



# Improving the Odds

Political Strategies for Institutional  
Reform in Latin America

• Carol Graham  
• Merilee Grindle  
• Eduardo Lora  
• Jessica Seddon

**IMPROVING THE ODDS:  
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Reform in Latin America**

*Carol Graham, Merilee Grindle,  
Eduardo Lora and Jessica Seddon*

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## **Latin American Research Network Inter-American Development Bank**

The Inter-American Development Bank created the Latin American Research Network in 1991 in order to strengthen policy formulation and contribute to the development policy agenda in Latin America. Through a competitive bidding process, the Network provides grant funding to leading Latin American research centers to conduct studies on economic and social issues selected by the bank in consultation with the region's development community. Most of the studies are comparative, which allows the Bank to build its knowledge base and draw on lessons from experiences in macroeconomic and financial policy, modernization of the state, regulation, poverty and income distribution, social services and employment. The individual country studies are available as working papers and are also available in PDF format on the internet at <http://www.iadb.org/oce/41.htm>.

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# Introduction

This monograph is part of a larger Inter-American Development Bank Office of the Chief Economist Research Network investigation of the political economy of institutional reform in Latin America. The entire project, meant to be read as a set, includes four country cases (Argentina, Bolivia, Peru, and Uruguay) encompassing three reforms each. The set of documents re-examines some of the general hypotheses developed in the literature on the political economy of reform, but each of the case studies has its own focus and highlights new questions for future research.

While much of the previous research on the political economy of reform centers on studies of macroeconomic reforms and focuses on the context for change, this project concentrates on strategies for institutional reform. The hypotheses and case studies highlight the ways in which leaders' actions can interact with the institutional, economic, and political context to increase the potential for success. This focus on strategy is particularly appropriate in the context of institutional reform, for leaders cannot carry out reforms alone or with a small group of technocrats and the scope of negotiations over institutional reforms tends to be broader and more complex than in the first generation of macroeconomic reforms. The "correct" policies and performance indicators are not always well known and proponents of institutional reform must often motivate a broad national consensus about the direction of economic and social policies. It also takes longer to demonstrate an unambiguous positive change due to institutional reform. Reform of public institutions takes time, and the results—such as improvements in the quality of education or judicial services—are not easily measurable.

The results of the project provide concrete, experience-based advice for policymakers as well as a starting point for further research on the factors behind successful institutional reform. For example, how leaders can take advantage of the ways in which institutions structure decision-making and determine different social groups' access to power is described. Different ways of linking institutional reforms to other policies to increase the probability of success are explored and the common elements of effective communications and negotiation strategies are highlighted. Also examined are several strategies for negotiating with interest groups and mobilizing new support coalitions.

## Documents in this Series

Filguiera, Fernando and Moraes, Juan Andrés. 1999. "Political Environments, Sector-Specific Configurations, and Strategic Devices: Understanding Institutional Reform in Uruguay." Working Paper R-351. Washington, DC: Office of the Chief Economist, Inter-American Development Bank.

Graham, C., Grindle, M., Lora, E., and Seddon, J. 1999. *Improving the Odds: Political Strategies for Institutional Reform in Latin America*. Washington, DC: Inter-American Development Bank.

Gray-Molina, G., Perez de Rada, E., and Yañez, E. 1999. "La economía política de reformas institucionales en Bolivia." Working Paper R-350. Washington, DC: Office of the Chief Economist, Inter-American Development Bank.

Ortiz de Zevallos, G., Eyzaguirre, H., Palacios, R.M., and Pollarolo, P. 1999. "La economía política de las reformas institucionales en el Perú; los casos de educación, salud y pensiones." Working Paper R-348. Washington, DC: Office of the Chief Economist, Inter-American Development Bank.

Torre, Juan Carlos and Gerchunoff, Pablo. 1999. "La economía política de las reformas institucionales en Argentina. Los casos de la política de privatización de Entel, la reforma de la seguridad social y la reforma laboral." Working Paper R-349. Washington, DC. Office of the Chief Economist, Inter-American Development Bank.

# Improving the Odds: Political Strategies for Institutional Reform in Latin America<sup>1</sup>

*Carol Graham, Merilee Grindle, Eduardo Lora, and Jessica Seddon<sup>2</sup>*

Institutional reform has replaced institutional reduction as scholars' and policymakers' main preoccupation. As interventionist state structures have been curtailed and macroeconomic reforms implemented, policymakers are returning to age-old questions about how to improve basic health and educational systems, how to make regulatory systems function better, who should provide basic services and infrastructure, and how they should be paid for. The diagnosis is relatively uncontroversial: Latin American countries must significantly increase the capacity of public institutions to achieve the objectives for which they exist in order to reduce poverty and inequality and become more competitive. The lack of clear prescriptions, however, leads to a long, diverse, and politically difficult agenda. Institution building in the public sector is less amenable to the kinds of speedy, blunt, and very visible solutions that tamed macroeconomic instability and removed the distortions impeding the efficient functioning of markets. Although economic theory describes institutional change as a rational response to new information and changing costs and benefits, the reality of institutional change does not reflect this orderly process.<sup>3</sup>

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<sup>1</sup> These results are based on case studies conducted for the Inter-American Development Bank, Office of the Chief Economist, Research Networks Project. The institutional reform project was designed and supervised by the authors, and case studies were conducted in Argentina, Bolivia, Peru, and Uruguay by researchers at the Instituto Torcuato di Tella, Fundación Diálogo, Instituto APOYO, and CIESU respectively. The individual case studies are available as IDB working papers.

<sup>2</sup> Carol Graham is Co-director, Center on Social and Economic Dynamics and Senior Fellow, Brookings Institution; Merilee Grindle is Edward S. Mason Professor of International Development, John F. Kennedy School of Government, Harvard University; Eduardo Lora is Senior Economist, Office of the Chief Economist (OCE), Inter-American Development Bank (IDB); Jessica Seddon is a consultant at OCE, IDB.

<sup>3</sup> Douglas North, for example, argues that institutional inefficiencies and distortionary effects will gradually "adjust out" as different configurations are tested and social actors evaluate the functioning of institutions and learn to make them more efficient. North's theory of institutional change is in *Institutions, Institutional Change, and Economic Performance* (1990). His more recent work (1993), however, has explored the real-world constraints that may prevent this process from happening. Some, such as Bates (1990) see institutions as "investments," others argue that institutions evolve as the benefits of having them increase, or as the value of the goods and services they protect (or provide) increase. Libecap (1978) is one of the earlier empirical studies.



The distance between theory and reality provokes two questions: “Why?” and “What can be done?” While much of the literature on the political economy of reform focuses on the why, this study examines some hypotheses about what can be done to improve reality. The project investigates the characteristics of successful reforms, the factors that contribute to successful and sustainable reforms, the factors that may inhibit reforms, and the role of leadership in promoting reforms. Special emphasis is placed on successful reform strategies, for these are the kinds of findings that will be most useful for policymakers who seek to improve their countries’ institutions.

### *From Macroeconomic Reforms to Institutional Restructuring*

Policymakers and scholars of the late 1980s and early 1990s focused on macroeconomic stabilization, market opening, and structural adjustment.<sup>4</sup> Macroeconomic crises in a number of countries exacerbated the more general disenchantment with the interventionist policies of the past to create room for macroeconomic stabilization and structural reform. These ambitious reform projects sought to improve market functioning and encourage private sector development. Reformers in Latin America and elsewhere thus concentrated on taming high inflation, reducing fiscal imbalances, and stabilizing exchange rates.

As Latin American policymakers overcame many of these challenges, however, the need for a second generation of reforms—institution building—became more apparent.<sup>5</sup> Macroeconomic stability increased growth rates across the region, but not enough to significantly reduce poverty.<sup>6</sup> The first generation of reforms brought substantial economic benefits, but these have yet to be equitably distributed, and some observers fear an electoral backlash against the macroeconomic changes.<sup>7</sup>

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<sup>4</sup> See Inter-American Development Bank (1996), Inter-American Development Bank (1997), and Lora and Londoño (1998).

<sup>5</sup> Easterly, Loayza, and Montiel (1997), and Lora and Barrera (1997) have found that the region responded positively to changes in macroeconomic and structural policies. For a description of the reforms and a summary of their effects, see Lora and Londoño (1998).

<sup>6</sup> Burki and Edwards (1996) argue that in order to reduce poverty in the region, growth must be much higher than the 2.8 percent regional average for 1991–95. The World Bank estimates that the minimum rate of growth necessary for poverty reduction is 3.4 percent. Higher growth is also necessary to provide a politically sustainable allocation of the benefits of reform.

<sup>7</sup> See, for example, *Economist* (1996).

Institutional reform came to the forefront of the search for new solutions as more and more policymakers, multilateral institutions, and scholars recognized the role of institutions in good governance, economic efficiency, equitably regulated economic playing fields, and effective protection for vulnerable groups during adjustments and downturns.<sup>8</sup> Recent empirical research on the importance of institutions for growth has strengthened this consensus, and world events such as the economic crises in countries such as Russia and some of the East Asian countries provide a clear demonstration of the importance of efficient institutions.<sup>9</sup>

The institution-building agenda has expanded over time as both academics and practitioners have discovered the range of institutions, often taken for granted in advanced industrial economies, that provide a foundation for successful markets. The earlier reformers who focused on solving macroeconomic crises concentrated on strengthening the kinds of institutions that could provide stability and effective monitoring of macroeconomic management. They worked on introducing or strengthening more effective central banks, ministries of finance, and revenue agencies. As the crises were resolved, policymakers' attention shifted to improving legal and judicial structures, again with the intent of creating a more secure environment for domestic and foreign investors. Regulatory agencies with responsibilities for financial institutions banks—stock markets, and pension systems, for example—then joined the list of institutions that needed to be created or strengthened in order to contribute to well-functioning market systems. Social sector institutions—such as health and education programs or safety net programs—have joined the list more recently as their role in building and maintaining human capital has gained more recognition. Institution building has become a catch-all concept that encompasses a wide variety of goals that have always been at the core of overcoming underdevelopment.<sup>10</sup>

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<sup>8</sup> The urgent need for institutional reform has been cited in virtually every speech and paper on the subject of reform in recent years. Much of this generalized thinking was crystallized in Naím (1995).

<sup>9</sup> See, for example, Knack and Keefer (1995) and (1997a) on the contribution of formal institutions to convergence; Knack and Keefer (1997b) and La Porta, et.al. (1997) on the importance of informal institutions.

<sup>10</sup> For more detail on this and a taxonomy of institutional functions and failures, see Graham and Naím (1998).

As the institutional reform agenda has expanded, it has also become more complex, and the correct “answers” to problems have become less clear. The diverse macroeconomic reforms had three characteristics in common: they consisted of a one-time adjustment of the parameters of the economy; they tended to be adopted by the executive branch in relative isolation from the rest of the political system; and new policies implied dismantling existing agencies rather than building new organizations.<sup>11</sup> Institutional reforms, in contrast, involve alterations in the standard operating procedures the state uses every day to regulate the economy, provide services, and interact with citizens. They change organizations and establish whole new sets of rules. They include creation or radical reform of the organizations necessary to support new economic policies (such as regulatory agencies and social safety net organizations) as well as upgrading existing public agencies devastated by decades of neglect, underinvestment, and capture by special interests. The goals of institutional reform are extremely difficult to achieve and knowledge about how to introduce and sustain more effective institutions is limited. Although policymakers can build on their experiences with the first wave of macroeconomic reforms, they will need to give increasing attention to strategies for bringing about successful change.

This study seeks to assist policymakers in addressing this new set of policymaking conditions. The literature on the political economy of macroeconomic reform is used as a starting point for the investigation, but the hypotheses and focus are adapted to provide more insights for policymakers and to account for the differences between macroeconomic reform and institutional reform. The added complications inherent in institutional reforms place a premium on strategy.

First, the scope of the negotiations over institutional reform is generally more complex and involves more actors than macroeconomic reform. The “correct” policies and performance indicators are not always as well known as in macroeconomic reform. In many cases, the debate involves extensive national discussions about redefining the role of the state in the provision of services and even the relationship of economic and social agents to the state.

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<sup>11</sup> For details, see Naím (1995).

Leaders cannot carry out reforms alone or with a small group of technocrats. In addition, the government must solicit the cooperation and participation of numerous agencies and organizations involved in the provision or regulation of public services. Potential beneficiaries of reform—the users of public services, for example—are often numerous but diffuse and poorly organized.

Second, institutional reforms—particularly those of the institutions that deliver public services such as education, health, and social security—require leaders to create a broad national consensus about the direction of economic and social policies. The consequences of inertia are not as clear-cut as in macroeconomic reform. Macroeconomic reforms can often be pushed through as emergency measures to prevent an imminent economic collapse or alleviate external pressures from financial markets and international lending agencies, but it may be harder to promote institutional reform when there are no clear and dire consequences of stalling.

Third, it takes longer to demonstrate an unambiguous positive change due to institutional reform. Reform of public institutions takes time, and the results—such as improvements in the quality of education or judicial services—are not easily measurable. The scope of sectors and problems is extremely broad, ranging from education to telecommunications to the judiciary. As a consequence of such factors, reformers often face daunting problems in finding well-organized and powerful allies in the pursuit of change.

Finally, the success of institutional reforms often depends on citizens' acceptance of the process of change, which may affect their jobs or community responsibilities, and agreement to participate in it. Public sector employees charged with implementing the reforms, for example, tend to be politically powerful and highly organized and often have a strong stake in the status quo.<sup>12</sup> Encouraging not only their acceptance of change, but also their willing participation in it, requires political skill and sensitive negotiation.

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<sup>12</sup> Geddes (1995), for example, argues that institutions can become self-perpetuating as bureaucrats seek to avoid job loss. They may have been created by political leaders for their own purposes, but they then take on a life of their own. Krueger (1992) also argues that bureaucratic self-interest helps inefficient institutions survive. She describes an "identity bias"—those who will lose from reform know who they are, while those who would win do not necessarily know.

This paper presents the framework and analyzes the results of an Inter-American Development Bank Office of the Chief Economist Research Network study on the Political Economy of Institutional Reform. With the questions that motivate the research laid out, the hypotheses that frame each of the case studies will be discussed. Then the data collected over the course of the project will be presented: the 12 case studies of institutional reform in four countries. The project's design and a summary of each of the four country studies<sup>13</sup> is followed by a comparative analysis of how the information from the case studies confirms or disproves the original hypotheses. Finally, a list of advice to policymakers is presented.

## The Hypotheses

The literature on the context for reform suggests three important contextual influences on the probability of institutional reform. First, meta-institutions (the rules of the game that exist independent of the specific people in power or issues of the day) such as executive-parliamentary relations, electoral rules, or distribution of veto points in the system, may create varying environments for reform.<sup>14</sup> Second, particular economic and political circumstances might provide unique opportunities for reform. The literature suggests that a crisis or post-election honeymoon period may create an opportunity to bypass existing institutional constraints and improve peoples' perceptions of reforms by demonstrating the need for some sort of change.<sup>15</sup> Third, many argue that the formation, activities, and effectiveness of interest groups in society affect the pressures on leaders and institutions for reform.<sup>16</sup>

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<sup>13</sup> These country studies are available as Office of the Chief Economist, Inter-American Development Bank, working papers R-348, R-349, R-350, and R-351.

<sup>14</sup> Burki and Perry (1998) expand upon this theme; Chapter Two discusses the implications of political institutions for reform. Haggard and Shugart (1998) explain how different electoral rules and traditional degrees of party discipline can affect the policymaking process independent of the time period or individuals involved. On the process of reform more generally considering circumstances and the characteristics of policies, see Grindle and Thomas (1991).

<sup>15</sup> On the role of crisis in reform, see Grindle (1996).

<sup>16</sup> Perry and Burki (1998) see reform as the outcome of a supply-and-demand process: demand comes from globalization, learning, and awakened citizenry. Supply is based on social actors' ability to act collectively, the behavior of political organizations, and some aspects of the institutional structure. This is all context or circumstances.

Our hypotheses fall into three categories that roughly match the main foci—institutional structure, political and economic circumstances, and interest group activity—in the literature on the context for reform. Although the facts presented in the case studies demonstrate the importance of exogenous context such as meta-institutions and the role of political and economic circumstances, a new dimension is added to this research by concentrating on the strategies that policy entrepreneurs can utilize to increase the odds for successful reform.<sup>17</sup>

### *Institutional Structure*

Hypothesis One: Reforms will be more likely when the leaders work within existing structures and procedural norms, such as a ministry or a legislature, rather than trying to circumvent opposition groups by ignoring or subverting them. The literature suggests several reasons why this may be true in both the long and short terms. In the short term, inclusive democratic systems might allow policymakers to circumvent economically or socially dominant interests by drawing on the numerical weight of other less privileged groups.<sup>18</sup> Elected politicians with diverse constituencies have more leeway in putting together reform packages because, eventually, many dispersed individuals can outvote the best-organized special interest group. There are limits to this line of reasoning, however: many of the “advantages” that institutions can offer reformers in negotiating with a large opposition—silencing of particular interests, ease of dividing opposition, veto power, for example—may not hold up when the reform leaves the political arena and enters into the bureaucratic and general public arena. In the long term, working within legitimate institutions can increase the reform’s acceptability and sustainability. The initial process of passing the reform may be more difficult because of the prolonged negotiations involved in consensus-based decision-making, but the reform proposals will be more likely to reflect the concerns of a larger part of the population.

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<sup>17</sup> The constraints of the research project precluded addressing several other interesting hypotheses suggested by the same literature. Not examined were the role of sequencing tactics that opened decision space with highly controversial issues before proposing smaller reforms, or, conversely, starting reform slowly with enclaves; nor were the effects of the pace and depth of reforms looked at.

<sup>18</sup> Geddes (1994).

The demonstration effect of following a certain transparent, repeated procedure to make a change increases the government's credibility as well.<sup>19</sup>

### *Political and Economic Circumstances for Reform*

Hypothesis Two: Leaders can ease reforms' administrative implementation, change political perceptions, and affect reformers' ability to offer compensation to potential losers by linking reforms to other policies in the negotiating process. Past studies have shown that a government's ability to describe the reform, prevent (negative) uncertainties, and communicate its goals and the rationale behind them seems to be an important ingredient in success.<sup>20</sup> Linking or bundling reforms with a larger policy environment is an important element of this communication process. Details of the case studies are used to demonstrate that the feasibility and success of different publicity strategies vary according to the type of reform.

### *The Configuration of Interests in Society*

A leader can use several strategies to make a given configuration of interests more amenable to reform.

Hypothesis Three: Compensation for politically relevant losers can increase a reform's probability of success. The image of politics as a struggle between rent- and benefit-seeking individuals in society and power-seeking politicians is a common one in the political science literature.<sup>21</sup> But where the rational public choice literature sees policymakers as the puppets of rent-seekers, they are viewed here as actors who can take advantage of the demand for rents and use it for their own purposes, i.e., they can choose, or explicitly work, to offer clear benefits.

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<sup>19</sup> This is particularly important in the area of reforms that determine the business environment: credibility matters as much as, if not more than, lack of corruption and low transaction costs. See Borner, Brunetti, and Weder (1995).

<sup>20</sup> Tommasi and Velasco (1996), for example, mention the importance of a communication strategy to change the perception of a reform, and improve peoples' understanding or perspective on it. Frischtak and Atiyas (1996) discuss the importance of communication for effective policymaking.

<sup>21</sup> Ames, Barry (1987), for example, examines distribution of public expenditure.

Compensation is by no means limited to the distribution of rents and the main challenge in this strategy is to work within fiscal constraints to broaden the support base. One set of innovative compensation-related strategies that allow “losers” to gain direct benefits from the reforms that are disrupting their current positions is presented in hypothesis four.

Hypothesis Four: The creation of new stakeholders, or mobilization of latent interest groups, can improve a reform’s chance of success. Leaders can work to overcome the collective action problems such as large group size (more difficult for cooperative relationships), geographical dispersion, lack of information, or high cost of collective action relative to private gains—that prevent dispersed winners from forming an effective lobby.<sup>22</sup> Service users, for example, can be attracted through compensation or more opportunities for control over service provision. Providers can be attracted by compensation, by examples, or by symbolic improvements in their working environment.<sup>23</sup> Anecdotal evidence from privatization experience suggests that stakeholder approaches—those that make privatization mean something concrete and positive for a larger group of citizens—make these reforms more politically sustainable.<sup>24</sup>

Hypothesis Five: Strategies that redraw the battle lines to avoid repeating past conflicts will be more successful in overcoming opposition. The legacy of conflict can be seen as a learning experience that improves interest groups’ and politicians’ ability to strategize and engage in collective action. Redefinition of “opposition” and “reformist” teams might counteract this effect. The legacy of conflict has an additional ideological dimension; sometimes conflicts or differences are so deeply embedded that little can be done to dig them out. An element of irrationality makes reform that much harder.

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<sup>22</sup> Graham (1998) explores various mechanisms.

<sup>23</sup> Tendler (1997) describes civil service reforms in the Ceará state of Brazil. She argues that the reforms, which gave workers more decision-making leeway and increased interaction with users, improved service providers’ commitment to work and fostered a greater sense of mission.

<sup>24</sup> Case studies of privatizations are compiled in Parker, et al. (1997). A hypothesis not addressed by these studies, but one that might be interesting concerns the longer-term advantages of stakeholder-creating policies. There are several reasons to suspect that creating stakeholders has several advantages over compensating losers. Compensation or below-cost benefits are a short-term option that can help the reform get passed, but once benefits are dispensed, leave people with very little reason to continue expending the effort to support the reform. New institutional economics suggests new stakeholders can improve reform implementation and permanence. North (1995) suggests that “political institutions will be stable only if they are supported by organizations with an interest in their perpetuation.” Stakeholders can remove some administrative pressure from the state too; they can make the reform more self propelling, which is important when you have a government that may be administratively weak.



## The Research Project

The hypotheses seek to highlight the way leaders' actions interact with the institutional, economic, and political context to increase the potential for reform. This line of inquiry requires great attention, not only to policy outputs, but to decision-making, and negotiation processes. Strategies to overcome this difficulty included commissioning detailed country studies, encouraging interviews with policymakers and a step-by-step description of negotiations as well as policy outcomes. Hopefully, the case studies will spark new questions about the interaction between strategy and context, so that the hypotheses can be refined and new versions can be tested in the future.

In mid-1997, the Inter-American Development Bank solicited proposals for the study of institutional reform from the members of the Network of Latin American Research Centers. The goal was to examine a range of reforms that cut across sectors as diverse as education and tax collection, but that shared a common trait: they are critical to the long-term sustainability of market-oriented growth. The interest was in reforms that were comprehensive in nature rather than those that could be characterized as minor adjustments. There was also interest in identifying some cases of successful reform in which proposed changes were fully adopted and implemented.<sup>25</sup>

An effort was made to strike a balance among different kinds of reforms in the case study selection, based on the preliminary assumption that the political economy of these reforms could vary substantially depending on their nature and administrative complexity. Some, such as privatization, affected institutions that were primarily economic in nature, while others, such as health and education, affected social sector institutions. Other reforms, such as social security and labor reforms, were of a more intermediate nature.

Approximately 30 institutions in Latin America responded to the Inter-American Development Bank's call for proposals. Based on an assessment of the quality of these responses, diversity among countries, and balance among reform sectors, four institutions were selected to carry out research in: Argentina, Bolivia, Peru, and Uruguay.

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<sup>25</sup> However, several reforms were ongoing at the time of publication, which precluded a full evaluation of their success.

In each country, three institutional reforms were to be studied. There were four cases of social security reform (one from each country); three cases of educational reform (Bolivia, Peru, Uruguay); two cases of health reform (Peru, Uruguay); one instance of labor reform (Argentina); one privatization (Argentina); and one case of decentralization of social services (Bolivia). All of the reforms under study were implemented under democratic or semi-democratic (Peru) auspices, and all occurred in countries that had implemented or were in the process of implementing substantial macroeconomic reforms. The researchers were met with twice to discuss the framework and draft reports while the studies were in progress.

While all of the case study authors used these hypotheses as a starting point for their studies, their results differed in terms of the relevance of the hypotheses, and whether they proved to be positive or negative. Regardless, the overall evaluations of the hypotheses, coupled with a rich amount of empirical evidence provided by the case studies, allow for some comparative conclusions that may serve as a basis for further research in this as yet uncharted area of research.

## **The Country Cases**

The case studies describe the interaction of institutions, circumstance, and leaders' strategies for three reforms in each of four countries. The subject matter overlaps significantly. Each country study contains a case of pension reforms as well as a social sector reform and the contextual factors of economic crisis. Also, congressional-executive negotiation and public debate over the role of the state are nearly universal. Still, the authors' analyses vary so that each study brings new insights to the project. The Uruguay study highlights the role of electoral dynamics and political learning in an otherwise improbable reform atmosphere. The authors trace the roots of the reforms to the efforts of past administrations. The Peruvian cases emphasize the importance of communication and issue definition in implementing specific reforms during a volatile time of crisis. The authors also devote more attention to opposition strategies and point out that bundling can work to prevent reforms as well as promote them. The work on Argentina demonstrates the evolution of a leader's strategy over the course of a reform. The cases document the different phases of Carlos Menem's strategy as the political and economic circumstances changed. The Bolivia study discusses strategies for not only passing reforms, but also for implementing them in

the longer run. The authors emphasize the need to build social consensus in addition to political consensus within the government.

Together, the country studies demonstrate the importance of analyzing institutions, circumstances, and strategies at the same time, rather than isolating any one aspect to explain potential for reform. Economic crisis, for example, has long been seen as facilitating institutional reform. The failure of the educational reform in Peru, however, demonstrates that it is far from sufficient and can even confuse issues and prevent a redefinition of the state's role. The absence of economic crisis in Uruguay demonstrates that it is not necessary either and that significant reforms can take place without disrupting the existing political or economic arena. The studies also show that strategies must be tailored to a particular time and place. Menem's aggressive crisis politics were effective in the privatization of state telecommunications company ENTEL, for example, but less so in the reform of social security.

The following summaries trace each paper's key arguments and contribution to the project, at the cost of leaving out the rich detail collected by the authors.

*The Limits of Crisis Politics:  
Privatization, Social Security, and Labor Reform in Argentina*<sup>26</sup>

The path of the reforms examined in the Argentine study demonstrates the strong reform-enabling influence of economic crisis as well as the need for adapting strategies to context. The authors examine the circumstances in which the Menem government, elected and sustained by the traditionally statist Peronist coalition, enacted the successful privatization of ENTEL, reached a compromise solution for reforming the social security system, and attempted a labor reform. They argue that severe economic crisis and hyperinflation weakened traditional economic powers and opened up decision-making space for free-market reforms. Menem's strong political credentials and strategy choices also contributed to the reforms' successes.

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<sup>26</sup> Based on country study, "La economía política de las reformas institucionales en Argentina. Los casos de la política de privatización de ENTEL, la reforma de la seguridad social, y la reforma laboral" by Juan Carlos Torre and Pablo Gerchunoff of the Instituto Torcuato di Tella, Argentina. Available as Office of the Chief Economist, Inter-American Development Bank Working Paper R-349.

The three cases describe the evolution of the reform environment. The visible economic crisis of the first few years of the Menem administration helped the government convince people to bear the short-term costs of necessary reforms. The need for fast action increased the pressure for coalition building. Menem's assumption of power was helped by an accord between the Partido Justicialista (Peronists) and the Partido Radical that had been formed to make the arrangements for the Alfonsín-Menem power transfer. He then used his strong party credentials to maintain support among Peronists and popular sectors while reaching out to private sector elites. The crisis atmosphere also allowed a concentration of power in the executive. The 1989 Law for State Reform (*Ley de Reforma del Estado*), for example, changed the balance of power between the three branches of government. The legislature gave the president the authority to increase the Supreme Court from five to nine people and ceded power for privatization to the president. As the economic crisis faded into the past, however, Menem was forced to negotiate more with Congress to implement the 1991–93 reform of the social security system. The relative stabilization of the economy helped the government's credibility, but also precluded more laws from being passed in the crisis mode. The 1991–95 attempts at labor reform demonstrated the limits to crisis politics. Menem was unable to overcome the obstacles presented by key segments of his original popular-sector support base.

The initial institutionalized concentration of power in Menem's hands set the stage for the president to offer a quick, convincing demonstration of his commitment to market reform by privatizing the state telecommunications company ENTEL.<sup>27</sup> Armed with the powers ceded by the Law for State Reform, the president concentrated on attracting investors and minimizing public unrest. He attracted support from the disgruntled public by successfully establishing the sale of the company as a means of addressing the crisis as well as improving phone service. He chose reform leaders to please all sides of his coalition: María Julia Alsogaray was from a center-right party and a family known for its support of neoliberal policies, while Julio Guillén was the general secretary of the telephone workers' union.<sup>28</sup>

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<sup>27</sup> Nevertheless, the speed of the reform detracted from its promotion of competition in the economy. The short timetable meant that important questions such as the shape of the telephone market were brushed over, and anti-competitive concessions such as monopolies were given to investors. The authors report that subsequent reforms were better planned.

<sup>28</sup> Guillén's tenure on the reform commission was short-lived. He eventually denounced the reforms when his demands for better salaries and no firings were not met.

Menem placated opposition groups such as contractors with selected concessions guaranteeing future jobs and worked to weed out radical telephone workers while co-opting the rest with shares in the privatized company. In the face of the crisis and the president's strategy, the same Congress that had blocked former President Raul Alfonsín's efforts to privatize ENTEL agreed to Menem's project and the subsequent privatization, though slower, was relatively uncontroversial.

Social security reform proceeded more slowly and involved more compromises as the crisis faded and reform efforts moved outside of the realm of the privatization powers Congress had ceded to the executive under the Law for State Reform. Nevertheless, Finance Minister Cavallo's technical and political capabilities and the remaining power of presidential decrees eventually enabled the Menem government to replace the fiscally burdensome state social security system with a two-pillar program that included individual accounts. Cavallo's success in stabilizing the economy with his March 1991 convertibility plan increased public confidence in his technocratic team's ability to solve economic problems and allowed the latitude for a major reform proposal. The Finance Minister's strategy of creating the technical plan in private and informally sounding out interest groups to identify conflict points did not, however, prevent congressional disputes. Unions, which disliked the emphasis on strengthening the private financial sector, and retirees, who feared for their benefits, were better represented in Congress than the businesses and financial sectors that stood to gain from the reform. Young workers, a potential support group that would actually benefit from the new system of capitalization, were often loyal to their union's point of view. Menem's strategy of linking the reforms to the visible problem of retirees who were not getting pension checks and his attempts to ease the costs of transition by using money from the privatization of YPF (Yacimientos Petrolíferos Fiscales) were only partially effective for passing his reform proposal. He was forced to consider alternative plans and make several key concessions in order to ensure that the bill would be passed and the ultimate goal of individual accounts accomplished in time to uphold agreements made with the IMF.<sup>29</sup>

The unsuccessful labor reform demonstrated the limits of Menem's ability to portray policies as necessary responses to economic crises. Institutions and circumstances created obstacles, and previously successful

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<sup>29</sup> In the end, however, Menem used presidential decrees to erase some of Congress's input.

strategies—such as connecting labor reform to crisis reduction or bundling it with other policies—did not work. The reformers’ attempts to reduce rigidities in the labor code confronted politically relevant members of Menem’s original Peronist support base (including key officials in both the executive and legislative branches) and did not offer a potential set of “winners” to replace them. The fact that the labor code was enshrined in law protected it from presidential decree and required Menem to work with a Congress in which the senate and lower chamber committees for labor legislation were controlled by the anti-reform faction of his party. The executive branch addressed this institutional environment with a number of strategies: unilateral confrontation at first; then deliberation and consensus between unions, business associations, and the government in 1994; a return to crisis politics in 1995; and, most recently, gradualist reforms. Progress was slow. Linkage between labor reform and reform of the system of union financing facilitated the part of the reform related to individual-employer relations, but it did not help reform of collective labor relations. Menem’s efforts to link labor deregulation with reduction of unemployment and recreate a crisis atmosphere in the aftermath of the “tequila effect” did not convince workers. The president’s newly aggressive tactics provoked several general strikes in 1996. Congress passed legislation to ease labor regulation for small and medium-size enterprises in 1998, but, as of June 1998, this had not been implemented.

*Beyond Politicians:  
Creating Stakeholders for Lasting Reform in Bolivia*<sup>30</sup>

The authors of this case study argue that although Bolivia’s hybrid presidential-parliamentary system provides the executive with wide decision-making powers to design and implement policies, the particular configuration of interests and party discipline in the legislature were key factors in

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<sup>30</sup> Based on background paper “La economía política de reformas institucionales en Bolivia” by George Gray-Molina, Ernesto Pérez de Rada, and Ernesto Yáñez of Fundación Diálogo, Bolivia. Available as Office of the Chief Economist, Inter-American Development Bank Working Paper R-350.

passing the Popular Participation Law, education decentralization and curricular reform, and pension reform under President Gonzales Sánchez de Lozada. Reformers, attention to building social consensus and their leadership were important inputs for the successful implementation of the Popular Participation Law and pension reforms. Bolivia's party system, based on many highly disciplined small parties, generally encourages the formation of multi-issue coalitions, but it was the particular configuration of interests after the June 1993 elections that gave the Sánchez de Lozada administration the political room to implement some of the technical proposals that had been attempted during the previous Paz Zamora administration.<sup>31</sup> The president's party, Movimiento Nacionalista Revolucionario (MNR), allied with Movimiento Revolucionario Tupac Katari (MRTK) won 34 percent of the vote in the general elections of June 1993. This relative majority was strengthened by alliances with the Unión Cívica de Solidaridad (UCS) and the Libre Movimiento Bolivia (MBL) parties. The two pacts—the Pact of Governability (Pacto por la Gobernabilidad) agreed on by MNR and MRTK and the Pact for Change (Pacto por el Cambio) produced by the MNR, MRTK, and MBL—gave the incoming Sánchez de Lozada government an absolute majority in both houses of Congress.

The Popular Participation Law sought to transfer political, fiscal, and administrative responsibilities and resources to the local level as well as encourage community participation in development planning. Bolivia's recent economic and political transition (a 1982 transition to democracy and a free market regime from 1985) and lack of entrenched corporatist links between state and society provided the institutional space for such a reform. The strength of party coalitions in the honeymoon period provided the decision-making space for implementing the technical proposals that had been developed over the 1990–93 period with help from the World Bank and the Swiss Development Agency (Cooperación Suiza). The president selected a narrow technical team that included a few key party officials to work closely with him from August 1993 to February 1994 to draft decentralization proposals. Party discipline simplified the negotiating process, but lawmakers were also careful to build a broader social consensus to ensure implementation of the reform. The Popular Participation Law was designed to create new

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<sup>31</sup> Congresspeople were elected via party list until 1997, a system that gives politicians more of an incentive to adhere to party strategy than to particular interests. Political advancement comes by being a good party member rather than by delivering special benefits to a small group of constituents.

stakeholders as it established and funded new rural councils, territorial organizations that gained legal status, and new rights for local participation after the reforms. A second Law of Administrative Decentralization (Ley de Descentralización Administrativa) placated some of the existing subnational interest groups by assuring a role for departmental civic committees in the new decentralized structure. Strong initial opposition from the pre-existing regional civic committees and from radical peasant unions changed to support after the 1995 elections brought many independent, indigenous peasants to local power. The authors argue that the continuing success of the new decentralized institutional environment stems from its ability to continually generate new stakeholders through redistribution between and within municipalities.

Plans for restructuring the educational administration system and curriculum reform developed along similar lines, but the social consensus for successful implementation has been more difficult to build. The movement for educational reform began in the 1990s when President Paz Zamora appointed a technical team within the Ministry of Planning and Coordination to propose solutions. Disagreement among cabinet ministers and fears of teachers' union opposition prevented the reforms from coming through the political process, but the technical team's work formed the basis of the education proposal Sanchez Lozada included as one of the three pillars in his Plan for All (Plan de Todos). In the context of Bolivia's strong party discipline and list-based elections, this bundling of educational reform into a larger strategy helped prevent protests from teachers, the main opposition group, from turning into parliamentary votes against the reform. The law was passed by a majority in 1994. Continuing opposition from teachers' unions has made the law difficult to implement, however, particularly as political attention shifted to the Popular Participation Law and the capitalization of public enterprises. The reform law, which did not include a clear mechanism for creating new stakeholders, did not have the built-in momentum that a new group of supporters can provide. The central government tried to attract general support from the local governments by working with them to invest in infrastructure and equipment, but this support for added educational investment did spill over to the administration and curriculum reform. More recently, the Ministry of Education made gradual progress in reforming teacher promotion and pay scales, but teachers' unions continued to block accreditation of private universities. Merit pay for the teachers helped to overcome some opposition.

Pension reform under Sánchez de Lozada was also based on technical reform plans that had been proposed and blocked under the Paz Zamora



administration. The two-part reform, which planned a shift to individual accounts and private sector involvement in the administration of existing pension accounts, became part of Sánchez de Lozada's "Plan for All." Bundling of the reforms in the Plan as well as in the institution created to oversee the reform was useful in establishing a link between individual capitalization and the more controversial transfer of account administration to the private sector. The sequencing of the two linked reforms, however, created a division within the government between those who saw fund administration as a priority and those who wanted capitalization to be the first reform. Although party discipline and the existing coalitions eased the legislative conflict between economic and social priorities, the party system could not address this institutional division. The president's team, forced to be more of a negotiator with outside opposition groups such as the retirees and unions, displayed its negotiating ability with a publicity campaign, various forums, and efforts to include parts of all opposition groups' suggestions. Winners in the reform—mainly the financial sector—were better organized and connected than losers, but the reform team was still careful to lay a basis for greater consensus with the creation of the Bonosol, a fixed pension for all citizens over 65. Incoming President Hugo Banzer Suárez suspended the universal payments but later reinstated them in the form of a fixed pension for all those over 50 as of December 31, 1995, and tradable shares in the Pension Fund Administrators (Administradoras de Fondos de Pensiones, AFP) for those between 21 and 50 as of the end of 1995. The payments will not begin until 2000, but the new arrangement generated support among younger workers who could use the shares as collateral for micro-credit or housing loans.

*National Debates, Local Demonstrations, and Institutional Reforms in Peru*<sup>32</sup>

The Peruvian reform cases demonstrate that reformers need to take advantage of the opportunities afforded by economic and political disruption while avoiding the obstacles created by citizens' uncertainty and insecurity.

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<sup>32</sup> Based on case study "La economía política de las reformas institucionales en el Perú: los casos de educación, salud, y pensiones" by Gabriel Ortiz de Zevallos, Hugo Eyzaguirre, Rosa María Palacios, and Pierina Pollarolo of Instituto APOYO, Peru. Available as Office of the Chief Economist, Inter-American Development Bank Working Paper R-348.

The authors show that the economic and political crises of the early 1990s and strong concentration of power in the executive after the *autogolpe* (self-coup) and closure of Congress in 1993 opened up decision-making space for executive-led reforms, but were not necessarily ideal conditions for social sector changes.<sup>33</sup> The relative success of the education, health, and social security reforms studied seemed to hinge on the communication skills and persistence of the individuals who promoted the reforms within the government as well as to the citizens.

The reforms took place in a highly volatile economic and political environment. The economic crisis of the late 1980s and early 1990s was the worst in the country's history, terrorist violence was rising, and social spending falling. From 1990 to 1992, the political system was becoming increasingly chaotic as parties disintegrated in the wave of recriminations for the crisis and independent candidates without overall group allegiances won powerful posts, including the presidency. In the education and pension reforms proposed during this period, President Alberto Fujimori struggled with a fractious Congress in which he had almost no party support. In April 1992, Fujimori destroyed the remains of this institutional structure when he closed Congress and ruled by decree for several months before holding elections for a new constituent Congress (CCD) to rewrite the constitution. Although municipal-level offices remained mostly opposition- or independent-controlled, the president's party (*Cambio 90*) gained a majority of seats in the CCD. Health sector and pension reforms were more successful during this period of increased presidential control.

Fujimori's attempt to decentralize educational management to community groups and introduce a voucher system failed when it became entangled in the larger political controversies and general uncertainty of the 1990s. The initial educational reform proposed in Legislative Decree 699 of November 1991 failed when the crisis atmosphere did not open up decision-making space for that particular kind of institutional reform. The president's attempts to unilaterally decree education decentralization using the powers given to him for promoting investment and employment failed in Congress. The reform leaders' closed planning strategies during the 1993 post-coup reform attempt allowed opposition groups to play on citizens'

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<sup>33</sup>The *autogolpe*, or self-coup, took place when Fujimori declared a state of emergency and assumed all legislative powers for several months.

uncertainties and link the educational reform to controversial political issues. Publicity by the major opposition groups—the teachers' union (SUTEP), the Church, and Foro Educativo—filled the vacuum and reinforced peoples' fears that the educational reform meant privatization and budget cuts or an end to free education. Opposition groups were also able to use the fact that the reform required a small constitutional change to link the education debate to the larger controversy about constitutional changes to allow for Fujimori's reelection. Finally, the reformers' ambiguity about the extent and form of decentralization of authority added to citizens' mistrust of the reforms and handicapped efforts to attract new stakeholders at the local level. The government abandoned the decentralization efforts in favor of a highly visible, support-gathering strategy of building schools at the end of 1993.

The 1993 plan to decentralize health care to local communities faced the same set of opportunities and potential pitfalls as the education decentralization. Although the reform impetus came from the Ministry of Health rather than the president, the executive-branch reform leaders had the same institutional latitude to avoid long negotiations with congress. As in education, the health care reform's emphasis on decentralization could create strong new stakeholders or alienate citizens who were wary of privatization and reduction of spending. The development of the plan also paralleled the failed educational reform in many ways: low-profile planning within the executive branch, negative associations with privatization, and opposition from groups that worried about the end of free health care. Nevertheless, Minister of Health Jaime Freundt and his team were careful to present the program as one of "participation" rather than "privatization" and developed numerous pilot projects to convince potential stakeholders to support reforms. The high local profile gave communities a sense of the power they could have as managers of health clinics and doctors caught a glimpse of the higher salaries that a reformed health care system could offer. Lack of local capacity and opposition from some doctors as well as mid-level workers within the Ministry of Health slowed the reform's implementation, but the new local stakeholders maintained the momentum of decentralization.

Pension reform differs from the two social sector reforms in that it was more directly linked to the economic crisis policies and potential winners—the financial sector—were politically stronger and better organized. The clear link between successful adjustment and alleviation of the fiscal pressures caused by the collapsing pension system formed the basis of a high-profile publicity campaign that helped reform leaders convince opposition groups as well as reluctant government officials (including the president)

that the reforms were necessary and urgent. The first stage of the reform began in 1991 when Minister of Finance Carlos Boloña and Minister of Energy and Mines Jaime Yoshiyama adopted legislator Mario Roggero's failed proposal to change the national pensions system (SNP) to a Chilean-style privately managed system of individual accounts. The three pushed for presidential action and mounted a press campaign to convince the public that reform meant efficiency and ownership of contributions rather than privatization or loss of benefits. Although the approach consolidated general support from new stakeholders in the financial sector and attracted public sympathy, the initial 1993 reform bill—Decree Law 724—was too vague to gain solid backing. The financial sector and the Finance Ministry resumed pressure for pension reform after the 1993 coup with a new press campaign to explain the benefits of the individual accounts. The publicity successfully associated the individualization of pension benefits with a popular past reform to individualize compensation and counteracted fears about privatization. Most new workers opted for the new private system and support from these new stakeholders in the financial sector and labor market sustained the reform.

*Learning from Experience: Health, Education, and Social Security Reforms in Uruguay*<sup>34</sup>

At first glance, the background for reform in Uruguay did not seem auspicious. The country was not in economic crisis, social spending was increasing, citizens consistently voted for continued state provision of services, and the political system's low party loyalties, abundant veto points, and relatively even distribution of power between the executive and other branches of government seemed destined for slow negotiation. From 1985 to 1994, four social security reform bills, and one health care reform had been attempted and defeated and a plebiscite had suppressed the most important aspects of a privatization bill.

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<sup>34</sup> Based on case study "Political Environments, Sector-Specific Configurations, and Strategic Devices: Understanding Institutional Reform in Uruguay" by Fernando Filgueira, Juan Andrés Moraes, Carlos Filgueira, José Fernandez, and Constanza Moreira. Available as Office of the Chief Economist, Inter-American Development Bank Working Paper R-351.

Nevertheless, the Sanguinetti administration had unprecedented success in institutional reform: education sector reforms were ongoing, the pension system moved far toward individual capitalization, and health sector reform, although much slower, succeeded in implementing some cost-cutting measures. The authors provide three reasons for the relative success of the 1995 to 1998 reform period: new pressures for coalition building, timing of reforms with respect to the electoral cycle, and the accumulation of technical and political knowledge gained from previous reform attempts. Although past coalition building had been based on single issues, the results of the 1994 election—in which the fraction of Congress associated with the party in government slipped to 24 percent (not even enough to hold an executive veto)—led parties to consider broader agreements. This new spirit of cooperation contributed to successful educational and pension system reforms during the post-election honeymoon period.

Social security reform shifted parts of the state monopoly, pay-as-you-go social security system to private managers and individual accounts. The need for reform was not new: the system had been on the brink of collapse for several years as demographic shifts, poor management, and a 1989 plebiscite that required constantly rising pensions increased fiscal pressures. The political environment, however, was new. The combination of the new coalition-building spirit and accumulation of technical and political expertise from unsuccessful past reform movements set the stage for the successful passage of the 1995 reform bill. The social security reform, led by the Colorado party, became a key part of the inter-party negotiations and rode the momentum of the coalition process. In addition to learning more about technically viable solutions, the reformers had also learned to work around powerful opposition groups. High-profile publicity about the reform told pensioners that their benefits would not be reduced and assured citizens that the state would not fully withdraw from pension administration. Planners did not confront powerful parastatals by addressing unemployment benefits, family allowances, and noncontributory pensions. Clever use of institutional resources—including a constitutional provision that gave the executive legal monopoly on social security matters—and cultivation of the private fund administrators as new stakeholders sustained the reform.

Curriculum and administrative reform in the educational sector was easy to pass, but more difficult to launch and sustain. General public recognition of the need for reform, linkage to the coalition-building process, strong leadership by Germán Rama, and avoidance of controversial reform issues contributed to the reform's initial success. Rama, the former director of the Economic Commission for Latin America and the Caribbean (CEPAL)

Table 1 Comparative Characteristics of the Reform Efforts

| Country/<br>Reform                                | Success          | Institutions<br>President<br>has special<br>powers? | Timing in<br>Executive<br>Electoral<br>Cycle | Econ.<br>Crisis? | Context<br>Majority in<br>Congress? | Legacy of<br>Conflict/<br>Previous<br>Attempts? | Bundling<br>(reformers<br>or<br>opposition)? | New<br>Stake-<br>holders?        | Technocrat<br>team?            | Strategy<br>High/<br>Low/<br>Profile? | President's<br>support? | Visible<br>leader?                 |
|---------------------------------------------------|------------------|-----------------------------------------------------|----------------------------------------------|------------------|-------------------------------------|-------------------------------------------------|----------------------------------------------|----------------------------------|--------------------------------|---------------------------------------|-------------------------|------------------------------------|
| <b>Bolivia</b><br>Popular<br>Participation<br>Law | Yes              | No                                                  | Soon after<br>election                       | No               | Coalition                           | Some pressure<br>to decentralize                | Yes,<br>reformers                            | Yes                              | Yes                            | High                                  | Yes                     | Yes                                |
| Education                                         | Slow,<br>Ongoing | No                                                  | Soon after<br>election                       | No               | Coalition                           | Teachers vs.<br>government                      | Yes,<br>reformers                            | Late                             | Yes                            | High                                  | Yes                     | Not during<br>implemen-<br>tation. |
| Social Security                                   | Yes              | No                                                  | Soon after<br>election                       | No               | Coalition                           | Yes                                             | Yes,<br>reformers                            | Yes                              | Yes                            | High                                  | Yes                     | No                                 |
| <b>Uruguay</b><br>Social Security                 | Ongoing          | No                                                  | Soon after<br>election                       | No               | Coalition                           | Yes                                             | Yes,<br>opposition                           | Yes                              | Yes                            | High                                  | Yes                     |                                    |
| Education                                         | Slow             | No                                                  | Soon after<br>election                       | No               | Coalition                           | Yes                                             | Yes                                          | Yes                              | Yes                            | High                                  |                         | No                                 |
| Health                                            | No               | No                                                  | Soon after<br>election                       | No               | Coalition                           | No                                              | No (a)                                       | No                               | Yes                            | Low                                   |                         | No                                 |
| <b>Peru</b><br>Education                          | No (b)           | Yes (c)                                             | Mid-cycle                                    | Yes              | No                                  | No                                              | Yes,<br>opposition                           | Yes                              | Yes                            | Medium                                | Early                   | No                                 |
| Health                                            | Yes              | No                                                  | Mid-cycle                                    | Yes              | Yes                                 | No                                              | No                                           | Yes                              | Yes                            | Low (d)                               | Weak                    | Yes                                |
| Social Security                                   | Yes              | Yes                                                 | Soon after<br>election                       | Yes              | Yes                                 | No                                              | Yes,<br>reformers                            | Yes                              | Yes                            | High                                  | Weak                    | Yes                                |
| <b>Argentina</b><br>Privatization                 | Yes              | Yes                                                 | Soon after<br>election                       | Yes              | Yes                                 | Yes                                             | Yes,<br>reformers                            | Yes                              | Yes                            | Medium                                | Yes                     | Yes                                |
| Social Security                                   | Yes              | No                                                  | Mid-cycle                                    | Fading           | Yes                                 | No                                              | Yes,<br>reformers                            | No                               | Yes                            | High                                  | Yes                     | Yes                                |
| Labor Market                                      | No,<br>ongoing   | No                                                  | Start mid-<br>cycle                          | No               | Yes                                 | Yes                                             | Yes,<br>reformers                            | No                               | negotiation<br>with<br>workers | Low                                   | Yes                     | No                                 |
| No, ongoing                                       | No               | Start mid-<br>cycle                                 | No                                           | Yes (e)          | Yes                                 | Yes, reformers                                  | No                                           | Negotia-<br>tion with<br>workers | Low                            | Yes                                   | No                      |                                    |

(a) Health care and educational reforms in Uruguay were both bundled with a budget bill to ease passage through Congress, but only educational reform was linked to the broader policy environment during debates.

(b) Fujimori used powers ceded to him for "promotion of investment and employment" to pass D.L. 699, but this initial educational reform law was repealed. The second educational reform law was passed before the new Congress came to power in January 1993.

(c) Political cycles in Peru were unusual in that the subnational election of 1993 was taken as a sort of referendum on the president, and the Congress was closed and a new one elected in 1992.

(d) The health care reform had a low national profile, but its many pilot projects gave it a (favorable) high local profile.

(e) The Tequila crisis of 1995 may have opened some political space for labor reform, but the majority of the reform effort came in non-crisis times.

in Uruguay, was an ideal figurehead for the reform movement. He was well respected, well connected to different parties, and associated with many of the technical studies that identified problems in the education system but did not provoke controversy by proposing solutions. From his position within the Ministry of Education as president of the educational reform council (CODICEN), Rama sought the Colorado-Blanco coalition's support for his proposal to change the curriculum, redistribute resources, and increase state spending. Throughout the negotiations, he avoided more controversial reforms such as vouchers, privatization, decentralization, or cost-cutting. He then submitted it to Congress as part of a larger budget bill, a bundling technique that allowed for trading favors for more votes and ensured quick passage of the legislation. Implementation, however, has been more difficult. Rama's work with the education administration helped him to identify key opposition groups while planning the reform, but did not help placate striking teachers who were expecting (but did not receive) salary increases. The creation of internationally funded discretionary technical bodies to suggest changes and run pilot projects demonstrated the benefits of reform to groups of parents and students and won over some teachers, but the new program has not been integrated in the rest of the Ministry of Education's program.

Although parts of the health reform of 1995 were implemented as administrative measures, the bill itself failed. Clear losers, diffuse winners, and strategy mistakes contributed to the congressional stalemate that blocked rationalization of the state health insurance administration. The reform proposal directly confronted the powerful, well-organized medical establishment (the medical professionals' union, FEMI), while potential winners—health care consumers—were more diffuse. Minister of Health Solari's choice to engage in low-profile negotiation with the medical unions and mutual aid societies did not alter this issue-specific balance of power by taking advantage of the cooperative momentum of the larger political environment. It did little to crystallize the general public dissatisfaction with the declining quality of health care into a new support group. Solari borrowed part of Rama's successful strategy in introducing the health care legislation as part of a budget bill, but the move failed when the controversial legislation was dropped from a budget bill that had to be passed quickly. Subsequent health-care reforms, including efforts to cut public hospital expenses, improve hospital management, and better target benefits, avoided confrontation with FEMI.<sup>35</sup>

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<sup>35</sup> Hospital director Javier Bonilla's June 1998 dismissal, which came after efforts to transfer more responsibility to the private sector, provides one example of the continuing power of the medical unions and the contractors associated with public hospitals.

## Comparative Conclusions

### *Context: Circumstances Matter*

The case studies support many of the predictions in the political economy literature and demonstrate that context clearly matters. The timing of reform and the strength of the government's coalition were among the most important factors contributing to the success or failure of almost all of the reforms. The reforms that were presented early on in governments' mandates (so-called honeymoon periods), particularly when governments had strong political momentum related to post-crisis stabilization, had a particular advantage.<sup>36</sup> In Argentina, for example, the telecommunications privatization was implemented very early in the process, and therefore faced far fewer political obstacles than did Argentine labor and social security reforms, which were implemented in mid-cycle. As the post-campaign momentum wore off, Menem and his coalition were less united and more vulnerable to pressure from the opposition. In Peru, the groundwork for social security reform was established at the height of Fujimori's initial political honeymoon and reform momentum. Educational reform, on the other hand, fell prey to the partisan political debate surrounding the 1993 referendum on Fujimori's re-election.

Governments with a majority coalition were clearly the strongest players in most political contexts. The need to rely on opposition legislatures placed considerable constraints on policymakers who operated within the standard institutional structure. The negotiations over educational reform in Peru, for example, demonstrate the difficulties associated with an unsupportive congress. President Fujimori's interaction with Congress became much smoother after the 1993 elections brought a Cambio 90 majority into the legislature. The Uruguay study's historical background also highlights the advantages a majority coalition can offer; the Sanguinetti government succeeded in reform efforts where previous administrations

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<sup>36</sup> One of the few econometric analyses that has been conducted of the timing of reforms provides support for this hypotheses about early reform implementation. Lora (1997) finds that there is a high probability that reforms will occur in the second year of government.



had failed. These constraints were slightly weaker for reforms that were linked to crises and proposed as an exercise of a president's "emergency mandate," but legislative support was still important in the long run. The Peruvian legislature repealed Fujimori's unilateral educational reform decree of 1991 (Legislative Decree 699) and contested his use of the emergency mandate.

The studies also suggest the importance of another contextual factor: external resources. While external support alone does not drive or explain successful reform implementation, it clearly can facilitate the adoption and implementation of reforms at critical times. In Uruguay, for example, external resources in the form of a World Bank loan were essential to the government's ability to compensate vocal losers (retirees) when the social security reform was initially introduced, buying time for the new stakeholders in the reform to establish themselves. In Bolivia, external technical assistance and financial support facilitated the creation of an autonomous reform team in the Finance Ministry that was able to carry out the privatization and social security reforms. Nevertheless, neither reform would have been possible without strong executive and reform team commitment. In contrast, in Peru, while substantial external support and resources were behind the educational reform efforts, the lack of a coherent in-country team and the president's own lack of commitment made successful reform implementation impossible.

### *Importance of Leadership: Executive and Reform Teams*

Executive leaders and their reform teams played crucial roles in guiding institutional reforms through these contexts. The executive leader's understanding of the institutional infrastructure of their countries, as well as the ability to manage legislative relationships, adjust the power of organized interests and consider the strengths and weaknesses of implementing ministries and agencies were crucial to the reforms' success. Our cases do not provide insight into the extent to which choices about packaging and introducing the reforms, and reform teams were produced through a self-conscious planning process or whether they were the result of good intuition, but they do suggest that strategic choices are critically important contributions.

The degree of executive commitment also appears to affect the probability of reform. Presidents signal to politically relevant groups and interests what issues are important and what is likely to be a high priority for an

administration. They significantly affect the timing of change initiatives as they select issues for the public agenda or ignore them. In Bolivia, one president was concerned about educational reform but uninterested in decentralization and social security reform. A subsequent president was concerned about all three initiatives and was significantly involved in designing the details of decentralization and pension reforms. In the case of Peru, President Fujimori was much more committed to macroeconomic reforms than to institutional changes, and demonstrated a distinct willingness to either water down (social security) or withdraw (educational) reforms if they proved to be political liabilities.

Executive leaders were also the architects of successful reform teams, such as those in the case of privatization in Argentina, social security in Uruguay and Bolivia, and popular participation in Bolivia. The teams' technical competence and ideological coherence were necessary for reforms to survive both political opposition and administrative obstacles to implementation. This stands in sharp contrast to the failed attempts to reform health sector institutions in Uruguay, education institutions in Peru, and the labor code in Argentina. In the former cases, the reform teams worked as a unit and helped design political and administrative strategies for introducing reforms that contributed to the ease of implementation. In the latter cases, in contrast, the teams were unable to agree on either the content of the reforms or on the best way to pursue their implementation.

### *Working Within Institutions*

The only way to effectively work "outside" institutions to plan and pass reforms seemed to be to dismantle the institutions; leaders who tried to work parallel to existing institutions usually did not succeed. In the implementation phase, however, the strategy of creating new institutions that paralleled existing ones was more successful.

There seemed to be two varieties of extra-institutional strategies: high profile changes in a country's political institutions, and low-profile politics working around existing institutions. Fujimori's closure of Congress is an example of the first; the president closed Congress and, in the time before the election of a new constituent assembly, successfully passed a social security decree-law. The more common low-profile strategies to circumvent the usual policy procedures had mixed success; they seemed to succeed in reforms that created new institutions, but not in those that at-

tempted to restructure existing institutions. Bolivia's popular participation reform, which involved the creation of entirely new institutions, could be implemented through less traditional channels. Argentine President Menem's attempt to use presidential decrees as well as prizes (such as cabinet appointments) and punishments (such as withdrawal of legal recognition) to co-opt parts of the labor movement and begin reforming the labor code was not so successful. The legal code governing labor could not be transformed without going through the law-making process.

Leaders who tried to expand their powers unilaterally ran the risk of having their reform proposals tangled in procedural questions. Emergency powers ceded by Congress to the president were one example: when used within the boundaries established by the legislature, these "fast track" policy tools helped reforms pass quickly, but when presidents tried to use these emergency powers for other matters, opposition increased. The team that planned pension reform in Peru saw Fujimori's emergency powers as a rare opportunity to pass an initial restructuring proposal. The social security proposal was implemented, but the Peruvian Congress opposed Fujimori's efforts to use his emergency powers for "promoting investment and employment" to pass educational reform law D.L. 699, and the reform laws were eventually annulled. The authority Menem gained under the Law for State Reform helped him privatize ENTEL rapidly, but the Argentine Congress protested when the president tried to use emergency powers to pass social security.

Reform teams seeking an implementing agency with sufficient competence and autonomy to move the reform forward regardless of day-to-day administrative or political setbacks often faced a choice of working with incompetent institutions or creating new ones. Most of the social sector reformers chose to create new institutions, a strategy that was successful in the short term but involved long-term tradeoffs.<sup>37</sup> Reformers in Peru, for example, developed plans outside the Ministry of Education and implemented the reforms through pilot projects that did not follow the Ministry's procedures. The strategy was usually successful in the short run, but in the long

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<sup>37</sup> This trade-off between short-term efficacy and long-term impact was also an issue in the social investment funds that were created in many Latin American and African countries in the early 1990s. The funds, which were new institutions designed to rapidly channel international donor funds into small projects, were usually very effective at first. As the "emergency" has receded, however, reformers must now turn to the difficult question of how to integrate these autonomous institutions into social sector ministries with parallel tasks.

run there were some problems merging the reform programs with the regular institutions to improve nationwide service delivery performance. Rama's educational reforms in Uruguay gathered support for educational reform and tested new curriculum designs, but the lessons learned were not initially incorporated into the national educational system. Nevertheless, the education pilot programs demonstrated the benefits of the new administrative structure.

### *The Role of Bundling*

Bundling proved to be a two-edged sword: it was a powerful instrument for both reformers and the opposition. The case studies demonstrated that it was one of the more difficult strategies to implement and that it required a well-planned communications campaign. The bundling of reforms with other policy measures, or with compensation packages related to other measures, was a positive force in favor of reform in most cases. The strategy contributed to privatization in Argentina, where the reform was clearly packaged along with the initial macroeconomic stabilization measures. It also helped social security reform pass in Bolivia, where compensation in the form of annual bonds for the elderly was made possible by the earlier capitalization (privatization) program. Social security reform in Peru may have been facilitated by linkage to the broader stabilization package.

Nevertheless, bundling could be negative if reforms were perceived as linked to unpopular programs or to a negative turn of political events. Here the case of educational reform in Peru is the most demonstrative. The opposition successfully linked the educational reform to the more general mistrust of privatization as well as to Fujimori's bid to change the constitution to allow for both his re-election and for capital punishment. The team within the Ministry of Health appeared to have learned from the educational reform experience and avoided entanglement in the larger political atmosphere by pushing health care reform through as a little-noticed pilot program.

### *Compensation*

Compensation for "losers" generally helped reforms pass, but leaders' use of this strategy was often constrained by fiscal realities. The Uruguayan social security reform team was able to reduce opposition from retirees by guaranteeing existing benefits (with the help of a World Bank loan), but they were unable to do the same in health care reform because resources were too

limited and the population to be compensated too large.

Compensation schemes that offered losers an ongoing stream of rewards, rather than a one-shot gain, were effective in creating long-term support for reforms. The Bolivian government's Law of Administrative Decentralization, for example, gained support for the Popular Participation Law by ensuring an ongoing role for the pre-existing provincial officials who were bypassed by the new decentralized institutions.

### *Stakeholders Are Key*

The balance between the organizational capacity and political relevance of losers in a particular reform and that of new stakeholders created by reform was often key in determining the political viability of institutional reforms. The capacity of new stakeholders to organize and express their interests was important to the long-term sustainability of reforms. New stakeholders could change the balance of political power in favor of reform. However, when and how such interests would be organized was rarely clear at the outset of reform implementation and governments' ability to create opportunities for new stakeholders was often determined by the political weight of organized losers and the resources available to buy them off. This is an example of where stakeholder-creation might be helpful in constrained-compensation circumstances.

Stakeholders often play an important role in the long-term success of reforms. The Peruvian, Bolivian, and Uruguayan governments, for example, had enough resources to buy time in the short run but it is unclear what the fate of the reforms would have been if new stakeholders (private pension funds) had not developed as a longer-term source of political support. Central level opposition to health reform in Peru and decentralization of social services in Bolivia was strong, but not strong enough to outweigh the numerous local level actors that quickly gained a stake in the reforms. Vocal opposition to labor reform in Argentina as well as educational reform in Peru and Bolivia, on the other hand, had a strong political presence while potential new stakeholders (the private sector in Argentina, parents of school children in Peru and Bolivia) either did not perceive their potential stakes in the reform or were not organized enough politically to outweigh the initial opposition to reform implementation. In the latter cases, it was difficult for reform promoters to calculate the potential political response of new voices amidst the clamor of those who were already mobilized and who opposed reform.

### *Avoiding Old Battle Lines*

The interaction between the positive political momentum of reforms and the legacy of past conflict was also important to determining the outcome, particularly in the case of more complex reforms. Simple reforms that were tied to initial stabilization measures, such as the ENTEL privatization in Argentina, were usually able to avoid prolonged political debates that brought up past controversies about the particular issue or sector involved, even where substantial controversies had occurred in the past. More complex reforms, such as social security in Uruguay, labor and social security in Argentina, and education in Bolivia and Peru, often entered the mainstream political debate, and were unable to overcome legacies of past conflicts. This was particularly true when reform opponents had participated in those conflicts, and remained well organized politically. Thus, for example, in Uruguay, unions and organizations in the health sector were able to effectively block reform efforts, while in social security they were obtained very handsome compensation in exchange for not blocking the reform.

Several leaders were able to structure reforms to avoid re-igniting old conflicts. The Peruvian health sector reform's low profile and emphasis on pilot projects rather than national proclamations, for example, avoided immediate, direct confrontation with medical unions. The pilot projects attracted new supporters who had not participated in previous conflicts. Public information campaigns led by the Peruvian pension fund administrators (AFPs) also contributed to the social security reform by easing workers' deep-rooted mistrust of the private financial sector. The Bolivian educational reform team involved the newly created municipal councils as conduits for educational infrastructure investment, adding a new dimension (and gaining a new ally) in the long-standing conflict with teachers' unions.

### *Communications Strategies Matter*

The government's effectiveness in presenting its side of the debate seemed to be a crucial element of reforms' success. There were no clear fail-safe strategies; rather, the effectiveness of a communications campaign seemed to depend on the leaders' ability to assess the prevailing environment.

A high profile, rapid reform strategy has the potential to create political momentum and ensure that all potential beneficiaries realize the full implications of the reform, but it can also be a lightning rod for criticism. High profile strategies seemed to be most effective when reforms were bundled with stabilization measures, when they were introduced in the con-

text of perceived crisis, or when there was considerable public opinion that the particular reform sector was broken or being badly managed at the time. The government's overall political position and popularity at the time of reform adoption was also a factor. The strategy was clearly helpful with privatization in Argentina, social security in Bolivia and Peru, popular participation in Bolivia, and education in Uruguay. On the other hand, high = profile strategies backfired in the cases of education in Peru, labor in Argentina, and health in Uruguay. In these cases, there was not a broadly perceived sense of crisis or failure and negatively affected interests were strongly organized.

Low-profile strategies have the advantage of insulating a reform from criticism during the vulnerable planning stages, but excluding affected groups can weaken reforms when they are finally implemented. Our cases also yielded some examples of successful reforms that were implemented "by stealth," either on a pilot basis or as the result of subtle policy measures that eventually added up to a broader reform package. The contrast between health and educational sector reforms in Peru highlights this factor; the reforms were administratively similar, but health care's low-profile strategy succeeded where education's high-profile campaign failed. The community-by-community pilot reform implemented from one branch of the Ministry of Health had such positive demonstration effects that it virtually became a nationwide new approach to rural health care.<sup>38</sup> This experience suggests that when reforms must be approved by hostile legislatures, some sort of proof of their benefits or virtues may facilitate passage through difficult political waters. In these instances, low-profile strategies that accumulate evidence through pilot strategies may be more effective than high-profile presentations of the entire reform package.

Low-profile, closed planning processes run the risk of becoming controversial, biased, "medium-profile" debates if any information is leaked. Argentine President Menem tried to plan social security reform in private, for example, but his strategy of sounding out interest groups released enough

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<sup>38</sup> Another example, which is not in the study, is in Guatemala. In early 1998, in a polarized political environment, a very high-profile attempt to privatize the state telecommunications company, which included overly ambitious promises of what the proceeds could be, failed dramatically. Subsequently, a few months later and influenced by the mistakes in the telecommunications case, the state electricity company was quickly and successfully privatized using a low-profile strategy, avoided involvement in the general political debate, and limited public relations efforts largely to the company employees who had the option to buy shares. [Authors' interviews with government officials in Guatemala, August 1998]

information to attract opposition from unions and retirees. Unlike a high-profile strategy, the selective discussions did not help the government make its case to a broader audience. The reform succeeded only after long negotiations in Congress. The case of educational reform in Peru is clearer. The closed educational reform planning process and vague public information releases allowed the opposition to play on peoples' fears of education privatization and expenditure cuts. The government was not able to communicate the added power that educational decentralization could give to parents and communities.

The decision to use a high- or low-profile strategy may also be affected by the sophistication of the public debate in the particular area. Where technical competence among the press and other key actors is very low, and yet the complexity of the reform requires nuanced debate, a low-profile strategy may help avert debate over reform being captured by political opposition. Health care decentralization in Peru, for example, avoided a large-scale confrontation with medical unions and other potential opposition by secretive planning and by reform implementation via small pilot projects. In the case of social security and other kinds of large complex reforms that cannot be implemented via low-profile strategies, information campaigns become an important part of the reform strategy. The Peruvian government's information campaign to educate people about pension fund administrators (AFPs), when a 1992 survey revealed that nobody knew what they were, for example, seems to have helped the reform gain acceptance. The Bolivian government's public forums during social security reform may have had the same effect.

## **Lessons for Policymakers**

The study provides some conclusions and lessons for policymakers, presented here as a general checklist that can be applied in different political contexts and sectors. Almost all of this advice calls for reformers to develop analytical skills in assessing issues such as timing, potential reform coalitions, situations of crisis and "politics as usual," strengths and weaknesses of existing institutions, the rules of the game for political contestation, and the activities required of leaders. While many of the lessons may appear to be obvious, the history of reform in the case studies suggests that reformers do not always think of them in time to save a reform initiative.



First of all, reformers need to be sensitive to the opportunities for promoting reform when the “timing is right.” Reforms undertaken when governments are enjoying positive political momentum—in post-election honeymoon periods or when they have majority support in legislatures, for example—are more likely to be successful than when governments face declining power and majority opposition. Similarly, propitious timing may coincide with widespread public opinion that “something is wrong” with the institution to be reformed or when a perception of crisis affects government. Support for and opposition to change are not fixed, but can rise and fall over time as a variety of events shape public perceptions and the calculations made by various groups and individuals of the costs and benefits of reform for their particular interests.

Second, and related to the issue of timing is the presence or absence of a perception of crisis that can be related to the sector to be reformed. Almost all reformers in our cases had a mandate to resolve some sort of crisis, either at the nationwide economy level or in a particular sector. In such cases, acting quickly and capitalizing on the public’s sense of crisis is critical, and can overcome even deep legacies of past conflict. Moreover, in cases in which the crisis is broader than the sector of concern, opportunities for bundling are likely to be more extensive, as suggested by cases in which pension system reform was presented as an essential part of macroeconomic stabilization programs. When a sense of crisis does not exist, however, it is probably wiser for policymakers to take a low-profile approach to reforms and be particularly careful to avoid “negative bundling,” that is, situations in which the reform becomes tied to unpopular measures in public perceptions. Similarly, in noncrisis cases in which the organizational capacity of losers far outweighs the capacity of winners, a low-profile approach in which compensation to losers plays a role may be the most feasible option.

Third, reformers can be relatively bold in moving toward change in situations in which there is broad agreement that the institutions in place are “broken” or discredited. Frequently, the belief that “something is wrong” with an institution accompanies a sense of crisis, but not always. When there is a widely perceived public sense of dissatisfaction with a key service, such as education in Uruguay, reformers have much more room to maneuver than in cases where there is disagreement on how bad the problem really is. In the former case, a reform coalition can coalesce based on dissatisfaction with the existing situation without necessarily having to agree on its

replacement. In Peru's educational reform, on the other hand, there was a lack of consensus on the state of the educational sector and ignorance of the potential benefits of reform. The opposition was able to take advantage of the gap in public knowledge to convince citizens that the government was trying to "privatize" education. Comparing the two cases further suggests that reformers, constrained by an incomplete consensus on the nature of the problem, can expand their room for maneuver if they educate relevant groups and populations about the deficiencies of the existing system and the potential benefits of reform.

Fourth, reformers need to assess sources of opposition and support. This assessment should serve as the basis for active strategies for consolidating support and attempting to neutralize opposition. Moreover, reformers need to consider not only the support and opposition that is specific to the sector being reformed, but also the more general context of support and opposition for government. Much political decision making is the result of trade-offs and negotiation between sectors, so broad political analysis skills are as useful as those that are specific to the sector. Similarly, broad political coalitions are as important as sector-specific ones in the search for support for institutional reform. Some reform partners, for example, may support (or oppose) a reform because it is being promoted by a particular political leader or party rather than because they are committed to (or opposed to) the particular reform *per se*. This dynamic was evident in the Peruvian cases, for example.

Fifth, reformers need to assess the nature of existing institutional structures as they generate strategies for promoting institutional change. In several cases, the rules and composition of the legislature, for example, affected the trajectory of institutional reform initiatives in ways that might have been predicted and even possibly avoided through strategic action on the part of reformers. Strategies need also to take into consideration the relative strength of the institutions being reformed vis-a-vis other government institutions, political parties, and unions. In Peru, for example, the weakness of the Ministry of Education limited its capacity to play an effective role in the reform initiative.

Sixth, reformers must pay particular attention to reform initiatives that are likely to generate political debates with a history of conflict. Debates about reform may inevitably be hijacked by deeper and more long-term conflicts among interests. In Argentina, for example, the discussion of

labor reform was as much about the place of labor in national political decision making and its traditional links to the Peronist party, as it was about labor legislation. Nevertheless, reformers who anticipate this possibility may be able to manage the debate and channel the conflict in more constructive ways than those who are taken off-guard.

Seventh, reformers need to select their reform team carefully, with a particular concern for the extent to which members of the team share a common perspective and work together effectively. They should also be assessed in terms of their technical competence. Conflict within reform teams handicapped health sector reform in Uruguay, educational reform in Peru, and labor reform in Argentina. This characteristic of the reform team, noticed some time ago in the case of macroeconomic reform initiatives, appears to be true for institutional changes as well.

Eighth, reform leadership is essential to successful institutional change. The resolve and commitment of reformers matters in all political contexts. Virtually every case of successful reform in the study entailed politicians and reformers taking substantial risk in order to launch and implement reforms; the payoffs were rarely, if ever, clear up front. The particular reform's potential to generate new stakeholders obviously made a difference in creating a political counterbalance in favor of the reformers' efforts, but in almost every case, there was substantial risk, particularly early on in the process. At times, reformers can enhance their chances of success by reaching out and soliciting the involvement and cooperation of potential new stakeholders, whether they are primary school parents or employees in privatized companies. Regardless, most cases of institutional reform require challenging entrenched interests in the status quo, and the payoffs for doing so are rarely immediate.

Reform leadership involves a core set of actions. Leaders must, for example, set priorities for the content of the reform as well as for the actions undertaken to promote change. They must play an active role in selecting and managing a reform team. They must make critical choices about several of the issues considered above—how to manage opposition, how to attract support, whether to adopt a high-profile or a low-profile strategy, how to manage particularly contentious issues—often in the absence of any clear information about the consequences of such choices. They must understand the process of political decision making fully enough to select actions that effectively influence that process. Above all, then, reform leaders must take

on responsibility for assessing the politics of the reform process and for making strategic decisions about how to move ahead with reform in a very uncertain and rapidly changing context. While much prior discussion of policy reform has focused on the importance of the existence of reform leadership, our case studies are quite clear in demonstrating that the mere existence of leadership is insufficient for positive outcomes; leaders must act and much of their activity involves strategic decision making.

Finally, our ninth lesson is that reformers can promote reform in two basic ways. They can attempt to alter the content of the reform initiative to make it more acceptable to its opponents or more attractive to its supporters, or they can attempt to alter the context in which it will be promoted to alter the balance of forces supporting and opposing change. In the cases, reform leaders negotiated changes in the proposals they were promoting as a way of meeting some of the criticisms of those in opposition to them. They also sought to build coalitions, enlist presidential support, focus media attention on the positive benefits of change, and affect public opinion to support change.

Certainly, following this advice will not necessarily ensure the success of reform initiatives. The trajectory of reform is fraught with obstacles and unanticipated events that can cause an initiative to be derailed, regardless of reformers' analytical ability, political negotiation skills, and sense of timing. Strategic action attempts to avoid many of the pitfalls that bedevil reform initiatives, but cannot prevent them; the large number of obstacles and the fragility of the momentum toward change in most situations ensure considerable potential for failure. It is also important to bear in mind that not all reforms are duplicable across national borders, at least not in the manner in which they are presented and implemented.

Nevertheless, the evidence gathered over the course of the project has helped highlight a useful series of lessons about strategies for promoting institutional reform and provide a departure point for future research on the factors that may contribute to successful institutional reform. In addition to the general points made in this essay and the attached summaries of conclusions, the individual case studies provide policymakers and academics with ample data from which to begin to understand the politics of institutional reform.

## APPENDIX 1: THE REFORMS

| BOLIVIA                                                                                                                         |          |                                                |                  |                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------|----------|------------------------------------------------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reform                                                                                                                          | Success? | Institutional Effect (*)                       | Political Method | Agents Involved:<br>O=opposition, R=reformers, NS=new stakeholders                                                                                                                                                                | Basic Chronology                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Popular Participation Law: Transfer political, fiscal, administrative responsibilities and powers to lower levels of government | Yes      | New                                            | Legal Reform     | Regional Civic Committees (O, NS)<br>Peasant Unions (O, NS) (**)<br>Rural Councils (NS)<br>Executive (R)<br>Ministry of Human Development (R)<br>International organizations (R)                                                  | 1990-1993: seminars, debates with social groups, international organizations, government.<br>1993: First law proposal sent to Congress, consideration delayed until after general elections of July 1993, when Sanchez de Lozada comes to power. Proposal discussed, negotiated.<br>Feb. 1994: New Popular Participation Law (LPP) proposal sent to Congress.<br>April 1994: LPP passed.<br>July 1995: Administrative Decentralization Law passed.<br>1995: First municipal election.<br>1996: Expenditure: 40% prefects, 35% municipalities, 25% central.<br>1992: Technical group in Ministry of Planning and Coordination formulates reform proposal, reform debated within Council of Ministers but never submitted to Congress.<br>1993: Change of president, reform effort renewed.<br>1994: Law approved by parliamentary majority.<br>1997: Change of president, reform implementation expands to include accreditation for private universities, selection and technical criteria for school directors. |
| Education: Decentralize administration, curricular reform                                                                       | Slow     | New, Restructuring                             | Legal Reform     | Teachers unions (O)<br>Magistrate (O)<br>Church (O)<br>Executive (R)<br>Ministry of Human Development (R)<br>Ministry of Education (R)<br>International organizations (R)<br>Technical team (ETARE) (R)<br>Local governments (NS) | 1991: Finance Ministry, funded by international organizations, begins technical studies for reform proposal<br>Early 1992: Finance Ministry presents proposal to president, social sector ministries object, proposal never reaches Congress.<br>End 1992: Technical reform presented to Consultative Group in Paris.<br>1993: Change president, new National Secretariat of Pensions (SNP) created to lead renewed reform effort.<br>Jan-June 1993: Public seminars, dialogue over reform.<br>mid-1996: President send reform project to Congress, includes provision for "Bonosol".<br>Dec. 1996: Shares in capitalized public enterprises transferred to public.<br>1997: New president suspends, then limits and postpones Bonosol payments.                                                                                                                                                                                                                                                                 |
| Social Security: Move to individual accounts, involve private sector in management.                                             | Yes      | Restructuring<br>New<br>National de Pensiones) | Legal Reform     | Finance Ministry (R)<br>SNP leadership (R)<br>Executive (R)<br>International organizations (R)<br>Ministry of Health (O)<br>Ministry of Labor (O)<br>Pension Administrators in SNP (O)<br>Unions (O)<br>Retirees (O)              | 1991: Finance Ministry, funded by international organizations, begins technical studies for reform proposal<br>Early 1992: Finance Ministry presents proposal to president, social sector ministries object, proposal never reaches Congress.<br>End 1992: Technical reform presented to Consultative Group in Paris.<br>1993: Change president, new National Secretariat of Pensions (SNP) created to lead renewed reform effort.<br>Jan-June 1993: Public seminars, dialogue over reform.<br>mid-1996: President send reform project to Congress, includes provision for "Bonosol".<br>Dec. 1996: Shares in capitalized public enterprises transferred to public.<br>1997: New president suspends, then limits and postpones Bonosol payments.                                                                                                                                                                                                                                                                 |

(\*) "Institutional effect" describes the effect of the reform in terms of institutions: did it create a new institution or restructure an old one?

(\*\*) The regional civic committees and radical peasant unions originally opposed the reform, but moved to support it after they won many of the newly created local seats in the 1995 election.

| U R U G U A Y                                                                                                                         |               |                      |                  |                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reform                                                                                                                                | Success?      | Institutional Effect | Political Method | Agents Involved:<br>O=opposition, R=reformers, NS=new stakeholders                                                                                                 | Basic Chronology                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Social Security:<br>Move to some individual capitalization                                                                            | Ongoing       | Restructure          | Executive Decree | Pensioners (O)<br>Unions (O)<br>Private fund managers (NS)<br>Business/ Financial sector (R)                                                                       | 1989: Constitutional amendment required social security payments to rise annually.<br>1992: Multiparty commission presents reform proposals, congress blocks all options<br>1994: Change of government, commission on social security reform created.<br>1995: Slightly modified 1992 proposal presented to Congress again, passes.<br>May 1997: 10% of population affiliated with private funds.<br>1989: Teachers strike for increased wages and budgets, demands not met<br>1994 Teachers, leftist coalition, trade unions propose constitutional amendment guaranteeing fixed floor for education expenditure, referendum loses.<br>1994-5: CEPAL technical reports publicize inadequacy of education system, gain public support for reform.<br>1995: New government appoints German Rama as leader of Central Directorate Counsel for Primary, Secondary, and Technical Education.<br>1995: Congress approves (through budget proposal) Program for Educational Reform.<br>1995-1998: Reform slowly implemented via pilot projects.<br>1987: Administration of State Health Services created, attempted but not realized administrative decentralization of health services.<br>1995: New reform proposal: reduced transfers to MAS, rationalized public health units, reduced medical corporation's power over hospitals. Reform failed in Congress.<br>Ongoing: Rationalization, cost-cutting in public hospitals; professional managers assigned to oversee hospitals; eligibility for state care limited. |
| Education:<br>Curricular reform, retained state presence in financing and administration.<br>Expanded coverage, new teacher training. | Slow, Ongoing | None, Pilot Projects | Budget Item      | Teachers (O)<br>Technical team in Ministry (R)<br>International organizations (R)<br>Parents, communities (NS)                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Health: Increase private participation, target state coverage.                                                                        | No            | Restructure          | Budget Item      | Medical Unions (FEMI), Doctors (O)<br>Mutual aid societies-Privately-run, state-Subsidized providers (MAS) (O)<br>International organizations (R)<br>Executive (R) |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

| PERU                                                                        |          |                                   |                                                                           |                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------|----------|-----------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reform                                                                      | Success? | Institutional Effect              | Political Method                                                          | Agents Involved:<br>O=opposition, R=reformers, NS=new stakeholders                                                                                                                                                                                                | Basic Chronology                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Education: decentralize management to communities, implement voucher system | No       | New Local, Restructuring National | Attempted Legislation, Presidential Decree, Potential Constitution Change | Local Committees (NS)<br>Ministry of Education (R)<br>Finance Ministry (R)<br>President (R)<br>Mayors, municipal Officials (NS, then O) (*)<br>Teachers' union (O)<br>Media (O)<br>Church (O)                                                                     | <i>Nov. 1991:</i> D.L. 699 establishes legal ground for community participation in administration and funding of schools.<br><i>Jan. 1992:</i> D.L. 699 repealed, seen as misuse of presidential powers, opposition fears end of free education.<br><i>April 1992:</i> Congress closed<br><i>July 1992:</i> Reform of administration and curriculum, along lines of D.L. 699, announced.<br><i>December 1992:</i> Educational reform becomes law.<br><i>January 1993:</i> New Congress installed.<br><i>March 1993:</i> New constitution modified to allow educational reform and private administration.<br><i>Nov. 1993:</i> Constitutional referendum demonstrates public opposition to reform<br><i>1994:</i> Reform abandoned.<br><i>Aug. 1993:</i> Minister of Health creates technical team.<br><i>Jan. 1994:</i> Technical studies begin.<br><i>May 1994:</i> Legal basis for local health administration committees created, pilot projects begin.<br><i>1997:</i> Legal attempt to integrate local committees/ pilot projects into standard Health Ministry programs.<br><i>1998:</i> 20% of basic health organizations administered by a CLAS.<br><i>1991:</i> Reform of pension system (SNP) begins with presidential decrees that create private pension system (SPP) and shrink the national social security system (IPSS). (D.L. 718, 724)<br><i>Dec. 1991:</i> Constitutional Tribunal investigates claim that presidential decrees are unconstitutional.<br><i>Jan-Mar. 1992:</i> Debate over decrees, reformers attempt to secure congressional approval.<br><i>July 1992:</i> reform scheduled to be implemented, was not.<br><i>Dec. 1992:</i> Council of Ministers passes new reform law (D.L. 25897) allowing workers choice between public and private systems.<br><i>1994:</i> private system (AFP) refined, restructured along Chilean lines to be more efficient. |
| Health: decentralize management to communities                              | Yes      | New Local, Restructuring National |                                                                           | Ministry of Health (R technocrats, O bureaucracy)<br>Local committees (NS)<br>Medical/Doctors' unions (O, NS) (**)<br>International organizations (R)<br>International experts (R)                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Social Security: create individual accounts, involve private managers       | Yes      | Restructuring                     | Presidential Decree, Legal Reform, Constitution Change                    | Mario Roggero (Congress, R then O)<br>Ministry of Energy and Mines (R)<br>Finance Ministry (R)<br>Instituto Peruano de Seguridad Social (IPSS) leaders (R)<br>Business sector (R)<br>Workers unions (O)<br>IPSS Doctors' and Nurses' unions (O)<br>Pensioners (O) |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

(\*) The mayors and municipal councils supported the educational reform at first, but moved to oppose the decentralization after President Fujimori decided that power and resources would be transferred to community, rather than municipality, organizations.

(\*\*) Most doctors were quickly won over by the higher pay that community-run health organizations offered.

| ARGENTINA                                                                                         |          |                      |                                                                        |                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------|----------|----------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reform                                                                                            | Success? | Institutional Effect | Political Method                                                       | Agents Involved:<br>O=opposition, R=reformers,<br>NS=new stakeholders                                                                                                   | Basic Chronology                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Privatization: privatize state telecoms company                                                   | Yes      | Restructuring        | Presidential powers given by Law of State Reform, Legislative Approval | Executive (R)<br>Business community (R)<br>Telephone customers (R)<br>Telephone workers' union (O)<br>Contractors/<br>providers (O, NS) (*)                             | 1989: Law for State Reform<br>Sept. 1989: Menem announced timetable of privatization.<br>Nov. 1990: Union elections brought opposition leaders to power<br>June 1990: ENTEL put up for bid<br>October 1990: ENTEL delivered to new owners.<br>1990-1995: Privatization of other industries and resource reserves continue.<br>1986: SS declared to be in "state of emergency"<br>1991: Finance Ministry convenes groups of experts<br>Jan. 1992: Some political parties, legislators, sectoral organizations invited to join negotiations.<br>Mar. 1992: Sign reform commitment with IMF.<br>June 1992: Executive-Congress negotiations begin, SS bill evolves.<br>Sept. 1992: Congress approves YPF privatization, which provides funds to reward SS beneficiaries.<br>Jan. 1993: IMF deadline for reform to begin.<br>May 1993: Chamber of Deputies approves a version of the original.<br>SS bill. Menem reinserts some technical clauses.<br>September 1993: Senate approves bill<br>Jan.-Aug. 1994: Workers choose public or private system.<br>1998: 6.5 million workers in private system, 2.3 in public, 3 million not affiliated with either.<br>May 1989: Menem's advisor "floats" idea of labor reform.<br>October 1989: division of principle union<br>January 1990: first version of Employment Law and Accident Law sent to Congress<br>Early 1991: weakened versions of law proposals passed.<br>Mar. 1991: debate over labor reform begins again.<br>April 1991: First step in law to ease firing passes.<br>Aug. 1991: Menem vetoes law allowing unions to reduce debt<br>1994: new strategy of tripartite dialogue, negotiation begins.<br>Jan-June 1995: selected reforms developed in dialogue pass, become law.<br>Late 1995: interaction becomes confrontational, reforms slow; rising unemployment.<br>1996-1998: renewed negotiations, gradual piecemeal reform. |
| Social Security: create 2-pillar system of some private individual accounts, some public savings. | Yes      | Restructuring        | Legal Reform, Presidential Decree                                      | Finance Minister (R)<br>International experts (R)<br>Business/ Financial sector (R)<br>Executive (R)<br>International organizations (R)<br>Unions (O)<br>Pensioners (O) |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Labor Market: limit collective bargaining, make hiring more flexible.                             | No       | Restructuring        | Legal Reform, Presidential Decree                                      | Labor unions (O)<br>Ministry of Labor (weak R)<br>Executive (R)                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

(\*) The final privatization package included a provision that required international investors to have a domestic partner, thus ensuring a continued role for the contractors and providers involved in the state system.



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