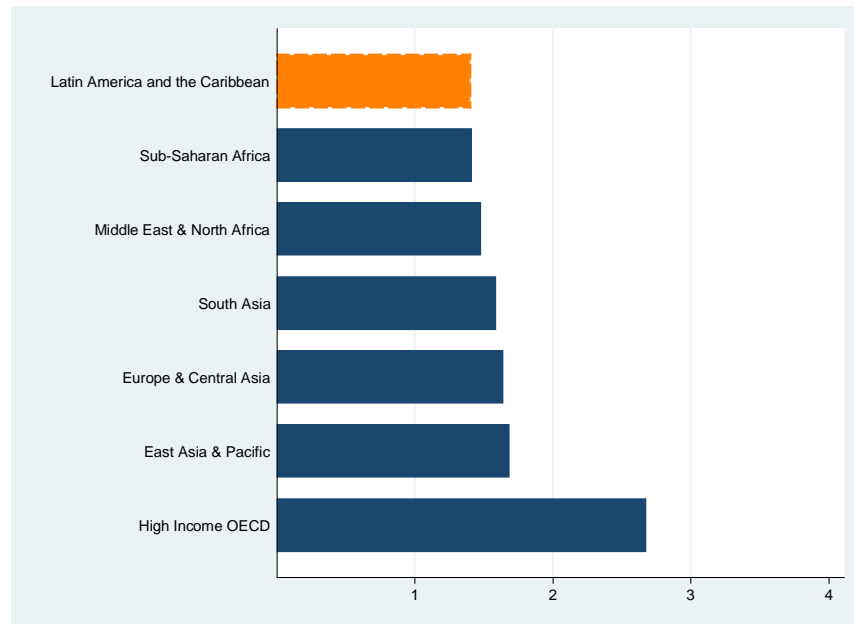
Source: Authors' compilation using data from Franco Chuaire et al. (2013).

In terms of specific components (as presented in Table 4),[12] a particular outlier is party system institutionalization, and index in which the region scores particularly well despite the increase in fragmentation of the political system suffered in the last years. On the other extreme seems to be congress institutionalization and the civil service. Most congresses in the region lack the organization, financial resources, experienced members, and staff to serve as the arena where policy decisions are made and governments are made accountable (Saiegh, 2010). More importantly, their legislators usually lack the incentives to spend part of their time and effort to build a stronger collective body (Palanza, Scartascini and Tommasi, 2013). Hence, even when resources have poured into legislatures, the results have not been as good as expected. The region's civil services are similarly characterized by low levels of development. Even when reforms have taken place, the expected role of the bureaucracy is defined in generic terms with an emphasis on procedures and compliance and not on a system that favors efficiency and effectiveness (Echebarría and Cortázar, 2007; Zuvanic, Iacoviello and Rodríguez Gusta, 2010). Improving the workings of the civil service is not something that takes place overnight with the

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[12] Appendix C.2 presents the intra-regional comparison for the sub-components of the Government Capabilities Index.

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passage of a law. It requires steady long-term investments that can only take place if the main actors are willing to facilitate the development of a third party that can increase control and accountability. Judicial independence presents alarmingly low absolute levels. This situation is difficult to evaluate in the aggregate because country stories differ dramatically. While some countries have maintained and strengthened their courts, others have moved in the exact opposite direction, trumping courts and taking away their independence.

Table 4. Government Capabilities by Region

| Region | Government Capabilities | | | | |
	Congress Capabilities	Party System Institutionalization	Judicial Independence	Civil Service Capacity	Government Capabilities Index
High Income OECD	1	2	1	1	1
Europe and Central Asia	6	3	2	4	3
East Asia and the Pacific	2	5	3	2	2
South Asia	3	4	4	5	4
Middle East and North Africa	4	7	6	3	5
Latin America and the Caribbean	7	1	5	6	7
Sub-Saharan Africa	5	6	7	7	6

Source: Authors' compilation using data from Franco Chuaire et al. (2013).

As mentioned above, not every country in the region performs the same. Figure 5 presents the average Government Capabilities Index for the different countries in the region. As can be observed, there is high variance across countries. Only a handful of countries score above the median value of the index: Uruguay, Costa Rica, Chile, and Jamaica. For Jamaica, however, it must be borne in mind that the index has lower confidence because its construction lacks more than half of the components for two of the indices.

Figure 5. Government Capabilities Index for LAC
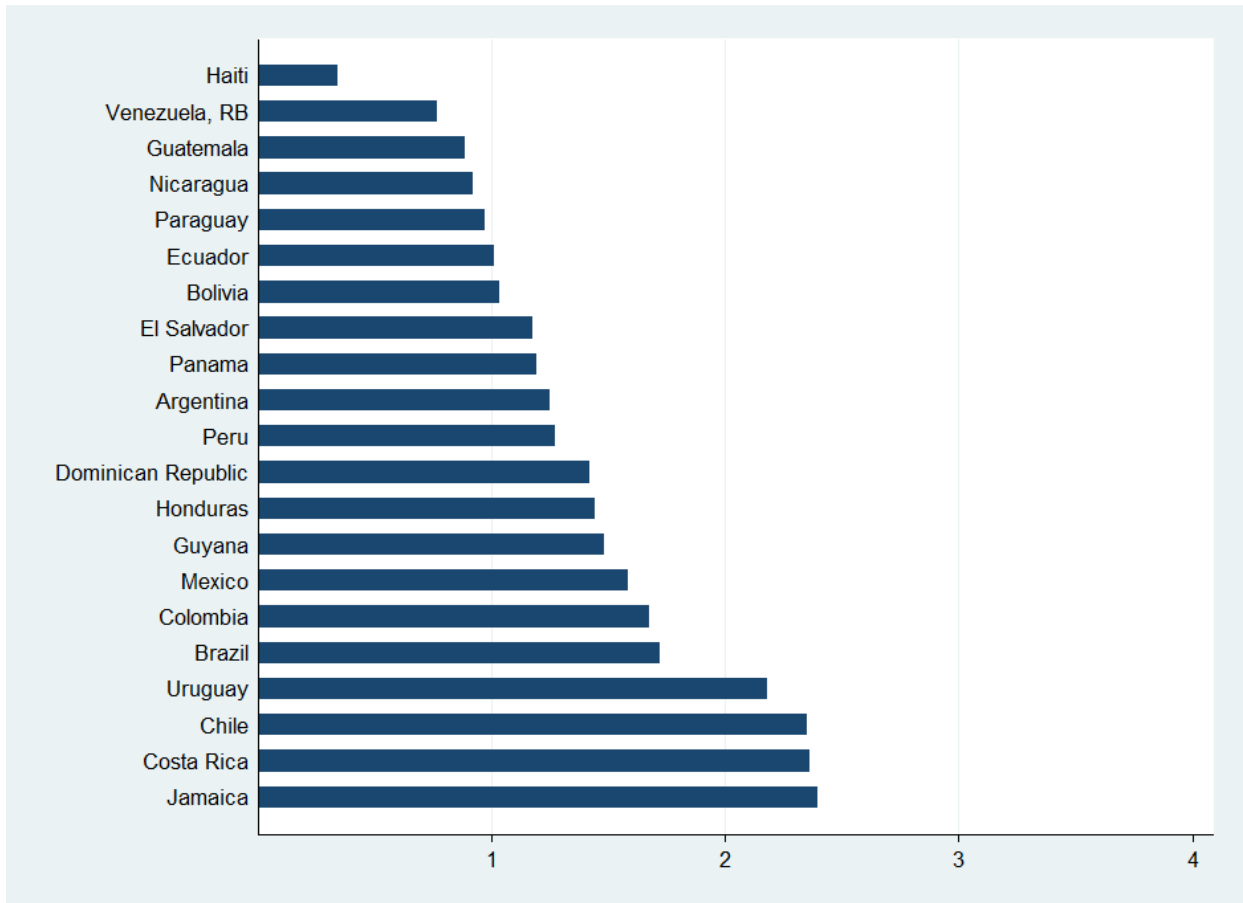
Note: Jamaica's index has lower confidence than the rest of countries because its construction lacks more than half of the components for two of the indices.
Source: Authors' compilation using data from Franco Chuaire et al. (2013).

Figure 6 complements the previous table by showing how the LAC countries fare in the overall distribution. As shown in the figure, two-thirds of the countries are below the world median.

Figure 6. The Government Capabilities Index across the World

Note: Myanmar, Mexico, and Denmark correspond to the minimum, median, and maximum respectively.
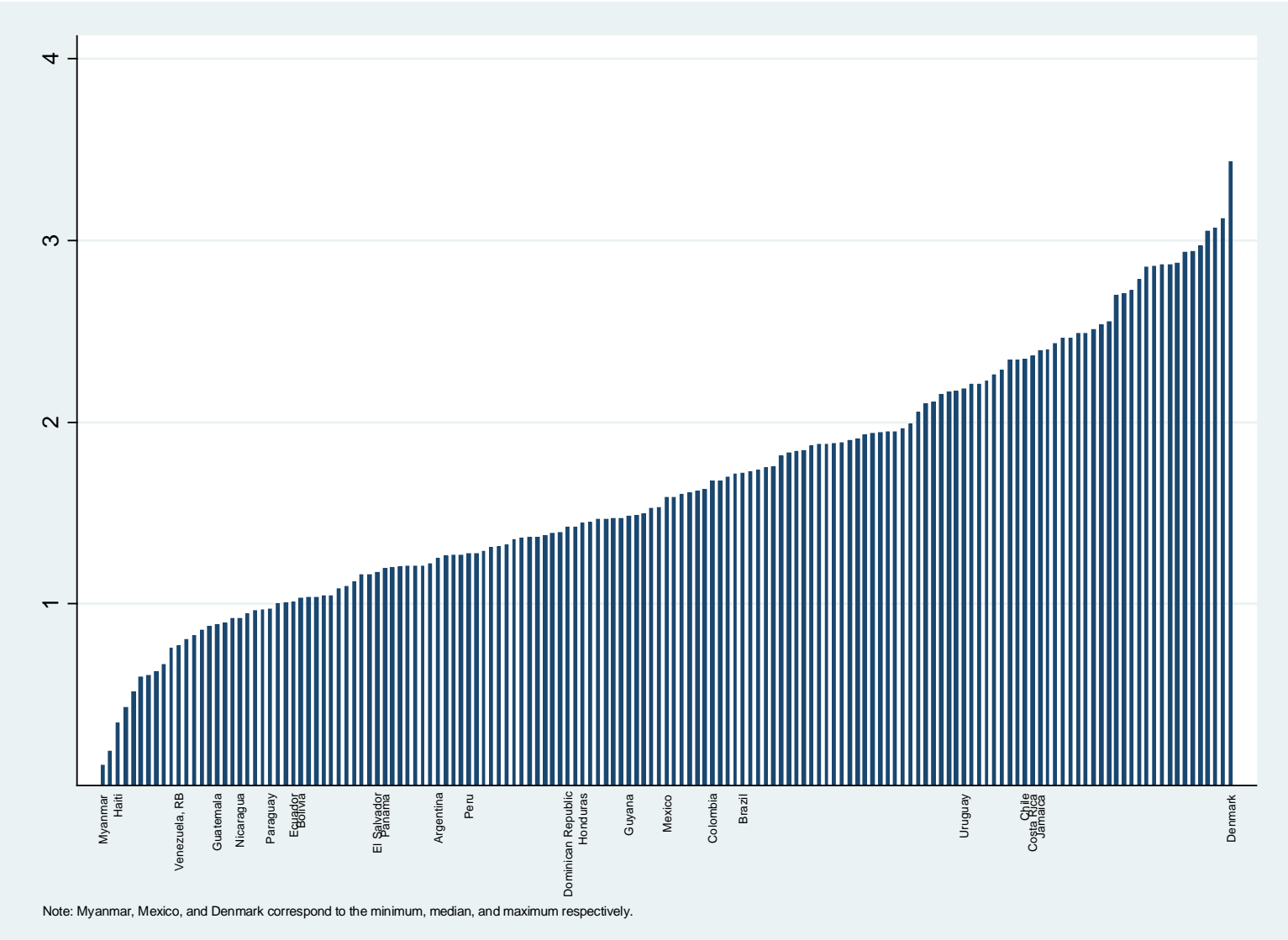
Source: Authors' compilation using data from Franco Chuaire et al. (2013).

According to the cluster analysis at the world level (Appendix C.3), Chile, Costa Rica, Jamaica (with the caveats noted above) and Uruguay rank among the countries with high government capabilities. The table below summarizes the rankings for LAC countries.

Table 5. Latin American Countries Ranking: Cluster Analysis Worldwide Sample, Government Capabilities

Category (according to world sample cluster analysis using the Gov. Capab. Index)		
High	**Medium**	**Low**
Chile	Brazil	Argentina
Costa Rica	Colombia	Bolivia
Jamaica*	Dominican Republic	Ecuador
Uruguay	Guyana	El Salvador
	Honduras	Guatemala
	Mexico	Haiti
		Nicaragua
		Panama
		Paraguay
		Peru
		Venezuela

Source: Authors' compilation using data from Franco Chuaire et al. (2013).
*Note:* Jamaica's index has lower confidence than the rest of countries because its construction lacks more than half of the components for two of the indices.

Table 6 disaggregates the information by indicator and country, once more using cluster analysis to define how they group in categories. Countries are classified first according to their policy index values ("high," "medium" or "low") as presented in Table 3, and then alphabetically within categories. Those countries with high values in the policy index tend to have, with a few exceptions, medium and high values of institutional quality. Moreover, countries with lower institutional capabilities are concentrated in the lower part of the table, which corresponds to those countries with low values in the policy index.

Table 6. Government Capabilities and Overall Index of Policymaking

Country by Policy Index level	Congress Institutionalization Index	Party System Institutionalization	Judicial Independence	Bureaucratic Quality	Government Capabilities Index
High					
Brazil	Medium	Low	Medium	High	Medium
Chile	High	Medium	High	High	High
Costa Rica	Medium*	Medium	High	High	High
Uruguay	High	High	High	Medium*	High
Medium					
Argentina	Low	Medium	Medium	Medium	Medium
Colombia	Medium	Medium	Medium	High	Medium
Dom. Rep	Medium	Medium	Medium	Medium*	Medium
Guyana	High	Medium	Medium	Medium	Medium
Jamaica*	High*	High	High	High*	High
Mexico	Medium	Medium	Medium	Medium	Medium
Panama	Medium*	Medium	Medium	Low	Medium
Peru	Low	Medium	Medium	Medium	Medium
El Salvador	Medium		Medium	Low	Medium
Low					
Bolivia	Low*	Low	Medium	Low	Low
Ecuador	Low*	Low	Low	Medium	Low
Guatemala	Low	Low	Medium	Low	Low
Honduras	High*	Medium	Medium	Medium	Medium
Haiti		Very low^	Low	Low	Low
Nicaragua	Low*	Low	Low	Medium	Low
Paraguay	Low*	Medium	Low	Low	Low
Venezuela	Low	Low	Low	Low	Low

Note: Countries were classified, first, according to their policy index values and then alphabetically within those groupings. For each institutional variable, dark blue represents "high" values, light blue represents "medium" values, and white represents "low" or "very low" values.

*Countries missing half or more of the components of the given index.

Note: Jamaica's index has lower confidence than the rest of countries because its construction lacks more than half of the components for two of the indices.
Source: Authors' compilation using data from Franco Chuaire et al. (2013).

4. Future Agenda and Policy Recommendations

The framework presented in *The Politics of Policies* and related publications has deep implications for the debate on how to achieve sustainable growth in Latin America. Particularly, this approach highlights the role of the features of public policy, which have been shown to correlate with development, instead of looking at the specific content of policies and the underlying conditions that help to achieve them, such as the working of institutions like Congress and the Judiciary. The underlying data used for this policy brief provides comparative measures across the region and the world that can be used for better understanding better the linkages between institutions, policies, and development.

The data analysis shows that LAC lags behind other regions of the world. Nonetheless, heterogeneity across countries is high. While some countries resemble in their indicators the high income developed countries, others rank as low as some of the least developed in the Sub-Saharan Africa.

What are the policy implications of the evidence presented here? They are very similar to the ones we have presented in previous publications (IDB, 2005; Scartascini and Tommasi, 2013):

1. Foster investment in government capabilities, such as:

   - Strengthening Legislatures
   - Strengthening the Judiciary and promoting its independence
   - Strengthening public agencies, promoting professionalization and some degree of accountable autonomy and independence
   - Strengthening political parties, by fostering their programmatic capabilities and their national orientation

   In all of the above, it is important to: i) Protect those institutions from political manipulation by the Executive of the day, and to create incentives for investing in its development rather than focusing on short-term capital investments (such as "buying them computers"); ii) Consider the first order incentives of key players because they are much more important than the rules regulating more detailed behaviors, such as civil service laws. Even copying the best civil service laws in the world will not generate a more capable state if the incentives of principals (elected officials) are not well aligned; iii) Try not to be an accomplice of capacity destruction; iv) Accept middle-of-the-road solutions that are more likely to be sustained.

2. Try to facilitate and induce consistency over time of policy design, implementation, and enforcement. Sometimes, trying to improve a policy marginally may destroy its consistency and generate incentives that would ultimate result in lower stability. Some ways to induce consistency are to: i) Steer away from the technocratic triumphalism of ignoring institution-building and consensus when pushing for favored economic policies, and; (ii) Concentrate on delivering those reforms that are "safe bets," such as those policies that increase transparency of government operations. Even though unlikely to change a bad equilibrium by themselves,

they could be useful complementary handles if the equilibrium were to change for other reasons.

3. Foster consensus and intertemporal cooperation among domestic political players. Ways to do this include: i) Acting as enforcement and commitment technology for the implementation and maintenance of political agreements among domestic players to build their country's institutions, and protecting those agreements against the short-term opportunistic temptations of actors with short-term power; ii) Bringing on board players beyond the current (executive) administration; iii) Being aware of strategic timing issues. Importantly, when proposing reforms focus on transitional political moments, trying to bring on board a broad spectrum of political actors (so that they can agree on key things before it is known who is the one actually in power, i.e., *Rawlsian Principle*); iv) Standing up to the political opportunism of ignoring and weakening institutions when riding on favorable political and economy momentums.

This research agenda has provided several relevant insights such as the correlations between government capabilities, policy features, and development. Now, the challenge is to better understand the determining factors and evolution of both the key features of public policy and the government capabilities. In this effort, the future agenda includes the following activities:

1. A continuous updating of country level political and institutional diagnostic taking into account that the indexes discussed here present substantial within-country variation. The *Politics of Policies*, *Policymaking in Latin America*, and various subsequent efforts have made some important progress in understanding the political, policymaking, and capacity-generating process at the country level. Since such processes are quite dynamic, and also given the tentativeness and incomplete nature of those previous research efforts, a continuous updating of said diagnostics would be a crucial background tool for an effective engagement at the country level.

2. Studying the dynamics of non-conventional political participation taking into account how more institutionalized arenas induce socioeconomic actors to

focus their political energies in this arena instead of using alternative political technologies such as street protests and violence (Palanza, Scartascini and Tommasi, 2013; Machado, Scartascini and Tommasi, 2011).

3. Performing case studies on the construction of government capabilities. Study the determinants and evolution of government capabilities in specific institutional domains such as congresses, judiciaries, civil service systems, and policy implementation agencies.

4. Constructing and analyzing sub-national government capabilities which also determine within-country variation of the quality of policymaking. An important part of the action in terms of policy and institutional reform in LAC, as well as the engagement of the IDB, currently takes place at the level of subnational governments. At this point, little is known about their government capabilities and how to develop them, beyond some over-simplistic technocratic view of copying best practices. A research effort of the type developed in projects such as *The Politics of Policies*, and *Policymaking in Latin America*, and *The Institutional Determinants of State Capabilities in Latin America* needs to be undertaken at the subnational level.

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Appendix A. List of Countries by Region

Region	Country	Region	Country	Region	Country	Region	Country	Region	Country	Region	Country
DEV	Australia	EAP	Korea, Dem. Rep.	ECA	Latvia	LAC	Guyana	MNA	Yemen, Rep.	SSA	Kenya
DEV	Canada	EAP	Korea, Rep.	ECA	Lithuania	LAC	Haiti	SAS	Afghanistan	SSA	Lesotho
DEV	Denmark	EAP	Lao PDR	ECA	Macedonia, FYR	LAC	Honduras	SAS	Bangladesh	SSA	Liberia
DEV	Finland	EAP	Malaysia	ECA	Moldova	LAC	Jamaica	SAS	India	SSA	Madagascar
DEV	France	EAP	Mongolia	ECA	Montenegro	LAC	Mexico	SAS	Nepal	SSA	Malawi
DEV	Germany	EAP	Myanmar	ECA	Poland	LAC	Nicaragua	SAS	Pakistan	SSA	Mali
DEV	Greece	EAP	Papua New Guinea	ECA	Romania	LAC	Panama	SAS	Sri Lanka	SSA	Mauritania
DEV	Ireland	EAP	Philippines	ECA	Russian Federation	LAC	Paraguay	SSA	Angola	SSA	Mauritius
DEV	Israel	EAP	Singapore	ECA	Serbia and Montenegro	LAC	Peru	SSA	Benin	SSA	Mozambique
DEV	Italy	EAP	Taiwan	ECA	Slovak Republic	LAC	Uruguay	SSA	Botswana	SSA	Namibia
DEV	Japan	EAP	Thailand	ECA	Slovenia	LAC	Venezuela, RB	SSA	Burkina Faso	SSA	Niger
DEV	Netherlands	EAP	Vietnam	ECA	Tajikistan	MNA	Algeria	SSA	Burundi	SSA	Nigeria
DEV	New Zealand	ECA	Albania	ECA	Turkey	MNA	Bahrain	SSA	Cameroon	SSA	Rwanda
DEV	Norway	ECA	Armenia	ECA	Ukraine	MNA	Egypt, Arab Rep.	SSA	Central African Republic	SSA	Senegal
DEV	Portugal	ECA	Azerbaijan	ECA	Uzbekistan	MNA	Iran, Islamic Rep.	SSA	Chad	SSA	Sierra Leone
DEV	Spain	ECA	Belarus	LAC	Argentina	MNA	Iraq	SSA	Congo, Dem. Rep.	SSA	Somalia
DEV	Sweden	ECA	Bosnia and Herzegovina	LAC	Bolivia	MNA	Jordan	SSA	Congo, Rep.	SSA	South Africa
DEV	Switzerland	ECA	Bulgaria	LAC	Brazil	MNA	Kuwait	SSA	Côte d'Ivoire	SSA	Sudan
DEV	United Kingdom	ECA	Croatia	LAC	Chile	MNA	Lebanon	SSA	Eritrea	SSA	Tanzania
DEV	United States	ECA	Czech Republic	LAC	Colombia	MNA	Morocco	SSA	Ethiopia	SSA	Togo
EAP	Cambodia	ECA	Estonia	LAC	Costa Rica	MNA	Oman	SSA	Gabon	SSA	Uganda
EAP	China	ECA	Georgia	LAC	Dominican Republic	MNA	Saudi Arabia	SSA	Gambia, The	SSA	Zambia
EAP	Fiji	ECA	Hungary	LAC	Ecuador	MNA	Syrian Arab Republic	SSA	Ghana	SSA	Zimbabwe
EAP	Hong Kong, China	ECA	Kazakhstan	LAC	El Salvador	MNA	Tunisia	SSA	Guinea		
EAP	Indonesia	ECA	Kyrgyz Republic	LAC	Guatemala	MNA	United Arab Emirates	SSA	Guinea-Bissau		

DEV: High Income OECD; EAP: East Asia and Pacific; ECA: Europe and Central Asia; LAC: Latin America and the Caribbean; MNA: Middle East & North Africa; SAS: South Asia; SSA: Sub-Saharan Africa.
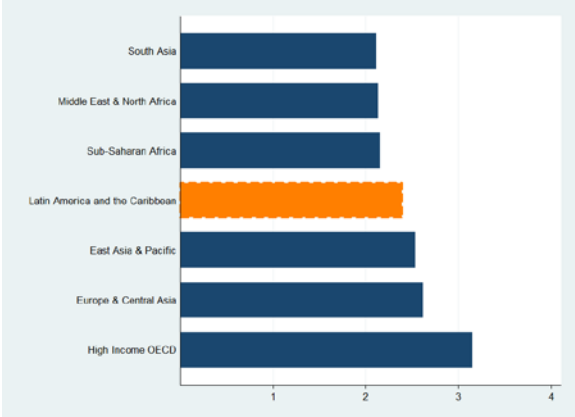
Total number of countries: 148

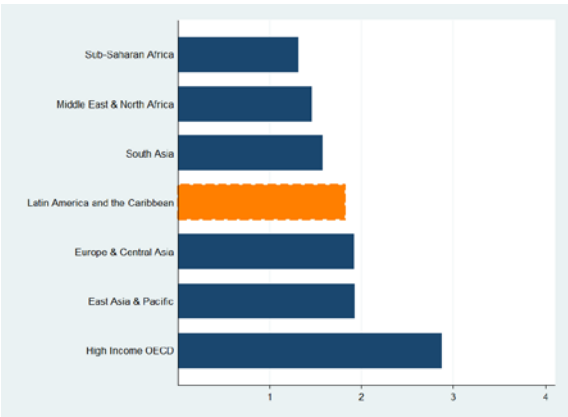# Appendix B. The Features of Public Policies

B.1 Key Features of Public Policies: An Inter-regional Comparison

The following figures present an inter-regional comparison of the sub-components of the Policy Index for the following regions High Income OECD, East Asia & Pacific, Europe & Central Asia, Latin America and the Caribbean, Middle East & North Africa, South Asia, and Sub-Saharan Africa. We average the each component at the regional level.
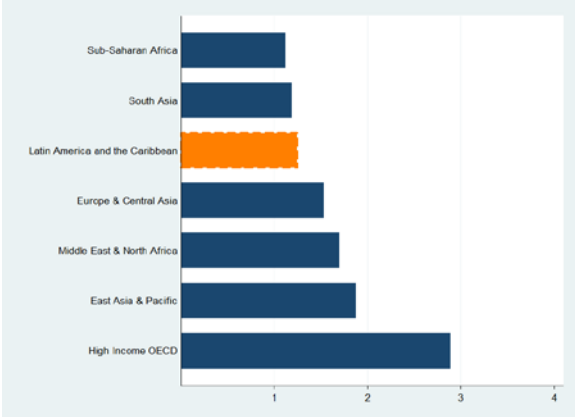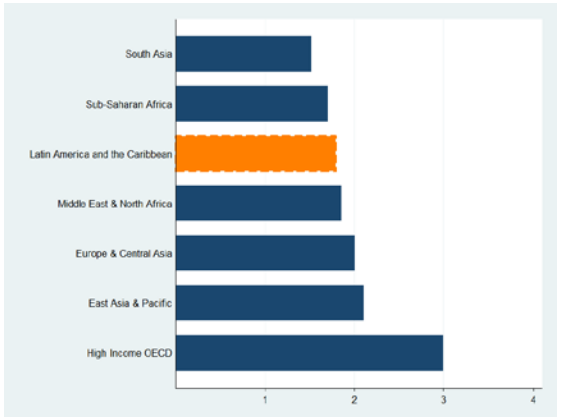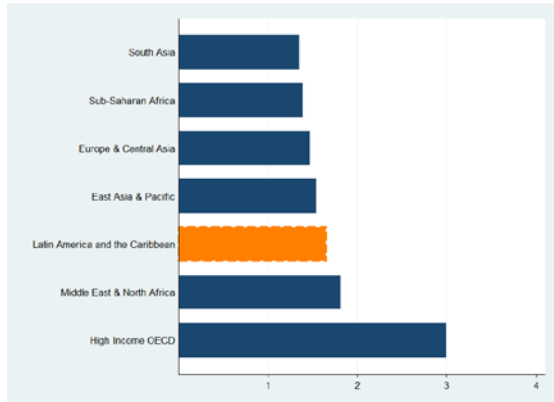
Stability

Adaptability

Coordination and Coherence

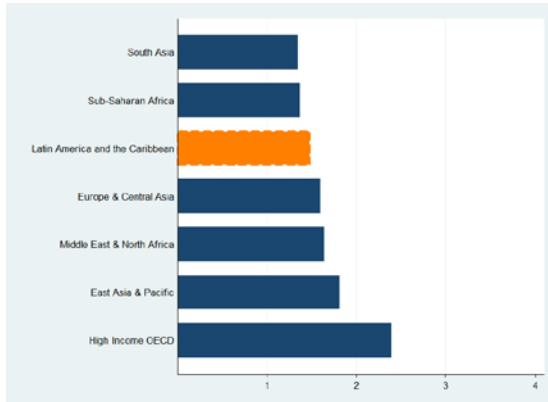*Implementation and Enforcement*

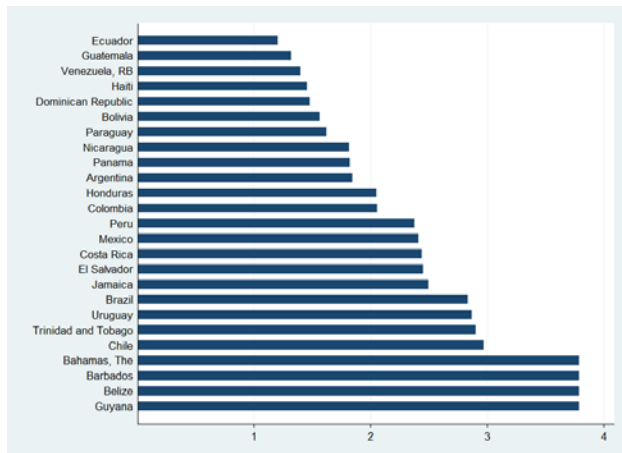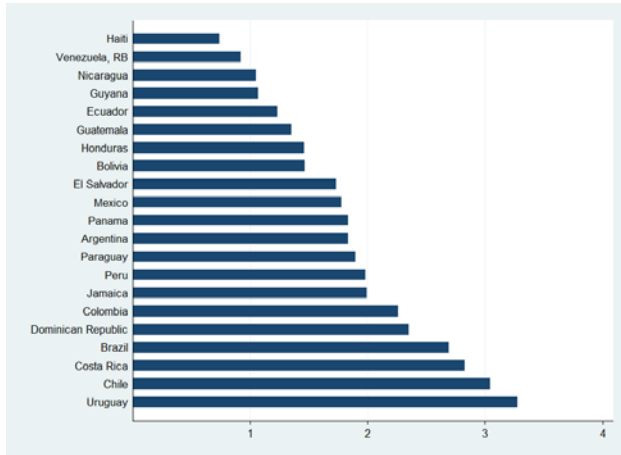*Public Regardedness*   *Efficiency*

B.2 Key Features of Public Policies – LAC

The following figures present an intra-regional comparison for the sub-components of the Policy Index, namely stability, adaptability, coherence and coordination, efficiency, implementation and enforcement, and public regardedness for LAC.
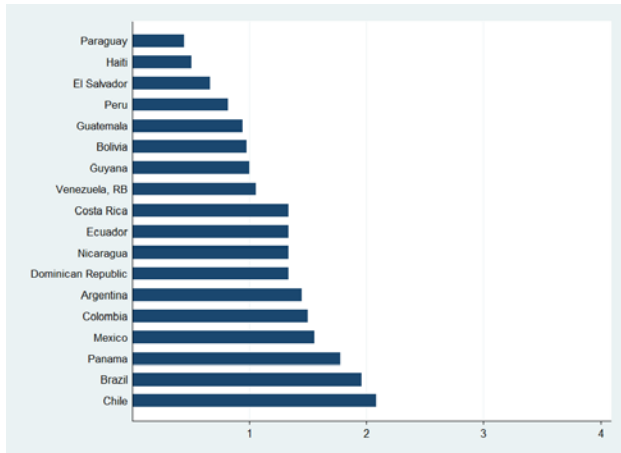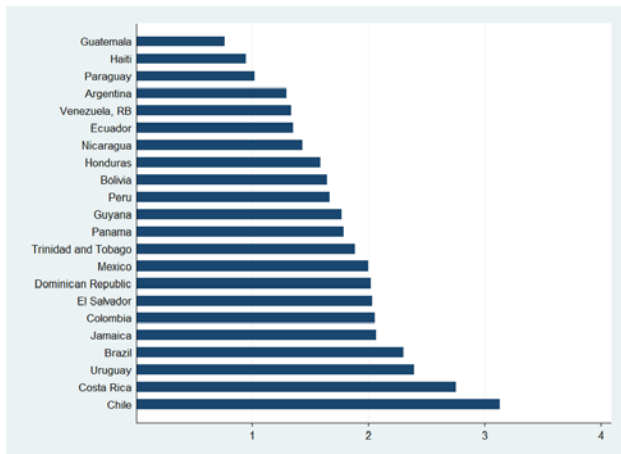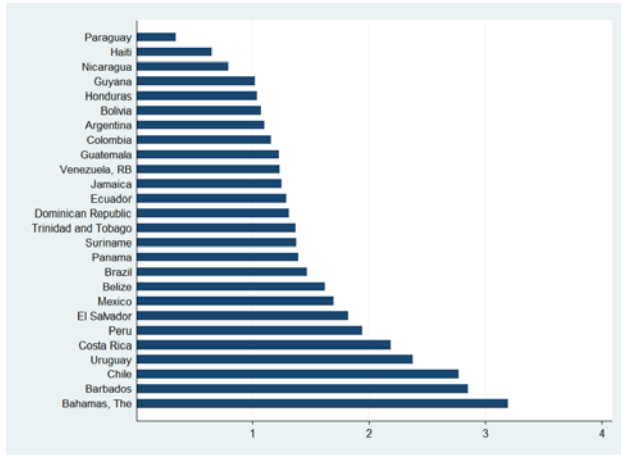
Stability

Adaptability

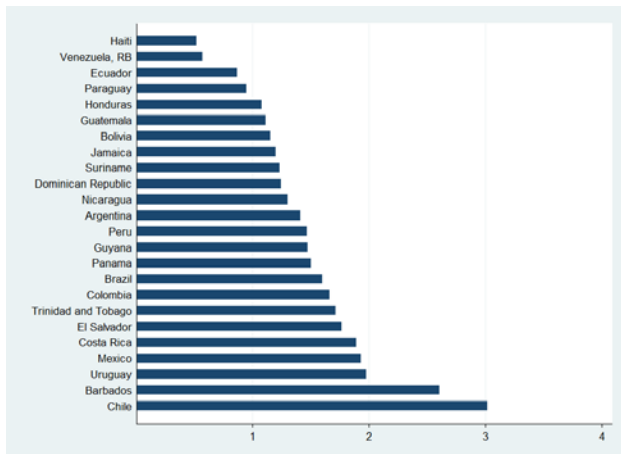*Coordination and Coherence*

Implementation and Enforcement

Public Regardedness

Efficiency

B.3 Policy Index: Worldwide Comparison

Using cluster analysis, the following table classifies all the countries in the sample according to their score in the Policy Index (high, medium, low). The graph allows us to visualize the overall worldwide standing of each LAC country.

Level	Country	Level	Country	Level	Country	Level	Country	Level	Country	Level	Country
High	Australia	High	Norway	Medium	China	Medium	Lao PDR	Medium	Sri Lanka	Low	Guinea-Bissau
High	Bahrain	High	Oman	Medium	Colombia	Medium	Latvia	Medium	Syrian Arab Rep.	Low	Haiti
High	Botswana	High	Portugal	Medium	Congo, Rep.	Medium	Lesotho	Medium	Tajikistan	Low	Honduras
High	Canada	High	Singapore	Medium	Czech Rep.	Medium	Liberia	Medium	Tanzania	Low	Korea, Dem. Rep.
High	Chile	High	Slovenia	Medium	Dominican Rep.	Medium	Lithuania	Medium	Thailand	Low	Lebanon
High	Costa Rica	High	South Africa	Medium	Egypt, Arab Rep.	Medium	Macedonia, FYR	Medium	Turkey	Low	Malawi
High	Croatia	High	Spain	Medium	El Salvador	Medium	Madagascar	Medium	Uganda	Low	Myanmar
High	Denmark	High	Sweden	Medium	Ethiopia	Medium	Mali	Medium	Vietnam	Low	Nepal
High	Estonia	High	Switzerland	Medium	Gabon	Medium	Mauritania	Medium	Zambia	Low	Nicaragua
High	Fiji	High	Taiwan	Medium	Gambia, The	Medium	Mexico	Low	Afghanistan	Low	Niger
High	Finland	High	Tunisia	Medium	Georgia	Medium	Moldova	Low	Algeria	Low	Nigeria
High	France	High	United Arab Emirates	Medium	Ghana	Medium	Mongolia	Low	Angola	Low	Papua New Guinea
High	Germany	High	United Kingdom	Medium	Greece	Medium	Morocco	Low	Bangladesh	Low	Paraguay
High	Hong Kong	High	United States	Medium	Guyana	Medium	Mozambique	Low	Bolivia	Low	Russian Fed.
High	Hungary	High	Uruguay	Medium	India	Medium	Pakistan	Low	Burundi	Low	Sierra Leone
High	Ireland	Medium	Albania	Medium	Indonesia	Medium	Panama	Low	Cambodia	Low	Somalia
High	Israel	Medium	Argentina	Medium	Iran, Islamic Rep.	Medium	Peru	Low	Cameroon	Low	Sudan
High	Japan	Medium	Armenia	Medium	Iraq	Medium	Philippines	Low	Central African Rep.	Low	Togo
High	Korea, Rep.	Medium	Azerbaijan	Medium	Italy	Medium	Poland	Low	Chad	Low	Ukraine
High	Malaysia	Medium	Belarus	Medium	Jamaica	Medium	Romania	Low	Congo, Dem. Rep.	Low	Uzbekistan
High	Mauritius	Medium	Benin	Medium	Jordan	Medium	Rwanda	Low	Côte d'Ivoire	Low	Venezuela, RB
High	Montenegro	Medium	Bosnia and Herzegovina	Medium	Kazakhstan	Medium	Saudi Arabia	Low	Ecuador	Low	Yemen, Rep.
High	Namibia	Medium	Brazil	Medium	Kenya	Medium	Senegal	Low	Eritrea	Low	Zimbabwe
High	Netherlands	Medium	Bulgaria	Medium	Kuwait	Medium	Serbia and Montenegro	Low	Guatemala	Low	Zimbabwe
High	New Zealand	Medium	Burkina Faso	Medium	Kyrgyz Rep.	Medium	Slovak Rep.	Low	Guinea		

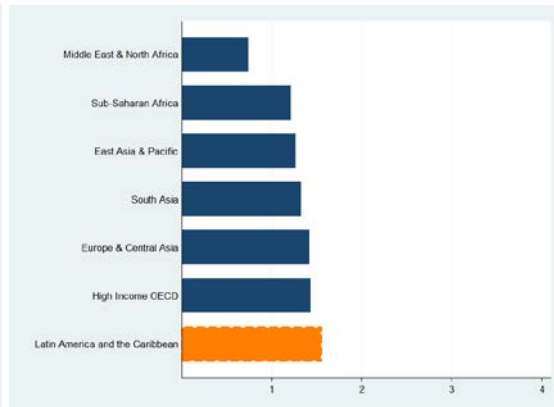# Appendix C. Government Capabilities in Latin America and the Caribbean

C.1 Government Capabilities: An Inter-Regional Comparison

The following figures present an inter-regional comparison of the sub-components of the Government Capabilities Index for the following regions High Income OECD, East Asia & Pacific, Europe & Central Asia, Latin America and the Caribbean, Middle East & North Africa, South Asia, and Sub-Saharan Africa. We average each component at the regional level.
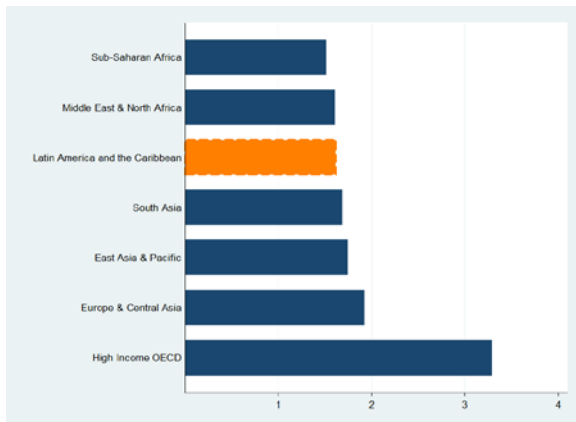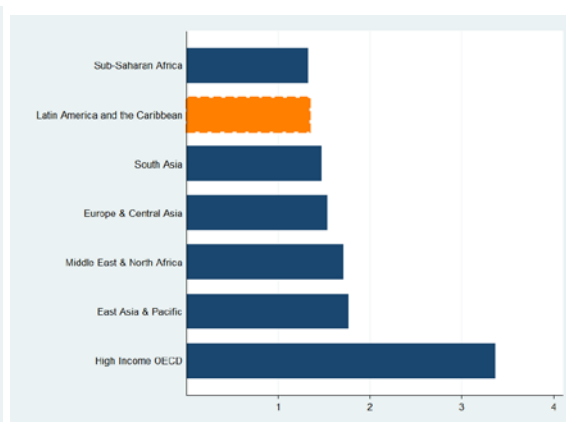
Congress Institutionalization
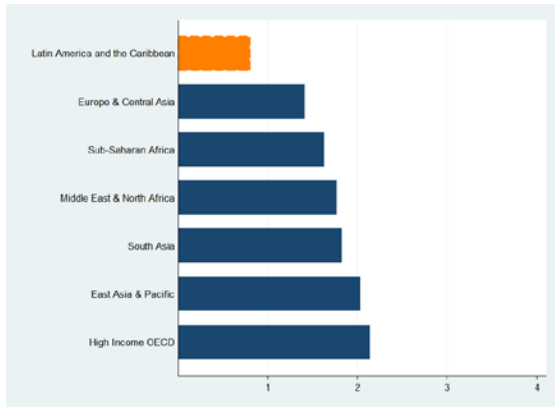
Party System Institutionalization

Judicial Independence

Bureaucratic Quality

36

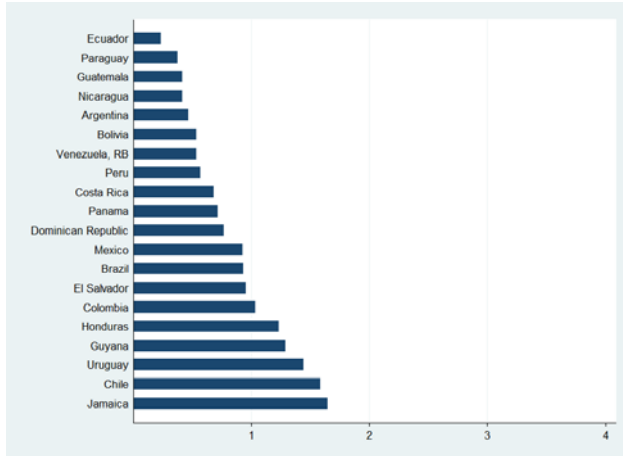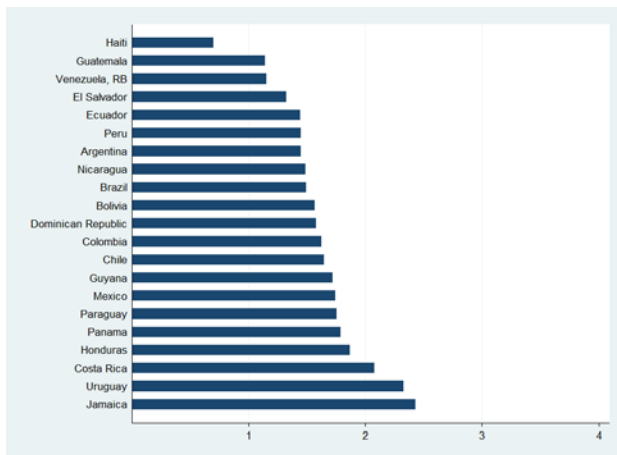## C.2 Government Capabilities: LAC

This section of the appendix presents the intra-regional comparison for the sub-components of the Government Capabilities Index, namely Congress Institutionalization, Party System Institutionalization, and Judicial Independence for LAC.
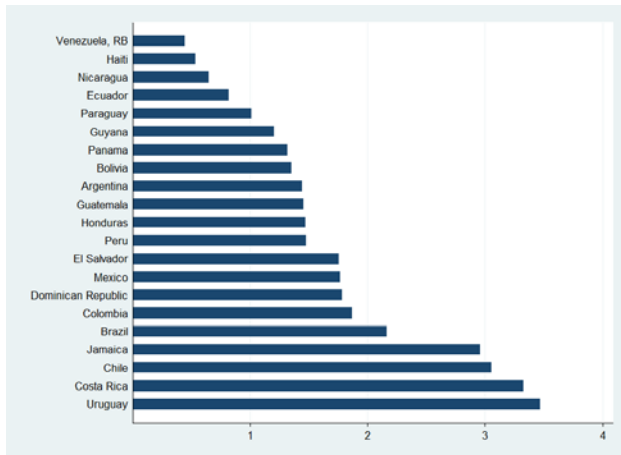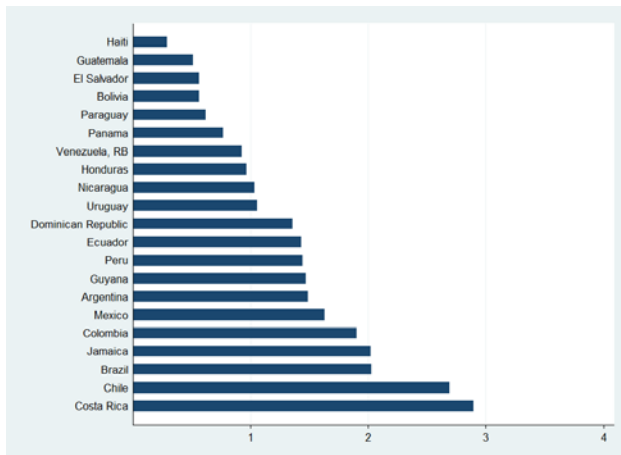
Congress Institutionalization

Party System Institutionalization

Judicial Independence

Bureaucratic Quality

38

C.3 Government Capabilities: Worldwide Comparison

Using cluster analysis, the following table classifies all the countries in the sample according to their score in Government Capabilities Index (high, medium, low) and sorts them alphabetically within each group.

Level	Country	Level	Country	Level	Country	Level	Country	Level	Country	Level	Country
High	Australia	High	New Zealand	Medium	Dominican Republic	Medium	Oman	Low	Belarus	Low	Lebanon
High	Botswana	High	Norway	Medium	Egypt, Arab Rep.	Medium	Pakistan	Low	Bolivia	Low	Liberia
High	Canada	High	Portugal	Medium	Fiji	Medium	Papua New Guinea	Low	Burkina Faso	Low	Madagascar
High	Chile	High	Serbia and Montenegro	Medium	Gambia, The	Medium	Philippines	Low	Burundi	Low	Mauritania
High	Costa Rica	High	Singapore	Medium	Greece	Medium	Poland	Low	Cambodia	Low	Moldova
High	Czech Rep.	High	Slovenia	Medium	Guinea-Bissau	Medium	Romania	Low	Cameroon	Low	Morocco
High	Denmark	High	South Africa	Medium	Guyana	Medium	Rwanda	Low	Central African Republic	Low	Myanmar
High	Estonia	High	Spain	Medium	Honduras	Medium	Saudi Arabia	Low	Chad	Low	Nepal
High	Finland	High	Sweden	Medium	Indonesia	Medium	Senegal	Low	Congo, Dem. Rep.	Low	Nicaragua
High	France	High	Switzerland	Medium	Iran, Islamic Rep.	Medium	Slovak Republic	Low	Congo, Rep.	Low	Panama
High	Germany	High	Taiwan	Medium	Italy	Medium	Sri Lanka	Low	Côte d'Ivoire	Low	Paraguay
High	Ghana	High	United Kingdom	Medium	Jordan	Medium	Tanzania	Low	Ecuador	Low	Peru
High	Hong Kong	High	United States	Medium	Kenya	Medium	Thailand	Low	El Salvador	Low	Russian Federation
High	Hungary	High	Uruguay	Medium	Kuwait	Medium	Tunisia	Low	Eritrea	Low	Sierra Leone
High	India	Medium	Albania	Medium	Latvia	Medium	Turkey	Low	Ethiopia	Low	Somalia
High	Ireland	Medium	Azerbaijan	Medium	Lesotho	Medium	Uganda	Low	Gabon	Low	Sudan
High	Israel	Medium	Bahrain	Medium	Lithuania	Medium	United Arab Emirate	Low	Georgia	Low	Syrian Arab Republic
High	Jamaica	Medium	Bangladesh	Medium	Macedonia, FYR	Medium	Vietnam	Low	Guatemala	Low	Tajikistan
High	Japan	Medium	Benin	Medium	Malawi	Medium	Zambia	Low	Guinea	Low	Togo
High	Korea, Rep.	Medium	Bosnia and Herzegovina	Medium	Mali	Medium	Zimbabwe	Low	Haiti	Low	Ukraine
High	Malaysa	Medium	Brazil	Medium	Mexico	Low	Afghanistan	Low	Iraq	Low	Uzbekistan
High	Mauritius	Medium	Bulgaria	Medium	Mongolia	Low	Algeria	Low	Kazakhstan	Low	Venezuela, RB
High	Montenegro	Medium	China	Medium	Mozambique	Low	Angola	Low	Korea, Dem. Rep.	Low	Yemen, Rep.
High	Namibia	Medium	Colombia	Medium	Niger	Low	Argentina	Low	Kyrgyz Republic		
High	Netherlands	Medium	Croatia	Medium	Nigeria	Low	Armenia	Low	Lao PDR		

Appendix D. Database Description

D.1 Sources and Definitions

See Franco Chuaire et al. (2013) for details about the method of index construction.

1. The *Adaptability* index is based on the following variables:
   a. BTI Adaptability (Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012): Originally on a scale from 1-10 (10 representing higher values according to expert ratings), this index is based on the question: How innovative and flexible is the government? Experts are advised to evaluate whether there are institutionalized mechanisms that facilitate innovation and flexibility in policy-making, including monitoring and evaluation, knowledge exchange, and consultancy. The index includes the ability of the political leaders to learn from previous experience, act flexibly, and replace failing measures with innovative policies.
   b. Decision Making Capacity (Profils Institutionnels; 2006): Item A5100 where experts evaluate the decision-making capacity of the political authorities in economic matters (responsibility, rapidity, etc). Ranked 1 to 4, 4 being the highest score.
   c. CUSCS Effective Response (Columbia University State Capacity Survey; average 1990, 1999, 2000, 2002): Question 29 where experts (from academia, government, and media) rate the state's ability to respond effectively to domestic economic problems. Originally on a scale from 1- 10 (10 representing higher values according to expert ratings).

2. The *Coordination and Coherence* index is based on the following variables:
   a. CUSCS Coordination (Columbia University State Capacity Survey; average 1990, 1999, 2000, 2002): Question 18 rating the effectiveness of coordination between the central government and local-level government organizations. Ranked from 0 (low) to 10 (high).
   b. Profils Coordination (Profils Institutionnels; 2006): Item A508 rating co-ordination and co-operation between ministries and within the administrations. Ranked 1 to 4, 4 being the highest score.

3. The *Efficiency Index* is based on the following components:

   a. Composition of Public Spending (The Global Competitiveness Report, World Economic Forum; average 2001-2012): How would you rate the composition of public spending in your country? [1 = extremely wasteful; 7 = highly efficient in providing necessary goods and services].

   b. BTI Efficiency (Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012): Originally on a scale from 1-10 (10 representing higher values according to expert ratings), this index is based on the question: To what extent does the government make efficient use of available human, financial, and organizational resources? Experts are advised to evaluate whether there is an efficient use of administrative personnel (expenses, services, recruitment procedures), of budget resources (balanced state budget, transparent budget planning and implementation, effective and independent auditing), and of the administrative organization (public administration that enables effective management under criteria of professional rationality, existence of procedures and institutions to reform and modernize the public administration).

   c. EIU Efficiency (Country Risk Model, Economist Intelligence Unit; average 1997-2006): Originally on a scale from 0-4 (very poor), this variables reflects the experts' assessment of the effectiveness of the political system in formulating and executing policy. (Rescaled so that higher values represent higher levels of effectiveness).

4. The *Public Regardedness* index is based on the following variables:

   a. Government Officials' Favoritism (The Global Competitiveness Report- World Economic Forum; average 2001-2012): To what extent do government officials in your country show favoritism to well-connected firms and individuals when deciding upon policies and contracts? [1 = always show favoritism; 7 = never show favoritism].

   b. Government Social Transfers (The Global Competitiveness Report- World Economic Forum; 2002): Expert evaluation of whether government social transfers go primarily to (1=poor people, 7=rich people). This variable had its scale reversed to compute the index.

   c. Corruption Perceptions Index (Transparency International Corruption Perceptions Index; average 1995-2012): Countries are ranked based on how corrupt their public sector is

perceived to be by observers from around the world and experts in the countries evaluated. This index ranges between 0 (highly corrupt) and 10 (highly clean).

5. The *Implementation and Enforcement* index is based on the following variables:

    a. Minimum Wage by law (Global Competitiveness Report; 2002): Expert evaluation of whether the minimum wage set by law in the country is (1=never enforced, 7=strongly enforced).

    b. Tax Evasion (Global Competitiveness Report; 2002): Expert evaluation of whether tax evasion in the country is (1=rampant, 7=minimal).

    c. Environmental Regulation (Global Competitiveness Report; average 2002-2006): Expert evaluation of whether environmental regulation in the country is (1=not enforced or enforced erratically, 7=enforced consistently and fairly).

    d. BTI Implementation (Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012): Originally on a scale from 1-10 (10 representing higher values according to expert ratings), this index is based on the question: How effective is the government in implementing its own policies? It assesses the extent to which the government has been able to achieve its own strategic priorities focusing on the normative framework of the BTI in terms of striving for democracy and a market economy.

    e. CUSCS Decisiveness (Columbia University State Capacity Survey; average 1990, 1999, 2000, 2002): Question 21 rating the state's ability to formulate and implement national policy initiatives. Ranked from 0 (low) to 10 (high).

    f. Tax Collection (Columbia University State Capacity Survey; average 1990, 1999, 2000, 2002): Question 22, rating the state's effectiveness at collecting taxes or other forms of government revenue. Ranked from 0 (low) to 10 (high).

6. The *Stability* index is based on the following variables:

    a. SD of Fraser Index (Fraser Institute; 1999-2010): Standard deviation of the detrended Fraser Index of Economic Freedom (quadratic trend) (1999-2010). This variable had its scale reversed to compute the index.

    GCR Legal and Political Changes (Global Competitiveness Report; 2002): This variable measures whether legal or political changes over the past five years have (1=severely undermined your firm's planning capacity, 7=had no effect). GCR Commitment (Global

Competitiveness Report; average 1998, 1999, 2000, 2002): Measures whether new governments honor the contractual commitments and obligations of previous regimes (1=not true, 7=true)..

b. Government Consistency (Profils Institutionnels; 2006): Item A5101 where experts evaluate the "Consistency and continuity of government action in economic matters," Ranked 1 to 4, 4 being the highest score (high levels of capability, consistency, authority, rapidity, and confidence).

7. The overall index of quality of public policies was created based on the following six indexes: Adaptability, Stability, Coordination and Coherence, Implementation and Enforcement, Efficiency, and Public Regardedness. It was built including only those countries for which at most one of the components was missing. The index and all components and subcomponents are normalized on a scale of 1-4, with higher levels indicating better quality of public policies.

8. Congress Institutionalization Index is the average of Legislative Efficiency and Confidence in Parliament.
   a. Legislative Efficiency = Effectiveness of lawmaking bodies (1= very ineffective to 7 = very effective). The index is an average for the 2002-2012 period. Source: World Economic Forum (several years), *GCR.*
   b. Confidence in Parliament: Based on the question: "How much confidence do you have in Parliament?" from WVS (average 1994-1999, 1999-2004, and 2005-2007 waves).

9. The Bureaucratic Quality index is based on the following variables:
   a. CUSCS Bureaucratic Merit Index (Columbia University State Capacity Survey; average 1990, 1999, 2000, 2002): Question 24 measuring the degree to which effective guarantees of professionalism in the civil service are in place and the degree to which civil servants are effectively protected from arbitrariness, politicization, and rent-seeking. Index on a scale of 0 to 10, with higher levels indicating more autonomous bureaucratic systems.
   b. CUSCS Bureaucratic Functional Capacity Index (Columbia University State Capacity Survey; average 1990, 1999, 2000, 2002): Question 13 measuring the degree to which the

bureaucracy has salary compensation systems and systems for evaluating the performance of public officials. Index on a scale of 0 to 10, with higher levels indicating systems with higher technical capacities and more incentives for good performance.

c. CUSCS Bureaucratic Efficiency Index (Columbia University State Capacity Survey; average 1990, 1999, 2000, 2002): Question 16 measuring the degree to which the bureaucracy is efficient in assigning human capital, given a fiscal policy constraint. Index on a scale of 0 to 10, with higher levels indicating more efficient bureaucratic systems.

d. Bureaucratic Quality Index (International Country Risk Guide; average 1980-2005): 0 (low) to 4 (high). High points are given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services. In these low-risk countries, the bureaucracy tends to be somewhat autonomous from political pressure and to have an established mechanism for recruitment and training. Countries that lack the cushioning effect of a strong bureaucracy receive low points because a change in government tends to be traumatic in terms of policy formulation and day-to-day administrative functions.

10. The Judicial Independence index is based on the following variables:
   a. GCR Judicial (The Global Competitiveness Report- World Economic Forum; average 2001-2012): To what extent is the judiciary in your country independent from influences of members of government, citizens, or firms? [1 = heavily influenced; 7 = entirely independent].
   b. BTI Judicial (Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012): Originally on a scale from 1-10 (10 representing higher values according to expert ratings), this index is based on the question: To what extent does an independent judiciary exist? It assesses whether the judiciary has the ability and autonomy to interpret and review existing laws and policies, pursue its own reasoning, free from the influence of political groups, among other considerations.

11. The Party System Institutionalization index is based on the following variables:
   a. Stable, moderate, rooted party system (Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012). Originally on a scale from 1-10 (10 representing higher values according to expert ratings), this index is based on the question: To what extent is there a

stable and socially rooted party system able to articulate and aggregate societal interests? It assesses the extent to which parties are socially rooted and organizationally institutionalized, the level of polarization, and the degree of voter volatility.

b. Confidence in Parties (World Values Survey; average 1994-1999, 1999-2004, and 2005-2007 waves): Average response to the question: how much confidence do you have in the political parties? A great deal of confidence (4), quite a lot of confidence (3), not very much confidence (2), or none at all (1). (Originally ranked 1 to 4, 4 being the lowest score).

c. Vote volatility (from Berkman et al., 2009): All data follow Pedersen (1984) method for calculating vote volatility: volatility is calculated by subtracting the percentage of the vote/seats won by every party in an election from that won in the previous election, taking the absolute value of this result, summing the results for all parties, and then dividing this total by two.

d. Average Age of Parties (Database of Political Institutions, average 1990-2010): The average of the ages of the first largest government party, second largest government party and first largest opposition party, or the subset of these for which age of party is known.

e. Fairness of Elections (Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012): Originally on a scale from 1-10 (10 representing higher values according to expert ratings), this index is based on the question: To what extent are political representatives determined by general, free, and fair elections? It assesses whether general elections are regularly conducted on the national level, universal suffrage with secret ballot is ensured, different parties are allowed to run, and the electoral management body is impartial and effective, among other considerations.

D.2 Some Research Using the Variables Presented Here

The following papers have used the original database. It is provided as a guide to researchers on potential empirical uses of the variables.

Barma, N. et al. 2011. *Rents to Riches? The Political Economy of Natural Resource-Led Development*. Washington, DC, United States: World Bank.

Becerra, O., E. Cavallo and C. Scartascini. 2012. "The Politics of Financial Development: The Role of Interest Groups and Government Capabilities." *Journal of Banking & Finance* 36(3), 626-643.

Bonvecchi, A., J. Johannsen and C. Scartascini, editors. 2014. "¿Quién Decide la Política Social en América Latina? Un Estudio de Economía Política Basado en Análisis de Redes Sociales." Washington, DC, United States: Inter-American Development Bank. Manuscript.

Cárdenas, M. 2010. "State Capacity in Latin America." *Economía* 10(2), 1-45.

Carnes, M., and I. Mares. 2010. "Deindustrialization and the Rise of Non-Contributory Social Programs in Latin America." Paper presented at the Conference on Redistribution, Public Goods, Political Market Failures, New Haven, United States, Yale University, April 9-10. http://biowww2.biology.yale.edu/leitner/resources/PMF-papers/DeindustrializationLA.pdf

Caruso, G., C. Scartascini and M. Tommasi. 2013. "Are We All Playing the Same Game? The Economic Effects of Constitutions depend on the degree of institutionalization. Working Paper IDB-WP-237. Washington, DC, United States: Inter-American Development Bank.

Dayton-Johnson, J., J. Londoño and S.N. Parra. 2011. "The Process of Reform in Latin America: A Review Essay." OECD Development Centre Working Paper 304. Paris, France: Organisation for Economic Co-operation and Development.

Franco Chuaire, M., C. Scartascini and M. Tommasi. 2014. "Openness, State Capacity, and the Size of the Government." Washington, DC, United States: Inter-American Development Bank. Mimeographed document.

Hanson, J.K., and R. Sigman. 2011. "Measuring State Capacity: Assessing and Testing the Options." In *Annual Meeting of the American Political Science Association*.

Hulme, D., A. Savoia and K. Sen. 2014. "Governance as a Global Development Goal? Setting, Measuring and Monitoring the Post-2015 Development Agenda." Effective States for

Inclusive Development Research Centre Working Paper 32. Manchester, United Kingdom: University of Manchester.

Machado, F., C. Scartascini and M. Tommasi. 2011. "Political Institutions and Street Protests in Latin America." *Journal of Conflict Resolution* 55(3): 340-365.

Mejía Cubillos, J. 2011. "Reflexión Sobre los Sistemas Partidistas, la Estabilidad de las Políticas y el Desarrollo Económico." Reflections on Party Systems, Policy Stability and Economic Development." *Contribuciones a las Ciencias Sociales 11*. Available at: http://www.eumed.net/rev/cccss/15/jmc.html

Palanza, M.V., C. Scartascini and M. Tommasi. 2012. "On the Institutionalization of Congress(es) in Latin America and Beyond." Working Paper IDB-WP-363. Washington, DC, United States: Inter-American Development Bank.

Pereira, C., S. Singh and B. Mueller. 2011. "Political Institutions, Policymaking, and Policy Stability in Latin America*." Latin American Politics and Society* 53(1): 59–89.

Scartascini, C., and M. Tommasi. 2012. "The Making of Policy: Institutionalized or Not?" *American Journal of Political Science* 56(4): 787-801.

Scartascini, C., E. Stein and M. Tommasi. 2013. "Veto Players and Policy Trade-Offs: An Intertemporal Approach to Study the Effects of Political Institutions on Policy." *Journal of Theoretical Politics* 26(2): 222–248.

Scartascini, C., E. Stein and M. Tommasi. 2013. "Political Institutions, Intertemporal Cooperation, and the Quality of Policies." *Journal of Applied Economics* 16(1): 1-32.

Stein, E., and M. Tommasi. 2007. "The Institutional Determinants of State Capabilities in Latin America." In: F. Bourguignon and B. Pleskovic, editors. *Annual World Bank Conference on Development Economics Regional: Beyond Transition*. Washington, DC, United States: World Bank.