Inter-American Development Bank
Banco Interamericano de Desarrollo
Latin American Research Network
Red de Centros de Investigación
Research Network Working paper #R-502

Political Institutions, Policymaking Processes and Policy Outcomes in Paraguay, 1954-2003

by

José Molinas*
Anibal Pérez-Liñán**
Sebastián Saiegh**
with Marcela Montero*

*Instituto Desarrollo
**University of Pittsburgh

April 2006

Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library

Molinas, Jose R., 1966-

Political institutions, policymaking processes, and policy outcomes in Paraguay, 1954-2003 / by José Molinas, Anibal Pérez-Liñán, Sebastián Saiegh, with Marcela Montero.

p. cm.
(Research Network Working papers ; R-502)
Includes bibliographical references.

1. State, The. 2. Paraguay—Social policy. 3. Paraguay—Economic policy. I. Pérez-Liñán, Anibal S. II. Saiegh, Sebastián. III. Montero, Marcela. IV. Inter-American Development Bank. Research Dept. V. Latin American Research Network. VI. Series.

320.1 M557--------dc22

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, DC 20577

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Abstract[1]

This paper characterizes the evolution of Paraguay's policymaking process (PMP) between 1954 and 2003. We present an overview of the PMP under the rule of Alfredo Stroessner (1954-89) and explore the institutional setting emerging after 1989. We discuss how the Colorado Party progressively broke up into several factions and characterize the distinctive patterns of policymaking that emerged after the adoption of the 1992 Constitution. We hypothesize that the presence of a large number of veto players has made policy change more difficult and that legislators are inclined to pursue particularistic policies. In order to test those hypotheses, we rely on a database containing virtually every bill introduced in Congress since April 1992. Our conclusions suggest that the current Paraguayan PMP may be flexible for the provision of particularistic benefits but is rigid for the approval of broad regulatory or redistributive policies.

[1] We acknowledge the excellent assistance of Cecilia Conberti, Mirna Vera, Margarita Molinas, Gloria Gómez and Karina Godoy. This paper would not be possible without the help of Carlos Samudio, Mauricio Aguilera, Alcides Aranda, Eduardo López, Oscar Crose and Augusto Baez from the *Honorable Cámara de Diputados*. We further wish like to acknowledge very useful comments received from José María Costa, and from the project coordinators Pablo Spiller, Mariano Tommasi, Carlos Scartascini, and Roberto Stein, as well as from the participants in seminars at Puebla, Mexico (October 2003) and Harvard University, Cambridge, Massachusetts (May 2004). of the Latin American Research Network of the Inter-American Development Bank through a research grant to Instituto Desarrollo (www.desarrollo.edu.py). An earlier version of this paper was published in the *Revista Chilena de Ciencia Política* 24(2).

1. Introduction

The average growth rate of the Paraguayan economy between 1996 and 2000 has been -1.9 percent, while per capita GDP fell 6.1 percent in 2002 compared to its 1995 level. Despite the country's deteriorating macroeconomic conditions, no major reforms have been implemented in recent years. Following the 1995-1997 financial crisis, fiscal deficits have steadily increased from 0.3 percent of GDP in 1995 to 4.3 percent of GDP five years later. Economic reforms intended to stabilize the economy also came to a standstill in the legislative stage. For example, in November 2002 the Minister of Finance resigned in protest over congressional delays in authorizing a stand-by agreement with the IMF. The fact that most reform attempts were stalled rather than implemented, and were then overturned or implemented very inefficiently, reveals that the country's levels of policy adaptability are very low.

Why has it been so difficult to modify public policies in Paraguay? Is this rigidity a problem for all policy areas or only for some contested policy dimensions? This article characterizes the Paraguayan policymaking process (PMP) between 1954 and 2003. It identifies four distinctive periods in the evolution of the Paraguayan PMP: the "golden age" of the Stroessner dictatorship (1954-1981), the late *Stronismo* period (1982-1989), the transitional Rodríguez regime (1989-1993), and the current period marked by democratic institutions (1993-present).

Section 2 presents a stylized model of the PMP under the rule of Alfredo Stroessner (1954-89). Section 3 provides an overview of the 1989-93 transitional regime, discussing how the dictatorship's policymaking rules, which initially remained in place, allowed for an initial period of rapid policy change. In the following years, however, these rules changed in order to allow for the democratization process and the emergence of new players. The Colorado Party, a "granitic" organization under the dictatorship, progressively broke up into an "archipelago" of factions (Arditi, 1993). Section 4 characterizes the distinctive patterns of the policymaking process that emerged after the adoption of the 1992 Constitution, identifies the new institutions and players, and develops some hypotheses about the ways in which these factors are expected to shape the underlying rules of the new PMP (Spiller and Tommasi, 2003). In order to test those hypotheses, we rely on a database containing virtually every bill introduced in Congress since April 1992. Rather than focusing on substantive policy areas, we focus on how some general

attributes of the policy initiatives (*Zs*) interact with the institutional variables (*Xs*). In particular, we address the scope (national, regional, local, or individual focus) and the intent (distribution of benefits to particular constituencies, redistribution of wealth, or regulation of social and economic activity) of the policies under consideration. Our conclusions suggest that the current Paraguayan PMP may be flexible for the provision of particularistic benefits but is rigid for the approval of broad regulatory or redistributive policies.

The study of the Paraguayan case offers valuable theoretical insights regarding two issues. First, in recent years an emerging literature has emphasized that the presence of multiple veto players (political actors whose consent is necessary but not sufficient to alter the policy status-quo) reinforces policy rigidities and prevents policy change (Tsebelis, 2002). We show that, to some extent, this has been the case in Paraguay: the democratization process begun in 1989 multiplied the number of potential veto players and thus made policy change more difficult. However, we also show that concentration of power in a policy dictator (a single player whose consent is necessary and sufficient to alter policies) does not guarantee policy adaptability: when the dictator is able to transfer the costs of failure to somebody else (as the Stroessner regime did in the 1980s), he or she has little incentive to correct inefficient policies. Second, there is uncertainty in the political economy literature with regards to the relationship between the dimensions of policy adaptability-rigidity and public-private regardedness. Publicly-regarded policies tend to generate public goods, while privately-regarded policies tend to generate private goods or benefits for narrowly targeted sectors (Cox and McCubbins, 2001). We show that these two dimensions are in fact orthogonal: while levels of policy adaptability in Paraguay varied considerably over time, private-regardedness has been constant, as the system has been historically marked by patronage and clientelism.

2. The Policymaking Process under Stroessner (1954-1989)

On May 4, 1954, after seven years of unstable one-party rule, a military coup removed President Federico Chaves from office. The leader of the coup, Gen. Alfredo Stroessner, soon gained control over the Executive Branch, the Colorado Party and the Army, establishing a regime that would last for almost 35 years. Stroessner held office longer than any other ruler in Paraguayan history, and by 1989 approximately 75 percent of the population had grown up under the

Stroessner regime, which was characterized by fear, repression and co-optation, and therefore had no experience with democratic rule (Lambert and Nickson, 1997).

This section outlines the structure and evolution of the policymaking process (PMP) during the *Stronismo period*. It argues that the basic structure of the PMP remained generally constant over this period: the Chief Executive was a dictator not only in the political sense of the term, but also in the technical sense because his approval was both necessary and sufficient to implement policy change. This concentration of power also fostered policy adaptability during the 1960s and the 1970s. However, when several conditions changed in the 1980s, they were not successfully addressed by the Stroessner regime and policy rigidity ensued.

2.1 The Players and the Rules

2.1.1 The Dictator

For more than 34 years, Gen. Alfredo Stroessner managed a "cooperative" arrangement among state officials in all three branches of government and the bureaucracy, the Colorado Party, and the Armed Forces. This so-called "triumvirate" of power (State-Party-Army) was based on a single premise: that Stroessner would remain in office for the foreseeable future.[2] Stroessner's re-election was secured through several mechanisms. First, repression against political dissidents was backed up by a "permanent" (i.e., renewed every 90 days) State of Siege and by ambiguous regulations, such as Law 209, which penalized "fostering hatred among Paraguayans" as a criminal offense. Second, the system established a culture of fear due to the arrest, torture, and death or exile of selected opposition leaders. This selective repression, combined with a widespread informal network of political spies, was internalized by the population, with the result that repression on a large scale was not always necessary given the distrust and suspicion that dominated the country. Third, the Colorado Party was strengthened nationwide, rewarding membership with economic and political incentives under the patronage system that tied people to the regime at all social levels. Fourth, after two elections with Stroessner as the only candidate (in 1954 and 1958), there was a tightly controlled multi-party system with limited political activity granted to selected opposition parties (1962-1989).

Under this system, Stroessner was elected to office eight times, with 98.4 percent of the vote in 1954; 97.3 percent in 1958, 90.6 percent in 1963, 70.9 percent in 1968; 83.6 percent in

[2] Originally, the 1967 Constitution established re-election for only one more period; but after the 1977 reform the president could be indefinitely re-elected.

1973, 90.0 percent in 1978, 90.1 percent in 1983, and 88.6 percent in 1988 (Lambert, 1997). According to the electoral law in place since the late 1950s, the winning party in a "competitive election" was granted 67 percent of the seats in Congress. Congressional representatives could be re-elected indefinitely. Following the legal precedent of previous charters, the 1967 Constitution gave Stroessner great powers over Congress and the judiciary. The president was able to dissolve Congress without restrictions, and Congress had no ability to convene itself. Congress was not an important arena of policymaking because: a) the initiative for all major policymaking was expected to come from the Executive, and b) legislators had no real veto power. The role of Congress—as well as the judiciary—was merely to provide a democratic façade and it was therefore expected to be supportive of the Executive's policy initiatives. Hence, Stroessner and key collaborators from the Colorado Party and the Armed Forces that surrounded him made all policymaking decisions.

2.1.2 The Colorado Party

Stroessner transformed the Colorado Party from a party deeply divided along factional lines into a highly united and vertically organized political instrument (Lambert, 1997: 5-7). He purged the party of opposition, converted it into an instrument that legitimized his regime, and used this mass-based, agrarian party to mobilize support and repress opposition.

Between 1954 and 1966, Stroessner consolidated his own control over the Colorado Party by selectively purging internal party opponents (Lambert, 1997). As a result of these moves, Stroessner imposed a "granitic unity" on the party through repression and expulsion of internal opposition and through the promotion of politicians loyal to him. Thus, the Colorado Party became a unified, mass-based party with extensive control of the media, patronage resources and extensive grassroots support.

The Colorado Party developed a nationwide network of *seccionales* (local party offices) that mobilized support for the regime and represented the "eyes and ears" of the government, employing thousands of spies to report anti-government sentiment among the population (Lambert, 1997). Unopposed elections of centrally nominated candidates at the seccionales guaranteed tight control over the party. Moreover, the seccionales administered the political patronage system.

Membership in the party was mandatory for all state employees (teachers, members of the Armed Forces, judges, etc). Patronage, dispersed mainly through the Party, tied people of all

social levels to the regime. By 1989, state employees accounted for 9 percent of the labor force (Nickson, 1997), and the Colorado Party was partially funded by compulsory deductions from public employees' salaries. In exchange for public employment, public employees attended meetings and parades, donated part of their income to the Party (automatically deducted from their paychecks), and even bought a compulsory subscription to the Colorado newspaper, *Patria* (Arditi, 1993: 164). Senior Party members received lucrative contracts for state projects, holdings in public companies and other opportunities to become successful businessmen (Lambert, 1997: 7).

2.1.3 The Armed Forces

The Armed Forces did not govern in their own right, but represented a key component of the trilogy of power during Stroessner's regime (integrated by the State, the Colorado Party, and the Armed Forces). The alliance between the Colorado Party and the Armed Forces was consolidated in 1947 (seven years before Stroessner took over) after a short but brutal civil war that depleted the military of 90 percent of its officer corps (Lambert, 1997: 5). After the civil war, the Armed Forces were re-organized under the supervision of the Colorado Party.

Stroessner, however, strengthened this alliance through the mandatory membership of military officers in the Colorado Party, and by unifying his command as President, Commander in Chief of the Armed Forces and Honorary President of the Colorado Party. Throughout the 1950s Stroessner brought the military under his own control. While disloyalty was punished, loyalty was rewarded with promotion and economic privileges. Military officials had access to land and lucrative positions in state monopolies, as well as a free hand in illicit businesses such as widespread contraband.

Given this consolidation of power, the government, the Colorado Party and the Armed Forces had long time horizons during the 1960s and the 1970s. The incentive structure was stable and the partnership remained cohesive and strong. The main enforcer of the inter-temporal deals was Stroessner himself, and the main deterrent to defection from Stroessner's policymaking game was punishment for disloyal behavior. .

2.1.4 The Bureaucracy

For the most part, the bureaucracy remained a secondary player during this period. Although "threatening" ministers like Edgar L. Ynsfrán were eventually purged, Stroessner preserved a rather stable cast of characters in the Cabinet. In the early 1980s, Paul Lewis noted:

> ...There has been a tendency for the *stronato's* governing elite to become a gerontocracy. General Marcial Samaniego, the defense minister, and General César Barrientos, the finance minister, are old army friends of Stroessner's who have served in his government from the beginning. Raúl Peña, the education minister, Tomás Romero Pereira, the minister without portfolio, and Raúl Sapena Pastor, who recently retired as foreign minister, have also served more than 20 years in their posts. Sabino Montanaro, the minister of interior, is a 15-year veteran on the cabinet. Saúl González (justice), Hernando Bertoni (agriculture), and Adán Godoy Giménez (health) have all served more than 10 years. So did Ynsfrán, who for 11 years at the Ministry of Interior was reputed to be the second most powerful man in the country (Lewis, 1982: 73).

The presence of a stable ministerial team was consistent with the privately regarded policymaking process (and ultimately with the emergence of policy rigidities) more than with the development of a highly trained and stable bureaucracy. Although some "islands of excellence" were attempted (for instance, the Secretaría Técnica de Planificación was created in 1962 under the aegis of the Alliance for Progress), their impact on the overall PMP was limited. For the most part, public employment remained the main instrument of cooptation controlled by the Colorado Party.

In this scheme, public wages remained generally depressed; they were somewhat attractive for major political posts (like Congress and the State Council) and for key technical agencies (like the Central Bank) but lower for most public workers. According to Campos and Canese, the average public wage in 1987 was 16 percent below the minimum wage established by the government. The authors claimed that the gap was simply "a recourse to create a broader political clientele, because with the same funds there are more posts-clients of the party in government functions" (Campos and Canese, 1987: 78).

2.1.5 Underlying Rules of the PMP

During these 34 years of dictatorship, the Paraguayan policymaking process was based on four simple rules. First, the executive branch was to be the source of any changes to the status quo.

Congress was not expected to be the locus of policy innovation, and responsibility for policy performance was exclusively the president's. Second, a cohesive ruling party was expected to support the president's proposals in Congress (Lewis, 1982). A legislative career was essentially the reward for politicians loyal to the president, and the Colorado Party was always guaranteed a majority (and even a two-thirds supermajority) under the "incomplete list" electoral system in force until 1992. Third, the judiciary was expected to shield the president's policies from external challenges. Fourth, it was assumed that disgruntled social actors could be co-opted, bribed or repressed to accept new policies.

This system generated a dictator, not only in the literal sense but also in the technical sense—a player whose acquiescence is both necessary and sufficient to alter the policy status quo. To sustain this arrangement, two lasting deals were enforced: the first allowed major military leaders to control illegal rent-seeking activities (smuggling operations, drug trafficking), and the second allowed the Colorado politicians to control the distribution of patronage positions in the public administration. Within this general framework, specific intertemporal policy agreements were viable but for the most part irrelevant, because politicians and military officers had delegated the policymaking function to the Executive.

2.2 The Outer Features of Public Policies, 1954-1989

Policies in Paraguay were characterized by their low public regardedness throughout the entire 1954-1989 period. Their purpose was to benefit mainly the loyal members of the Colorado Party and the Armed Forces. The Paraguayan PMP also fostered adaptable public policies between 1954-1981, but tended toward much more rigid policies in the 1982-89 period. Cooperative arrangements among key stakeholders of the Stroessner regime were easier to sustain during the first sub-period because of two conditions: (i) a long time horizon for the regime based on Stroessner leadership, and (ii) the absence of acute recessionary conditions. When these conditions were affected, the ability of the regime to mobilize resources for policy change declined and the regime lost much of its capacity to adapt to exogenous shocks.

2.2.1 Adaptable Policies, 1954-81

Between the 1950s and the 1970s, Stroessner's articulation of the Armed Forces, the Colorado Party and the government reinforced the expectations of a long time horizon for the regime. Paraguay's macroeconomic conditions also made it easier to sustain "cooperative" arrangements

throughout this period. For example, the average growth rate for 1961-65 was approximately 2.5 percent per year, with no significant GDP contractions.

2.2.2 Adaptability: Long-Term Horizon and Non-Recessionary Conditions, 1954-81

Within the first years of the regime, Stroessner reversed some of the nationalistic policies of the 1940s (for instance, the monopoly on the internal beef trade controlled by the Paraguayan Meat Corporation, Copacar). In 1957, a major IMF-sponsored stabilization program involved the deregulation of trade, the reduction of the monetary base, cuts in public expenditures and a wage freeze. The ensuing stand-by loan in 1957-61 and the recovery of foreign credit allowed for an extensive road construction program (Campos and Canese, 1987: 27).

In the late 1960s, the distribution of public land and subsidized agricultural credit promoted the emergence of a local agricultural business sector related to the regime. This sector took advantage of the boom in soybean and cotton production during the following decade. At the same time, the construction of the Itaipú dam in the 1970s encouraged the emergence of a large construction sector, from less than 22 family-owned construction companies in the early 1970s to some 250 corporations after the Itaipú period (Borda, 1993: 76).

In fact, the Stroessner regime showed a significant ability to reap the benefits offered by long-term economic opportunities. This tendency was certainly reinforced by its capacity to impose intertemporal policy deals. For instance, development toward the Brazilian border in order to diversify a dependent pattern of economic relationships with Argentina required large investments and an active and stable foreign policy. This large-scale movement toward the eastern border required coordination of land distribution, internal rural migration and massive construction, among other initiatives, and was possible because of the intertemporal "cooperation" of the key actors (the government, the Party and the Armed Forces). The adaptation of the development model to allow for increasing integration with Brazil would have been unlikely under short-lived governments like the ones characterizing the post-Chaco war period (1936-1954). During that 18-year period, there were 12 different presidents, and political volatility prevented an adaptation to changing economic environments.

During the 1956-1981 period, the government distributed more than 88,000 farms covering 7.4 million hectares in 48 colonies (Lynn Ground, 1984). This land distribution represented 59 percent of the existing farms in 1956 and 35 percent of the existing farms in 1981. During the 1960s and the 1970s, Paraguay built roads, silos and, most importantly, the biggest

dam in the world, the Itaipú Hydro-electric Dam, built jointly with Brazil. The long-term growth strategy turned out to be effective. During the 1960s, real GDP growth was 4.2 percent. During the 1970s, Paraguay had one of the highest growth rates in the region, with real GDP increasing at 8 percent over the decade.

2.2.3 Rigid Policies, 1982-89

In contrast to the 1954-1981 period, the "shadow of the future" was becoming increasingly shorter by the mid-1980s. The main reason was the dictator's age and his (perceived) health deterioration, particularly after 1987 (Abente Brun, 1993: 147). Since the enforcer of the intertemporal agreements was Stroessner himself, the problem of succession was a big one. In contrast to less institutionalized neo-patrimonial regimes in which power was easily transferred to the dictator's son after his death (Nicaragua in 1956, Haiti in 1971), the *Militantes* (the faction that sought a dynastic solution to the succession problem) confronted autonomous groups within the Colorado Party and the Armed Forces. Consistent with the prediction of the folk theorem in game theory, this intertemporal cooperation was more difficult to sustain when the end of the game was approaching with less uncertainty. In fact, the end of the Stroessner regime was ultimately the consequence of a struggle for succession (Martini and Lezcano, 1997).

The twilight of Stroessner's regime coincided with increasingly harsh economic conditions. Following the conclusion of the Itaipú Dam project, the Paraguayan economy entered a deep recession that lasted well into the 1980s. At the same time, the debt crisis hurt two of Paraguay's main trade partners, Brazil and Argentina. Paraguay's GDP declined for two consecutive years, leaving production 4 percent lower in 1983 than in 1981. Growth resumed in 1984, but the average rate during 1984-86 was well below population growth (World Bank, 1992).

The sectors that suffered most after 1982—construction, commerce and finance—were those that had grown most rapidly in the 1970s boom. By now, the support of these sectors had become very important for the Stroessner regime. Instead of forcing the domestic economy into conformity with the external conditions, the government tried to avert the post-Itaipú recession by continuing with its investment and spending programs. These policies only piled a financial disequilibrium on top of the recession. The economy still stagnated and inflation accelerated. To finance its increased spending, the government sharply increased its external borrowing. Medium- and long-term debt (including arrears) rose from 15 percent of GDP in 1981 to 62

percent in 1987. Moreover, the external funds were largely used on unprofitable projects, which added to macroeconomic instability and eventually led to the suspension of disbursements from several creditors (World Bank, 1992).

2.2.4 Low Public Regardedness, 1954-89

Stronismo provides a good example of the independence between policy adaptability and public-regardedness. Even during its "golden" years, membership in the Colorado Party was a requirement for conducting business with the government, and an extensive patronage system was administered by a nationwide network of seccionales. According to Fogel, the resources invested in the hydroelectric dams (76 percent to Itaipú and 24 percent to Yasyretá) were "channelled by a reduced group of civilian and military followers of the dictator nucleated in few companies (...) and ultimately devoted to speculation, the development of financial enterprises, and the acquisition of ranches; therefore the powerful economic groups integrated themselves to new economic sectors" (Fogel, 1993: 16).

Campos and Canese (1987: 88-104) identified a series of "inconvenient" public investments that began in the second half of the 1970s. Among them were the ACEPAR steel plant, the airport near President Stroessner City (today Ciudad del Este), the bridge over the Paraguay River at the level of Concepción City, the purchase of military helicopters and vessels, the construction of large hospitals and the Chaco telecommunications program. The authors claimed that these projects shared a common pattern characterized by a dubious need for the venture, an oversized plan, the impossibility of recovering the investment, the evaluation of the proposal by interested parties, a resort to foreign loans, the avoidance of public bidding and a systematic recourse to foreign suppliers. In trying to explain these "white elephants," the authors concluded that "the large magnitude of the public sector expenditures (...) leads to the conclusion that this is one of the most important ways to generate a surplus that is concentrated by a small number of people" (Campos and Canese, 1987: 82).

The lack of public regardedness also reinforced the policy rigidities of the 1980s. As an example of this problem, the recession of the 1980s did not lead to a reduction in clientelism or patronage politics. On the contrary, public employment—which had grown at an average 4.5 percent per year in 1975-80—grew at a 4.8 percent rate in 1980-84, and at a 5.6 percent rate in 1984-87 (Campos and Canese, 198:, 65). The total number of public jobs expanded from 82,000 in 1980 to 119,000 in 1989 (Campos and Canese, 1990: Table 4). In 1982, prior to the 1983

general election, the total wage bill in the public sector (excluding state enterprises) grew by 19 percent, just at a time when the economy was decelerating. As a result, the share of public wages on total public consumption grew from 58 percent in 1981 to 68 percent in the following years.

3. The Post-Dictatorial Period (1989-1992)

On February 3, 1989, a coup led by General Andrés Rodríguez drove Alfredo Stroessner out of power and initiated the transition to democracy. During this transitional period, the policymaking process initially operated under the existing rules—but now under a new leadership. It was not until 1992 that the adoption of a new constitution re-structured the underlying rules of the game.

Following the "standard procedure" in place since 1954, Gen. Rodríguez was nominated as the Colorado candidate for the May 1989 presidential election and won with 74 percent of the vote. However, the collapse of the old regime had three consequences. In the short run, the arrival of a new coalition, combined with a PMP that remained centered on the Executive, allowed for a new period of rapid policy change. In the medium run, the internal struggles within the new coalition progressively eroded the president's control over the Colorado Party and planted the seed of factionalism discussed below. In the long run, increasing respect for civil liberties and the adoption of a new constitution in 1992 facilitated the incorporation of new players into the policymaking process—and thus multiplied the number of veto points.

3.1 New Players, Old Rules

3.1.1 The End of Party Unity

The atomization of the Colorado Party took place in five stages, starting with the election of a Constituent Assembly in late 1991 and leading to the ANR splinter in 2003:

1) Although the Colorado Party won a majority of the seats in the 1992 Constituent Assembly, the presence of internal factions created room for the formation of strategic coalitions with opposition forces. For instance, the Colorado leaders from the hinterland (the "Bancada Campesina") managed to establish the constitutional bases for the decentralization process (Barreda and Costafreda, 2002: 80), and the faction led by Luis M. Argaña was able to impose a constitutional ban on Rodríguez's presidential re-election.
2) In response to this move, the commander of the Cavalry and President Rodríguez's right-hand man, Gen. Lino Oviedo, blocked Argaña's presidential ambitions. In late

1992, when Luis M. Argaña and Juan Carlos Wasmosy confronted each other in the presidential primary, Oviedo intervened in the vote-counting process to ensure the defeat of Argaña. This move placed Gen. Oviedo in a highly influential position during the new Wasmosy administration after 1993.

3) In 1996, the conflicts within the Colorado Party entered a new phase. The insistence of Gen. Oviedo on encroaching in the political process eventually led to a showdown with President Wasmosy. In April of 1996, Wasmosy ordered the retirement of his military ally and Oviedo responded with a failed insurrection (Ayala Bogarín and Costa, 1996). This action ultimately led to Oviedo's arrest and justified his proscription in the 1998 general election, even though the general had emerged as the favorite candidate in the Colorado primary, defeating Luis M. Argaña.
4) Because Oviedo was under arrest, his running mate Raúl Cubas Grau was named the official Colorado candidate for 1998. For legal reasons, Luis M. Argaña became his vice-president. President Cubas' decision to release Oviedo from prison immediately after he took office in August of 1998 created a new confrontation with the Argaña faction and an impeachment threat from Congress. There was some speculation that Congress would remove President Cubas and install Argaña as the new chief executive when the vice-president was shot and killed in March 1999. Argaña's killing triggered a wave of protests (known as the "Paraguayan March") that ended with the resignation of Cubas and the installation of Luis González Macchi as interim president.
5) Over the next three years, the Oviedista faction reciprocated by attempting to unseat President González Macchi several times. A failed military coup took place in May 2000 and, in the midst of several corruption scandals, the Oviedistas and the Liberal Party attempted to impeach González Macchi at least three times.[3] Still in exile and banned from running in the presidential election, Gen. Oviedo ordered the transformation of his Colorado faction into a new party, Unace (Unión Nacional de Colorados Eticos), for the 2003 race.[4]

[3] An impeachment finally took place in early 2003, but the Senate acquitted González Macchi.
[4] Lino Oviedo returned to Paraguay in late June 2004. At the time of this writing, he was facing a sentence of 10 years in prison.

The "triumvirate" of the Colorado Party, the government, and the military that had characterized the Stroessner regime was significantly weakened by this transition process. Internal factionalism became the norm in the Party, and traditional Colorado-military relations deteriorated. In this context, new regulations instituted party primaries, banned the practice of deducting contributions to the Colorado Party from public sector paychecks and prevented party affiliation among military officers.

3.1.2 Toward a Plural PMP

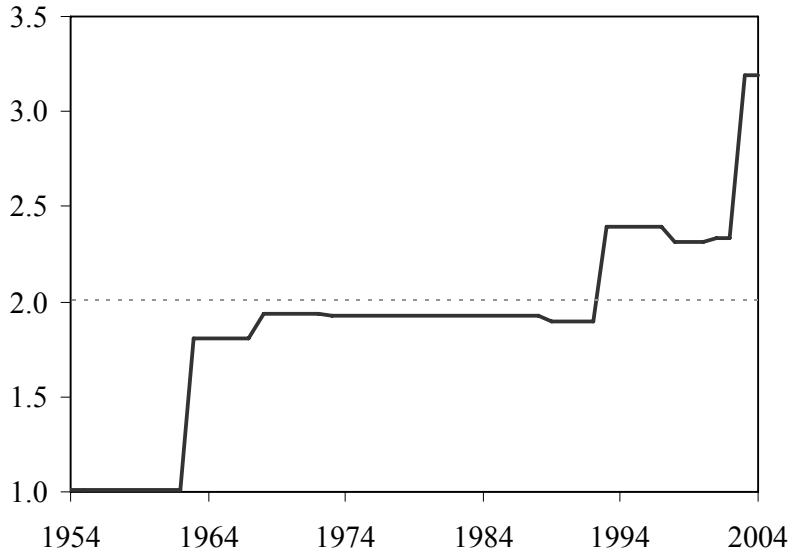
Since 1989, Paraguay has been undergoing a slow but steady processes of democratization and decentralization. Freedom of speech and association have been granted to the people; elections have become free and progressively cleaner; a new constitution guaranteed a more balanced relationship among the Executive, Congress and the judiciary; advances have been made toward the renovation of the judiciary system and many judges appointed for political reasons under the dictatorial regime have been removed.

The recovery of political rights by Paraguayan citizens was reflected in the electoral participation of new political forces. During the transitional period, the emergence of independent candidates and new political forces challenged the two-party system that had characterized Paraguayan politics. Independent candidates ran for positions in the National Assembly in late 1991. A new political party, the middle-class Partido Encuentro Nacional (PEN) achieved 23 percent of the total presidential votes in the 1993 election. Additional parties (Oviedo's Unace, the Movimiento Patria Querida, and País Solidario) emerged in the early 2000s.

As the democratic transition process has unfolded, the opposition represented by the Liberal Party (PLRA) and the new political forces has increasingly gained access to the policymaking process. The executive branch for the most part has remained under Colorado control (exceptions to this rule have been the capture of the vice-president's office by the Liberals in the 2000 election, and the incorporation of the PEN into the Cabinet in 1999-2003), but the adoption of proportional representation has made the congressional arena increasingly pluralistic. Figure 1 depicts the transformation of Paraguay from a hegemonic party system into a

multiparty system, using the effective number of parties index (Laakso and Taagepera, 1979).[5] Before 1963, when Stroessner allowed token opposition into Congress, the effective number of parties was 1.0. Between 1963 and 1992, the average effective number of parties was 1.9. During the last decade, however, multipartyism has emerged in the Paraguayan Congress, with 3.2 effective parties currently in the Chamber of Deputies.

Figure 1.
Effective Number of Parties in the Chamber of Deputies, 1954-2004



3.2 The Outer Features of Public Policies during the Transition

Between 1989 and 1993, the transitional regime preserved the executive-centered policymaking process under the command of a new chief executive. This PMP structure generated two results: the continuation of previous public policies (i.e., policy stability) along the dimensions in which the policy preferences of the old and the new regime coincided, and rapid policy change along the dimensions in which the preferences of the old and new regimes diverged.

In some key aspects, the respective policy preferences of the Stroessner and Rodríguez Administrations diverged, and an initial flurry of policy reform took place in the early 1990s. After a long period of post-Itaipú rigidity, economic policies during the transitional period

[5] The Effective Number of Parties is an index akin to the Hirschman-Herfindahl index of market concentration (HHI) that weights the distribution of legislative seats among political parties. The formula for the index is $ENP=1/\Sigma(p^2)$, where *p* represents the proportion of seats controlled by each party in the lower chamber.

(1989-1993) targeted the deregulation of the economy. This process included exchange-rate liberalization, substantial tariff reductions, deregulation of agricultural prices and deregulation of interest rates (*Análisis del Mes*, December 1989, 1990, 1991). The first year of the Rodríguez Administration was marked by the elimination of the multiple, fixed exchange-rate system, a reduction of tariffs and the liberalization of agricultural prices. In 1990, the Administration liberalized interest rates and signed Law 60/90 for the promotion of foreign investment. A year later, Paraguay joined Mercosur (with Argentina, Brazil and Uruguay), reducing by 47 percent all tariffs for member products not included in the exceptions list. A goal of zero tariffs was set for 1996. That same year, the government reduced the required reserves in the Central Bank for bank deposits and signed Law 117/91 establishing equal treatment for national and foreign investors (who became eligible to receive investment-promotion incentives). Paraguay also joined the Organización Multilateral de Garantías de Inversiones (MIGA) for coverage against losses due to non-commercial risks. In 1992 there was a new reduction of tariffs and a tax reform that involved the creation of a value-added tax and a simplification of the tax structure.

Following this impulse, in 1993 the incoming Wasmosy Administration allowed public companies and the Social Security Institute (IPS) to transfer their deposits to the private banking system. At the same time, foreign-denominated loans were authorized for the private sector. The Rodríguez and Wasmosy administrations also privatized a few medium-sized public companies: LAPSA airlines (Líneas Aéras Paraguayas), the merchant fleet (Flota Mercante del Estado), the ACEPAR steel company (Aceros del Paraguay) and the Paraguayan Administration of Sugar-Cane Spirits (APAL).

Other policy initiatives, like land-tenure policies, were less of a priority for the Rodríguez Administration, and the implementation of reforms in these areas was slow and incomplete. However, in the context of increasing public liberties, policy rigidity was confronted by the re-emergence of the peasant movement. Peasant mobilization was another signal of the growing pluralism in the policymaking process.

Although some public policies moved from rigidity to adaptability in the early 1990s, low public regardedness remained a constant outer feature. Changes in the judiciary system were slow; in 1991 government resources were still used to finance the *Colorado* Party in elections (*Análisis del Mes,* December 1991); high-ranked military officers were still quite active in party politics until 1996 (*Análisis del Mes*, December 1994; December 1995; December 1996); there

was still violent repression of peasant demonstrations (*Análisis del Mes*, December 1994), and corruption was not seriously addressed. For example, in 1990 the Executive vetoed a law to create a National Commission of Investigation of Corruption against the Public Sector; high government officials under the dictatorship were given light punishment for corruption and human right violations (most sentences ranged from two to five years in prison), and accusations of corruption in the Armed Forces were not seriously investigated.

4. The Emergence of a New Policymaking Process (1993-2003)

Economic policies in the early 1990s mainly focused on tax reforms, the balance of payments liberalization, financial liberalization, price deregulation and the privatization of a few medium-sized public enterprises. However, most policy reforms took place from 1989-1992, and only marginal changes have occurred afterwards. This section seeks to characterize the emerging PMP during the period following the establishment of the new Constitution. This period includes the Wasmosy (1993-1998), Cubas Grau (1998-1999) and González Macchi (1999-2003) Administrations, and the first semester of the Duarte Frutos government (August-December 2003). The first sub-section shows that the number of veto players and the rules of the PMP have changed considerably since 1993. The second sub-section discusses how the new conditions affect the outer features of public policies.

4.1 Players in the Democratic Era

This section provides a brief discussion of the workings of the Paraguayan policymaking process following the adoption of the 1992 Constitution. We first describe the institutional players according to the new constitution, and then we attempt to map the rules of the PMP. Because the underlying rules of the new PMP are in many ways still unchartered, the following section relies on detailed bill-initiation data to identify emerging regularities in the process.

4.1.1 The Executive

The Executive Branch has been considerably weakened by the 1992 constitution. The Constitutional Assembly established that the president and vice-president would be elected by plurality for five-year terms with no re-election. It also deprived the president of the power to dissolve Congress, and endowed the Executive with relatively weak "proactive" and "reactive"

powers.[6] The Paraguayan president can enforce policies unilaterally only if Congress fails to address an urgent bill within 60 days,[7] and his line-item veto can be overridden by an absolute majority of Congress.

4.1.2 Congress

Deputies and senators are elected in concurrent elections every five years and can be re-elected indefinitely. The Paraguayan Chamber of Deputies has 80 members who are elected from 18 districts for five-year terms. The deputies are elected from closed party lists using the d'Hondt divisor form of proportional representation in relatively small districts (the average district magnitude is 4.4). In theory, the closed-list system creates little incentives to cultivate the "personal vote" (Carey and Shugart, 1995; Hallerberg and Marier, 2004) but, as is shown below, legally mandated party primaries and relatively small districts have encouraged particularistic politics in the lower chamber.

The Chamber of Deputies has 25 standing committees. Committee positions are allocated among the parties by the president of the Chamber in rough proportion to the percentage of seats held by the parties in the Chamber. Chamber rules do not restrict multiple assignments, but each committee must have a minimum of six members. Committee assignments in the 2003 legislative period, for example, required every member to fill an average of 1.89 slots, which is the minimum number required on average to fill the 150 existing slots. Nonetheless, the average Paraguayan deputy served on more than one additional committee (3.1 committees). This suggests that committee membership imposes few costs on members. But since time and effort are limited resources, legislators serving on a larger number of committees are less able to specialize. Committee chairs are not distributed entirely to the majority party, and in 2003, the majority party received 60 percent of the committee chairs. Seniority in the Chamber does not play a significant role in the allocation of committee chairmanships. The percentage of

[6] Consistent with Shugart and Carey, Payne et al. presented the reactive powers of the Paraguayan president as "moderate" vis-à-vis the "weak" reactive powers of the Costa Rican and Honduran presidents who presumably lack partial veto powers (Payne et al., 2002; Shugart and Carey, 1992). The fact is that articles 126-127 of the Costa Rican Constitution allow the president to "amend" bills passed by Congress and return them to the Assembly for reconsideration, and article 220 of the Honduran Constitution is ambiguous about the possibility of a partial veto.

[7] The 1992 Constitution (art. 210) further constrains the president's proactive powers in three ways: 1) the president is not allowed to issue unilateral decrees and must instead introduce "urgent" bills in Congress (which he can legally enforce if Congress fails to act in 60 days); 2) the president is not allowed to introduce more than three urgent bills per year; and 3) Congress can lift the urgency character of a bill with two-thirds of the votes, reverting to the normal policymaking process. Because of this reason, the Paraguayan proactive powers are generally "toothless."

committee chairs who served more than two periods in the legislature (28 percent) is roughly the same as the percentage of all deputies with a similar tenure (32 percent).

The Senate consists of 45 members elected from closed party lists in a nation-wide electoral district. Thus, in contrast to the deputies who have clear incentives to promote departmental interests, senators do not represent local elites but rather visible party figures at the national level. In other respects, the Paraguayan bicameral system is highly congruent—meaning that the partisan composition of the House and the Senate is usually quite similar (Lijphart, 1999; Llanos, 2002).

Although congressional re-election is not banned by the Constitution, the electoral context, marked by competitive primaries, increasing party factionalism and new political parties has created greater uncertainty about the political survival of legislators. In 1998, 54 percent of the deputies were re-elected—a figure comparable to Chile's lower house (Morgenstern, 2002, 416). Five years later, only 21 percent of the deputies remained in their seats, a situation that resembled the turnover of Argentina's "amateur" legislators (Jones et al., 2002).[8] The decline was consistent across all major parties.

4.1.3 Political Parties

Historically, partisan politics in Paraguay have centered on the competition between two nineteenth-century organizations: the Colorados (or the National Republican Association, ANR) and the Liberals (nowadays called the Authentic Radical Liberals, PLRA). Although the ANR is still the largest party (winning 67 percent of the seats in the lower chamber in 1989, 50 percent in 1993, 56 percent in 1998, and 46 percent in 2003), the Liberals were able to capture the vice-presidency in the 2000 election (which was scheduled to fill the vacant position after the vice president was killed in 1999). Smaller middle-class parties (Encuentro Nacional, País Solidario and Patria Querida) and a Colorado splinter (Unace) have been able to capture a few seats in Congress.

At the same time, the "granitic unity" of the ruling party during the Stroessner era has given way to factionalism and increasing internal competition in the form of (legally mandated)

[8] These figures are estimates of unconditional re-election, based on roll-call data. We do not know how many deputies were actually placed in the lists.

primary elections to define the candidacies and the composition of party conventions.[9] Figure 2 below displays the evolution of the Rice index of party unity for the Colorado and the Liberal parties in the Chamber of Deputies over the last nine years. The Rice index ranges from 0, when the party is evenly split on any legislative vote, to 100, when all the members of the party vote together (Rice, 1925).[10] Because the Chamber of Deputies, in contrast to the Senate, collects roll-call votes on a regular basis, albeit was possible to estimate the cohesion scores using 1,409 controversial votes since 1995.[11]

Figure 2 suggests that the cohesion of Paraguayan parties at present is quite low. At the peak of the factional confrontation in 1999, the Colorado Party reached an abysmal unity score of just 30 points. The average ANR score during the González Macchi administration was 43 points. In contrast to the ANR, the PLRA has shown increasing cohesion over time, but its Rice scores are not particularly high (75 on average for all years and 81 during the best year). In a comparative study, John Carey found average Rice scores of 91 points for Mexican parties, 81 for Chilean parties, 79 for Peruvian and Uruguayan parties, 75 for Brazilian parties, and 88 for Argentine parties (Carey, 2002). In his study of the Argentine Chamber of Deputies, Mark Jones found that the two largest parties (PJ and UCR) consistently had scores above 90 points between 1989 and 1997 (Jones, 2002).[12]

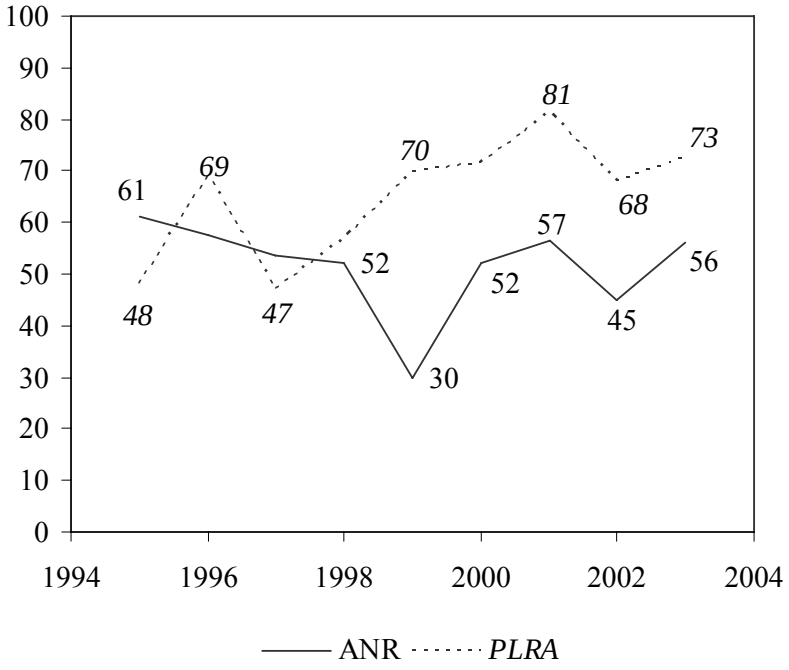
[9] The practice of bitter factional disputes within the two traditional parties was interrupted in the Colorado Party by the "granitic" leadership of Alfredo Stroessner (1954-89), but it remained an essential part of the Liberal Party even during this period.

[10] The formula for the index is R=|Ayes−Nays|/(Ayes+Nays)*100

[11] Controversial votes were defined as decisions in which at least 25 percent of the legislators voted against the winning side (Mainwaring and Pérez-Liñán, 1997). The focus on controversial votes guarantees that minor legislative decisions, which are normally consensual and thus inflate party unity scores, are not given undue influence.

[12] Comparison of unity scores is always difficult because roll-call votes are not equally frequent in all legislatures and researchers select votes using slightly different criteria. Instead of dropping all non-controversial votes, Carey weighted votes according to their closeness and the number of legislators absent. Jones provided "relative" unity scores, ignoring absent legislators and abstentions.

Figure 2 .
Rice Index of Party Unity
(ANR and PLRA, by Year)



4.1.4 The Judiciary

The 1992 Constitution included several provisions intended to reform the judicial system. The new charter included a broad definition of human rights and established a new framework for the court system, and also sought to promote judicial independence: the Constitution mandated that 3 percent of public expenditures be allocated to the judiciary and decreed that judges were not allowed to hold partisan posts. In addition, a jury to prosecute judges (independent from the Supreme Court's control) and a *Consejo de la Magistratura* to select judges were established. However, many of these initiatives were never fully implemented (or implemented at all). The result was a somewhat more autonomous, but hardly competent judiciary. According to a survey conducted by the World Bank Institute in 1999, the Paraguayan judiciary's institutional performance is relatively poor and its functionaries are perceived as being particularly corrupt (*Plan Nacional Anticorrupcion*, 2000). In terms of its institutional performance, the judiciary is ranked below average in as areas including quality of service, quantity of service, cost of provision and accessibility (*Plan Nacional Anticorrupción*, 2000: 28).

4.1.5 The Bureaucracy

In spite of the democratic process initiated in 1993, but consistent with an inability to introduce important policy reforms, post-Stroessner Paraguay has not been able to develop an effective, relatively independent, yet accountable bureaucracy. In 2000, Law 1626/00 sought to modernization the public service career by establishing a clearer system of selection, training, promotion and retirement. Among its key features was the creation of the *Secretaria de la Función Pública* with the rank of a Ministry. This secretary of state was in charge of increasing rationalization, transparency and efficiency in human resource management. However, the Law has been challenged by unconstitutional charges, substantially delaying its full application (World Bank, 2003). Thus, Paraguay does not have clear descriptions of public positions, an effective training system, procedures manuals, a consistent scale of public salaries or any performance evaluation of public employees (World Bank, 2003).

Moreover, the factionalization that has characterized Paraguayan politics in the post-Stroessner period has permeated the public bureaucracy. Public hiring practices are characterized by a high degree of arbitrariness. These hiring practices are based principally on political favors and the support of political parties. At lower levels, its main consequence is that the Paraguayan bureaucracy is plagued by patronage.

In a recent paper, Ugo Panizza estimates public sector wage premiums for a cross-section of countries. While the average Latin American public sector employee earns roughly 4 percent more than workers with similar characteristics employed by the private sector, the wage premium for Paraguayan is around 17 percent. An implication of Panizza's paper is that this indicator can be used as a measure of the relative (with respect to the private sector) inefficiency of the public sector (Panizza, 1999). The greatest challenge faced by the Paraguayan bureaucracy, though, has to do with corruption. As Kaufmann et al. show, there is a widespread consensus that corrupt and dishonest practices are a distinctive feature of the Paraguayan bureaucracy (Kaufmann et al., 1999).

4.1.6 Civil Society

The first Paraguayan NGOs date from the 1960s, though very few organizations were created between 1960 and1980. Most NGOs were established in the 1980s in the midst of a fairly repressive environment under late Stronismo. Different religious groups associated with the

Catholic Church and other Christian parishes, as well as young professionals concerned with the situation of the most disadvantaged sectors of the population, were among the top promoters of these new associations (Ocampos and Rodríguez, 1999). Paraguayan NGOs, although relatively few in number compared to those in other countries, tend to cover a wide range of activities. A 1999 report by the Centro de Documentación y Estudios (CDE) identified 234 distinct associations. A high percentage of these NGOs (60 percent) are legally recognized as civic associations ("asociaciones civiles sin fines de lucro") or foundations. This tendency to seek legal recognition stands in contrast to the situation prior to the transition. During the Stroessner years, most organizations had a de facto but not a de jure existence. In terms of their financing, although the relationship between the NGOs and the public sector has improved in recent years (it was non-existent or even conflictive in the 1980s), government subsidies are very rare, and most are supported by European and U.S. agencies (Ocampos and Rodríguez, 1999).

The only two organizations in Paraguay that can act as "last-ditch" veto players in the PMP are the public employees union and the peasant movement. The greater freedom of association permitted since 1989 allowed for the progressive strengthening of autonomous peasant organizations. In 1992, there were already four national peasant federations totalling more than 15,000 individual members. In 1993, the peasant movement launched a campaign demanding that the government condone cumulative interest on agricultural credits. This campaign brought together 22 national and local peasant organizations into the Coordinación Interdepartamental de Organizaciones Campesinas (CIOC). Congress passed a bill addressing the CIOC's demands, but the bill was vetoed by the Executive (*Analisis del Mes*, December 1993).

Following this episode, peasant protests escalated in 1994. The protests included a march of 20,000 peasants in Asunción, roadblocks and demonstrations all over the country. Unionized workers organized a successful national strike in support of the peasants' demands. As a result of these mobilizations, an expanded Mesa Coordinadora Nacional de Organizaciones Campesinas (MCNOC) was created. The MCNOC has led regular peasant protests and negotiations since 1995. In 1999, the peasants unexpectedly played a key role in the opposition to President Cubas Grau, allowing for González Macchi's rise to power. Though the MCNOC emerged as a visible political actor at that point, its potential to act as a last-ditch veto player became manifest only

three years later, when peasant mobilizations blocked González Macchi's privatization program. This episode is further discussed in the conclusions to the paper.

4.2 Emerging Rules of the Policymaking Process

As a result of the historical background described above and the institutional structure created by the 1992 Constitution, several new rules are emerging in the Paraguayan policymaking process. Because these rules are still in flux, it is hard to establish them with precision. This section presents an interpretation of the emerging policymaking process and then confronts the hypotheses with evidence based on the legislative process during the 1992-2003 period.

Given the tradition of strong presidentialism, it is likely that the president will remain the initiator of all "relevant" policies. However, the president's ability to impose the policy agenda has been crippled by three factors. First, the 1992 charter deprived the Executive of its immense constitutional powers (such as the power to dissolve Congress). Second, the re-election ban on the Executive transforms every president into a "lame-duck." Therefore, the president's ability to enforce policy change in key areas is likely to decline as the end of the term approaches. Third, the increasing fragmentation of the ANR since 1993 has eroded its ability to play the role of a "legislative dictator." Therefore, the capacity of successive presidents to enforce policy change in Congress has declined monotonically following the Rodríguez Administration.

At the same time, a tradition of clientelism has encouraged factional party leaders to build their own private clienteles in order to compete for the control of their parties. The legally mandated primaries have compounded the problem, triggering a competitive drive for enrolling new party members under the banner of each faction. Voters often enroll to participate in the primaries because of selective incentives provided by party bosses, but they are far from being committed party members. Legislators confronted with legally mandated primaries and with more competitive general elections are inclined to initiate particularistic bills for credit-claiming purposes and major bills for position-taking purposes. Given the declining re-election rates and the tradition of a weak legislature, it is unlikely those legislators will be interested in grand policymaking.

The decline in presidential powers, the multiplication of opposition parties and the emergence of autonomous factions within the ruling party points to Congress' increasing propensity to operate as a veto player. In fact, the number of controversial bills has grown over time. Bill-related controversy (reflecting the greater role of factional veto players) tends to arise

over comprehensive (nation-wide, region-wide, or sector-wide) policies with regulatory or redistributive intent. In contrast, particularistic policies with low visibility and low marginal cost are less likely to generate friction within the legislature or in Executive-legislative relations.

In this context, presidents eager to pass broad legislative agendas are forced to build legislative coalitions using selective incentives. Four resources stand out for this purpose: (a) presidents can use patronage positions (particularly in administrative areas of wide regional coverage such as education or public health) to benefit the constituents of loyal legislators; (b) they can accelerate or delay the disbursement of funds for legislators' particularistic projects; (c) they can grant limited voice and visibility to small middle-class parties, always eager to convince their urban constituents that they have leverage in the PMP; and (d) in extreme circumstances they can blackmail their fellow ANR leaders arguing that in the absence of cooperation, policy failures will end the era of Colorado rule in the near future.

Although there is little empirical evidence available on the use of these coalition instruments, recent historical events suggest that they may have some intrinsic limitations. Patronage and pork may be effective in attracting peripheral factions in the ruling party and in the PLRA, both of which are groups with limited resources that need to consolidate their electorates in order to survive in the primaries or eventually challenge the mainstream leaders in the party. At the same time, those resources may be less effective in dealing with stronger factions both within the ANR (like the Oviedistas) or the PLRA. To the extent that the leaders of these factions perform for a national audience and are eyeing the major prize (the presidency) in the coming election, they may be more reluctant to enter into agreements or they may demand excessive retribution for their support. Similarly, the argument about the need to preserve Colorado dominance in future elections can easily be turned on its head. When unions and peasant mobilizations oppose a policy initiative, Colorado leaders will invoke this argument in order to block policy change.

These conditions suggest that the Paraguayan system will provide relative flexibility for the provision of particularistic (privately regarded) policies, but relative rigidity for the provision of comprehensive regulatory or redistributive policies. Particularistic policies refer to policies that are limited in scope (focusing on individuals or towns) and are distributive in nature (transferring public funds to those beneficiaries). In contrast, policies aimed at regulating broad economic sectors or nation-wide activities and those intended to redistribute income and

opportunities across social groups are expected to be more controversial and thus more likely to be stalled.

In order to map the emerging Paraguayan policymaking process and to test these expectations, we built a database of all the legislative bills (*proyectos de ley*) that received final treatment in Congress between 1993 and 2003. Final treatment means that: a) the bill was approved and signed by the president; b) the bill was rejected by Congress or vetoed by the Executive; or c) the bill was treated for the last time at some point between 1993 and 2003 but the legislators made no final decision (i.e., the bill was withdrawn, archived or is pending). The database covers 4,576 bills, virtually every bill introduced in Congress between April 1992 and December 2003.

4.2.1 Policy Initiation

Who initiates the policymaking process under the new system? Table 1 compares the rate of bill initiation by branch and by administration. On average, the Executive Branch has initiated about one-third of the bills during the democratic era. There is no clear indication of a secular trend in terms of the growing or declining role of the president as policy initiator. The somewhat lower scores for the Rodríguez and Duarte administrations are presumably artifacts of the truncated sample (we only examine the last months of the Rodríguez Administration, when the president was already a lame duck, and just a few months of the Duarte Administration).

We expected the type and relevance of the policies initiated by the Executive to differ from those initiated by Congress. In order to test this idea, we classified the content of the bills according to three standard criteria in the literature. The first is the intent of the policy (distribution of benefits to constituencies, social redistribution of resources or regulation of social and economic activities) according to the typology outlined by Theodore Lowi (1964). The second criterion is the scope of the bill (national, local, sectoral, individual) as described by Taylor-Robinson and Diaz (1999). The final criterion identifies the key policy areas for structural reform according to Lora and Panizza (2002; 2003).

Table 1.
Initiation of Congressional Bills, by Administration (1992-2003)

Administration	Bills Initiated by				N (%)
	Executive	Deputies	Senators	Others	
Rodríguez	78	303	30	8	419
%	(18.6)	(72.3)	(7.2)	(1.9)	(100.0)
Wasmosy	656	782	595	55	2088
%	(31.4)	(37.5)	(28.5)	(2.6)	(100.0)
Cubas Grau	41	80	40		161
%	(25.5)	(49.7)	(24.8)		(100.0)
González Macchi	568	787	399	24	1778
%	(31.9)	(44.3)	(22.4)	(1.3)	(100.0)
Duarte Frutos	5	53	17	1	76
%	(6.6)	(69.7)	(22.4)	(1.3)	(100.0)
Total	1348	2005	1081	88	4522
%	(29.8)	(44.3)	(23.9)	(1.9)	(100.0)

Note: The Rodríguez Administration is only examined between April 1992-August 1993; the Duarte Administration is only examined between August-December of 2003.

Table 2 presents the distribution of bills by initiator, according to Lowi's typology. Distributive policies transfer public funds to specific beneficiaries (public or private). Redistributive bills promote transfers of income and opportunities across social groups (e.g., minimum wage policies for the private sector). Regulatory policies norm social activity, whether referring to commercial transactions or criminal behavior. Contrary to our initial expectations, the Executive does not dominate the initiation of redistributive and regulatory policies, and is not less active than the legislators in the promotion of distributive policy. The president clearly dominates the initiation of policies in the "others" category (a residual category that includes all foreign policy issues).

Table 2.
Bill Initiation, by Policy Goal (1992-2003)

Goal	Bills initiated by				Total
	Executive	Deputies	Senators	Others	
Distributive	553	1049	639	43	2284
	(24.2)	(45.9)	(28.0)	(1.9)	(100.0)
Redistributive	30	178	45	5	258
	(11.6)	(69.0)	(17.4)	(1.9)	(100.0)
Regulatory	229	674	308	28	1239
	(18.5)	(54.4)	(24.9)	(2.3)	(100.0)
Others	536	105	87	12	740
	(72.4)	(14.2)	(11.8)	(1.6)	(100.0)
Total	1348	2006	1079	88	4521
	(29.8)	(44.4)	(23.9)	(1.9)	(100.0)

There is, however, a clear division of labor in terms of the scope of the policies initiated by different branches, as shown in Table 3. The Executive dominates the formulation of nation-wide policies and policies related to the public sector (constitutionally, the Executive has gate-keeping power over the initiation of the budget). In contrast, Congress dominates the production of individual-level and local bills, and more surprisingly, the production of bills targeted to the private sector.

Interestingly enough, the lower house dominates the production of bills related to local and regional issues—suggesting that the electoral system gives deputies a clear incentive to represent the interests of their districts. However, in spite of being elected in a nationwide district, senators have displayed a significant interest in individual-level bills, while deputies also showed some interest in sectoral bills.

Table 3.
Bill Initiation, by Policy Scope (1992-2003)

Scope of the Bill	Bills initiated by				Total
	Executive	Deputies	Senators	Others	
Individual	19	597	453	2	1071
	(1.8)	(55.7)	(42.3)	(0.2)	(100.0)
Local/municipal	113	724	214	32	1083
	(10.4)	(66.9)	(19.8)	(3.0)	(100.0)
Public Sector	525	167	184	34	910
	(57.7)	(18.4)	(20.2)	(3.7)	(100.0)
Private Sector	26	55	57	1	139
	(18.7)	(39.6)	(41.0)	(0.7)	(100.0)
Regional	5	23	1		29
	(17.2)	(79.3)	(3.4)		(100.0)
National	660	440	170	19	1289
	(51.2)	(34.1)	(13.2)	(1.5)	(100.0)
Total	1348	2006	1079	88	4521
	(29.8)	(44.4)	(23.9)	(1.9)	(100.0)

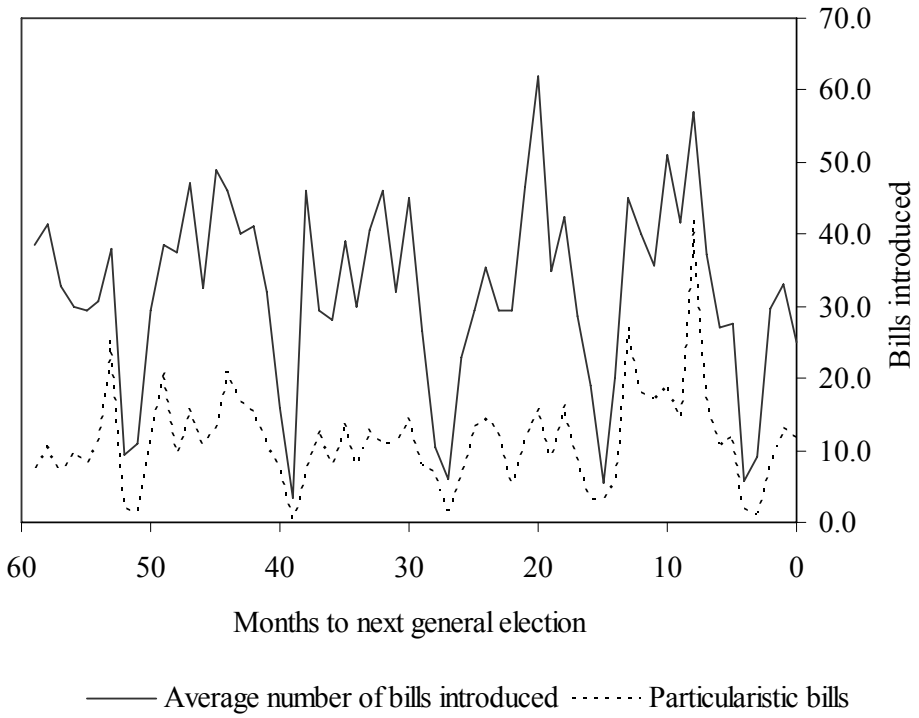
Tables 2 and 3 thus suggest that members of Congress have a greater propensity to initiate particularistic bills. Particularistic is defined as any policy characterized by i) a distributive purpose and ii) a limited scope (individual or municipal range). Particularistic policy is normally related to the distribution of pork and has a distinctively low level of public-regardedness (Cox and McCubbins, 2001). Under this definition, we find that only 7 percent of all the bills initiated by the Executive during the period under study can be classified as particularistic, as opposed to 50 percent of all the bills initiated by the Chamber of Deputies, and 55 percent of all the bills initiated by the Senate.

We could not find any evidence of Executive dominance in the key policy arenas for structural reforms. During the period under study, the Executive Branch initiated six of the 13 (42 percent) bills that explicitly focused on trade and tariffs, 30 of the 70 (43 percent) bills centered on the financial system, 14 of the 66 (21 percent) bills related to the tax system, six of the 31 (19 percent) bills dealing with labor policy, and only one of the 12 (8 percent) bills dealing with privatization policies. This does not necessarily mean that the median legislator initiated the most critical policies adopted in Paraguay. It is likely that many legislators initiate

bills mainly for "position-taking" purposes. The following sub-section shows that the bills initiated by the legislature are less likely to pass.

Some evidence of electoral-cycle driving bill initiation was found. Figure 3 shows the average number of bills introduced in Congress and the number of months pending to the next general election. Although generally speaking bill initiation is not driven by the electoral cycle (downward spikes simply reflect the congressional summer recess), the *share* of particularistic bills (as percentage of the total bills initiated) grows by about 10 percent points during the 12 months prior to a general election (significant at the 0.01 level), even after controlling for the effects of the summer recess.

Figure 3
Average Number of Monthly Bills Introduced in Congress, by Closeness to Next General Election



4.2.2 Veto Players and Policy Approval

The distinctive characteristic of the 1954-89 period was the virtual absence of any significant veto players. This pattern of policymaking was extended briefly into the Rodríguez Administration, but it was progressively dismantled in the early 1990s. The 1992 Constitution

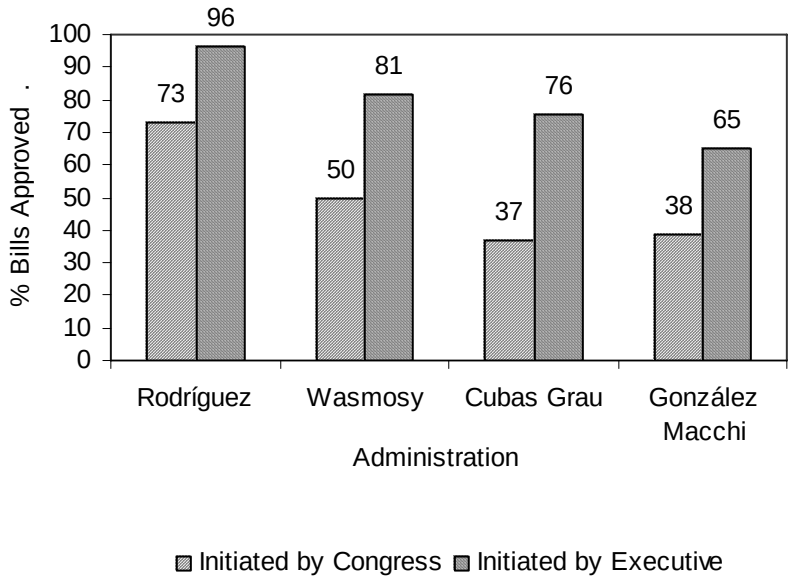
strengthened the position of Congress vis-à-vis the president and, as explained in the previous chapter, the process of democratization allowed for an increasing number of parties and internal party factions. In practical terms, this means that the Paraguayan president moved from controlling a "granitic" Colorado Party with 67 percent of the seats in Congress in 1963 to bargaining with a factionalized party with 46 percent of the seats in 2003.

To assess the impact of this process fragmentation on the PMP, we classified all bills according to their fate. Policy initiatives were coded as: 1) approved (signed into law); 2) rejected; or 3) stalled (archived, withdrawn, or pending).[13] Figure 4 shows the success rate (percentage approved) of executive and legislative initiatives for each administration. The success rate of executive-initiated bills declined from 96 percent during the last 16 months of the Rodríguez Administration (a significant figure considering the lame-duck position of the president) to 65 percent during the González Macchi administration. González Macchi's success rate is comparable to the average found in a study of 11 presidential countries (63 percent) but is clearly lower than the rate of 72 percentenjoyed by other presidents with majority parties in Congress (Cheibub et al., 2004: 723). Figures for the Duarte Administration could not be interpreted given the truncated sample (80 percent of the bills initiated by the Executive and 93 percent of the bills initiated by Congress were still pending resolution by the end of 2003).

It is clear from Figure 4 that the model of executive-dominated policymaking has been increasingly challenged by the process of political fragmentation. But it is also true that fragmentation has hurt the ability of legislators to pass their preferred policies. The rate of Congress-initiated bills that were approved has declined from 73 percent during the last months of the Rodríguez Administration to about 38 percent presently.

[13] Some bills are archived when their content is incorporated into a larger initiative. So in a few cases, archived bills may have not been really stalled. Unfortunately, there is no practical way of identifying those bills.

Figure 4.
Success Rate of Legislative Bills, by Administration and Initiator (1992-2003)



Note: The Rodríguez Administration is only examined for bills initiated between April 1992 and August 1993.

Table 4 presents information on the success rate of bill initiatives by policy area. The data suggest that particularistic policies (distributive in nature and limited in scope) are the least controversial initiatives and the most likely to pass. Only bills dealing with the public sector (budget and administrative issues) have similar rates of approval.

Table 4.
Success Rate of Legislative Bills, by Policy Area (1992-2003)

Policy Type	Outcome (%)			N
	Approved	Rejected	Stalled	
Intent				
Distributive	62.0	13.8	24.2	2300
Redistributive	36.1	35.0	28.9	263
Regulatory	38.8	27.5	33.7	1260
Other	69.5	10.4	20.1	750
Scope				
Individual	59.0	7.3	33.7	1074
Municipal	52.2	23.5	24.3	1093
Public Sector	57.2	19.3	23.5	939
Private Sector	41.5	29.6	28.9	142
Regional	24.1	51.7	24.1	29
National	55.9	20.1	24.0	1296
Total	55.3	18.2	26.4	4573

Based on this information, Table 5 presents a logistic regression that models the simultaneous effects of institutional factors and policy types on the probability of policy change (as measured by policy approval and presidential vetoes). The dependent variable in Model 5.1 indicates whether a bill was ultimately approved (as opposed to rejected or stalled). The baseline category corresponds to a generally uncontroversial category of policy: national bills which are not distributive, redistributive or regulatory (e.g., foreign policy issues). The results of Model 5.1 suggest that: a) individual-level policy initiatives are more likely to pass than the bills in the consensual baseline category, and municipal-level and distributive bills are equally likely to succeed, supporting the hypothesis that particularistic policy is relatively non-controversial; b) policies with a regional focus, as well as redistributive and regulatory policies are more controversial than the rest; c) executive-initiated bills are more likely to be successful than congressional bills, but this advantage has eroded with successive administrations since they faced increasing levels of political fragmentation; d) although there is no clear evidence of an

electoral policy cycle, the results suggest that the capacity of the system to promote policy change declines as the president approaches the end of the term.[14]

Table 5 .
Success and Presidential Veto of Legislative Bills, by Initiator and Policy Area

Predictor	5.1 Approval		5.2 Presidential Veto	
Months to next election[a]	0.004	(0.003)	0.011	(0.008)
Administration's months in office	-0.013	(0.002) ***	0.000	(0.006)
Executive Initiation by[b]				
Rodríguez	3.683	(0.594) ***	-1.006	(1.038)
Wasmosy	1.649	(0.122) ***	-2.073	(0.613) ***
Cubas Grau	1.004	(0.378) ***	-5.278	(9.322)
González Macchi	0.870	(0.112) ***	-1.734	(0.542) ***
Policy Type				
Individual level	0.415	(0.131) ***	-2.553	(0.624) ***
Municipal	0.143	(0.088)	-0.909	(0.359) **
Public Sector	-0.048	(0.101)	-0.039	(0.257)
Private Sector	-0.210	(0.132)	0.485	(0.292) *
Regional	-0.927	(0.384) **	-0.415	(1.034)
Distributive	0.107	(0.134)	0.614	(0.538)
Redistributive	-0.650	(0.202) ***	1.858	(0.601) ***
Regulatory	-0.571	(0.116) ***	1.038	(0.453) **
Constant	0.206	(0.138)	-3.934	(0.512) ***
Nagelkerke R	.178		.160	
N	4446		4446	

Note: Entries are logistic regression coefficients (standard errors). The Duarte Frutos Administration was excluded from the sample because of limited information.
a - Including general, municipal and vice-presidential elections.
b – Baseline category is all bills initiated by Congress
* Sig. at .1 level; ** sig. at .05 level; *** sig. at .01 level.

In order to illustrate the substantive implications of Model 5.1, two simulations are presented in Figure 5 and Table 6 showing the expected probability of policy change (given the coefficients in Model 5.1) under different initial conditions. Figure 5 illustrates the effects of political fragmentation and the no re-election clause on the approval of executive-initiated bills

[14] The inclusion of two time variables, one reflecting the number of months elapsed in office and the other indicating the months pending to the next election (whether national or municipal contests) is intended to separate the effects of the electoral calendar from the "lame-duck" effect.

(for simplicity, all bills are assumed to be national in scope and regulatory in nature). The simulation shows that: a) as the party system became more fragmented, every president after Andrés Rodríguez has enjoyed lower levels of policy success than his predecessor; and b) in every case, the effectiveness of presidential initiatives declined as the president turned into a lame duck. There seemed to be a consistent monotonic decline in presidential leverage starting with the Wasmosy Administration, although this trend may have stopped after 2003.

Figure 5.
Expected Probability of Success for Administrations (1992-2003)
(Simulation assumes regulatory bill, national in scope)

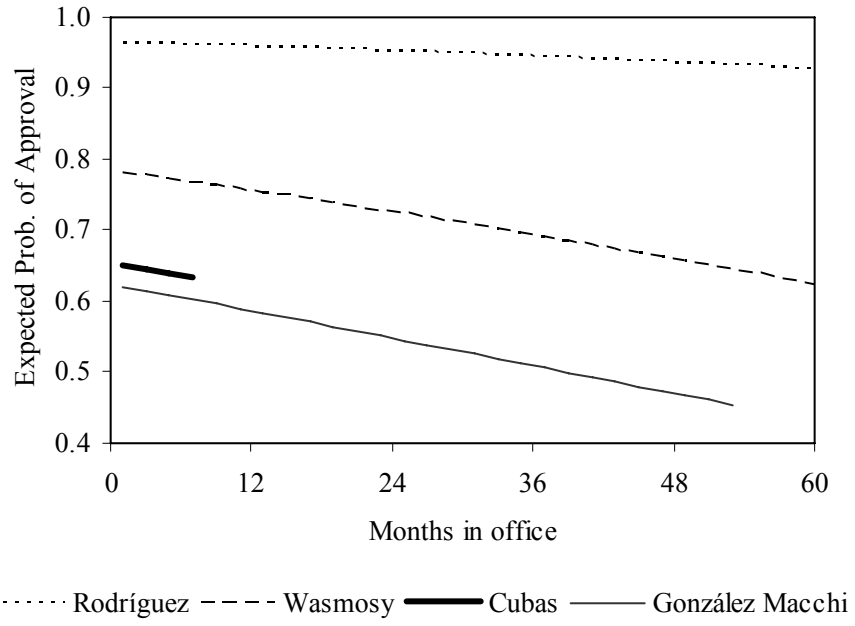


Table 6 depicts the expected probability of success for bills initiated by Congress in different policy areas. This simulation assumes that the bill was initiated by Congress, that the administration is in the middle of the term and that there are no intermediate elections. The estimation shows that the Paraguayan policymaking process is well-equipped to deliver particularistic policy (distributive policy with an individual or local focus). Bills in this category have the highest success rate, ranging between 55 and 61 percent. In contrast, the ability of the legislative process to produce regulatory or redistributive policy at the regional, sectoral or even national level seems much weaker (16-35 percent). This general pattern holds even if one

assumes that the Executive Branch and not the legislators initiate the proposals. A "contemporary" president (someone with a leverage in between Cubas Grau and González Macchi), initiating a bill in the thirtieth month in office would face an expected probability of success ranging between 81 percent (for individual, distributive bills) and 35 percent (for regional-redistributive bills).

Table 6.
Expected Probability of Success, by Policy Area

Goal / *Level*	Distributive	Redistributive	Regulatory	Others
Individual	0.613	0.426	0.445	0.587
Municipal	0.546	0.361	0.380	0.520
Public Sector	0.499	0.319	0.336	0.472
Private Sector	0.459	0.284	0.301	0.432
Regional	0.293	0.163	0.174	0.271
National	0.511	0.329	0.347	0.484

To verify these findings, we selected the occurrence of presidential vetoes as an alternative measure of controversy in the policy areas (Model 5.2). This measure is somewhat orthogonal to approval (a vetoed bill may still become law if Congress overrides a package veto or accepts the president's partial veto) and it is intended to measure the controversy surrounding a bill rather than its success. Our dataset contains 193 episodes of partial or total vetoes, of which information on the PMP is complete for 104 cases. Model 5.2 confirms the idea that particularistic policies are less controversial (and therefore less likely to be vetoed by the Executive), while redistributive and regulatory policies are more likely to generate friction in the policymaking process.

5. The Emerging Outer Features in Historical Perspective

What are the features of public policies in the current period? How do they compare to the outer features of policies in previous historical periods? The patterns described in the last section suggest that the new policymaking process displays both traditional and novel characteristics. On the one hand, Paraguayan public policies still show a conventional feature: low public regardedness. On the other hand, the current period contrasts with the "golden age" of *Stronismo*

and with the Rodríguez transitional regime because during these two periods executive concentration of power allowed for fast policy change. In the democratic context, however, the multiplication of factional veto players has imposed low decisiveness on the PMP.

5.1 Stability

The Stroessner dictatorship was able to impose intertemporal policy deals until the succession crisis loomed on the political horizon. In contrast, the current PMP seems to have little ability to enforce long-term transactions, given: a) the ban on presidential re-election, b) the discord and the political realignments within the ANR, and c) the focus of the opposition on removing the ANR from power in the medium-run.

This conclusion, however, must be qualified on four grounds. First, the current players seem to agree on the overall rules for the production and distribution of particularistic policies. Second, the increasing number of veto players may ultimately impose a low rate of policy change in the years to come. These two conditions, however, may add rigidity (rather than stability) to existing policies. Third, it must be noted that a direct comparison between the stability of the Stroessner policies and the uncertainty of the current policy regime may be deceiving. There is an underlying selection bias problem because at the core of the Stroessner model was the elimination of policy controversies—and these are precisely the instances in which the PMP must generate either short-term policy volatility or stable intertemporal transactions.

Last, but not least, it is worth emphasizing that some of the rules that regulate intertemporal transactions are still in flux. For instance, for the first time in several decades, the Colorado Party failed to achieve a parliamentary majority in 2003. At the time of this writing, the Chamber of Deputies was evenly split between the Colorado plurality and the opposition, still too fragmented to exercise a systematic veto power. A small party, the emergent party Patria Querida, served as a pivotal player, negotiating with the president the approval of critical bills. It is possible, although certainly not guaranteed, that small parties will acquire a significant role in shaping the PMP. In many ways, the structure of the Paraguayan policymaking process is still in a formational stage.

5.2 Adaptability

The Stroessner model initially generated significant levels of policy adaptability, followed by increasing rigidity in the 1980s as the privately regarded policies ossified. In part, these levels of adaptability resulted from the ability of the regime to marshal resources around long-term strategic projects like the "March towards the East." (This capacity to marshal resources also generated perverse side effects, such as inefficient patterns of public investment.) It is clear that for the most part, the current policymaking process lacks the same ability Low decisiveness is in part the result of a weakened Executive—with regard to both constitutional and partisan powers—but also of legislators with little incentive to engage in policymaking beyond particularistic projects.

In contrast to previous periods, the current Paraguayan PMP also has a limited ability to modify major policies. Many areas of reform identified as crucial by key stakeholders have been stalled. Among those delayed reforms are the privatization of public enterprises in the telecommunications, safe water and railroad sectors; the reform of social security and the health system; a civil service reform; the reform of state-owned banks; the implementation of policies to promote rural land markets and the modernization of public-sector management, including the strengthening of the regulatory system in the financial sector.

During the last decade, regulatory bills initiated by the Executive have faced declining rates of success: 87 percent were approved by Congress during the last year of the Rodríguez Administration, 69 percent during Wasmosy's term, 60 percent during the short Cubas period and 48 percent during the González Macchi Administration. This is not to say that Paraguayan presidents are completely unable to foster policy change—they still control important partisan and patronage resources—or that that the ability to impose unilateral policy agendas would be always desirable; veto players perform a major function in any democratic PMP. The Executive still controls important patronage resources that can be used to build policy coalitions, but such resources may be less effective when competing factions aspire to publicly distance themselves from the officials in López Palace. Thus, the potential for policy adaptability may be low in the areas of regulatory and redistributive policy, where controversial issues are more likely to arise.

5.3 Public Regardedness

As occurred during the Stroessner era, the current PMP displays a very low level of public regardedness. This problem has adopted two forms: corruption and particularistic policy (including the distribution of public jobs and pork-barrel). Corruption is the "classic" manifestation of the problem. In 2002, Paraguay ranked 98 out of 102 countries in the Transparency International Corruption Perceptions Index—the lowest Latin American score. The country additionally occupied position 140 (out of 155 ranked countries) in the Kaufmann et al. index of graft (Kaufmann et al., 1999).

Although less visible in the media, particularistic policymaking may be a more relevant dimension of this issue. Particularism is the legal manifestation of the low public regardedness that permeates the system. About 55 percent of all the bills initiated by Paraguayan legislators are distributive in nature and 64 percent are narrow in scope (individual or municipal). In contrast, however, only a quarter of the bills initiated by the Ecuadorian Congress are distributive, and barely one-fifth are targeted at the municipal or individual levels (Araujo et al., 2004: 30-31). The data presented above indicate that particularistic policies occupy most of the Paraguayan legislators' efforts; they are non-controversial and are less likely to be vetoed by the Executive.

At the same time, the factionalization that characterizes Paraguayan politics has permeated the public bureaucracy. Public hiring practices are characterized by a high degree of arbitrariness and are principally based on political favors and clientelism. Ugo Panizza has estimated that the average public employee in Paraguay earns 17 percent more than a worker with similar characteristics in the private sector, while the equivalent public sector premium in the average Latin American country is about 4 percent (Panizza, 1999).

Compared to the Stroessner system, the democratic PMP displays greater inclusiveness, lower coordination and higher decentralization of the distributive process. Therefore, the system seems to be quite flexible for the production and distribution of particularistic policies (individual pensions, public jobs, etc.). At the same time, the initiation of such bills seems to be driven by clearly electoral considerations, and the combination of legally mandated primary races and contested general elections may increase competition for pork among legislators in the future.

5.4 Public Regardedness and Policy Rigidities

The relationship between these two outer features (low public regardedness and low adaptability) is complex and deserves further exploration. We hypothesize that two opposite effects may be taking place. On one hand, in a context of declining formal and partisan powers, particularistic policy may be one of the few resources left to the Executive Branch in order to negotiate with Congress. An expansion of pork-barrel politics may be consistent with a strategic attempt by the Executive to overcome its increasing weaknesses. In the current context, the president may have a limited ability to adopt new regulatory or redistributive schemes, but he could be even weaker in the absence of distributive policy.

On the other hand, corruption exposés de-legitimize the policymaking process, ignite social mobilization and discourage the formation of a legislative consensus—thus increasing policy rigidity. As an example of this problem, consider the frustrated privatization plan of the González Macchi Administration (1999-2003). Confronted with mounting deficits, the Administration embarked upon a program to privatize the public telecommunications company (Antelco, later renamed Copaco), the water supply (Corposana, later renamed ESSAP) and the Carlos Antonio López railroad. In May 2000, the Senate passed a bill delegating powers to the Executive for this purpose. The Chamber of Deputies approved the bill in October and the government intervened in the three companies a few days later. By mid-2001, Copaco, the leading case in the process, was already entering the final stage of its privatization.

However, in April 2002 the press disclosed that the Administration had paid $600,000 to a private notary in order to register the transfer of assets from Antelco (the public company) to Copaco (the renamed firm to be privatized) even though the registration should have been handled by the attorney general at no cost to taxpayers. The People's Democratic Congress, an alliance of peasant and union leaders, mobilized against the "corrupt privatization" of Copaco. In June, thousands of peasants marched to Asunción. The Central Nacional de Trabajadores (CNT) called for a general strike and the congressional opposition initiated impeachment proceedings against González Macchi. Worried about the 2003 presidential race, Colorado legislators negotiated the repeal of the privatizations with union and peasant leaders in exchange for the dismantling of the protest movement. In the afternoon of June 6, the Senate approved by 32-7 a new bill suspending the sale of Copaco, ESSAP and the railroads. To the horror of the IMF and

the minister of finance, the president signed the bill immediately, deactivating the protests and thus the impeachment charges.

This shows that public regardedness can be a double-edged sword. Although particularistic policy may facilitate policymaking by giving the Executive additional instruments of negotiation with Congress, corruption may erode the credibility of the PMP in the long run, activate the mobilization of "last-ditch" veto players and ultimately make the problem of policy rigidity even more acute.

5.5 Institutionalization

Maybe the most important contrast with the Stroessner model, however, is the greater potential for institutionalization of the current policymaking regime. Although the struggles within the Colorado Party generated outbursts of political instability in 1996, 1999 and more recently in 2000, the absence of a "succession problem" looming on the horizon creates a more propitious context for developing a learning process about how to build intertemporal policy agreements. Thus, although the Stroessner system supplied a dominant executive capable of enforcing intertemporal deals in the medium run, it failed to provide a policy regime with longer horizons. In contrast, the current system creates a weaker executive with little ability to enforce pacts, but it may generate expectations for more stable rules of the game in the long run.

Table 7 summarizes for each of the four periods the key players, the policy initiation, the effective number of parties, the veto players, the ability to enforce intertemporal agreements, the policy adaptability, the level of public regardedness and the capacity to enforce rules in the long run.

Table 7 underscores two main theoretical conclusions. First, the presence of multiple veto players may be neither necessary nor sufficient to create policy rigidities. True, the current period contrasts with the "golden age" of *Stronismo* and with the Rodríguez transitional regime because during these two periods the executive concentration of power allowed for fast policy change. But when partisan factions converge in their policy preferences (as in the case of particularistic policies), policy change is easily achieved. At the same time, the presence of a policy dictator did not prevent policy rigidity in 1982-89. Second, the historical evidence supports the idea that policy adaptability and public-regardedness are independent dimensions of the policymaking process. Even though adaptability has varied over time, low public regardedness has remained a constant feature.

Table 7.
Comparison of the Policymaking Process in Different Historical Moments

	Stroessner I 1954-1981	Stroessner II 1982-1989	Transition 1989-1992	Current 1993-2003
PMP				
Key Players	Dictator, military, ANR	Dictator, military, ANR	President, military, factions within ANR	President, Congress, ANR's factions, new parties
Policy Initiation	President	President	President	President *and* Congress
Effective Number Parties (period mean)	1.60	1.92	1.89	2.42
Veto Players	Virtually none	Virtually none	Increasing role of factions	Increasing role of opposition in Congress
Policy Features				
Capacity to enforce intertemporal transactions	High (assuming stability in dictator's preferences)	Low (succession problem)	Low (re-election problem)	Low (assuming controversial issues)
Policy adaptability	High	Declined as privately-regarded policies ossified	High	Low capacity to adopt new regulatory or redistributive policies
Public regardedness	Low	Low	Low	Low

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