



**Government Capabilities  
in Latin America:  
Why They Are So Important,  
What We Know about Them,  
and What to Do Next**

Carlos Scartascini  
Mariano Tommasi

**Inter-American  
Development Bank**

Department of Research  
and Chief Economist

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Carlos Scartascini  
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Mariano Tommasi

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## **Abstract**\*

This policy brief takes stock of the research on government capabilities undertaken at the Inter-American Development Bank, highlights the relevance of government capabilities for generating better policies and higher levels of development, summarizes what has been learned about the origins of those capabilities, suggests avenues for further exploration, and derives lessons (and caveats) for institutional reforms and for the operational work of the Bank.

**JEL classifications:** D72, D73, D78

**Keywords:** Government capabilities, Policymaking process, Development, Politics, Institutionalization, Public policies

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\* This policy brief summarizes work the authors have been developing for almost a decade. As such, they are extremely grateful to the many people who have contributed with comments and suggestions over the years and particularly to the colleagues who have worked alongside in many of the publications highlighted here. We are also thankful to María Franco Chuairé for helping us put together this manuscript. The opinions in this manuscript are solely those of the authors.

## 1. Executive Summary

This policy brief takes stock of the research on government capabilities undertaken at the Inter-American Development Bank (IDB) and elsewhere, highlights the importance of the topic, summarizes what we have learned, suggests avenues for further exploration, and derives lessons (and caveats) for institutional reforms and for the operational work of the Bank.

The manuscript is part of an agenda aiming to provide guidance and orientation to politicians, policymakers, organizations, and social actors interested in participating in the debate about improving policies and institutions to foster development goals. Increased awareness of policymaking processes and their institutional foundations might help the promotion, design and implementation of policy reforms that are more likely to achieve desired development objectives, given the particular institutions and practices of each country. It might also illuminate discussions on reforming political institutions.

The Research Department of the IDB started to focus on the issue of government capabilities about a decade ago. The reason for that was the realization that technocratic approaches to policy reform were an incomplete way to go about assisting countries in their attempts to improve their development outcomes. The adoption and successful implementation of effective economic and social policies is conditioned by the capabilities of governments in the region. These capabilities, in turn, relate to the way political and administrative institutions operate.

The experience of the last couple of decades with economic, social, and political reforms in Latin America has made evident that “good” ideas and “good” policy recipes are insufficient to achieve sustainable improvements in development. The same policy idea, applied in different political contexts, can have very different results. As a matter of fact, there was a moment about a decade ago in which it was common to adopt similar measures across countries, such as “fiscal responsibility laws,” to attempt to curtail dangerous fiscal behavior. It turns out that the impact on fiscal outcomes was very dissimilar across cases, more determined by different political equilibria than by the letter of the law.<sup>1</sup>

The short and long term effects of policies are heavily influenced by the process by which such policies are decided and implemented. Such policymaking processes involve a variety of state and societal actors, engaging in various different arenas. Some characteristics of

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<sup>1</sup> Braun and Tommasi (2004), Filc and Scartascini (2007), Hallerberg, Scartascini, and Stein (2009).

those arenas and of the modes of engagements of political and social actors turn out to be crucial in affecting the quality and the effectiveness of public policies. Whether policies are sustained long enough to produce the desired long-term behavioral changes or whether they are changed at each minor shift in political winds, whether they adequately adapt adequately to changes in the environment or are immobile, and whether they focus on the public interest or just benefit a few organized actors, is dependent on the characteristics of the policymaking environment. In particular, some characteristics of political institutions and political arenas such as congress, the judiciary, the political party system, and the public administration are key.

Such characteristics of the policymaking environment and such governmental capabilities do not evolve overnight, and they cannot be constructed by fiat by writing an institutional reform law. As studied in the underlying agenda summarized below, they are the outcome of actions of key political players over time, in the context of country-specific political equilibria. Taking this logic into consideration can provide guidance for the Bank so as to engage with client countries in a more effective way that would lead to the development of the necessary capabilities. Box 1 presents a sketch and summary of the logic and the recommendations that follow from the application of the general framework (as described later.)

**Box 1. How to Build Government Capabilities:  
Strategies for the Bank’s Engagement with Client Countries**

- ✓ Government capabilities are the outcome over time of endogenous choices by key political actors, as part of a country’s own political equilibrium.
- ✓ Neither institutions, nor governmental capabilities, can be built by fiat, for instance by copying a “best practice” law from another country.
- ✓ Cooperation over time and across administrations is necessary.

The incorporation of those three principles in thinking the strategy of intervention and assistance of an external organization like the Inter-American Development Bank leads to the following recommendations.

1. Foster investment in government capabilities, such as:
  - a. Strengthening Legislatures
  - b. Strengthening the Judiciary and promoting its independence
  - c. Strengthening public agencies, promoting professionalization and some degree of accountable autonomy and independence.

- d. Strengthening political parties.
  - Foster their programmatic capabilities
  - Foster their national orientation

In all of the above, for instance (c), it is more important to protect those institutions from political manipulation by the Executive of the day, and to create incentives for investing on its development, than focusing on short-term capital investments (such as “buying them computers”).

2. 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.

3. 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.

4. Try to facilitate and induce consistency over time.

5. Try not to be an accomplice of capacity destruction.

6. Foster consensus and intertemporal cooperation among domestic political players.

7. Act as enforcement and commitment technology for the implementation and maintenance of political agreements among domestic players to build their country’s institutions; protecting those agreements against the short-term opportunistic temptations of actors with short-term power

8. Bring on board players beyond the current (executive) administration.

9. Accept middle-of-the-ground solutions that are more likely to be sustained.

10. Be aware of strategic timing issues

- An administration leaving power soon might be a peculiar partner.
- (*Rawlsian Principle*) 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).

11. Steer away from the technocratic triumphalism of ignoring institution building and consensus when pushing for favored economic policies.

12. Stand up to the political opportunism of ignoring and weakening institutions when riding on favorable political end economy momentums.

## 2. What Are Government Capabilities? Why and How Should We Measure Them?

“State Capacity,” “State Capabilities,” “Government Capabilities,” “Public Governance” and “Governance” are interrelated and complex concepts that, given their crucial importance, have given rise to important analytical, measurement and evaluation efforts, as well as lively methodological debates.<sup>2</sup>

Valuable as such discussions are, we are going to stay away from them in this brief policy note, and will focus instead on a particular view of Government Capabilities that the Research Department of the IDB has been developing and implementing in understanding institutions, policymaking processes, and policy implementation in Latin America. Building on the pioneer work of Weaver and Rockman at Brookings Institution on Government Capabilities, we have developed indicators of the policymaking capabilities of various countries in Latin America and beyond. These capabilities were found to be crucial determinants of the ability of countries to produce effective economic policies, where effectiveness was defined not in terms of some particular technical view (e.g., whether a country privatized some of its public companies or not), but in terms of valence properties such as the stability, adaptability, coordination, and implementation of policies over time.

The focus on those capabilities and in those characteristics of policies comes from a theoretical logic that emphasizes *intertemporal cooperation*.

Such capabilities are not built overnight; they are the outcome of social processes that evolve over time, in the nature of social investments (Besley and Persson, 2009; Enríquez and Centeno, 2012); hence, in order to understand them it is important to think in terms of an *intertemporal* perspective.

Unlike other efforts that focus on longer-term historical perspectives and include non-democratic regimes, the focus is on the development of institutional capabilities in democratic contexts (which helps to explain modern Latin America.) Hence, the focus is on *cooperation* as opposed to imposition. The very nature of democracies implies alternation in power, and if

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<sup>2</sup> Two recent fora on the topic deserve attention because they bring to bear on important underlying methodological and measurement efforts. One was spearheaded by the journal *Governance*, around an article by Francis Fukuyama (2013): <http://governancejournal.net/2013/03/04/fukuyama-asks-what-is-governance/>. The other was the conference on Stateness in Latin America in the twenty-first century (<http://www.statenessinlatinamerica.com/>).



power is going to switch hands, an important element of intertemporal cooperation is crucial for the buildup of government capabilities.

Under what conditions is cooperation more likely? Drawing on intuitions from game theory, it can be argued that cooperative outcomes are more likely if (IDB, 2005; Stein and Tommasi, 2007):

- There are good “aggregation technologies” so that the number of collective actors with direct impact on the policymaking game is not too large.
- There are well-institutionalized arenas for political exchange.
- Key actors have long-term horizons.
- There are credible enforcement technologies, such as an independent judiciary or a strong bureaucracy to which certain public policies can be delegated.

These conditions are associated with some characteristics of key players and arenas of policymaking.

The variables that, from the theoretical perspective of intertemporal cooperation, we have conceptualized and measured as government capabilities are the following:<sup>3</sup>

- **Congressional Policymaking Capabilities:** Congress can be the democratic arena par excellence for the bargaining and enforcing of intertemporal policy agreements. A legislature made up of professional legislators (with technical capabilities for discussing and overseeing policies) and adequate organizational structures can facilitate the development of relatively consensual and consistent policies over time.<sup>4</sup>
- **Judicial Independence:** The Judiciary, especially the Supreme Court or Constitutional Tribunal, is a natural candidate for the enforcement of those political or policy agreements reflected in constitutions and laws. In its role as an independent referee, the judiciary can provide a “durability mechanism” that can increase the probability of reaching intertemporal agreements and

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<sup>3</sup> Definitions and the way in which these concepts are operationalized in practice are presented in the Appendix. Updated data available in Franco Chuaire et al. (2013b).

<sup>4</sup> We look at this particular capability in detail in Palanza, Scartascini and Tommasi (2013a).

thus contribute to better public policy outcomes such as enhanced policy stability, and the quality of policy implementation and enforcement.

- **Civil Service Capacity:** A strong, independent and professional bureaucracy seems like the most natural vehicle for the flexible enforcement of political agreements via delegation. An effective and capable bureaucracy is likely to improve the quality of implementation of public policies, as well as their coordination across ministries. It may also decrease the likelihood that policy will be prone to political opportunism, and it could increase policy adaptability to changing circumstances by relying on technical expertise.
- **Party System Institutionalization:** An institutionalized party system is a natural aggregator that reduces the effective number of players at the bargaining table and increases the horizons of individual political actors, as well as their intertemporal linkages. Institutionalized parties can more effectively engage in policy debates and enhance the scope for coordination in congress. In addition, their leaders will be more likely to uphold the commitments of past party leaders. Thus, institutionalized party systems may facilitate intertemporal policy compromise.

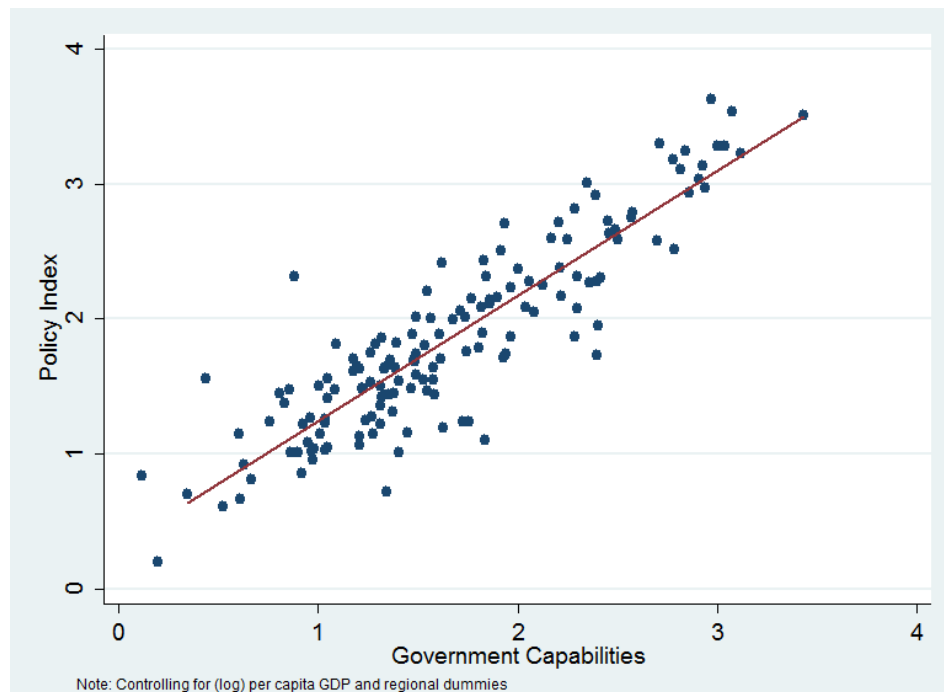
We have constructed measures of these government capabilities. In many cases there are trade-offs between the depth and the country-coverage of indicators, but the agenda has been advancing at multiple complementary levels of empirical analysis, including in-depth case studies (IDB, 2005; Stein, Tommasi et al 2008; Palanza, Scartascini and Tommasi, 2013b), the construction of various indicators for LAC countries (IDB, 2005; Stein and Tommasi, 2007; Scartascini, Stein and Tommasi, 2010), and also developing proxies in international datasets to be able to study implications and determinants using econometric techniques in larger samples (Berkman et al., 2008; Scartascini, Stein and Tommasi, 2013; Palanza, Scartascini and Tommasi, 2013a; Franco Chuaire and Scartascini, 2013; Franco Chuaire et al., 2013b).

Work at IDB and elsewhere has established that the effectiveness of policy interventions is conditional on the existence (or on the level and adequacy) of those capabilities. The next section summarizes this evidence.

### 3. Government Capabilities Matter

Professionalized bureaucracies, institutionalized political parties, capable congresses, and independent judiciaries, are all conditions that favor intertemporal cooperation and as such tend to generate a better policy environment. As IDB (2005), Stein and Tommasi (2007), Scartascini, Stein and Tommasi (2013), and Ardanaz, Scartascini, and Tommasi (2011) show, higher institutional capabilities are correlated with policies that are more stable, more adaptable, more coherent, have better enforcement, and that tend to favor the broadest possible sector of the population. Figure 1 summarizes this analysis showing the correlation between a combined index of policy qualities with a combined index of government capabilities.<sup>5</sup>

**Figure 1. Stronger Government Capabilities Improve Policies**

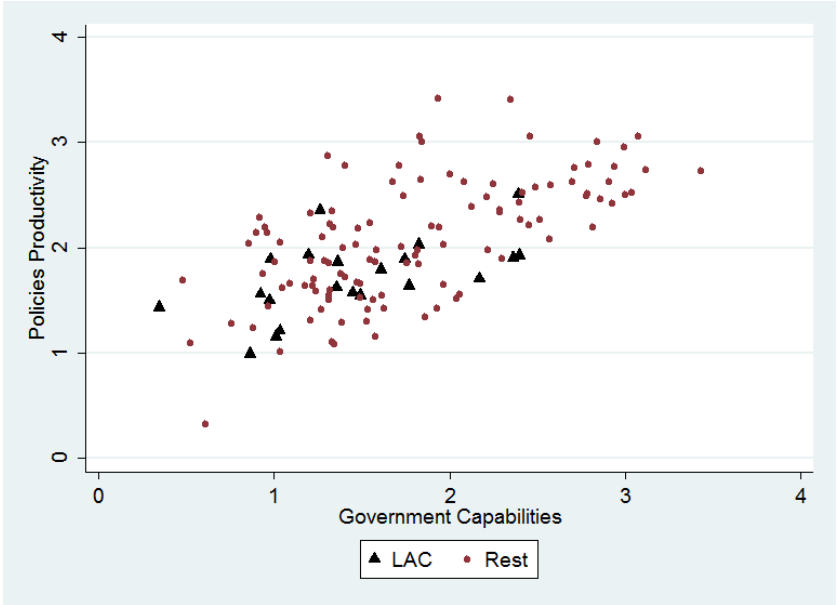


Source: Author's calculation using data in Franco Chuaire et al. (2013b), based on Berkman et al. (2008).

<sup>5</sup> Policy features have been summarized in a set of variables that includes: *Stability* (the extent to which policies are stable over time), *Adaptability* (the extent to which policies are be adjusted when they fail or when circumstances change), *Coherence and coordination* (the degree to which policies are consistent with related policies, and result from well-coordinated actions among the actors who participate in their design and implementation), *Quality of implementation and enforcement* (the degree to which policies are implemented and enforced properly after the approval in Congress), *Public-regardness* (the degree to which policies pursue the public interest), *Efficiency* (the extent to which policies reflect an allocation of scarce resources that ensures high returns), and a composite *Policy Index*, which summarizes the information from the previous six (Scartascini, Stein, and Tommasi 2013).

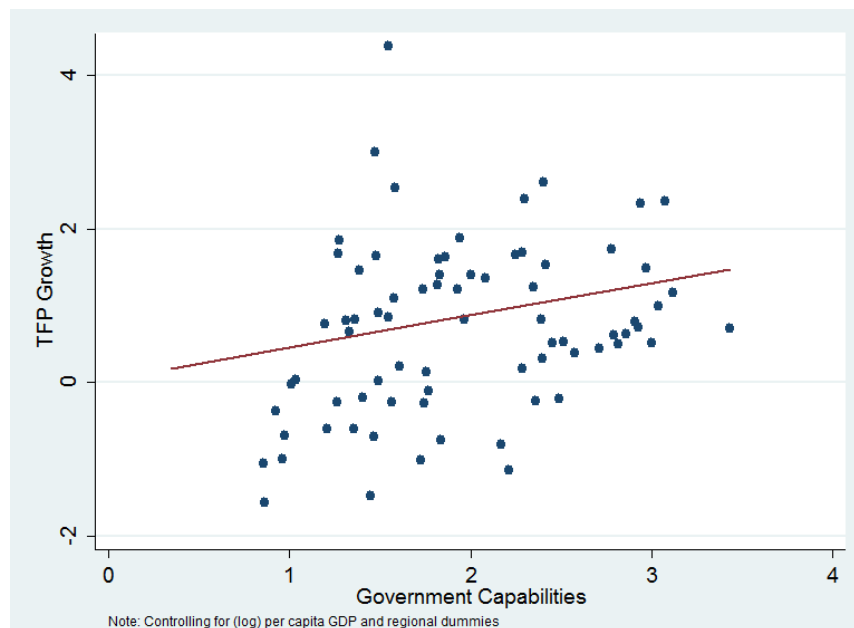
Beyond those generic policy features, there are some types of policies whose design may be particularly affected by government capabilities. Think for example about those policies that would help to foster productivity. Increasing productivity is a complex endeavor that requires identifying the right policies, understanding the tradeoffs among competing objectives, having resources to implement the policies, satisfying or compensating those who would prefer other policies, and maintaining sustained efforts over several policy domains at the same time over long periods (Scartascini and Tommasi, 2010). Therefore, increasing productivity requires substantial capabilities and the ability to focus on the longer term. Scartascini and Tommasi (2010) show that higher government capabilities are 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, all policies which have been found by Pagés (2010) to foster productivity. This information is summarized in Figures 2 and 3, which show that better government capabilities produce policies that improve productivity and that lead to higher TFP growth, respectively.

**Figure 2. Government Capabilities and Policies that Foster Productivity**



*Source:* Author’s calculation using data in Franco Chuaire et al. (2013b), based on Berkman et al. (2008).

**Figure 3. Government Capabilities and Total Factor Productivity**



*Source:* Author's calculation using data in Franco Chuaire et al. (2013b), based on Berkman et al. (2008).

For countries subject to important sources of macroeconomic volatility, such as those in Latin America, it is of special importance to have the ability to adjust to adverse (and to favorable) economic shocks. There are a number of potential policies in various domains that might mitigate the economic and social impacts of such shocks. These macro and micro (horizontal and sectoral) policies have an impact on the performance of the economy in general, as well as of various economic sectors in particular, both on average, as well as in terms of how well they respond to various shocks. Such fiscal, industrial, financial, industrial, labor-market policies are likely to demand important government and bureaucratic capabilities in order to be implemented properly (Franco Chuaire, Scartascini and Tommasi, 2013a).

Countries with higher capabilities might be able to implement sounder fiscal policies, such as countercyclical macroeconomic policies (Calderón, Duncan and Schmidt-Hebbel, 2012), and to design better fiscal frameworks (Filc and Scartascini, 2012). Calderón, Duncan and Schmidt-Hebbel (2012) discuss empirical evidence on the role of institutional quality in this context; they find that fiscal and monetary policies tend to be significantly procyclical in countries with weaker policymaking capabilities. In addition to the fiscal policy framework, the depth of financial markets can significantly influence the way in which economies react to various sources of volatility. In particular, higher financial development can help mitigate the

effect of terms of trade volatility on consumption volatility, and broader access to financing allows firms to better manage macroeconomic volatility. In this context, higher government capacities play an important role as they can provide deeper financial markets: Becerra, Cavallo and Scartascini (2012) show that financial development is higher in countries with enhanced government capabilities, as their governments are less likely than others to the financial system in order to finance government operations.

At a more disaggregated level, Cornick (2013) provides a detailed analysis of the government capabilities necessary in order to implement various productive development policies. An ongoing comparative project at the Research Department of IDB explores the specific capabilities of agencies devoted to productive development policies, which allow them to be more effective at such complex tasks, as will be further discussed below.

Government capabilities also matter for the efficiency of public policies and hence of public spending, as well as for the effectiveness of social policies. In theoretical terms, a more capable government will be better able to target its social policies at those times and to those individuals that need it the most. Programs that might have such characteristics include training programs (which also facilitate sectoral adjustment), unemployment insurance, targeted social programs, as well as a number of health and education policies. Niles (2001) studies the incentives and capabilities of governments to implement targeted social spending during economic adjustment. Cingolani, Thomsson and de Crombrughe (2013) report how bureaucratic autonomy and state capacity allow governments to advance more rapidly in achieving development policy goals in social sector areas. Scartascini, Stein and Tommasi (2008) report that health and education spending are more effective in countries with better policymaking capabilities; some of their results could be interpreted as indicating that policymaking capabilities might be more important than money to improve education outcomes at high levels of governmental capacity. In terms of health spending, they find that if a country's policy environment is not good, spending more on health has no clear effect on improving life expectancy. As countries develop a better policy environment, they tend to benefit more from a given amount spent.

### 3. Where Do Government Capabilities Come from, and How Can They Be Built?

Government capabilities are the outcome of investments over time. Besley and Persson have recently reinvigorated this notion in a series of papers (2009, 2010) and a book (2011) exploring the historical dynamics of legal and tax capacities across countries. In Scartascini and Tommasi (2012) we develop a related conceptual scheme departing from standard political economy models by increasing the action space of political actors, including the possibility of investing in institutionalized policymaking arenas (which increases government capabilities over time) or in alternative political technologies such as street protests or bribery of government officials (with the opposite effect on government capabilities). These investments, in turn, depend on actors' *beliefs* about the beliefs and actions of other players. Institutions reflect past investments, summarize information, beliefs and expectations, and incorporate self-reinforcement effects. In standard game-theoretic analysis, the actions (and investments) of the relevant players are a function of their beliefs about what other relevant players will do. A game-theoretic equilibrium is a consistent and self-confirming configuration of actions and beliefs. One important implication of this logic is that different countries end up having different degrees of institutionalization (and of government capabilities) in their collective decision-making.

Applying this abstract logic to a specific institution, Congress, Palanza, Scartascini and Tommasi (2013a) view levels of congressional institutionalization and the policymaking capabilities of Congress as the outcome of investments undertaken by various relevant political actors, which in turn depend on the beliefs they have about the relevance of this arena. If Congress is undervalued and actors know that the way to attain things from the political system is by blockading a road or bribing the president, investments in the institutionalization of Congress are not undertaken and the weakness of the institution is reinforced. The opposite is expected if Congress is an effective conduit of preference aggregation and political bargaining: relevant actors will invest in the institution, most citizens will believe that Congress is a space where relevant decisions are made, and the institution will strengthen. Politics may get stuck at higher or lower levels of institutionalization and of Congress capabilities, and this influences the quality of the resulting public policies.<sup>6</sup> As Palanza, Scartascini and Tommasi (2013a) argue and

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<sup>6</sup> Actors' choices to undertake actions that ultimately contribute to institutionalization (or actions that have the opposite effect) will depend on what each actor believes to be the relevant arena in which important policy decisions

explore empirically, some formal rules (constitutional factors such as the form of government, electoral mechanisms, and others), by affecting the incentives of key players, have an impact on the likelihood that Congress develops institutionalization and policymaking capabilities.<sup>7</sup>

The practical message emerging from this view is that government capabilities are the equilibrium outcome over time of endogenous choices by key political actors. Hence, they cannot be built by fiat; which raises a flag against some naïve tendencies of external observers to believe too much in technocratic approaches to (often donor-driven) capacity building. There are plenty of examples in the region and elsewhere of copying foreign institutional practices without substantial results. Government capabilities evolve over time as the result (and as part) of dynamic social equilibria.

Yet, with all these caveats and *understanding the political nature* of their determination and evolution, we have to bet on the realization of those investments and on the development of those capabilities. Moreover, this has to take place over time, in a sustained manner, and with great care to avoid destruction of capabilities and setbacks. In accordance with this logic, international organizations as the IDB have to be very careful and well informed in order to intervene in intelligent ways to facilitate virtuous dynamics that are endogenous and specific to each country. Perhaps their most valuable contribution might be to act as enforcement and commitment technologies for the implementation and maintenance of political agreements among domestic players to build their country's institutions, protecting those agreements against the short-term opportunistic temptations of actors with short-term power. This would require attempting to assist in building country consensus and including actors beyond the Executive of the day, such as Parliament and the main political parties. This implies avoiding doing things that

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are made, and whether those arenas (whether it be Congress or not) are worth their scarce political resources. One crucial set of actors whose incentives, beliefs, and investments must be considered is *legislators themselves*. Legislators' investments in their own congressional careers and on the institutionalization of Congress depend on their views about the role and powers of the legislature. Not only actual legislators, but also potential legislators' beliefs are important for the eventual functioning of Congress: in societies where Congressional work is not much valued, it is a job unlikely to attract top talent, and hence it is unlikely that Congress would become a key arena. In countries with presidential systems of government, another key actor is *the Executive*. Executives can be respectful of the prerogatives of Congress, or they can attempt to ignore Congress and rule unilaterally. Whether they manage to do that or not, and hence whether they attempt that in equilibrium or not, will depend on their expectations about the reactions of other players such as legislators themselves, the Judiciary, and interest groups. Key *socioeconomic actors* (business, unions) can also invest in activities or technologies of varying degrees of institutionalization, such that they will tend to strengthen or weaken diverse arenas, including Congress. Clearly, *citizens* themselves are another important actor: as voters they help to determine the incentives of all other political actors, and they also contribute to political moods that socioeconomic actors can exploit and politicians are careful not to ignore.

<sup>7</sup> Congressional capabilities tend to be higher in countries with Parliamentary forms of government, with majoritarian electoral rules, and with longer democratic histories.



are too tied to a particular administration, accepting middle-of-the-ground solutions that are more likely to be sustained, ; and being aware of strategic timing issues. This would require steering away from the technocratic triumphalism of ignoring institution building and consensus when pushing for favored economic policies, as well as standing up to messianic populism that also ignores republican institutions.

At a more proactive level, it would require good diagnostics of the political equilibrium in each country and of the key determinants of political incentives, identifying the levers which might improve a poor (non-cooperative) political equilibrium, that might sustain a good (cooperative) equilibrium, or that might eventually permit a transition towards a better one.<sup>8</sup> It turns out that first order incentives of key players are much more important than rules regulating more detailed behavior, such as civil service laws. You may copy the best civil service law in the world, but if the incentives of principals (elected officials) are not well aligned, that will not give you a more capable state (Grindle, 2010; Iacoviello, Zuvanich and Tommasi, 2009; Bambaci, Spiller and Tommasi, 2007). It is important to make sure that political incentives are aligned in the direction of increasing capabilities, a consideration that should be taken into consideration in designing loan conditionalities.

When working at the level of specific technical reforms it is important to pay attention to feedback effects into the overall incentives of the political game, and on the overall capacity building incentives. Policy reforms often have feedback effects on the policymaking game. In some sectors, these feedback effects are likely to alter the specific sector policy game by creating new actors or changing the rules of engagement among them. But some reforms (particularly in sectors such as decentralization, budget processes, or civil service reforms) can have a much broader impact and alter the dynamics of the country policymaking process. Policy or institutional reforms that have important feedback effects on the policymaking process should be considered with special care, and with an understanding of their potential ramifications (IDB, 2005).

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<sup>8</sup> As an example, a diagnostic for Argentina (Spiller and Tommasi, 2008; Tommasi, 2010; Ardanaz, Leiras and Tommasi, 2014), identifies two key institutional levers of the poor incentives for intertemporal cooperation and intertemporal capacity building. These levers are the federal fiscal system and the province-centeredness of the national political party system. Intervening in the second set of political rules sounds like a bit out of reach for an international organization, but reforming the federal fiscal system to increase fiscal correspondence and to reduce discretionality in the distribution of central monies, two very reasonable and standard fiscal recommendations, could go a long way in improving incentives of key national and subnational players.

There are also reforms that are “safe bets” such as measures that increase transparency of government operations. Even though they are unlikely to change a bad equilibrium by themselves, they could be useful complementary handles if the equilibrium were to change for other reasons.

## **5. Next Research Steps**

The research agenda summarized in this brief policy paper needs to be pursued in various directions in order to update its core diagnostic in light of current dynamics in the region, in order to better understand the determinants and dynamic evolution of government capabilities, in order to apply this logic at a more disaggregated level to understand specific capabilities that could be built in specific policy areas, and in order to shift the focus towards the level of subnational governments, where an important part to the action is taking place nowadays.

Many countries in LAC have seen upsurges of street contestation in recent years. These are complex events that require attention, for their short-term and long-term potential implications. In developed party systems, parties are seen as the channel for popular contestation of policies (Pugh, 2008). If an individual or group is unsatisfied with the performance or policies of those in power, they can seek a change in these policies or of the governing regime itself supporting opposing parties who seek to block the regime itself, by supporting opposing parties who seek to block the regime’s policies through legislative action or to replace the regime through electoral competition. When the workings of extant political institutions such as the party system or Congress are not living up to their role as institutional arrangements that adequately channel public participation and demands into responsive governance, (under some collective action conditions) people will take their demands to alternative arenas such as the street.<sup>9</sup> Whether the various such events we are seeing lately in Latin America will eventually become transitional alerts leading to the peaceful institutionalization of such demands, whether they become a semi-permanent channel of contestation (with negative implications for institutionalization and for policymaking capabilities), or whether they unravel into something

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<sup>9</sup> See for instance Pugh (2008), Przeworski (2009), and Scartascini and Tommasi (2012). Machado, Scartascini and Tommasi (2011) show (in a sample of nearly 3,000 citizens per country in 17 Latin American and Caribbean countries) that weaker political institutions are associated with a higher individual propensity to use alternative means for expressing preferences, that is, to protest.

more dangerous, are all important questions that should be a focus of concern. It is necessary to develop a research program to monitor these dynamics in the countries of the region.

Studying the process of construction of government capabilities in the various key arenas and domains is another important task, which has been barely started. Palanza, Scartascini and Tommasi (2013a) explore the determinants of investment in building Congressional capabilities using both 18 Latin American cases and a (shallower) larger international sample. They find that Presidential systems and proportional representation systems are less likely to develop strong congressional capabilities. In an ongoing pairwise comparison of two cases (Argentina and Chile) they attempt to trace the micro-dynamics behind the development of weaker or stronger parliaments. Similar efforts are needed to study the construction of capable and independent judiciaries<sup>10</sup> and (of particular importance for government capabilities) of strong, independent, and responsive public administrations.

Most of the analysis summarized in this paper has focused at the aggregate level of country-wide government capabilities. Clearly, capabilities also have substantial within-country variation: across policy areas, across agencies, and across subnational levels of government. The agenda needs to be developed in these micro directions. Work at the Bank on productive development policies (IDB, 2008, 2011) has identified that even taking aggregate country capabilities as given, there is variation in capabilities in specific areas. An ongoing project tries to study such capabilities at the level of individual agencies implementing specific productive development policies. Cornick (2013) provides a useful entry point for such exploration, describing the broad outlook of organization capabilities suitable for productive development policies (PDPs). Such approach would be enriched by the logic of dynamic equilibrium investments in capabilities and belief reinforcement summarized above.

Last, but not least, the current state of knowledge on subnational state capabilities is quite limited, and substantial efforts need to be devoted to study the capabilities of state and municipal governments, given their increasing importance in the delivery of public goods and services in the region, as well as their increased centrality in the Bank's agenda and portfolio.

Box 2 summarizes the suggested next steps in the research agenda on government capabilities.

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<sup>10</sup> Some attempts to study judicial institutionalization have been started, often with other regions in mind, by authors such as Carrubba et al. (not dated), McGuire (2004), and Staats (2012). Some elements for the Latin American and Caribbean cases are provided in Helmke and Ríos-Figueroa (2011).

## **Box 2. Agenda on Government Capabilities (next steps)**

### A. Continuous updating of country-level political and institutional diagnostics

Several of the projects lead by the IDB, such as *The Politics of Policies*, 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 efforts, a continuous updating of those diagnostics would be a crucial background tool for effective engagement at the country level.

### B. Understanding the dynamics of non-conventional political participation

Contentious political movements have existed at various moments in the development of Latin American polities. A current wave of popular mobilizations of different sizes, styles, dynamics, and demands is taking place in many of the main countries in the region. Understanding their motives, dynamics, and future will be an essential ingredient in diagnosing how to go about strengthening institutions in the region.

### C. Case studies on the construction of government capabilities

Study the determinants and evolution of government capabilities in specific institutional domains, such as:

- Congresses
- Judiciaries
- Public Administrations
- Policy Implementation Agencies

### D. Construction of sub-national government capabilities

An important part of the action in terms of policy and institutional reform in LAC, as well as the engagement of the Bank, nowadays 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 views. A research effort of the type developed in projects such as *The Politics of Policies*, *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

### Definitions and sources of the data for the variables that proxy government capabilities<sup>11</sup>

**1. Congressional Policymaking Capabilities:** Congress can be the democratic arena par excellence for the bargaining and enforcing of intertemporal policy agreements. A legislature made up of professional legislators (with technical capabilities for discussing and overseeing policies) and adequate organizational structures can facilitate the development of relatively consensual and consistent policies over time.

The Index has been created using the following two variables:

a. Legislative efficiency:

Source: The Global Information Technology Report, World Economic Forum; average 2002-2012

Values: How effective is your national parliament/congress as a law-making institution? [1 = very ineffective; 7 = very effective—among the best in the world].

b. Confidence in Parliament:

Source: World Values Survey; average 1994-1999, 1999-2004, and 2005-2007 waves.

Values: Average response to the question: how much confidence do you have in the Parliament? 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, but the scale was reversed in order to match the rest of the dataset).

**2. Party System Institutionalization:** An institutionalized party system is a natural aggregator that reduces the effective number of players at the bargaining table and increases the horizons of individual political actors, as well as their intertemporal linkages. Institutionalized parties can more effectively engage in policy debates, and enhance the scope for coordination in congress. In addition their leaders will be more likely to uphold the commitments of past party leaders. Thus, institutionalized party systems may facilitate intertemporal policy compromise.

The Index has been created using the following variables:

a. Stable, moderate, rooted party system

Source: Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012

Values: 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

Source: World Values Survey; average 1994-1999, 1999-2004, and 2005-2007 waves.

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<sup>11</sup> See Franco Chuaire et al. (2013b) for a complete version of the codebook.

Values: 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, but the scale was reversed in order to match the rest of the dataset).

#### c. Vote volatility

Source: From Berkman et al. (2008). Data for Argentina, Australia, Austria, Belgium, Bolivia, Brazil, Bulgaria, Canada, Chile, Colombia, Czech Republic, Denmark, Ecuador, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Japan, South Korea, Latvia, Lithuania, Mexico, Netherlands, Norway, Philippines, Poland, Portugal, Romania, Russia, Slovenia, Spain, Sweden, Switzerland, Taiwan, Thailand, Ukraine, UK, US, and Venezuela come from Mainwaring and Zoco (2007).

Data for Benin, Burkina Faso, Botswana, Cameroon, Malawi, Cote d'Ivoire, Congo, Central African Republic, Gabon, Gambia, Ghana, Kenya, Lesotho, Mali, Madagascar, Mauritania, Mauritius, Namibia, Niger, Senegal, South Africa, Togo, Zambia, and Zimbabwe come from Kuenzi and Lambright (2001).

Data for Latin American countries not listed under Mainwaring and Zoco (2007) come from Jones (2005).

Values: All data follow the Pedersen (1983) 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

Source: Database of Political Institutions, average 2000-2010 (1990-2010) {1980-2010}

Values: 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

Source: Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012

Values: 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.

**3. Judicial Independence:** The Judiciary, especially the Supreme Court or Constitutional Tribunal is a natural candidate for the enforcement of those political or policy agreements reflected in constitutions and laws. In its role as an independent referee, the judiciary can provide a “durability mechanism” that can increase the probability of reaching intertemporal agreements and thus contribute to better public policy outcomes such as enhanced policy stability, and the quality of policy implementation and enforcement.

The Index has been created using the following variables:

a. GCR Judicial

Source: The Global Competitiveness Report- World Economic Forum; average 2001-2012

Values: 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

Source: Bertelsmann Transformations Index; average 2006, 2008, 2010, 2012

Values: 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.

**4. Civil Service Capacity:** A strong, independent and professional bureaucracy seems the most natural vehicle for the flexible enforcement of political agreements via delegation. An effective and capable bureaucracy is likely to improve the quality of implementation of public policies, as well as their coordination across ministries. It may also decrease the likelihood that policy will be prone to political opportunism, and could increase policy adaptability to changing circumstances by relying on technical expertise.

The Index has been created using the following variables:

a. Bureaucratic Merit Index

Source: Columbia University State Capacity Survey; 1990, 1999, 2000, 2002

Values and details: Question 14 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. Bureaucratic Functional Capacity Index

Source: Columbia University State Capacity Survey; 1990, 1999, 2000, 2002,

Values and details: 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. Bureaucratic Efficiency Index

Source: Columbia University State Capacity Survey; 1990, 1999, 2000, 2002,

Values and details: 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

Source: International Country Risk Guide 2000-2005 (1990-2005) {1980-2005}

Values and details: 0 (low) to 6 (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.