Inter-American Development Bank
Banco Interamericano de Desarrollo
Latin American Research Network
Red de Centros de Investigación
Research Network Working Paper #R-523

Veto Players, Fickle Institutions and Low-quality Policies: The Policymaking Process in Ecuador (1979-2005)

by

Andrés Mejía Acosta*
María Caridad Araujo**
Aníbal Pérez-Liñán***
Sebastián Saiegh***

*Institute of Development Studies, Sussex
**World Bank Group
***University of Pittsburgh

(The views expressed are those of the authors alone and should not be attributed to their respective institutions.)

May 2006

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

Veto players, fickle institutions and low-quality policies : the policymaking process in Ecuador

(1979-2005) / by Andrés Mejía Acosta … [et al.].

p. cm.
(Research Network Working papers ; R-523)
Includes bibliographical references.

1. Political planning--Ecuador. 2. Fiscal policy--Ecuador. 3. Policy sciences. I. Mejía Acosta, Andrés. II. Inter-American Development Bank. Research Dept. III. Latin American Research Network. IV. Series.

320.62 V448 --------dc22

©2006
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, DC 20577

The views and interpretations in this document are those of the authors and should not be attributed to the Inter-American Development Bank, or to any individual acting on its behalf.

This paper may be freely reproduced provided credit is given to the Research Department, Inter-American Development Bank.

The Research Department (RES) produces a quarterly newsletter, *IDEA (Ideas for Development in the Americas)*, as well as working papers and books on diverse economic issues. To obtain a complete list of RES publications, and read or download them please visit our web site at: http://www.iadb.org/res.

Abstract[1]

This paper seeks to understand why political actors, institutions and legal reforms have systematically failed to produce cooperation in the Ecuadorian policymaking process. From a comparative and historical standpoint, Ecuador has been trapped in a cycle of low-quality public policies that fail to adjust to environmental conditions, that fluctuate according to political whims and that tend to favor well-organized lobbies rather than pursuing optimal social outcomes. The paper identifies two alternative policymaking paths leading to poor policy outcomes. In the first one, the executive agenda is eclipsed by the short-term clientelistic demands of multiple veto players in the legislature, thus contributing to policy deadlock or rigidity. In the second, executive power is delegated to a decisive, often technical bureaucracy isolated from political pressures, but the lack of institutional stability of such bodies leads to a pattern of policy volatility. Lastly, the paper discusses the formal and informal roles of "last-ditch" veto players to stall or revert unwanted policies. The paper also features two case studies on fiscal and monetary policies, and derives empirical implications to improve the formation of durable intertemporal agreements in the legislature and ensure stable policy implementation and enforcement through a technical bureaucracy and independent judiciary.

[1] This research project was based at, and benefited from the institutional support of the Facultad Latinoamericana de Ciencias Sociales (FLACSO) in Ecuador. We are grateful to Simón Pachano for being a driving force behind this project. We thank Fernando Carrión and Adrián Bonilla (former and current FLACSO directors) for their unconditional support. We are indebted to Santiago Basabe, Paulina Larreátegui and Michel Rowland for their splendid research support. Mauricio León, Emilio Márquez, and Sabá Guzmán helped us gather valuable data. We also thank Luis H. Jácome, Fidel Jaramillo, Fabrice Lehoucq, Eduardo Lora, Ernesto Stein, Carlos Scartascini, Mariano Tommasi, Mark Payne, Marco Varea and seminar participants at discussion seminars at the Weatherhead Center for International Affairs, Harvard University and at FLACSO-Quito for comments and feedback on earlier versions of this paper. All errors and inaccuracies remain the sole responsibility of the authors, as do the views expressed in this paper, which do not represent the World Bank Group or its member countries.

Andrés Mejía Acosta, project coordinator and corresponding author: a.mejia@ids.ac.uk.

1. Introduction

Ecuador's return to democracy in 1978 encountered the twin challenge of building and strengthening democratic institutions and practices while adopting major policy adjustments and structural reforms in the economic realm. During military rule in the 1970s, the Ecuadorian state underwent tremendous economic transformations that altered the existing social and political institutions. The discovery of oil-rich fields in the Amazon brought unprecedented growth rates, increased public sector spending and investment and encouraged rapid modernization of the productive infrastructure (Araujo, 1998; Hurtado, 1990). As a result, new social groups—mostly a stronger middle class, but also business, labor and peasant organizations—demanded more participation and representation in the political arena, thus accelerating the transition to democratic rule in Ecuador (Hurtado, 1990).

During the transition process, the ideas of a young generation of democratic reformers prevailed over the conservatism of traditional elites and the radicalism of left-leaning parties. Newly elected leaders sought to address structural problems of economic distribution, unequal development and political instability through centralized planning and constitutional design. Prevailing in the minds of democratic reformers was the turbulent legacy of more than five decades of personalistic politics, volatile coalitions and regional conflict. Between 1925 and 1948, Ecuador experienced 27 different administrations, of which only three were the result of elections. The remaining 24 included 12 caretaker governments, eight administrations originating from a coup, and four that were appointed by a constituent assembly (Hurtado, 1990). Between 1948 and 1961, the exporting cacao and banana boom helped produce a brief "democratic parenthesis" when elected governments were able to end their mandates. But turmoil emerged again in 1963 when a military-backed coup put the vice president in charge; an interim president was appointed in 1966 and a constitutional assembly was convened. The 1968 presidential election was followed by an *autogolpe* two years later, which was toppled by a military coup in 1972 (Mejía Acosta, 2002).

The institutional design adopted in the 1979 Constitution sought to strengthen the political system's ability to implement stable and nation-wide policies. Reformers conceived two fundamental pillars of change: empowering elected governments with broad popular support and wide constitutional prerogatives, and the consolidation of national political parties. The first set of reforms aimed to prevent the election of presidents who lacked wide electoral support or lacked the backing of organized political parties.[2] Among the most important reforms were the adoption of a run-off system for presidential elections (1977), provisions to request party sponsorship of presidential candidates (1977) and endowing presidents with strong agenda-setting powers (1983). The second set of reforms contemplated strengthening the political parties, with the ability to represent national constituencies that supported presidents' agendas. Reforms to this effect were included in provisions to require nationwide participation of political parties (1977), a mandatory threshold for party registration (1977) and provisions for removing parties with poor electoral performance from the electoral registry (1978).[3]

While the expected effect of these reforms was to strengthen political representation and enhance governability, in practice institutional reforms failed to facilitate political cooperation, partly because they underestimated the divisive influence of social, ethnic and regional cleavages, and partly because conflicting features of the new institutional design provided political actors with a mixed set of cooperation incentives. Proportional representation electoral rules encouraged the proliferation of political parties with constituencies at the regional or provincial level. Presidential run-off majority elections reinforced the fragmentation and proliferation of opposition parties while reducing the likelihood that elected presidents would enjoy single-party majorities in Congress (Mejía Acosta, 2002). Finally, the adoption of mid-term elections, coupled with the banning of immediate re-election for deputies (both effective since 1983), provoked the staggered renewal of at least 85 percent of legislators every two years. As a result, until the adoption of new constitutional reforms in 1998 legislators had very few institutional incentives to engage in sustained cooperation over time (Mejía Acosta, 2003). Table 1 illustrates the level of legislative fragmentation and weak political support facing most Ecuadorian presidents.

[2] The 1968 presidential election is a case in point: there was almost a three-way tie, resolved in favor of one of the candidates by a minuscule margin. This was not an exception, but rather a continuation of an existing pattern. The 1956 election presented a very similar scenario, although each of the top three candidates had an even lower proportion of votes. In 1968, each of the top three candidates obtained roughly one-third of the votes (32.8 percent, 31 percent, and 30.5 percent), whereas in 1956 each received roughly one-fourth of the vote (29 percent, 28.5, and 24.5 percent). The exceptions were the 1952 and 1960 elections, where the winner on both occasions, Velasco Ibarra, obtained a plurality of the votes with 43 percent and 48.7 percent, respectively.

[3] Parties were further banned from making pre-electoral alliances with the purpose of evaluating their absolute—as opposed to their relative—electoral strength (Hurtado, 1990).

Table 1. Ecuadorian Presidents and Congressional Support (1979-2005)

Years	*President*	*Government Party*	*Seats in Congress*	*Largest Party*	*Seats in Congress*
1979-1981	Jaime Roldós[B]	CFP	44.9	CFP	44.9
1981-1984	Osvaldo Hurtado	DP	0	CFP	17.4
1984-1986	León Febres Cordero	PSC	12.7	ID	33.8
1986-1988[A]	León Febres Cordero	PSC	19.7	ID	23.9
1988-1990	Rodrigo Borja	ID	42.3	ID	42.3
1990-1992[A]	Rodrigo Borja	ID	19.4	PSC	22.2
1992-1994	Sixto Durán Ballén	PUR	15.6	PSC	27.3
1994-1996[A]	Sixto Durán Ballén	PUR	3.9	PSC	33.8
1996-1997	Abdalá Bucaram Ortiz[C]	PRE	23.2	PSC	32.9
1997-1998	Fabián Alarcón Rivera	FRA	1.2	PSC	31.7
1998-2000	Jamil Mahuad[D]	DP	28.1	DP	28.1
2000-2003	Gustavo Noboa	(IND)	0	PSC	20.3
2003-2005	Lucio Gutiérrez[D]	PSP	9.0	PSC	25.0
2005-	Alfredo Palacio	(IND)	0	PSC	25.0

[A] Mid-term elections.
[B] Died in a plane accident. Vice-president assumes mandate but lacks a congressional party contingent of his own.
[C] President ousted by Congress. President of Congress assumes mandate.
[D] President ousted by Congress. Vice-president assumes mandate but lacks a congressional party contingent of his own.
Source: Mejía Acosta (2002)

Despite the severe partisan fragmentation in Congress, important sectors of society were still left outside of formal representation channels offered by the new democratic environment, and political parties themselves became vehicles for translating particularistic interests and demands into private-regarding policies. Outside the legislature however, the left could not develop or maintain ties with labor unions or popular sectors, the military was denied the right to vote, and even though the 1979 Charter granted voting rights to the illiterate, large sectors of the indigenous and peasant population included in this category were not mobilized by any specific political party for the first decade and a half of democratic existence. Only in the mid-1990s was the exclusionary pattern of political representation challenged by newly mobilized social groups and actors. Indigenous groups organized a social movement (CONAIE) and later formed a political party (Pachakutik) to gradually gain access to political office in the legislature, local governments and the Cabinet. Traditional political parties developed stronger patterns of representation along regional lines and provinces (Pachano, 2004). Active military leaders resisted temptations to (or were prevented from) breaching civilian rule, and successfully ran for political office through democratic means in 1996, 1998 and 2002.

The adoption of a new constitutional arrangement in 1998 and the dollarization of the economy in 2000 should have provided, in theory, more incentives for cooperation or at least reduced the arenas for political conflict. The new constitution and other reforms strengthened the powers of the Executive, abolished term limits and expanded legislators' time horizons, and improved the electoral and territorial representativeness of politicians. Dollarization also reduced the discount rate of actors and imposed specific constraints to ensure fiscal discipline, encourage investment and reduce discretional government spending. Though this wave of reforms was aligned with orthodox policy recommendations, it removed much-needed political currencies that were informally used to reach agreements in a highly fragmented and polarized legislative setting. An unintended consequence of these reforms is that much policymaking activity since 1998 has been de facto transferred to the sub-national arena, where newly empowered mayors from the traditional political parties directly confront a powerful Executive who sets the agenda and holds the power of the purse.

This paper explores the workings of the policymaking process in this historical context. Section 2 briefly characterizes the main "outer features" of public policies in historical and comparative perspectives across different policy realms. Section 3 identifies the roles and workings of the main policy actors: veto players, decisive players and "last-ditch" veto players. The fourth section describes the dynamics of the policymaking process operating under severe political fragmentation and near-sightedness, and the fifth section describes how these dynamics have shaped the outer features of public policies. The main argument is that high volatility is observed in areas characterized by the presence of a strong "decisive" player, while policies tend to be quite rigid or inefficient in areas characterized by the presence of multiple veto players (institutions, social movements, and international financial institutions). These two scenarios are further developed in two case studies (Fiscal Policy and Exchange Rate Policy) in Sections 6 and 7. The conclusions in Section 8 summarize the main arguments.

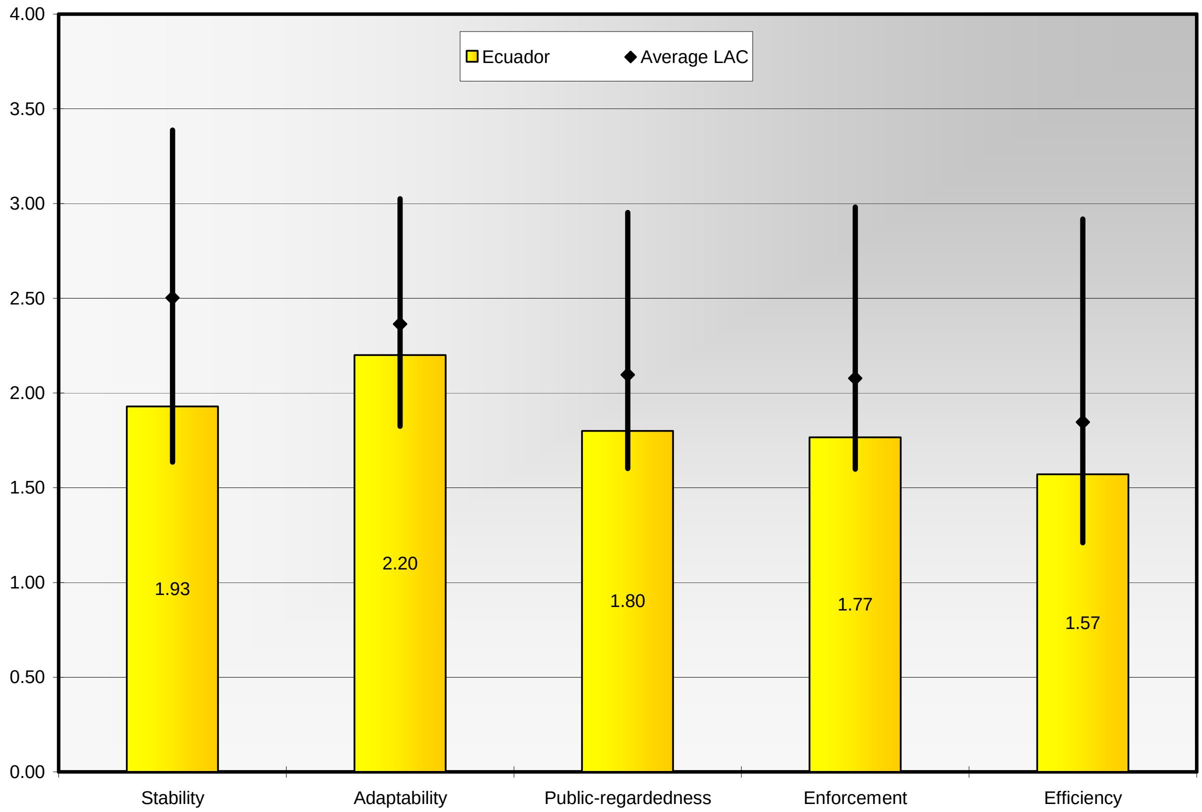
2. Public Policies in Ecuador

Ecuador's policymaking process is well described by Grindle and Thoumi's notion of "muddling through:" a pattern by which conflicting political and economic views over policymaking alternatives do not always defeat policy changes, but delay their implementation and limit their success (Grindle and Thoumi, 1993: 123-4). The proliferation of relevant veto players (actors whose consent is needed to implement policy changes) in the national arena, the polarization of their policy preferences and the lack of institutional mechanisms to facilitate, maintain and enforce political agreements over time are key elements help that explain poor policy performance in Ecuador.

This section provides a brief evaluation of the quality of public policies in Ecuador along different policy dimensions: whether policies can be sustained over time (stability), whether they can promptly respond to changing external conditions (adaptability), whether adopted policies are properly enforced, whether policies pursue general welfare or privilege private interests, and whether they produce efficient outcomes. In order to achieve an objective assessment of the quality of public policies, this section relies on State Capacities Survey data, which include responses from more than 150 country experts across 18 countries in Latin America and the Caribbean (IPES, 2005).[4] The following chart measures the quality of policies on a 4-point scale (with 4 being the highest and 1 being the lowest). For almost all criteria analyzed, Ecuadorian policies obtained among the lowest scores in the region, with the exception of policy adaptability where Ecuador had a medium ranking. The policy dimensions are explained and illustrated below.

[4] Survey data also take into account existing indicators from the World Economic Forum's Global Competitiveness Report (GCR), and Weaver and Rockman's survey of State Capabilities (1993). For a complete description of the dimensions capture by this survey, see Chapter 6 of the 2006 IPES report and the Data Appendix for methodological specifications (IPES, 2005).

Figure 1. The Quality of Public Policies: Ecuador in Comparative Perspective



2.1 Outer Features in Ecuador: an Overview

A first criterion for evaluating the quality of policies refers to the state's ability to maintain policy stability and continuity over time. This dimension is affected negatively if policy survival is contingent on political swings or idiosyncratic changes in policy preferences. Ideally, stable (as opposed to volatile) policies allow institutions to produce the expected results, since they build on previous agreements and tend to generate social consensus. Taken in comparative perspective, Ecuador ranks low in policy stability, mostly because Ecuadorian policymakers have faced institutional constraints to developing long-term cooperation. The combination of legislative term limits and mid-term elections imposed de facto restrictions on legislators' political careers between 1983 and 1998. Furthermore, executive and Cabinet volatility contributed to additional policy instability and uncertainty. Since 1996, Ecuador has not had a president who finished his four-year constitutional mandate. Economic Cabinet ministers lasted on average less than a year in office between 1979 and 1998, and this average was further reduced after 1998. This chronic volatility affected the "investment-like" or intertemporal continuity of policies in Ecuador, and the lack of policy continuity has affected the country's commitment to long-term economic reform. For example, between 1979 and 1998, the government of Ecuador negotiated with the International Monetary Fund (IMF) nine letters of intent and signed seven loan agreements but fulfilled only three of them.

A second relevant criterion is the governments' ability to innovate policies in the presence of changing economic conditions or when current policies have ceased to work (policy adaptability). At the opposite end of the dimension, governments may get stuck with unsuitable policies for extended periods of time (policy rigidity). The (lower than average) survey scores reported for Ecuador suggest that policies have not adequately changed to respond to substantial social, environmental and economic shocks over the last two and a half decades. Some of the exogenous shocks that affected macroeconomic performance include a high dependency on the international price of oil exports, the debt crisis of the 1980s, the international financial and banking crises in the mid to late 1990s, and the presence of natural disasters such as floods, earthquakes and armed conflicts with neighboring countries. As will be shown, the presence of multiple actors who are directly influential in the policymaking process (veto players) and their diverging policy preferences have hindered political cooperation and significantly increased the costs of policy change in Ecuador (Tsebelis, 2002).[5] This is especially true with policy areas that are highly sensitive to the public domain, such as the oil sector. The government was unable to provide a quick policy response and did not resume oil production for six months when an earthquake damaged the oil pipeline in 1987. Similarly controversial was the decision process for building a new oil pipeline between 1998 and 2000, with associated losses and increased uncertainty for this vital economic sector. Policy rigidities have also been present in the face of favorable shocks: the government has not been able to adopt and implement the necessary legislation to make efficient use of high oil prices since the year 2000. More successful cases of policy adaptability tend to occur when the policymaking process is delegated to decisive actors who are shielded from the political process. The creation of the Executive Corporation for the Reconstruction of Affected Areas of El Niño (CORPECUADOR), was a successful example of a quick government response to floods in the coastal area, at least while the Corporation was endorsed by the then vice president, and later president, Gustavo Noboa (1998-2002).

[5] Few veto players with converging policy preferences may also produce rigid results if there is a consensus to avoid reform (SQ-bias) (Pérez-Liñán and Rodríguez-Raga, 2003).

A third dimension is the state's ability to effectively implement adopted reforms. The quality of policy implementation is partly associated with the existence of *enforcement technologies*, such as an independent judiciary and/or a professionalized bureaucracy. The presence of these bodies should reinforce the credibility of commitments and provide policymakers with incentives and resources to enhance their policy capabilities. The (low) state capacity survey scores for Ecuador accurately reflect the country's weak capacity to implement and enforce policy agreements over time. As will be illustrated in the next section, this weakness is mostly due to an ineffective government bureaucracy composed mostly of political appointees rather than career civil servants, a highly politicized judiciary and the presence of "last-ditch" veto players, or street actors who have the ability to stop or reverse policy implementation. The lack of a merit-based civil service has disrupted policy implementation, especially in areas like economic reform, education and social security, to mention a few. The implementation of economic reforms has been hindered by a constellation of last-ditch veto players, including indigenous and regional elites who have opposed changes to the status quo. Shifting legislative coalitions have also affected the continuity and stability of finance ministers and economic policy, and long-overdue education and social security reforms have been blocked by the active presence of well-organized but largely reactive unions. Land distribution in Ecuador is another example of poor implementation, since it has remained unequal and essentially unchanged in the last 25 years (World Bank, Ecuador Poverty Assessment, 2004).[6] Fiscal reforms, on the other hand, have witnessed significant improvement over the past few years, especially after President Mahuad delegated decision-making power to a new Internal Revenue Service (SRI). Part of the success of the SRI in collecting tax revenues and fighting tax evasion was due to its isolation from political pressures and the recruitment of technical staff.

Considering the distributional nature of adopted policies, the fourth dimension evaluates whether the state is capable of articulating policies that promote general welfare and represent the interests of the unorganized or geographically dispersed groups, or tends to systematically funnel benefits in favor of a privileged few (IPES, 2005; Cox and McCubbins, 2001). This is another dimension in which the Ecuadorian policymaking process has a low ranking according to comparative data. In the highly fragmented and regionalized political context, the policy

[6] See http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/0,,contentMDK:20415456~pagePK:146736~piPK:146830~theSitePK:258554,00.html.

preferences and demands of well-organized and intense lobby groups tend to prevail over those of broader constituencies. This is especially true of intense groups who are in a position to provide short-term legislative support for a particular government agenda in exchange for selective rewards, policy concessions and particularistic benefits. Sometimes these concessions are hardwired in the form of earmarked allocations, some of which tend to benefit the military, specific charities, etc. Customs administration is another policy area in which private regarding interests prevail. The lack of an independent judiciary increases the possibility that private-regarding benefits and concessions are also associated with acts of corruption.

Closely related to the distributional consequences of policies is the question of whether the state can efficiently allocate its scarce resources to those activities that yield greater returns. Reported survey data suggest that policy choices do not generally achieve optimal social choices, but are rather inefficient. Some features of the policymaking process that contribute to inefficient policies include the prevalence of private-regarding interests during policy design, high transaction costs for policy change, the absence of long-term political horizons and weak enforcement mechanisms. Tax reform is a good example of inefficient policymaking: between 1982 and 1997, five different administrations adopted 195 fiscal policy measures to correct the country's economic imbalances, without achieving more efficient tax collection (Araujo, 1998).

3. Players and Institutional Incentives

Ecuador constitutes an extraordinary "test bank" for institutional theories of policymaking because the country has experimented with a whole range of institutional arrangements over time. In the 25 years since the transition to democracy in 1978, the country has adopted two constitutions (1979 and 1998) and introduced a number of significant institutional reforms (in 1983-84, 1994-95 and 1997-98). This section characterizes Ecuadorian policymaking actors according to three criteria: their powers (reactive or proactive), the point at which they intervene in the process (the approval or implementation of new policies), and their legal standing (institutional or non-institutional). Based on these criteria, three types of players can be identified:

1. Decisive players are actors with formal proactive powers whose consent is individually sufficient but not necessary to approve policy changes (e.g., the president invoking decree powers, the Monetary Board, or "technocrats" in

the Cabinet). In a stylized situation, the presence of a decisive player would imply the absence of any other institutional veto player in the same policy area (Strom, 1995: 62-63). In practice, some policymakers tend to find ways to bypass other veto players, thus acquiring de facto decisive powers.

2. Institutional veto players are actors with formal reactive powers whose consent is individually necessary but not sufficient to approve policy changes (e.g., the president and the parties necessary to form a congressional majority). Only when all institutional veto players agree on a policy proposal can the status quo be challenged (Tsebelis, 2002).
3. "Last-ditch" veto players are actors with formal or informal reactive powers who are able to block the implementation of policy reforms. Institutional last-ditch veto players (e.g., the Constitutional Tribunal and occasionally the bureaucracy) have legal powers to stop the implementation of new policies, while non-institutional players (e.g., unions or social movements) lacking legal attributions may have de facto capacity to block the execution and to force a reversion of the status-quo. Some institutions may assume both roles: for instance, the military may act formally as an institutional veto player in the National Security Council, while acting informally as a non-institutional veto player if it chooses not to protect an unpopular president from street protest. Non-institutional veto players tend to be operationally "inefficient" because they typically need to shake-up the whole policymaking process (even the constitutional order) in order to stop a particular policy from being adopted.

3.1 Institutional Decisive Players

3.1.1 The Executive

Ecuadorian presidents embody a unique set of formal and informal attributes that make them "impotent dictators" in the policymaking process. On the one hand, they enjoy significant constitutional powers to set the policymaking agenda, promote and insist on proposed legislation and use discretionary payoffs or selective incentives to reward cooperation from coalition partners. On the other hand, they never enjoy solid partisan support in the legislature, and existing currencies available to cement cooperation are rapidly depreciated in the eyes of election-driven politicians. As will be further discussed, Ecuadorian presidents cannot become effective coalition formers despite their mighty constitutional and broad discretionary powers.

Under the current constitution, the Ecuadorian president is elected every four years, and presidential re-election is allowed only after one period out of office. A run-off election takes place between the two top candidates if no contender obtains a majority of the popular vote or 40 percent plus a 10-point distance from the runner-up. Under the 1979 Constitution, the presidential term lasted for five years; the 1983 amendment shortened the term to four years and the 1998 Constitution incorporated the 40-plus-10-percent gap rule. No president since 1979 has been elected in the first electoral round.

Shugart and Carey have described the Ecuadorian president as among the most powerful in terms of legislative powers, and as intermediate in terms of non-legislative powers—the latter because Congress can censure Cabinet ministers (Shugart and Carey, 1992: 156; Payne et al., 2002). The 1983 constitutional reform gave the president proactive powers in the form of fast-track economic lawmaking: an "urgent" economic bill introduced by the president becomes the reversionary policy if Congress fails to act within 30 days (the original period of two weeks was doubled in 1998). By introducing urgent bills, the president turns the lack of congressional decisiveness on its head and becomes a de facto decisive player.

The Ecuadorian president also has strong reactive powers. A veto or partial veto must be overridden by Congress within 30 days with a two-third supermajority, and the use of package veto prevents Congress from addressing the bill in question for one year. The strategic use of veto and decree power has given Ecuadorian presidents tremendous agenda-setting powers over the legislature, as will be illustrated throughout this paper. This prerogative was further strengthened by the Executive's exclusive power to initiate budgetary proposals. The other source of presidential power consists of almost exclusive control over the allocation of key political and economic assets, such as the ability to freely appoint and remove Cabinet ministers and provincial governors, the ability to make discretionary use of off-budget spending accounts (*gastos reservados*), make policy concessions, grant judiciary pardons and many other prerogatives for distributing pork and patronage.

The other side of the coin is characterized by the presidents' weak "partisan powers" (Mainwaring and Shugart, 1997). Presidential and legislative elections are concurrent (every four years) under the 1998 Constitution and were originally concurrent (every five years) under the

1979 Constitution, but the 1983 reform established mid-term elections to renew more than 80 percent of Congress every two years. Although the 1979 legislative election occurred simultaneously with the presidential runoff, in every subsequent general election the congressional race has coincided with the first round of the presidential contest (Mejía Acosta, 2002: 80).

The combination of run-off presidential elections (which encourage the proliferation of candidates in the first round), mid-term congressional elections and proportional representation (discussed below) allowed for a large number of legislative parties and condemned the president to have small legislative contingents (Conaghan, 1994). On average, the president's party has controlled only 26 percent of the seats since 1979. No president has commanded a single-party majority in Congress, and the ruling party has enjoyed a plurality of the seats during just 11 years over the last two-and-half decades.

Despite all their formal and informal influence in the policymaking process, presidents could not sponsor credible legislative commitments over time, partly due to conflicting institutional arrangements. When presidents enjoyed discretionary control over coalition currencies, legislators faced term limits and generally short term horizons. When time horizons were expanded after the 1998 Constitution, reforms also constrained the presidents' and legislators' ability to distribute coalition incentives, thus increasing the transaction costs of assembling legislative support.

3.1.2 Cabinets

Cabinet positions in Ecuador are of relative importance for facilitating the formation of multi-party coalition governments. On the one hand, Cabinet ministers are freely appointed and removed by the Executive without congressional intervention[7] and they enjoy significant policymaking influence over strategic areas as well as access to a rich source of pork and patronage for their own constituencies (Mejía Acosta, 2004).[8] On the other hand, holding a Cabinet position and formalizing a common agenda with the government is often considered an electoral liability from the perspective of political parties. Even though Cabinet positions can be attractive coalition rewards, and the posts are generally shielded from the attacks of the

[7] Political Constitution, Art. 171 (10).

[8] A Cabinet minister would have the authority to appoint provincial directors, allocate government contracts and include her own political cronies in the government payroll (Mejía Acosta, 2004: 16).

congressional opposition, the value of holding a Cabinet position decreases as new elections approach.[9] Thus, in the fragmented and near-sighted Ecuadorian context, political parties prefer to avoid any visible policy association with the government or settle for less visible but still influential sub-Cabinet-level positions (Mejía Acosta, 2004; Mershon, 1996). Since the Executive (and for a long time legislators as well) could not seek re-election, there were no institutional incentives for long-term cooperation.

In the contentious Ecuadorian context, crafting government alliances poses a dilemma to potential partners: they want to reap the coalition benefits while avoiding the electoral liabilities of being associated with the government's agenda. Often, politicians opt to make *ghost coalitions* or clandestine arrangements by which parties provided short-term support to a narrow and *ad hoc* set of policy measures in exchange for government posts, policy concessions and particularistic benefits (Mejía Acosta, 2004). In the logic of crafting ghost coalitions, it is no surprise that Ecuador has one of the least partisan compositions of the Cabinet in Latin America: "independent" politicians or people with no explicit party affiliation were on average appointed to 65 percent of the ministries (Amorim Neto, 1998; Burbano de Lara and Rowland García, 1998).

Cabinet appointments played a limited role in facilitating policymaking coalitions (Amorim-Neto, 1998 and 2002; Strom, 1990). According to the roles played in the policymaking process, one must distinguish between "political" and "technical" Cabinet positions. With few exceptions, most of the political Cabinet positions such as Agriculture, Communication, Defense, Education, Environment, Foreign Relations, Health, Housing, Interior, Labor, Public Works, Tourism and Social Welfare are used to reward potential partners and help cement (public and ghost) policy coalitions in Congress.[10] Technical ministries—mostly concerned with economic issues—are explicitly shielded from political (congressional) pressure to ensure fast-track policymaking authority and increased decisiveness (Conaghan, 1995). These ministries are Finance, Industries and Energy, as well as other portfolios that enjoy Cabinet-like status, such as PetroEcuador, the Monetary Board and the head of the Central Bank (until 1998). These players

[9] Traditionally, any legislator or group of legislators could request the initiation of impeachment procedures. The 1998 reform raised this threshold, allowing impeachment procedures when the motion had the support of at least 25 percent of members of Congress.

[10] The ministers of Defense and Foreign Relations are generally chosen according to internal procedures and seniority criteria, but in some occasions these appointments can help cement the president's basis of congressional support. Nina Pacari's 2003 appointment to the Foreign Ministry as part of the indigenous quota in the Gutiérrez Cabinet is a case in point.

were usually businesspeople or technocrats with skills acquired in universities abroad and shared common values of economic liberalization and fiscal discipline (Hey and Klak, 1999). Their entry into the political arena was justified by the fact that high technical expertise was required to negotiate with the international financial community (Conaghan, 1995: 454). Not surprisingly, these technocrats had little or no formal connection to political parties or social organizations, and most of the post-1979 presidents did not look to their parties for advice on economic policy. Yet, contrary to the presidential strategy of isolating technical advisors from political opposition, ministries became directly exposed to congressional scrutiny and impeachment procedures.

Table 2. Tenure of Ministers, by Cabinet Type and Causes of Termination (average number of months in office)

Causes for Termination	Cabinet Type		Total
	Political	Technical	
Executive Dismissals and Resignations	13.8 (88)	11.4 (68)	12.8 (156)
End of Mandate	19.7 (79)	14.1 (36)	17.9 (115)
Congressional Impeachment	18.0 (10)	11.5 (11)	14.6 (21)
Average Number of Months in Office N	16.7 (177)	12.3 (115)	14.9 (292)

Note: Number of cases in parentheses. Causes for termination do not include abrupt termination in office during the Presidential crises that overthrew President Bucaram in 1997 and President Mahuad in 2000, and those Cabinet ministers are excluded from the sample. *Source*: Ecuador Team, Public Officials Database.

Table 2 illustrates the high volatility of Cabinet ministers. Cabinet volatility in Ecuador is among the highest in Latin America (Martínez Gallardo, 2005). On average, Ecuadorian ministers changed every 15 months, with significant differences between the political (16.7) and the technical Cabinets (12.3).[11] Contrary to the common assumption of an openly belligerent legislature preying on Cabinet ministers (Arteta and Hurtado, 2002; Burbano de Lara and Rowland García, 1998), Table 2 shows that presidential action—not congressional opposition—explained more than half of the Cabinet removals (156 of 292 cases), whereas congressional

[11] The number of days in office is negatively and significantly correlated with the Cabinet type ($r = -0.2$ at the $p=0.000$ level). In the calculations, we do not include ministers ousted during presidential crises.

impeachments only accounted for 7 percent of all Cabinet removals (21 of 292). The table also illustrates the fact that technocratic Cabinet ministers lasted fewer months on average (11.5) than those who had some formal or informal congressional endorsement (18.0). High Cabinet turnover rates reflect the failure of presidential strategies to isolate ministers' policymaking ability from the political realm, especially regarding economic matters. As Section 6 will illustrate, frequent Cabinet reshuffling contributed to cementing ad hoc alliances with coalition partners but hindered policy continuity in the long run.

3.1.3 The Bureaucracy

The president appoints the heads of most bureaucratic agencies, including the 15 ministries, the board of the Central Bank (with congressional approval since 1998) and the national oil company (PetroEcuador). In each of the 22 provinces, the president also appoints a governor, who acts as the head of the national civil service in the region. At the municipal level, the Executive has some control only over local administrative courts (*juzgados de contravenciones* and *jueces de paz*) whose members are appointed by the Minister of Government. As explained in the following section, control over the bureaucracy sometimes allows the president to employ purely administrative policy instruments in order to bypass the legislature and achieve greater decisiveness.[12]

Although the top echelons of the bureaucracy generally have straightforward political incentives to respond to the Executive, the role of the middle-ranks may vary according to the policy area. In complex technical areas (the Finance Ministry, Petroecuador and the Central Bank) as well as in Defense and Diplomacy, the bureaucracy is composed of seasoned public officials whose career prospects are based on merit-based evaluations. Other executive-run agencies are composed of highly qualified technical advisors, but they lack long-term career prospects, as they are often hired by development bodies as consultants on short-term assignments (a case in point is the National Council of Modernization (CONAM) in charge of planning).

Most of the public administration is made up of a mix of career officials with limited or outdated technical capacity and static ambitions. This is the case of administrative bureaucracies in the areas of Education, Health and Social Security, among others. These large bureaucratic

[12] On "para-constitutional" decree authority (or the use of rule-making as a policymaking instrument), see Carey and Shugart (1998: 12-14).

bodies are biased towards maintaining the status quo and therefore tend to oppose sector reforms. Finally, there are several government agencies whose personnel usually reflect political quotas given to coalition partners. These clientelistic bureaucracies, such as Social Welfare and Labor, are dependent on shifting political coalitions and feature low levels of technical capacity, which undermines the agencies' policymaking capabilities.

The president has little control over the oversight agencies. Candidates for key positions, including those of the comptroller general, the procurador, the attorney general and the superintendents of banking, public companies, and telecommunications, have been traditionally nominated by the president but ultimately appointed by Congress.[13] When those positions are politically sensitive, as in the cases of the fiscal general or the procurador (and lately the banking superintendent), the appointees tend to reflect the position of the pivotal legislator in Congress (i.e., the Social Christian Party).

3.2 Institutional Veto Players

3.2.1 Political Parties

The Ecuadorian party system is the second most fragmented in Latin America after Brazil (Payne et al., 2002: 142-145).[14] It is often argued that Ecuadorian parties do not have stable rules and structures, lack strong attachments to organized groups in society and show patterns of high electoral volatility (Conaghan, 1995). Based on evidence presented to this effect, the Ecuadorian party system is conventionally described as one of the least institutionalized in Latin America (Jones, 2005; Mainwaring and Scully, 1995; Payne et al., 2002: 127).[15] Party fragmentation and weak institutionalization in Ecuador are for the most part the combined result of ethnic and regional divisions in society enhanced by a permissive electoral system (Mejía Acosta, 2004).

Party Competition and the Regional Factor. Patterns of party competition reflect deeply rooted regional differences between the coastal and the Andean region. Although the 1979 Constitution set the rules for establishing a nationalized party system, Ecuadorian parties are the most regionalized in Latin America (Jones and Mainwaring, 2003). In Guayaquil and the coastal areas, the political space has been traditionally disputed between the rightist Social

---

[13] The 1998 Constitution introduced two exceptions: the comptroller is now nominated by Congress and appointed by the president, while the fiscal general is nominated by the Judicial Council and appointed by Congress.
[14] Ecuador's mean Effective Number of Parties in Congress is 5.73, well above the regional average of 3.52.
[15] Ecuador's mean institutionalization index is 1.43 out of a possible perfect score of 3, which falls below the regional average of 1.93.

Christian Party (PSC) and the caudillo-based Ecuadorian Roldosista Party (PRE). In Quito and the Andean and Amazonic regions, the electoral space is disputed between the Christian Democratic Party (DP) and the Social Democratic Party (ID). In recent years, the Movimiento Pachakutik-Nuevo País (MUPP) has entered the formal political arena, representing a highly mobilized sector of the indigenous population concentrated mostly in the jungle and mountain regions. Despite high levels of party fragmentation, four political parties (PSC, PRE, ID and DP) have "controlled" more than 65 percent of the legislative seats in the past decade (Pachano, 2004). These parties have consolidated electoral bailiwicks or *bastiones* electorales, meaning that such parties have prevented the entry of other parties in their arena, but in turn have not been able to leave their own territory to invade other parties' (Pachano, 2004).[16]

Electoral Rules and Individual Incentives. Legislative re-election was banned under the 1979 Constitution. This prohibition, coupled with midterm elections every two years, shortened the political careers of legislators and considerably undermined their incentives for good policymaking (Mejía Acosta, 2003). Re-election was eventually allowed by the 1994 reform, but it has remained relatively low. A preliminary analysis indicates that since 1996, 27 percent of the legislators on average achieved immediate re-election and about 52 percent had some prior legislative experience. These figures lie somewhere between the cases of Argentina (where immediate re-election is 20 percent) and Brazil (43 percent), and far below Chile (59 percent) or the U.S. (83 percent), suggesting that Ecuador may be a case of "amateur legislators" progressively developing legislative careers (Jones et al., 2002; Morgenstern, 2002: 416). There is further evidence to support the claim that legislators may also pursue alternative career paths outside the legislature, running for sub-national (municipal, provincial) office or seeking appointments in the government bureaucracy (Pachano, 1991).

Informal Sources of Party Leadership. Formally speaking, institutional arrangements constrained the power of party leaders to enforce unified voting among the rank-and-file (Mejía Acosta, 2004). Party leaders had control over candidate selection, nomination and allocation between 1979 and 1996, but given the existence of term limits, they could not directly influence the electoral futures of party members. When re-election was allowed after 1996, the electoral

[16] The recent appearance of new parties such as Pachakutik and the Alvaro Noboa Party (PRIAN) is likely to occur at the expense of another party (DP or PRE), but always within the same geographic region (Andes and Coast).

system also changed to allow open-list personalized voting, thus breaking the control of party leaders.

Measuring the impact of these institutional determinants on party discipline in Ecuador is a challenging task due to the inexistence of formal or official vote-counting mechanisms. Most of the legislative votes are hand counted and reported in aggregate levels, and only very controversial votes, also called *nominativos*, are coded by individual names in the Legislative Diaries. Roll-call data coded from this original source yield unexpectedly high unity scores even after controlling for non-controversial votes (Mejía Acosta, 2004).[17] The data show that, on average, at least 90 percent of party members tend to vote together on any given issue, with greater discipline patterns taking place among leftist parties and weaker unity in centrist or populist parties (Mejía Acosta, 2004).

While empirical findings can be challenged on the basis that high unity voting is likely to be observed among highly visible or public votes, the notion of disciplined parties is consistent with other empirical findings for the Ecuadorian case, namely, relatively low rates of party-switching and anecdotal evidence regarding the benefits of party affiliation in the context of fragmented politics (see below). This finding is also an important departure from an earlier and conventional description of the Ecuadorian party system as one of "floating politicians and floating voters" (Conaghan, 1995: 450).

Based on patterns of electoral volatility and anecdotal evidence, Conaghan used the notion of "floating politicians and floating voters" to illustrate the loose connection between voters, politicians and political parties. An alternative interpretation suggests that political parties and party leaders have played a greater role in the coalition-making process: parties can act as cartels that help solve collective action dilemmas in a highly competitive arena (Mejia Acosta, 2004). Even if individual legislators were mainly driven by particularistic concerns, they were better off pledging some allegiance to a party leader empowered to advance the ambitions of the rank-and-file (Amorim-Neto and Santos, 2001; Mejía Acosta, 2004). Thus, party leaders became key brokers during the coalition formation process. They bargained a set of clientelistic and particularistic payments from the president on behalf of their party members in exchange for delivering the party's votes to pass the presidents' agenda. From the presidential perspective,

[17] The reported scores contain 39 votes related to issues of economic reform where at least 25 percent of members opposed the winning side. The unity scores are weighted and controlled for upward bias. See Mejía-Acosta (2004).

party leaders reduced transaction costs and offered a more efficient way of assembling coalitions rather than purchasing individual votes at retail prices. When party-switching occurred in Ecuador (a yearly average of 10 percent of all congressional members between 1979 and 2002 changed parties), it was done by legislative "mavericks" who usually had short congressional careers, median or centrist party ideologies and came from low-magnitude electoral districts. Empirical evidence indicates that party-switching incidents were associated with government tactics to "divide and conquer" the legislative opposition: nearly 80 percent of party-switching incidents between 1979 and 2002 came from opposition parties (Mejía Acosta, 2004: 199).[18] What is perhaps most interesting is that even after switching parties, most "independent" legislators often regrouped in proto-legislative organizations to empower an informal leader and collectively bargain new coalition payments with the Executive. The formation of the Roldosista Group (GR) in 1982, the National Convergence Block in 1993 and the MIN in 2001 are relevant examples (Mejía Acosta, 2004).

3.2.2 The Legislature

Ecuador has a unicameral Congress formed by 100 deputies elected from 22 multi-member districts. Until 1998, deputies were elected under a closed-list system of proportional representation, but the 1998 Constitution adopted an open-list procedure. Candidates now compete against other parties as much as against other members of their own party (Pachano, 1998).[19] Although the effects of the new electoral system are not evident yet, the open-list PR combined with relatively large districts (the average district magnitude is 4.5) is expected to increase the incentives to cultivate the "personal vote" (Carey and Shugart, 1995; Hallerberg and Marier, 2002) in a system with an already pre-existing tradition of strong local and patronage politics (Conaghan, 1995).[20] The fact that Ecuador has one of the most malapportioned

[18] Consistent with this argument, we find that higher party switching was associated with presidents who had minimal or no congressional support at the beginning of their mandates: Hurtado in 1982-3, Durán-Ballén in 1993-4, and Gustavo Noboa in 2000.

[19] Under the electoral law approved in March 2000, voters select individual members from party lists and each party pools the votes obtained by individual candidates. The total sum of votes obtained by the parties determines the distribution of seats according to the d'Hondt formula. In turn, seats are distributed within each party according to the number of votes obtained by the candidates. One line of research suggests that the same electoral system has generated low party discipline and policymaking paralysis in Brazil (Ames, 2001; Mainwaring and Pérez-Liñán, 1997).

[20] Between 1979 and 1996, congressional seats were allocated using the largest remainders Hare system; the country later adopted the d'Hondt procedure, but this technical change has not had any significant impact on the party system (Mejía Acosta, 2002: 64-65).

legislatures in Latin America, with significant overrepresentation of rural vs. urban districts, should in theory reinforce the parochially oriented nature of its legislators (Cox and Morgenstern, 2002; Snyder and Samuels, 2001).

Table 3 shows the distribution of nearly 6,000 bills that were initiated and approved by the president and Congress between 1979 and 2002, classified by policy scope. Consistent with theoretical expectations, the presence of multiple partisan players has significantly obstructed the approval of legislation in Ecuador. Presidents on average obtained approval for 32 percent of the total number of bills they submitted to Congress, which is more than double the success rate of bills initiated by legislators: 14.2 percent.

Table 3. Distribution of Bills Initiated and Approved, by Policy Scope (1979-2002)

Initiator	**President**		**Congress**	
Level	**Initiates**	**Approved**	**Initiates**	**Approved**
Individual	0.8	1.3	9.0	14.3
Local-Municipal	3.1	3.8	11.3	17.0
Public Sector	19.8	18.5	12.6	9.1
Private Sector	9.0	10.2	10.7	8.7
Regional	2.6	3.8	11.4	12.7
National	64.8	62.4	44.9	38.2
Unknown	0.0	0.0	0.1	0.0
Total	100.0	100	100.0	100.0
N	491	157	5418	778
Average Success Rates		**32.0**		**14.3**

Source: Ecuador Team, Bill-Initiation Database.

Looking at the scope of bills, the data support the expectation that presidents are more likely to initiate nationally oriented legislation: 64.8 percent of the bills initiated by presidents between 1979 and 2002 had national implications, and so did 62.4 percent of the total number of Executive-initiated bills that were approved. In contrast, the share of Congress-initiated legislation seeking to affect national constituencies represented 44.9 percent of bills, and 38.2 percent of the total number of Congress-initiated approved bills. The seven-point gap can be explained as a position-taking strategy adopted by legislators whereby they claim to initiate national legislation, but are less willing to approve it. When it comes to legislation intended to benefit particularistic constituencies, legislators approve more than they are willing to admit initiating. For example, 31.7 percent of initiated bills sought to affect regional, local, municipal and individual constituencies, but they represented 44 percent of the number of bills approved by Congress. Despite the particularistic bias, the Ecuadorian Congress does not fully conform to the expectation of being a locally oriented or parochial assembly. A brief comparison with the less-fragmented Paraguayan legislature illustrates this point more clearly: more than 60 percent of legislation initiated and approved by Congress between 1992 and 2003 sought to benefit individual, local, municipal and regional constituencies, whereas less than 20 percent sought to affect national constituencies. Part of the explanation for this finding is the fact that some legal reforms have limited legislators' ability to initiate and distribute pork. A reform passed by plebiscite in 1996 banned legislators from handling budgetary allocations for provinces as well as limiting discretionary spending. Further reforms approved after 1998 limited legislators' ability to initiate spending laws that were not properly financed or budgeted for. An additional interpretation of the data is that party leaders may have internalized the burden of obtaining resources for their rank-and-file's districts, thus particularistic concessions were not bargained for in a piecemeal form by individual legislators, but rather in wholesale agreements between the president and supporting party (see below).

Table 4 offers a more refined look at the types of policies initiated and approved by the Ecuadorian Congress. Following Lowi's (1964) typology of policy issues, bills are classified in three categories: distributive, redistributive and regulatory. The frequency distribution reveals a dramatic bias against the production of distributive or pork-oriented bills: presidents in Ecuador privilege the initiation of regulatory bills over distributive ones by a 6-1 ratio. Congress-initiated bills repeat this same pattern, though less dramatically: there are three new regulatory bills for every one distributive bill initiated by legislators. The data suggest that, contrary to what is frequently assumed and theoretically expected for this fragmented legislature, individual legislators do not have the mechanisms or incentives to initiate pork legislation but rather delegate this task to the party leader, who negotiates wholesale agreements on their behalf. The percentage of particularistic bills initiated by legislators declined significantly after 1998. Distributive bills represented 28 percent of all bills during the period 1979-1998 and 15 percent in 1999-2002. Individual-level bills declined from 12 percent to 4 percent, and municipal-level bills from 16 percent to 8 percent.

Table 4. Distribution of Bills Initiated and Approved, by Policy Type (1979-2002)

Initiator	President		Congress	
Goal	Initiates	Approved	Initiates	Approved
Distributive	13.8	13.4	25.2	24.7
Redistributive	2.4	1.9	2.4	1.5
Regulatory	83.5	84.1	72.2	73.5
Other	0.2	0.6	0.2	0.3
Total	100.0	100.0	100.0	100.0
N	491	157	5426	778

Source: Ecuador Team, Bill-Initiation Database.

A more refined interpretation of the data should explore the extent to which regulatory bills disguise legislators' attempts to seek patronage or ensure government spending for their constituencies. For example, some regulatory bills propose the creation of new municipalities or cantons (*cantones*) or state-sponsored institutions like universities, with the corresponding financial obligation (Araujo, 1998: 153-6). Others may seek direct subsidies or exemptions under generic titles that seek to promote better regulation of an industry or economic sector. From a political economy perspective, however, these regulatory bills are inefficient mechanisms for introducing or distributing pork to constituents since they increase the transaction costs of logrolling. Some conjectures about the political purpose of some regulatory bills are tested in the next section.

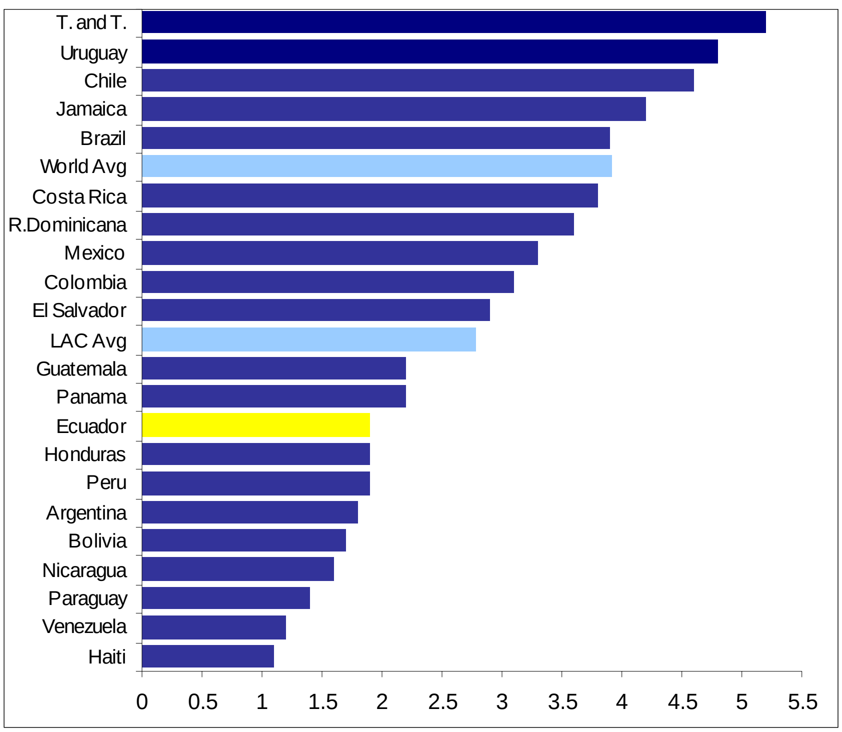
3.3 Last-Ditch Veto Players

3.3.1 The Constitutional Tribunal

Until the late 1990s, judicial review was exercised by the Supreme Court (CSJ), which in turn was appointed by Congress. But the constitutional reforms adopted by referendum in 1997 and by the 1998 National Assembly aimed at giving the judiciary significant independence from political pressures. CSJ magistrates are now appointed for life by the CSJ itself. In theory, the new system was meant to reduce incentives for strategic behavior and politicization of the Supreme Court (Helmke, 2002; Iaryczower, Spiller and Tommasi, 2002) while clearly separating constitutional issues from technical appeals (*casación*). The 1998 adoption of lifelong tenure for judges did not isolate the judiciary from political dynamics, but rather the opposite: it entrenched existing political alignments within the Court. A severe institutional conflict was triggered in late

2004 when the PSC party (which had some influence in appointing existing Supreme Court judges), broke an implicit agreement with the government and launched a threat to impeach and investigate President Gutiérrez on allegations of corruption. In a sudden defensive alliance with the populist Roldosista Party (PRE) and the Alvaro Noboa Party (PRIAN), the government produced an unconstitutional "restructuring of the judiciary" that effectively dismissed 27 of 31 Supreme Court judges and replaced them with judges amenable to the new legislative coalition.[21] The congressional resolution violated the constitutional principle of judicial independence and triggered a political crisis that resulted in the ousting of President Gutiérrez four months later. The following figure evaluates judiciary independence in comparative perspective. The already low score reported for Ecuador does not reflect the recent executive encroachment on the judiciary.

Figure 2. Judiciary Independence in Latin America and the Caribbean (2003-2004)



Source: World Economic Forum (2004).

[21] The dismissal was made possible through an illegal interpretation of the 25th transitory provision in the 1998 Constitution. The constitution established that: "*government officials and other bureau members appointed by the National Congress since August 10, 1998 for a four-year term period, will remain in their offices until January 2003, by virtue of these constitutional provisions,*" but this provision did not apply to the sitting judges since they were elected in October 1997 (Political Constitution, 1998).

The Constitutional Tribunal (TC) was created in 1997 as the supreme entity of constitutional oversight and control independent of the three government branches.[22] Preceding the creation of the TC was the Tribunal of Constitutional Guarantees (TGC), originally created by executive decree in 1949, although its roles and prerogatives were granted through an Organic Law in 1968. Even though the TGC was formally empowered with the roles of constitutional oversight and control, in reality it had a limited capacity to enforce its resolutions since the Constitutional Chamber of the CSJ retained the ability to review its decisions.[23] Despite its formal creation in 1997, the TC became an effective mechanism of judicial review only in 2001 when an organic Law of Constitutional Control recognized its legal status.[24] Between the TC's formal creation in 1997 and its legal recognition in 2001, all complaints of unconstitutionality were submitted to the Administrative Chamber of the CSJ (Sala de lo Contencioso Administrativo).

According to the 1998 Constitution (Art. 275), the TC consists of nine members: two are elected from a short list of three nominees submitted by the president, two come from the three candidates presented by the CSJ (who are not CSJ magistrates), two from the National Congress (who are not legislators), one from those presented by mayors and provincial authorities, one from the candidates presented by labor unions, peasants and indigenous organizations, and one from the Production Chambers. While the nomination process allows for the participation of very diverse entities, it is Congress that finally appoints TC members by simple majority. As expected, the election of TC magistrates reflects the contending political interests represented within the legislature.

The prerogatives granted by the Constitution strengthen the TC's roles of control and oversight in the political process, but also empower the TC as a last-ditch veto player with the capacity to stop and revert policy decisions.[25] The TC has the power to exercise judicial review over ordinary and organic laws, decrees, statutes, ordinances, regulations and other resolutions issued by government institutions, and partially or completely suspend their effects (1998

[22] The TC obtained constitutional status on February 13, 1997, but the law of constitutional control that specified the roles and prerogatives of the TC was enacted on July 2 of that same year.
[23] Recall that the CSJ's ability to be a third instance tribunal was abolished in 1992, when a constitutional reform converted the CSJ into an Abrogation court with a specific Chamber in charge of Constitutional affairs.
[24] Legislative Resolution No 22-050, published in the R.O. No 280. March 8, 2001.
[25] The roles and attributions of the TC are contained in the Political Constitution, the Law of Constitutional Control and indirectly, in other municipal, provincial and electoral legislation.

Charter, Art. 276.1). The TC however, does not have the authority to review the rulings of the judiciary in most cases.

The TC's crucial role in the policymaking process is also demonstrated by its capacity to rule on the constitutionality of bills during the legislative process (Art. 276.4 of the Constitution and Art. 12.4 of the Constitutional Control Act). If the president justifies a veto arguing for the total or partial unconstitutionality of the bill, the bill is sent to the TC for a decisive ruling within 30 days. If the TC declares the full text of the bill unconstitutional, the bill is killed and Congress cannot override the veto. If the TC upholds a partial unconstitutionality argument, the bill is returned to Congress, which is forced to introduce amendments. If the TC rejects the president's position, Congress can directly publish the law in the Official Registry (Art. 154 of the 1998 Constitution).

The TC's rulings cannot be appealed by any of the three government branches, thus reinforcing the political salience of the Tribunal as a last-ditch veto player in the policymaking game. Some criticism has suggested that the TC is more likely to act on cases that feature some partisan or ideological salience. A preliminary examination of TC rulings may corroborate this pattern of "selective activism." An analysis of 117 complaints presented to the TC between 1997 and 1999 shows that the Tribunal accepted 31 (26 percent), of which nine came from specific interest groups and eight from political parties opposing executive actions; and seven involved individual complaints from military personnel.[26] Further indications of the TC's "selective activism" are examined in more detail in the PMP section.

3.3.2 Non-Institutional Veto Players

Ecuador has observed a secular trend in the levels of popular mobilization and protest since the early 1990s. According to a study conducted by Belisario Torres at the Centro Andino de Acción Popular (CAAP), the number of "social conflicts" (most of them corresponding to strikes and episodes of popular protest) progressively grew from 84 in 1985 to 118 in 1990, and from 371 in 1995 to 641 in 2000. The fall of the Bucaram and Mahuad Administrations in 1997 and 2000, respectively, illustrates the effects of increasing levels of popular mobilization: protests can significantly compromise government stability while simultaneously reversing policy changes.

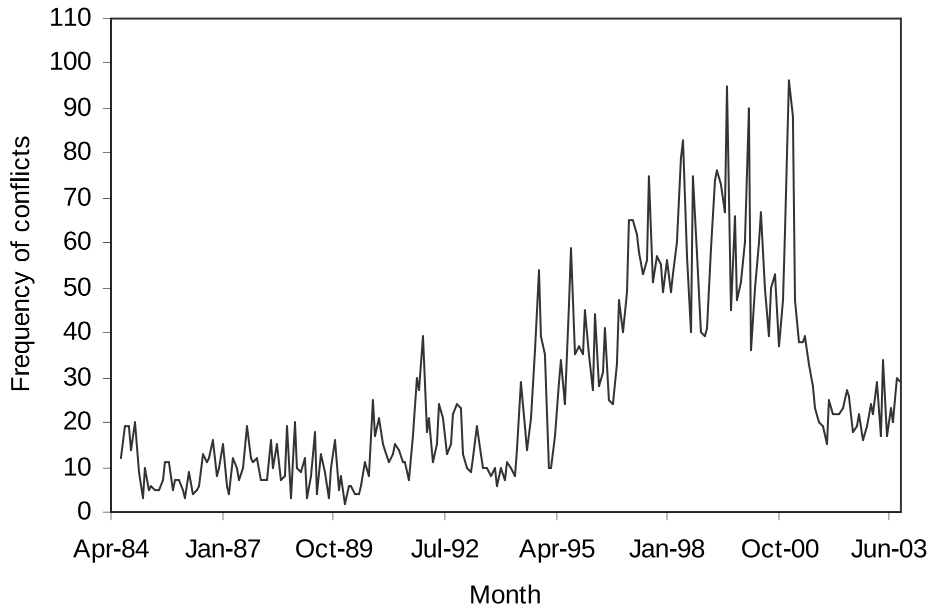
[26] Despite several data collection efforts, the research team was not able to obtain access to the TC's electronic archives.

That is, the probability of a government collapse grew in the 1990s, while the executive branch's ability to impose unilateral policy reforms declined considerably.

Part of this trend can be explained by the organization and expansion of the Confederation of Indigenous Nations of Ecuador, CONAIE (Yashar, 1998: 25). Yet, although CONAIE had a prominent role in organizing the protests that led to the demise of the Bucaram and Mahuad Administrations, it would be misleading to attribute the increase in social unrest only to the indigenous movement. We compared the classification of social conflicts done by Torres for four years: 1987 (a tense year for the Febres Cordero government), 1990 (a relatively quiet mid-term year for the Borja Administration), 1997 (the year of the fall of Bucaram) and 2000 (the collapse of the Mahuad Administration). Although the percentage of events coded as being strictly related to the indigenous movement has grown over time (0 percent in 1987, 2.5 percent in 1990, 4.0 percent in 1997, and 10.5 percent in 2000), those events still represented a minority of all conflicts. Even including other categories that may be indirectly related to CONAIE-led mobilizations (peasant, partisan and civic-regional) these conflicts only account for about one-fourth to one-third of all protests during this period. It is clear that other factors have contributed to the patterns of popular protest, including: a) a constantly high level of mobilization among state workers (representing one-fourth to one-third of all conflicts), b) increasing activation of labor conflict in the private sector (from less than 1 percent of all conflicts in 1987 to 15 percent in 2000) and c) a growing pattern of urban protest (from 9 percent of all conflicts in 1987 to 13 percent in 2000).

Figure 3 below shows the monthly evolution of the number of protests between 1984 and 2003. The figure indicates a surge in social protests during the Durán Ballén, Bucaram, Alarcón and Mahuad Administrations, followed by a recent decline during the Noboa and the Gutiérrez governments. Popular mobilization began to decline after January of 2001, receding to levels similar to the ones observed in the early 1990s during 2002 and 2003. Unfortunately, the data are still too scant to establish whether this is a temporary phenomenon or a long-term pattern established in the aftermath of the dollarization program.

Figure 3. Evolution of Social Conflicts (1984-2003, Monthly)



Sources: Observatorio de Conflictos, CAAP (based on *El Comercio* and *El Universo*).

4. The Ecuadorian Policymaking Process (PMP)

The interaction between the goals and ambitions of institutional and non-institutional players and the existing and often constraining rules of the game explains five features of the Ecuadorian policymaking process (PMP): (1) a large number of veto players who translate their significant ideological, regional and—more recently—ethnic interests into the policymaking process; (2) a constitutionally strong president, who is endowed with significant agenda-setting powers to impose policy change despite low congressional support, or to protect the status quo from being altered by opposition majorities; (3) presidents using their political and economic resources to distribute clientelistic payments to potential allies and to cement ad hoc policy coalitions in Congress, though these coalitions are short lived given the eroding incentives for political parties to cooperate with a minority government as new elections approach; (4) in policy areas where decision-making requires enhanced technical expertise or a quick response from policymakers, political actors may accomplish intertemporal agreements by delegating authority to a specialized agency; (5) "last-ditch" veto players may challenge or reverse policy decisions from outside the policymaking arena. The Constitutional Tribunal may formally challenge the constitutionality of policy decisions adopted by the Executive or the legislature. Informally, street protests and other popular or indigenous movements may challenge and block the adoption of policies, and sometimes even threaten regime stability.

4.1 Multiple Veto Players

As noted in the previous sections, the regional and ethnic cleavages coupled with a permissive electoral system have produced multiple political players with the capacity to veto policy decisions. Significant scholarly work has acknowledged the consequences of the coastal vs. Andean divide on the Ecuadorian policymaking process (De la Torre, García-Saltos and Mascaró, 2001; Jácome, 2004; Hurtado, 1990). Though little empirical work has been done on this issue, other relevant policy dimensions like the urban center vs. rural periphery divide, the pro-market vs. statist approach and other ideological divisions may overlap with the existing regional divide, thus multiplying the number of effective policy dimensions.

Theoretically speaking, the presence of multiple players can have ambiguous effects on the likelihood of policy change (Pérez-Liñán and Rodríguez-Raga, 2003). One possible scenario is deadlock or low policy change since high transaction costs hinder the president's ability to assemble multiparty policy coalitions. On the other hand, political fragmentation may in turn facilitate multiple permutations of minimum-winning coalitions around shifting policy issues, but these may be fickle or require expensive maintenance. In Ecuador, the multiplicity of actors (ethnic, regional, sectoral) has enabled the formation of shifting coalitions around ad hoc issues but with short-term commitments.

4.2 Unusually Strong Presidents

The paradoxical strength of Ecuadorian presidents is that they are endowed with tremendous constitutional powers to set the policy agenda and dominate much of the legislative process, but they often lack the political contingent to support and sustain their proposed policy reforms (Grindle and Thoumi, 1993). Politically weak presidents have relied on unilateral powers to bypass the political opposition or have issued visible threats to induce political cooperation (Mejía Acosta, 2004). Ecuadorian presidents could use their constitutional power to issue economic urgency bills in order to put legislation on a congressional fast track by giving legislators a 30-day period to accept, amend or deny the proposed bill. In the case of legislative inaction, the economic emergency bill automatically became law (CP Art. 155). Presidents enjoyed additional prerogatives to use partial or total veto power as a tool to confront congressional opposition and insist on their policy proposals or to protect the status quo. Presidential vetoes in Ecuador could only be challenged (overridden) if legislators gathered a qualified majority (of two-thirds) of Congress. After a 1998 constitutional reform, presidents gained the authority to further amend legislation originally issued as executive decrees, thus increasing—in theory—their agenda-setting power vis-à-vis Congress. By the same token, the Constitution imposed some limitations on decree usage to prevent the president from sending more than one decree to Congress at a time.

Empirical evidence does not support the idea that greater agenda-setting powers effectively increased the likelihood of success of government-led bills after 1998. Contrary to expectations, the success of presidents' urgent economic reform bills *decreased* from 53 percent between 1979 and 1998 to 41 percent between 1999 and 2002. Interestingly, the success rates of *ordinary* president-led bills *increased* from 26 percent to 43 percent after 1998. Despite the formal increase in presidential powers, the data also suggest that post-1998 presidents may have become more strategic in their interaction with Congress, as they seem to better anticipate legislative preferences and avoid larger legislative defeats. In terms of urgent bills, the rejection rate has nearly been halved from 29 percent to 14 percent after 1998; by the same token, the percentage of bills withdrawn increased from 4 percent before 1998 to 35 percent thereafter. The pattern seems to suggest that presidents may have used their formal decree and veto powers as "threats" to entice legislative bargaining with political parties. The next part explains the logic behind the presidents' making of legislative coalitions.

4.3 Making Coalitions with Multiple Partisan Players

Making policy coalitions with multiple actors who pursue conflicting ambitions and act within short-term horizons requires exceptional bargaining skills. On the one hand, presidents control ample political and economic resources in a highly fragmented and competitive environment. Thus, presidents become de facto agenda setters and coalition formers. On the other hand, this ample set of bargaining tools is insufficient to ensure long-term cooperation, because a) in the presence of presidential term limits, even attractive "currencies" quickly depreciate with the proximity of new elections, and b) the political liability of being associated with the government (which usually has declining levels of popularity) exceeds the expected benefits of cooperation (Mejía Acosta, 2004). Political parties prefer to make short-lived and content-specific coalitions to preserve an image of political independence vis-à-vis their voters (Mejía Acosta, 2004). The combined effect of multiple partisan players with generally short-term horizons helps explain the congressional bias towards deadlock or policy rigidity. These insights are empirically tested at the end of this section.

4.3.1 Coalition Incentives

Ecuadorian presidents enjoy a wide range of constitutional instruments and non-constitutional mechanisms to entice legislative cooperation and promote their policy agendas. In addition to their previously discussed legislative powers, presidents can appoint and dismiss Cabinet members, provincial governors and some diplomatic postings; grant judiciary pardons; authorize government contracts and (up until 1995) make discretionary use of off-budget allocations. The allocation of particularistic and discretionary currencies in the form of pork and patronage tend to prevail over the negotiation of programmatic and more transparent agreements around policy concessions or ministerial offices. In general, particularistic concessions are often used to craft "wholesale" agreements between the government and political parties (Mejía Acosta, 2004). As explained in Section 3, party leaders—not individual legislators as commonly believed—are the main protagonists in the coalition-making game. Party leaders significantly reduce transaction costs for the president since they have a better understanding of the policy preferences and demands of individual legislators. Section 3 also showed evidence to support the notion that legislative players, contrary to the conventional understanding of Ecuadorian politics, do not appear to initiate more distributive or pork-oriented legislation. In a context of strong party leaders, individual legislators do not need to initiate particularistic legislation since their leaders have a better chance to broker "wholesale" legislative agreements with the president and obtain concessions, jobs and other patronage to reward the loyalty of legislators, their families and political cronies. In exchange, individual legislators commit themselves to vote along party lines and thus, at least for a while, with the president's agenda.

Although leadership styles vary widely from one party to the next, the logic remains the same: party leaders are the providers of coalition benefits. Thus, strong representatives with unchallenged party leadership, such as the case of the PSC, may impose tighter cooperation agreements on the president to protect or benefit their regional constituencies or supporting interest groups. For example, the PSC lent early support to narrow fiscal reforms during the early phase of the Mahuad Administration in exchange for stalling customs reforms (a strong source of patronage for coastal bailiwicks) and stopping other banking reforms (which would have affected the PSC's business group supporters). Other parties, such as the center populist PRE, lent legislative support in exchange for a more assorted package of benefits that included Cabinet positions, policy concessions, pork and patronage. Parties on the left, such as Izquierda Democrática, or Democracia Popular, were willing to pass specific fiscal reforms (i.e., taxing luxury automobiles) as long as such revenues were earmarked in favor of municipal governments. More radical left parties such as Pachakutik or MPD may be more interested in trading legislative votes in exchange for pork and patronage for their highly visible constituencies: indigenous groups and some labor unions.

4.3.2 Coalition Duration

Party leaders broker agreements between the president and the rank-and-file, providing reliable votes for the first and distributing benefits for the latter. But party leaders in Ecuador are wary of being identified as *gobiernistas* or supporters of the government agenda vis-à-vis the public and other political parties, especially if they feel that policy failure may become a liability for the party's ambitions in the next election. But the fear of policy failure becomes a self-fulfilling prophecy when existing institutions (like presidential term limits and restrictions on the use of budgetary allocations to secure political support) erode the value of coalition currencies and reduce the credibility of commitments.

The perception of policy immobility or deadlock is reflected in falling rates of presidential popularity, which in turn further diminish the incentives of political parties to be part of the government coalition in Congress (Mejía Acosta, 2004). The following figure compares the evolution of presidential approval rates (monthly averages for Quito and Guayaquil) and the size of the formal presidential coalition in Congress for the average administration between 1984 and 2002.[27] The formal coalition is defined as the legislative bloc that appoints the president of Congress at the beginning of each legislative year (in the month of August).[28]

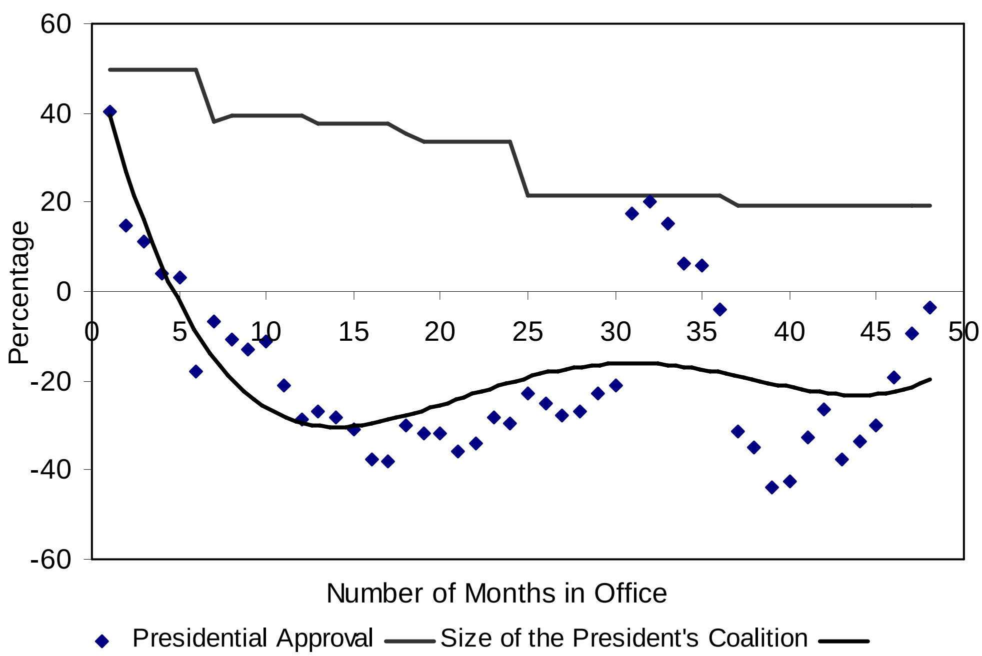
At the beginning of the period, opposition parties are likely to accept and acknowledge some form of government cooperation while presidents still enjoy favorable or honeymoon

[27] The boost in presidential approval rates observed during months 31-36 is partly an artifact of the idiosyncratic escalation of President Durán Ballén's approval rating to 76 percent in February of 1995. But even excluding the Durán Ballén Administration, typical approval rates rise from -27 percent in month 27 to +2 percent in month 36, and drop back to -46 percent by month 39.

[28] When the government party is not included among the parties that voted for the president of Congress, the coding assumes that the president does not have formal legislative partners beyond his own party.

popularity ratings, which occur on average during the first five to six months in office. When net popularity ratings are negative, the political liabilities of voting with the president exceed the expected benefits of government cooperation. At that point, party coalitions often adopt the form of clandestine alliances or ghost coalitions, where ad hoc agreements or "policy coincidences" take place between the government and parties from diverse affiliations, but any programmatic or long-term commitment is systematically denied (Mejía Acosta, 2004). The absence of voting records in the Ecuadorian Congress facilitated this informal mechanism of coalition formation. The resilience of ghost coalitions as a conventional legislative practice is the more remarkable since presidents and legislators from distinct political parties and tendencies acknowledged their existence from the early 1980s (Burbano de Lara and Rowland García, 1998; Grindle and Thoumi, 1993; Mills, 1984). Often, legislative agreements were disguised under a cloud of heavy criticism against the president with the purpose of projecting an image of political chastity or independence vis-à-vis other parties and potential voters.

Figure 4. Evolution of Presidential Approval Rates and the President's Coalition in Congress over the Term (Monthly Averages, 1984-2002)



Sources: Informe Confidencial (data on presidential approval in Quito and Guayaquil) and congressional records.

4.3.3 Coalition Formation and Legislative Success

To test some of our assumptions about the PMP, we developed a database with all the legislative bills initiated between 1979 (the inauguration of the Roldós Administration) and 2003 (the end of the Noboa Administration). The database contains 476 bills initiated by the Executive, 5,161 bills initiated by the members of Congress, 58 bills initiated by other institutions and 209 bills of unknown origin, for a total of 5,904 bills. Although we suspect that most of the unidentified bills were initiated in Congress, the latter 267 cases have been excluded from the analysis for practical purposes.

For each bill, we coded key variables related to institutional setting (the Xs) and the nature of the policy issue at stake (the Zs). Among the first group of predictors was a set of dummies to capture whether: a) the bill was introduced by the Executive as an "urgent" matter; b) the proposal required a two-thirds majority for its approval (in the case of constitutional reforms or organic laws); c) the bill was introduced after 1998 (when the Executive gained additional constitutional powers), and d) legislators were allowed to run for re-election. In addition, we introduced a series of variables to capture the political environment during the legislative year (August-July) when the bill was introduced. These included the size (share of seats) of the president's party and of the president's coalition in Congress, the ideological distance between the president and the average legislator (measured as the distance between the left-right location of the president and the mean left-right position of Congress using Coppedge's (1998) five-point scale), and the percentage of legislators who switched parties during the course of the year. Finally, we included a variable to capture the length of the legislative term for the provincial deputies (anywhere between two to five years), and the number of days the administration had been in office at the time the bill was introduced.

For the characterization of the Zs, we employed a set of dummies to capture Lowi's (1964) typology of policy issues (distributive, redistributive, or regulatory) and Taylor-Robinson and Diaz's (1999) classification of policy levels (individual, municipal, public or private sectors, regional, national). In addition, we coded policy areas presumed to follow distinctive patterns: proposals to raise salaries, proposals to raise taxes, and proposals to create new municipalities or cantons—which Araujo identified as a disguised form of distributive politics (Araujo, 1998: 153-156).

Table 5 presents the results of the analysis. Equation 5.1 models the probability that a bill is initiated by the Executive (as opposed to Congress, the baseline category). The evidence suggests that the president is more likely to dominate the legislative agenda when his coalition is larger and when congressional parties break down (as switchers are likely to join the president's camp).[29] A 10-percent increase in the size of the president's coalition increases the odds of the president initiating a bill by 17 percent, while an additional 10 percent of party switchers expands the odds of presidential initiation by 73 percent. There is limited evidence that the president is more willing to initiate bills towards the end of his term, but this finding should be interpreted carefully. Because the size of the president's coalition tends to decline as the end of the term approaches, this finding only reflects the propensity of the Executive to initiate proposals after controlling for the negative effects of a vanishing legislative coalition.[30] Regarding policy issues, the president is less likely to initiate distributive, individual, municipal, private sector and regional bills than Congress, but is more likely to propose policies related to salaries, taxes and the public sector.

Model 5.2 reflects the odds of Executive-initiated bills ultimately becoming law. The results indicate that in general, the formal agenda-setting powers of the president do play an important role at the approval stage. The president's ability to get bills passed is boosted by his urgency powers, which transform his proposal into the new reversionary point. Other things being equal, the odds of an urgent bill being approved increase by 78 percent.[31] With regard to partisan powers, it is interesting to note that while a larger legislative coalition gives the president more confidence to initiate bills, the size of the coalition in and by itself is not sufficient to guarantee their approval. The main partisan factor driving the approval stage is the ideological distance between the president's program and the mean legislator in Congress. In other terms, the formation of formal coalitions does not prevent the operation of veto players if the Executive's proposals are too distant from the legislators' preferences.

Model 5.3 reflects the probability of success of the bills initiated by Congress. Congress is less likely to impose its own policy preferences when the president's party is larger, but it is

[29] The sign of the coefficient for party switching was unstable in different model specifications, and thus should be interpreted with caution.
[30] The correlation between days in office and size of the coalition is -.52 (significant at 0.001 level).
[31] The odds of presidential bills, urgent and ordinary, being approved after 1998 increased by 439 percent, but this figure should be interpreted with caution, since the actual probability depends on the values of other independent variables.

more likely to succeed as the end of the president's term approaches. For every 10 percent increase in the size of the president's party, the odds of approval for congressional bills decline by 9 percent, but in the course of four years the odds of approval will decrease by a factor of 2.3. Congress has also been able to pass more of its bills after 1998, when the period for ordinary sessions was extended. At the same time, deputies are less likely to get their bills approved when they require a supermajority (odds decline by 50 percent), when they have a redistributive purpose (odds decline by 45 percent) or when they intend to raise taxes (odds decline by 85 percent). But particularistic bills (i.e., individual, regional, or canton-creation bills) are more likely to be supported by Congress than nationwide proposals: the odds of approval are twice as large for individual-level bills, and 4.6 times larger for bills creating cantons.

Legislative re-election seems to boost the ability of Congress to gets its policies passed because it facilitates the consolidation of legislative leadership and the acceptance of intertemporal agreements (e.g., logrolling). On the other hand, although the extension of the legislative term from two to five years appears to reduce the approval of bills (both for the president and Congress), we suspect that this finding may be an artifact of timing. Because five-year legislative terms were in force in 1979-1984 and after 1998, and because the dummy for the 1998 Constitution captures the later period, the length of term variable may serve as a proxy for the Roldós-Hurtado Administrations, when the policymaking process was prone to deadlock.

Table 5. Initiation and Approval of Bills (Logistic Regression)

	5.1. Initiation by the Executive			Approval of bills initiated by 5.2. Executive			5.3. Congress		
Predictors	Coeff.		S.E.	Coeff.		S.E.	Coeff.		S.E.
Xs									
Urgent bill				0.58	**	(0.28)			
Post 1998	-0.09		(0.38)	3.78	***	(0.94)	0.84	**	(0.33)
Bill requires 2/3	-0.60	**	(0.25)	-0.39		(0.57)	-0.70	***	(0.24)
Size President's Party	-0.01		(0.00)	-0.02		(0.01)	-0.01	**	(0.00)
Size President's Coalition	0.02	***	(0.00)	-0.01		(0.01)	0.00		(0.00)
Ideological distance	0.00		(0.00)	-0.03	***	(0.01)	0.00		(0.00)
Party switching (year)	0.05	***	(0.01)	-0.01		(0.02)	0.00		(0.01)
Administration's days in office	0.00	*	(0.00)	0.00		(0.00)	0.00	***	(0.00)
Length of legislative term	0.00		(0.08)	-1.12	***	(0.22)	-0.45	***	(0.08)
Legislative re-election	-0.23		(0.20)	0.26		(0.43)	0.95	***	(0.15)

Table 5., continued

	5.1. Initiation by the Executive			Approval of bills initiated by 5.2. Executive			5.3. Congress		
Predictors	Coeff.		S.E.	Coeff.		S.E.	Coeff.		S.E.
<u>Zs</u>									
Distributive bill	-0.59	***	(0.17)	0.05		(0.37)	-0.09		(0.11)
Redistributive bill	-0.45		(0.53)	6.37		(22.26)	-0.60	*	(0.35)
Individual-level bill	-2.39	***	(0.46)	0.21		(0.95)	0.73	***	(0.14)
Municipal-level bill	-1.67	***	(0.31)	0.19		(0.64)	0.05		(0.15)
Public sector bill	0.24	*	(0.13)	-0.18		(0.27)	-0.15		(0.13)
Private sector bill	-0.56	***	(0.17)	0.51		(0.42)	-0.13		(0.14)
Regional bill	-1.71	***	(0.29)	0.67		(0.59)	0.28	**	(0.13)
Salary-rising bill	1.29	**	(0.53)	-5.85		(22.25)	-0.13		(0.77)
Tax-rising bill	1.71	***	(0.33)	0.49		(0.72)	-1.91	*	(1.01)
Canton creation bill	-1.25		(0.77)	6.64		(15.74)	1.54	***	(0.20)
Constant	-2.92	***	(0.31)	2.83	***	(0.79)	-1.25	***	(0.27)
Nagelkerke R^2	.162			.292			.112		
N	5631			476			5155		

Logistic regression coefficients (standard errors). DV in model 3.1 is initiation by the Executive (as opposed to Congress). DV in models 3.2 and 3.3 is bill was approved and signed into law. Baseline category for Zs is nationwide bills of regulatory intent (not seeking to raise taxes or salaries).
* Sig. at .1 level; ** at .05 level; *** at .01 level.

4.4 The Logic of Bureaucratic Delegation

In policy areas where decision-making requires enhanced technical expertise or a quick response from policy makers, the policymaking process traditionally has delegated power to the technocracy. Indeed, in three key areas (technical oversight, planning, and monetary policy) the role of bureaucratic policymaking has been written into the constitution, making delegation a formal feature of the PMP.

The 1945 Constitution (Art. 139) gave constitutional status to the Banking Superintendency (created in 1927),[32] and the 1967 charter (Arts. 232-34) established the Superintendency of Companies to oversee company procedures and ownership structures. In the early 1990s, Congress created the Superintendency of Telecommunications, and the 1998 Constitutional Assembly introduced a broader section on superintendencies (Arts. 222-223), giving all of them an equal constitutional status.

[32] The 1929 Constitution already established that the banking superintendent was nominated by the president and appointed by Congress, but the role of the agency was not "constitutionalized" until 1945.

With regard to planning, the 1946 Constitution (Arts. 79-80) established the National Economic Council as the body in charge of guiding economic policy.[33] The Council was later dropped from the 1967 charter, which instead recognized the role of the National Planning Board—created in the mid-1950s—and mandated the elaboration of binding multi-year economic plans (Arts. 94-96, 235), which in practice had little chance of implementation (Bromley, 1977: 68-72). The next planning body, established by the 1978 Constitution, was the National Development Council (CONADE), an 11-member body led by the vice-president and charged with "setting general economic and social policies for the State, and elaborating the corresponding development plans that will be approved by the President prior to their execution" (Art. 89). The CONADE faded out towards the mid-1990s as the Executive took a greater role in development planning, and this shift was formalized by the 1998 Constitution, when the executive branch was put in control of a vaguely defined "national planning system" (Arts. 254-255) but with no specific attributions.

Although the Ecuadorian Central Bank (Banco Central del Ecuador, BCE) was created in 1927, over the next four decades monetary policy remained—legally speaking—the exclusive province of Congress (e.g., Art. 34.6 of the 1945 charter). However, reflecting the changes in the role of the Central Bank after World War II, the 1967 Constitution gave the Monetary Board powers to "determine the national monetary policy" and charged the Central Bank with its implementation (Art. 105). The 1978 charter reinforced the role of these institutions and gave the executive branch exclusive control over the exchange-rate policy, discussed in Section 7 (Arts. 54-55). In contrast, the 1998 Constitution introduced for the first time a detailed section intended to protect the independence of the Central Bank (Arts. 261-265). The new structure of the BCE reduced the leverage of the Executive in the areas of monetary and exchange-rate policy. The creation of these "reserved domains" complicated the coordination between the president and the BCE and, in the context of the 1999 banking crisis, ultimately raised criticisms against the technocratic decision-making process. This new feature of the PMP lasted for less than two years before the dollarization program deprived the Bank of its role as a decisive player.

The historical record suggests that these agencies were originally created following a policy crisis, an intellectual trend or a combination of both, and progressively became ingrained

[33] Among other functions, the Council had to give its technical approval for all presidential decrees dealing with economic emergency measures—and thus had some potential to act as a veto player.

in the policymaking process until they achieved constitutional status. Their legal standing then transformed mere delegation into autonomous policymaking power. Legislators in turn consented to the authority delegated by the constitutionalists because they were less interested in micro-management in areas of little distributive impact, less capable of micro-management in areas demanding high technical capacity, or aware of the risks of micro-management in areas of broad macroeconomic implications.

The presence of these bureaucratic decisive players certainly created an alternative policymaking track to bypass institutional vetoes. In practice, the ability of the president to take advantage of this parallel track has varied across policy areas and over time. Historically, the Executive has wielded greater control over the Central Bank and the planning agencies than over the superintendencies. The president traditionally appointed the head of the Central Bank (it was not until 1998 that the constitution established a confirmation procedure by Congress) and had significant leverage within the National Development Council, controlling six of the 11 members (the president appointed four Cabinet ministers, in addition to the vice-president and the head of the Monetary Board). Additionally, the constitution established that decisions made by the CONADE had binding implications for Cabinet ministers.

In contrast, the president can only nominates the superintendents, who are ultimately elected by Congress. The superintendencies have been traditionally considered a different type of bureaucratic "animal" than the Central Bank or the CONADE, and much concern has been expressed regarding their performance. For instance, the Banking Superintendency has been criticized for its role prior to the 1999 financial crisis, and the Telecommunications Superintendency has been criticized for its positions on policy issues regarding the liberalization of the telecommunications markets.

Rather than being a pure technical solution, delegation has been a strategic way of adding another dimension to the solution to a particular problem, thus generating more policy alternatives but also greater policy volatility. At the same time, different factors have constrained the discretionary use of the bureaucracy as a policymaking instrument by the Executive. First, there has been a traditional "separation of purpose" between the political goals of the Executive and the technical perspective of the bureaucracy.[34] Second, the representation of some interest

[34] In a classic example: "A national plan may deliberately avoid the inclusion of a particular road or irrigation scheme because such a scheme does not correspond to a national set of priorities. However, on visiting the area

groups within the bureaucracy with the purpose of legitimizing policy decisions may also have biased the adoption of private regarding policies.[35] Third, Congress also has extreme ways of limiting the use of bureaucratic policymaking instruments, either by impeaching the ministers (in the case of the regular bureaucracy) or by redefining the role of the agencies. Possibly the most dramatic example of the latter response—the decision to dollarize the economy—will be discussed below.

4.5 Last-Ditch Veto Players

As defined above, "last-ditch" veto players are actors who influence the policymaking process with formal or informal powers to block the implementation of policy reforms. While multiple institutional and non-institutional players can exert a direct impact on the policymaking process in Ecuador, including business groups, representatives of local governments, the military and the media, this section focuses solely on the roles played by the Constitutional Tribunal (TC) and the social and indigenous movements.

Established in the late 1990s as the last instance of judicial review, the TC has featured a pattern of "selective activism" in its decision-making process. Thus, the contents of its rulings seem to reflect a bias towards the demands of specific political parties, social movements and interest groups. Although there is no systematic evidence on the subject, the constitutionality suit against the freezing of deposits during the Mahuad Administration offers a brief window into the political implications of TC rulings.

Facing the fall of international oil prices and the contagion effects of the Asian financial crisis, the Mahuad Administration in 1999 sought to generate additional revenues to reduce the fiscal deficit (De la Torre, García-Saltos and Mascaró, 2001; Jacome, 2004). Yet the PSC-led congressional opposition denied a proposed VAT increase from 10 to 15 percent, and Mahuad's decision to increase gas prices triggered the protests of truckers, taxi drivers and other popular sectors. By the first week of March, political instability quickly contributed to spreading the rumors of a currency collapse. In this context, the Administration declared a state of emergency and imposed a five-day bank holiday to prevent a massive devaluation of the national currency,

---

concerned, the President listens to local petitions and grants that the scheme will be implemented." (Bromley, 1977: 71).

[35] For example, representatives of the banking industry had direct participation on the Monetary Board until 1998, and representatives of the unions, business associations and universities had constitutionally granted seats in the National Development Council.

the sucre. On March 15, Mahuad declared a year-long deposit freeze in an effort to prevent further bank collapses (De la Torre, García-Saltos and Mascaró, 2001: 26).[36] A week later, Fernando Aspiazu, the owner of the largest deposit holder Banco del Progreso, organized a public protest together with PSC leaders to "resist the attacks of the central government on the banks of Guayaquil,"[37] thus turning the banking crisis into a regional conflict with political overtones (De la Torre, García-Saltos and Mascaró, 2001). In the following months, several legislators and deposit holders presented constitutionality complaints to the TC.[38] The third chamber of the TC voted unanimously to accept the validity of the complaints on November 8, on the grounds that the state could not confiscate individual assets or act against private property. The decision to "thaw" banking deposits directly undermined the Executive's position and put additional pressure on already-tight government finances. The Mahuad Administration did not survive to implement the TC's mandated devolution of deposits, since a few months later the president was ousted by a civilian-military uprising.

The previous example also underscores the role of non-institutional veto players. Popular protest is a common feature of the Ecuadorian policymaking process. The patterns of social conflict are not unrelated to ongoing political conflicts in the national arena and sometimes can be an expression of such conflicts in alternative regional or municipal arenas (Sánchez-Parga, 1998). This is illustrated by the social protests that lead to the ousting of Presidents Bucaram in 1997 and Mahuad in 2000.

In August 1996, when President Abdalá Bucaram took office, annual inflation was about 24 percent, the growth rate was 2 percent and an estimated 45 percent of the budget for the next year would go to servicing foreign debt. Despite the populist overtones of his campaign, Bucaram proposed a plan intended to fix the sucre to the dollar. While Congress debated the issue, an alliance of indigenous leaders, trade unions and social movements called for mobilization against the program. On February 5-6, 1997, about two million people took the streets, including members of a middle class dissatisfied with Bucaram's flamboyant style and corrupt politics. The march ended in front of Congress with the protestors demanding the impeachment of the president. Lacking a two-thirds supermajority, the congressional opposition

[36] The freezing of accounts affects around 79 percent of total deposits: sucre-denominated, savings account deposits, all foreign currency deposits and all term deposits.
[37] *Diario HOY*, March 23, 1999.
[38] Including the President of Congress Juan José Pons on March 11, Fernando Rosero (PRE) on April 6, Victor Granda (PSE) on April 8, and Jaime Nebot (PSC) on July 7.

declared Bucaram "mentally unfit" to rule and appointed Speaker Fabián Alarcón as interim president (Pérez-Liñán, 2003). President Bucaram rejected the decision as a coup and flew to exile in Panama. His convertibility program was quickly forgotten (see Section 7).

Two years later, when newly elected president Jamil Mahuad took office, the situation was deteriorating. Inflation was at 36 percent, growth was nil and the sucre had lost more than 70 percent of its value in 24 months. The conditions continued to worsen over the following year, when the government imposed a tax on all financial transactions and adopted a policy of unlimited deposit guarantees. "The Central Bank lost close to 30 percent of reserves, and monetary deposits fell 24 percent within 30 days after the law was approved" (Arteta and Hurtado, 2002: 21). In the midst of the economic crash described above, which included a collapse of the exchange rate, the freezing of bank accounts and a moratorium on foreign debt, President Jamil Mahuad eventually proposed a full "dollarization" plan. As in 1997, indigenous leaders opposed the measures and called for a popular uprising. But this time the social coalition against the Executive was narrower and the legislative conditions for impeachment were uncertain. The indigenous groups overcame this obstacle through an alliance with middle-rank military officers. On January 21, 2000, a rebel group led by army Colonel Lucio Gutiérrez took over the Congress building and overthrew the president. Ecuador narrowly avoided the establishment of a military junta only because the joint command refused to take over and handed power to the vice president. In the aftermath of the political crisis, President Gustavo Noboa finally imposed the dollarization program. In 2002, Gutiérrez reconstructed his alliance with the indigenous groups, this time to compete for (and win) the presidency through democratic elections.

5. Ecuador's PMP and Policies' Outer Features

This section links Ecuador's institutional structure and policymaking process to the outer features of public policies. Section 3 illustrated how electoral and legislative institutions contributed to the proliferation of veto players in an already regional, ethnically and politically diverse Ecuadorian society. Other institutional features such as midterm elections and restrictions on presidential and legislative re-election further reduced incentives for developing policy expertise as well as intertemporal (long-term) policy agreements among policy makers. Section 4 showed how multiple partisan players facing short-term horizons in Congress responded to the

PMP in at least two ways: a) by using their leverage (veto power) in Congress to challenge the formation of policy coalitions until they receive sufficient incentives from the president or they are overridden by executive decree authority, or b) by delegating discretionary policymaking authority to the bureaucracy. We contend that the first pattern is likely to generate policy rigidity and inefficiency, while the second one is likely to breed policy decisiveness that may result in either volatile or resolute policy implementation. We explore these two alternatives below.

5.1 The Congressional Policymaking Process: Policy Rigidity

The approval of policies in the congressional arena is carried out by multiple partisan players with short-term horizons who seek to advance their political careers. In this context, legislators develop incentives to "claim their share" in the policymaking process by offering to support the presidents' agenda in exchange for coalition rewards. The previous description of the policymaking process emphasizes that minority presidents in Ecuador can implement policy changes by: a) making significant policy concessions and distributing rewards (non-legislative powers) to help cement congressional support, or b) by using agenda-setting prerogatives (legislative powers) to bypass congressional demands and unilaterally impose policy change.

In the first case, presidents can negotiate "wholesale" (party) or "retail" (individual) payments to legislators that include the allocation of political offices, policy concessions, pork or simply rents. The cost of overcoming partisan players however, makes the PMP highly inefficient. In the second case, presidents can use decree authority to impose policy change, but legislators were also able to amend the contents of executive urgency bills for most of the period of study.[39] Even after presidential veto power was strengthened as a result of the 1998 constitutional reforms—allowing presidents to veto congressional amendments to their decrees—policy change still took place in small increments. Executive decree authority was limited to economic bills and they could only be submitted to Congress one at a time. The PMP's limited ability to pass significant policy changes via executive authority rendered them insufficient.

The approval of fiscal policies discussed below clearly illustrates patterns of policy rigidity in the congressional arena. Presidents for the most part were unable to pass significant

[39] Note that "urgent" bills initiated by the president become law if Congress does not act within a limited period. Urgent bills are the equivalent of a decree, unilaterally altering the status quo unless Congress can muster a majority against the bill (the system thus reverts the logic of veto players, turning it in favor of policy change).

reforms to govern the fiscal balance. Shifting coalitions in Congress consistently opposed the approval of structural tax reforms that increased income or value-added taxes. In contrast, ad hoc majorities were assembled to pass "special taxes" to compensate for fiscal imbalances produced by economic shocks. Examples of these include the adoption of a one-time duty on luxury cars to partly balance the cost of an armed conflict against Peru in 1995 and the adoption of a 1 percent tax on commercial transactions (ICC) approved by the Social Christian Party (PSC) in 1998. But these "quick-fix" solutions to economic shocks produced larger distortions in the Ecuadorian economy as a whole (Jácome, 2004). In the realm of expenditures, presidents had limited ability to curb government spending because more than 90 percent of the national budget was earmarked. Given this rigidity, many alternative mechanisms were crafted to increase the presidents' discretionary power to distribute government spending to potential political allies (Araujo, 1998). The use of regulatory bills to distribute coalition payoffs will also be described in the fiscal policy section.

5.2 Delegation to the Bureaucracy: Policy Adaptability and Volatility

The transfer of decision-making authority to a bureaucratic agency solves the problem of collective action in a Hobbesian way: legislators with little interest or understanding of complex regulatory processes relocate their responsibility in this policy area to a "decisive player," an agent whose decision is sufficient to enforce policy change. The empowerment of this bureaucratic player by definition allows for policy decisiveness. Confronted with an exogenous shock, the bureaucracy has the authority to adjust the existing policies accordingly, bypassing the politics of veto players and avoiding deadlock.

Decisiveness, however, is necessary but not sufficient to establish a sound policymaking process. A critical question is who controls the agenda of the bureaucratic agency through the appointment of the chief officers. Legislators may design the agency so that they can preserve indirect control over its PMP, they may place the agency under the responsibility of the Executive or they may endow the agency with a certain degree of autonomy. In the first two cases, the bureaucracy may become sensitive to political shocks. For instance, the direction of the policy may change following the electoral cycle, or it may follow every change in the composition of the government. In this context, high decisiveness may ultimately lead to policy volatility.

On the other hand, when legislators endow the bureaucracy with high levels of independence, two consequences may result in the medium run. If the agency has high technical capacity and is oriented toward the provision of public goods, decisiveness may allow for a desirable pattern of policy adaptability. If the agency is publicly regarded but has low technical capacity, the result may be a new form of volatility. Bureaucrats will experiment with universalistic policies, but the likelihood of success will be low; confronted with failure, public-spirited bureaucrats will embrace a new policy fad, adopt new instruments and insist on new programs. If, on the contrary, the agency simply has low public regardedness, the bureaucratic PMP may result in policy rigidity. Once the bureaucrats adopt their ideal policy position, they will refuse to adjust the policy even in the presence of exogenous shocks.

Although there is no systematic evidence regarding bureaucratic performance in Ecuador, the cases of exchange rate policies and tax collection discussed in the following sections illustrate this problem well. Until 1998, political forces and interest groups mainly controlled the agenda of the Monetary Board. This structure led to exchange-rate policy volatility in the 1980s, followed by a more stable period in the 1990s (coinciding with an improvement in the operational autonomy and technical capacity of the Central Bank). The1998 Constitution replaced the Monetary Board with an independent Board of Directors. But this experiment was short-lived due to the adoption of dollarization in 2000. At the same time, in the late 1990s tax collection was delegated to an autonomous bureaucratic agency: the Internal Revenue Service (SRI). The results of this experiment will be discussed below.

6. Case Study I: Fiscal Policy

The analysis of fiscal policies in Ecuador illustrates the effects of two alternative scenarios in the country's policymaking process. We have hypothesized that the congressional PMP tends to produce rigid or inadequate responsiveness to exogenous shocks, whereas empowering a decisive player by means of bureaucratic delegation can produce decisive policy changes, which can be unstable over time (policy volatility).

For the most part, fiscal policies—unlike exchange-rate policies—are discussed in the congressional arena, where the conflicting interests and strengths of multiple veto players produce a strong status-quo bias. Despite having moderately high agenda-setting powers in the budget-making process, presidents had limited success in correcting fiscal imbalances. Reform attempts to increase tax revenues were often blocked or downsized by congressional majorities who opposed systematic tax increases, and additional revenues generated by moderate tax reforms were insufficient given the costs of cementing political coalitions. Presidents also had a limited capacity to reduce government expenditures because nearly 85 percent of the spending budget was earmarked and discretionary funds were used to secure political support from the opposition. The rigidity of the PMP became more evident in the presence of exogenous shocks that had a direct and severe impact on fiscal performance. Ecuador faced armed conflicts with Peru in 1981 and 1995, coastal floods in 1983 and 1997, droughts in 1995, earthquakes in 1987 and sudden changes in oil revenues (whether due to the breaking of oil pipelines in 1987 and 1999 or the sudden fall of international crude prices in 1986 and 1999).

Alternatively, presidents initiated fiscal reforms by concentrating decision-making authority and unilaterally adopting fiscal discipline measures (or *paquetazos*) to increase the prices of public goods and utilities or to reduce government subsidies and public spending. These reform initiatives were usually opposed and sometimes reversed by popular protesters on the street, thus creating a cycle of policy volatility. It was not until the creation of an autonomous tax authority (SRI) in 1997 that presidents were able to break the status quo bias and effectively improve tax collection, especially after 2000.

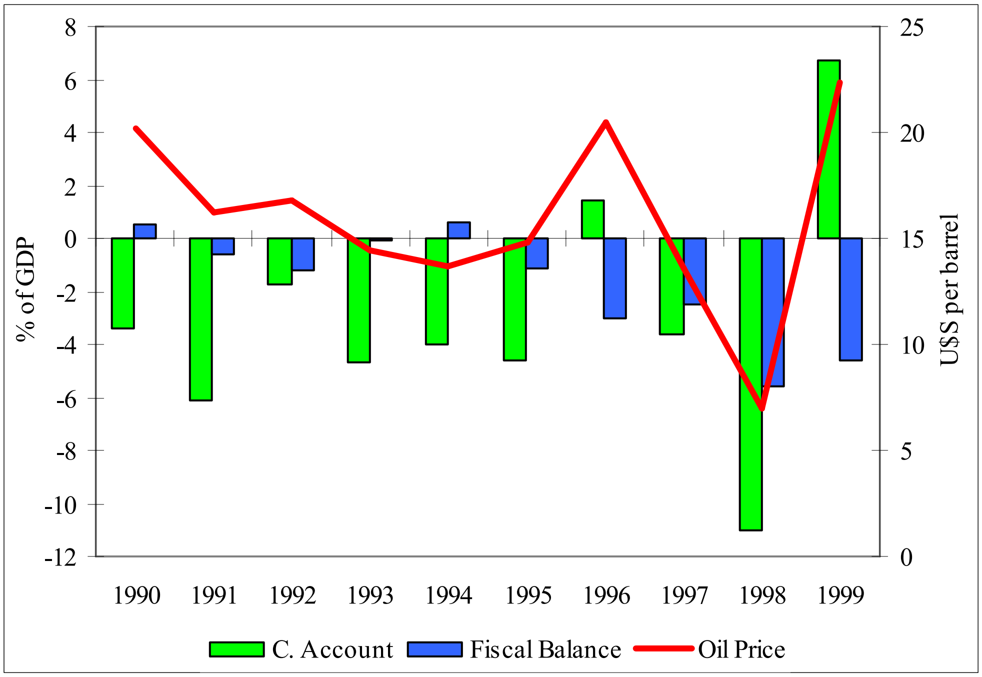
This section begins by outlining the vulnerable nature of Ecuadorian fiscal balances to exogenous shocks—especially if they affect the flow of oil revenues. It then describes the PMP in the fiscal realm, including the institutional context of fiscal policies (i.e., the rules of the game) as well as the workings of the PMP (the players and their political incentives for cooperation). The next section describes the outer features of fiscal policies. First, the fragmented congressional PMP produced policy rigidity in the form of insufficient government revenues and earmarked government expenditures. Second, deadlock was avoided by empowering a decisive player with significant capacity to introduce policy changes. The empirical analysis focuses on: (a) measures that were aimed at increasing revenues (such as increasing the price of gasoline or the cost of electricity or other basic utilities) or decreasing government spending (by freezing salaries, cutting social spending programs or eliminating subsidies for basic items such as cooking gas), and (b) laws seeking to promote responsible fiscal spending, prevent unbalanced government spending, expand and reform revenue collection mechanisms and create oil stabilization reserve funds.

6.1 Macroeconomic Vulnerability to Exogenous Shocks

A basic precept of public finance is that fiscal policy should be countercyclical, or essentially remain neutral over the business cycle. In sharp contrast to this expectation, fiscal policy in Latin America tends to be highly procyclical (Gavin et al., 1996; Talvi and Végh, 2005). On the one hand, Latin America's access to international capital markets is indeed sporadic, and it often disappears when it would be most valuable. On the other hand, most governments tend to increase (reduce) tax rates during recessions (expansions) and to increase (decrease) government consumption in good (bad) times.

Ecuador is a case in point. As part of the general trend that benefited all of Latin America, foreign capital inflows to Ecuador swelled in the early 1990s. Macroeconomic stability and the normalization of the country's relations with the international financial community also played a key role in attracting foreign capital. However, starting in 1995, and following a string of exogenous events (most notably the hostilities with Peru, domestic political problems and the "tequila" effect), Ecuador experienced a stop and reversal of capital inflows. The procyclical response of fiscal policy led to fluctuations in consumption and output, which triggered financial instability and eventually led the country into a period of economic stagnation. The volatility of macroeconomic outcomes was further augmented by the dependence of Ecuador on the vagaries of international oil prices. As Figure 5 shows, government revenues featured a high volatility and trended down during the second half of the 1990s. With revenues from oil exports representing approximately 25 to 30 percent of total revenues, this large proportion made for volatile government revenue inflows (Jácome, 2004). While external conditions deteriorated, the Ecuadorian PMP generated serious obstacles to making the necessary adjustments, as will be discussed below. As a result, the institutional framework planted the conditions that contributed decisively to the financial crisis of the late 1990s.

Figure 5. Macroeconomic Imbalances and Oil Prices



Source: Ecuador Team database.

6.2 The Fiscal PMP

6.2.1 The Institutional Context of Fiscal Policies

Virtually all presidents since the return to democracy—with the exception of President Roldós (1979-1981)—have enacted austerity packages to help finance the fiscal gap. These measures were aimed at increasing revenues or decreasing government spending and were usually adopted by shock treatment at the beginning of their terms.

Every administration sought to impose legal constraints on the size of deficits with their yearly budgetary allocation of resources. Formally, budgetary initiative in Ecuador is the province of the Executive. In particular, the drafting process is mostly in the hands of the finance minister, whose authority on budgetary issues is considerably greater that that of the spending ministers. In terms of the inter-branch bargaining process, the Executive also has the upper hand: in case the budget is rejected by Congress, the previous year's budget becomes effective for decentralized agencies and the proposed budget is enacted for the central government. Moreover, Ecuador's budget-making framework includes legal provisions mandating that all new expenditures have proper financing: Congress can only pass amendments that do not increase deficit or spending unless approved by the government. Finally, the Executive is legally empowered to unilaterally cut spending after the budget has been approved when revenues are lower than projected. However, there are no borrowing constraints if there is a revenue shortfall, and the central government frequently assumes debt (and also non-guaranteed debt) originally contracted by other public agencies.

6.2.2 Workings of the PMP in the Fiscal Realm: Status-Quo Bias

Ecuadorian budget institutions were designed (on paper) to prevent unbalanced public spending by giving greater decision-making authority to the president and the finance minister. The Constitution grants presidents the exclusive prerogative to initiate the budget process, and Congress has 90 days to amend it and approve it in a single debate (Art. 258). In case of legislative inactivity, the president's budget enters into effect. Ecuadorian presidents also have Executive Decree Authority (through economic urgency bills) and exert conditional agenda-setting power through the use of a line-item veto (especially after 1998) that can be overridden only with a qualified majority of two-thirds of its members. The increased use of agenda-setting powers boosted the president's policymaking ability but reforms proved to be insufficient to address fiscal unbalances.

Despite strong presidential powers, much of the presidents' inability to produce fiscal reforms is explained by the "legislative paralysis" scenario explained before, by which the president proposes legislation and the opposition rejects it without being able to adopt its own policies, so that the policy reflects a strong status quo bias (Cheibub, Przeworski and Saiegh 2004). Legislative opposition to fiscal adjustment is better understood in the light of electoral motivations of legislators. As illustrated in Section 3, the permissive PR electoral system favored the overrepresentation of rural areas. On average, nearly half of legislators elected to Congress between 1979 and 1996 came from small districts ($M \leq 3$), whereas less than 15 percent of legislators were elected in national districts. According to Samuels and Snyder, Ecuador is one of the most malapportioned countries in Latin America (2001). The elimination of national deputies in 1998, coupled with the adoption of an open-list PR rule reinforced the regional nature of the Ecuadorian Congress. As discussed in Sections 3 and 4, election-minded party leaders had few incentives to adopt fiscal reforms, especially when they perceived that disaffected voters would punish their party in the next election.

Box 1. The 2001 Tax Reform

During the spring of 2001, President Gustavo Noboa submitted a package of IMF-required fiscal reforms to Congress to compensate for a $600 million deficit left by the year's unbalanced budget. The proposal, originally introduced as an economic urgency bill in the late 1990s, had two main components: a) to raise the VAT from 12 to 15 percent, eliminating a series of 40 smaller taxes and reducing the income tax, and b) to allow the absorption of the Customs Administration (CAE) by the directory of the Internal Revenue Service (SRI), in order to curb tax evasions from imports. With the exception of a legislative group made up of independent legislators (MIN), the proposed bill stood little chance of success in a Congress where Noboa himself lacked party representation. During the bargaining process, government officials considered granting some political incentives to pass the reform, including particularistic concessions, budgetary transfers to municipalities, tapping alternative sources of revenue and making administrative reforms.[40]

Yet, negotiations proved fruitless as a congressional supermajority of 86 votes denied the government's proposed reform. On March 31, Noboa used his veto powers to partially block congressional amendments, thus forcing Congress to seek a two-thirds override majority if it wanted to prevail. A week later, the override motion fell short by six votes, thus turning the president's bill into law. Press accounts accused government officials of buying votes from those pivotal players in exchange for particularistic rewards, including public works, fast-track government loans and distribution of jobs to family and cronies.[41] Angry party leaders presented a motion of unconstitutionality before the Constitutional Tribunal, which ruled in favor of the congressional majority a few weeks later, thus rendering the fiscal reform attempt ineffective.

6.3 Outer Features of Fiscal Policies

This section illustrates consecutive government attempts to generate additional revenues and cut government expenditures in order to cope with recurrent, adverse exogenous shocks. According to Jácome, since 1980 consecutive presidents "brought in fiscal adjustment policies, but typically they were followed by periods of spending relaxation," plunging the country into a vicious cycle of insufficient reforms (Jácome, 2004: 7).

This assessment is a good characterization of the outer features of fiscal policies in Ecuador. The balance between policy stability and policy change has been handled in different ways as patterns of response to the above-mentioned shocks adopted different structures: a) rigid and particularistic; b) adaptable and volatile and c) resolute.

6.3.1 Rigidity and Private Regardedness

For most of the 1980s and into the 1990s, Ecuador's revenue structure has been heavily dependent on oil-related revenues from exports and local consumption. In some years, oil

[40] The Finance Minister offered legislators a partial VAT increase to 14 percent (instead of 15 percent), he promised to reallocate the additional 2 points of VAT to municipalities and local governments, and offered to enforce some administrative reforms to improve tax collection in Customs instead of pushing for an SRI takeover.

[41] Deputies like Fulton Serrano (PRE-El Oro) negotiated the governorship of his province for his son, and the position of Health Minister for another relative. Other cooperation payoffs were diplomatic postings, local governments and government offices in provinces. "Noboa relies on political quotas," *El Comercio*, Quito, July 8, 2001.

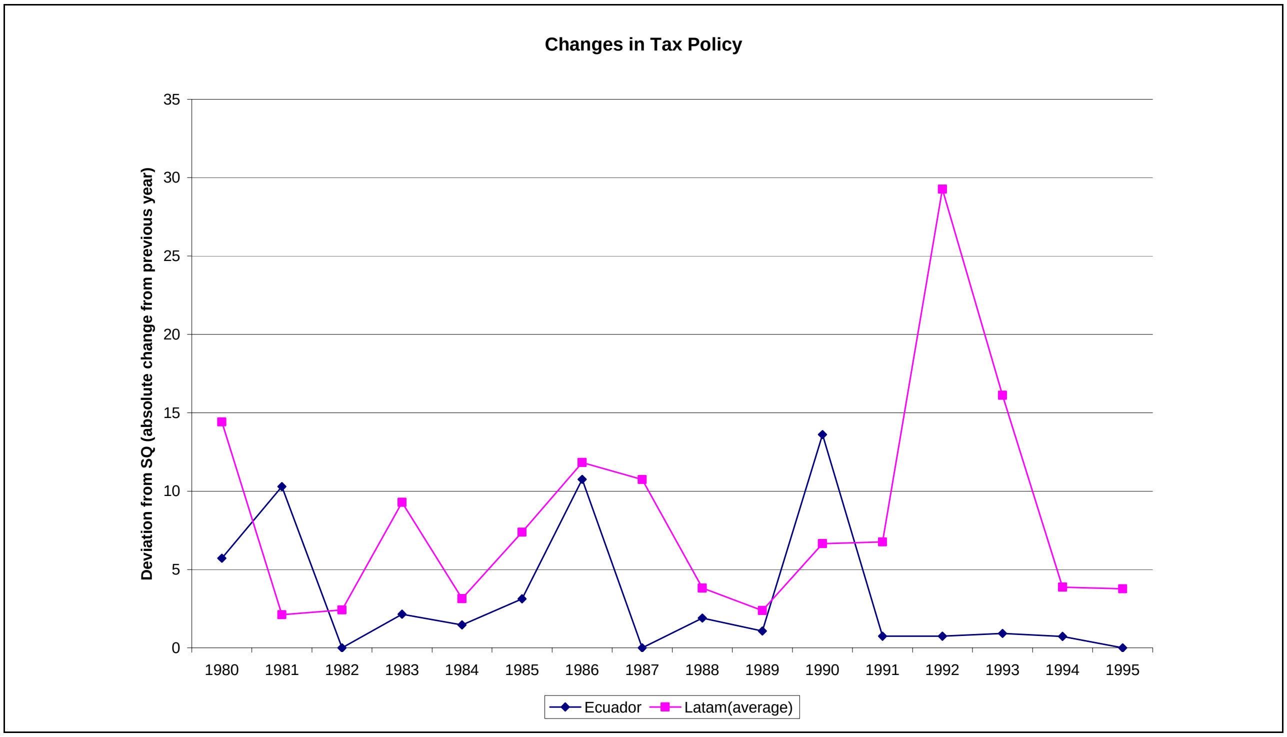
revenues accounted for 50 percent and even 70 percent of total government revenues. Non-oil revenues on the other hand, could not compensate for the mounting pressure of the slow decline of oil revenues on the fiscal balance, despite several attempts at reform in the mid-1990s. From a comparative perspective, Ecuador is considered to be a slow reformer when it comes to adopting tax reforms (Lora, 1997). In general, reforms were also less responsive to external shocks and were often behind the general trend in the region.

For empirical verification, we look at the fiscal reform index for 17 Latin American countries between 1979 and 1999 (Lora and Panizza, 2002; Lora, 1997; Morley, Machado and Pettinato 1999), but instead of focusing on the numerical value of the index per se, we seek to identify changes over time in these values for the different countries.[42] So, for example, if the index remains unchanged from one year to another, this could be taken as a sign of policy stability unless there is a significant exogenous shock, in which case the index reflects policy rigidity. We also take into account the absolute magnitude of those changes (we are not interested here in the direction).

The figure illustrates Ecuador's fiscal reform efforts compared to those of the other Latin American countries. The vertical axis represents the percentage change with respect to the previous year's index (in absolute terms). As the figure shows, tax policies in Ecuador did not experience a lot of change in the post-1991 period, despite the steady increase of fiscal deficits and falling oil prices in the early 1990s. This we interpret to be a sign of policy rigidity in the context of exogenous shocks.

[42] The composite Index for Structural Reform in Latin America ranges from 0 to 1 and contains measurements for liberalization efforts in five areas: labor markets, financial markets, trade, privatization and fiscal revenues. The maximum marginal tax rate on corporate incomes and personal incomes, the value-added tax rate and the efficiency of the value-added tax (VAT rate/receipts of this tax expressed as percent of GDP). A measure of efficiency expresses the coverage or neutrality of the VAT tax as well as the efficiency of the government in collecting the tax (Morley, Machado and Pettinato, 1999: 11). We thank Eduardo Lora for sharing this dataset with us.

Figure 6. Patterns of Fiscal Policy Change in Ecuador
(Percent Change in Fiscal Reform Index, 1986-1999)



Sources: Authors' construction based on data provided by Eduardo Lora.

While generating new revenues by reforming taxing laws seemed elusive, the expenditures side also showed a tendency toward rigid policies. Earmarked expenditures, salaries (which are sort of an entitlement and thus, very hard to reduce), pensions and interest payments made fiscal adjustment very difficult. Moreover, the lack of change created a perverse inertia effect in which public expenditures tended to rise. In particular, increases in public sector wages and public-debt interest payments were responsible for the rapid increase in government expenditures (Araujo, 1998; Jácome, 2004). Between 1993 and 1996, for instance, current expenditures amounted to nearly 79 percent of total government expenditures; the wage bill accounted for 38 percent and debt interest payments represented 21 percent (Araujo, 1998: 114). Additionally, current expenditure was highly vulnerable to the exchange-rate performance, given that most of the public debt was denominated in dollars.

The Ecuadorian Congress played a key role in the rise of government expenditures, by passing unfinanced spending laws despite constitutional amendments designed to prevent this practice (Araujo, 1998). According to Araujo, congressional intervention on the budgetary process increased up to 10 percent of the projected expenditures. Even after the 1994 constitutional reform abolished Congress's ability to alter budgetary allocations, legislators found alternative ways to introduce budget items that allowed for discretionary and clientelistic spending in the form of special transfers, off-budget items and global allocations. Additionally, Araujo (1998) offers a detailed description of how the legislative process reinforced the private regardedness of fiscal policies. Her study outlines the role of Congress in passing bills intended to benefit specific interest groups, regions and economic sectors. Focusing on the bills that passed through Congress in the 1995-1996 legislative period, Araujo found that 48 percent of bills generated new expenditures (1998: 152). These bills included the creation of new administrative units (*cantones*), lifetime pensions, creation of new projects and institutions, public works, forgiveness of debts, government compensations and others.

Earmarking revenues was a common strategy devised to protect budgetary allocations from political pressures while granting intertemporal allocation of resources to coalition members. According to Jácome, total revenues were earmarked over the 1990s by more than 50 percent (2004: 8). Most of the earmarking was established at the constitutional level such as the 1979 allocation of 30 percent of government revenues for education, or the allocation of 15 percent of revenues for local governments in the late 1990s. Not only did this practice curtail much of the Executive's bargaining power, but the earmarked expenditures' constitutional status also shielded those items from political pressures, unless a political coalition could gather the required two-thirds reform majority.

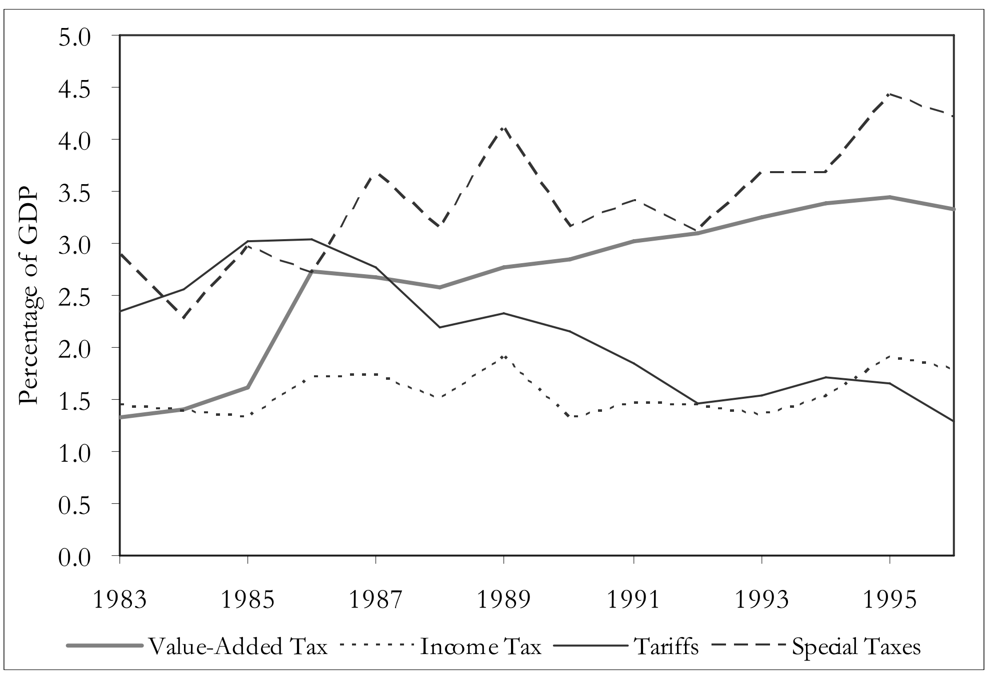
This mechanism however, reinforced the rigidity of fiscal instruments. Earmarking reflected the powerful lobbying of interest groups such as the army, public sector unions and local governments at a particular point in time and was primarily focused on the redistribution of oil revenues. The strategy of hardwiring budgetary allocations became counterproductive for two principal reasons. First, because as was discussed above, legislative coalitions in Ecuador tend to be very ephemeral, so the use of long-term payments to secure "spot" support was highly inefficient. Second, because given their dependence on oil revenues, the earmarked expenditures aggravated the problems of procyclicality and volatility underscored at the beginning of this section.

6.3.2 Adapatibility and Volatility

As mentioned above, the presence of multiple legislative players operating with short-term horizons generated significant obstacles to approving fiscal reforms and creating additional revenues. This was especially true of reforms intended to affect broader political constituencies such as passing income or consumption taxes, whereas fiscal legislation was more likely to be approved when it created ad hoc or short-term taxes affecting well-defined constituencies.

As Figure 7 shows, the increase in non-oil revenues is mostly explained by a significant increase in "special" taxes. These taxes rose from 3.1 percent of GDP in 1992 to 4.4 percent of GDP in 1995 and included, for example, a special luxury tax approved during the 1995 armed conflict, and the 1998 approval of the 1 percent capital flow tax to increase government revenues.

Figure 7. Composition of Non-Oil Revenues
(Non-financial public sector as percent of GDP 1983-1996)



Source: Authors' compilation.

These "quick fix" taxes were highly distortionary, and they may have created perverse and destabilizing effects (Jácome, 2004). The 1 percent tax on Financial Transactions imposed negative effects on the banking system's liquidity by discouraging the public's deposits/withdrawals and leading to the eventual closure of several small and medium banks.

Taxing financial transactions also depressed the demand for money by heightening the public's preference for cash. Hence, the tax reform contributed to the 1999 banking crisis (Jácome, 2004: 29). In contrast to these episodes of adaptability, there were numerous other instances in which reforms were quite volatile. In most of these cases, presidents were able to make policy reforms that sought to enhance the government's revenues. However, because it was constrained by pressures from organized political groups and social organizations, the government repeatedly reversed fiscal adjustment decisions (Jacome, 2004: 28). This dynamic created a pattern of policy instability and volatility.

6.3.3 Resoluteness

While the adoption of tax reforms described above was beset by continuous changes, the implementation of some other measures in Ecuador showed a greater degree of resoluteness. In particular, as argued in Section 5, empowering a decisive player by means of bureaucratic delegation can enhance the player's policymaking capabilities. In the case of fiscal policy, delegating tax collection to a bureaucratic agency did improve fiscal performance. Even though the tax laws are still plagued by the problems discussed above, the existence of a competent tax collection agency ensures that whatever has to be collected is effectively done (as opposed to no collection at all).

The creation of the Internal Revenue Service (SRI) in 1997 has contributed to an almost two-fold increase in the income from non-oil related revenues. Since its operational restructuring in September 1998, the SRI increased revenue collection by 5.1 points of GDP, an 86- percent increase in revenue collection (Arteta, 2003: 5). For example, the increased revenues from VAT rose from 6.0 percent of GDP in the 1993-97 period to 11.1 percent of GDP in the 2000-2004 period alone (110 percent) and exceeded the nominal increase in the VAT rate from 10 to 12 percent (20 percent). Enhanced tax collection certainly played a major role in bringing fiscal surpluses to Ecuador for four years in a row since 2000.

It should be noted that a key to the agency's success was the decisive role played by SRI's director Elsa de Mena, who enjoyed legal and real independence from political influence. Acting in a contentious political environment, perhaps her most noteworthy political achievement is to have outlasted three Ecuadorian presidents since 1998. Her committed non-partisanship, coupled with the help of a highly technical staff, helps explain her policy resoluteness. In contrast, as with any delegation-based mechanism, the dependence of the outcomes on the type of leadership makes it likely that with a change in personnel, the performance of the tax collection agency could be significantly affected.

7. Case Study II: Exchange-Rate Policies

This section illustrates the characteristics of the exchange-rate policymaking process in Ecuador since the early 1980s. This period was one where important institutional reforms granted first operational and later political autonomy to the monetary authority, which has been a critical actor in this process. We propose that this evolution in the rules of the game also translates into the attributes of the policy process.

Specifically, we distinguish three different phases within these two and a half decades. The first one—prior to the reform of the Central Bank—was characterized by a large amount of volatility in the exchange-rate policymaking process. After a first set of reforms that granted operational independence to the monetary authority, there was a period of stability in the line of action. Finally, there was a period where the choice was one of a rigid exchange-rate policy (dollarization), which occurred after the Central Bank acquired political autonomy and during a severe financial crisis that hit the Coast substantially more than the Sierra.

This section starts by characterizing the policymaking process and its actors. It then describes the outer features of the process by exploring their inner features in more detail. This exercise allows for a comparison of the three periods and their characteristics.

7.1 The Exchange-Rate Policymaking Process

There are three important moments during the period of study when significant institutional changes occurred in the role of the Central Bank. The first two are linked to specific reforms aimed at increasing its political independence. The third one (chronologically) is the result of an extreme move to policy rigidity: the dollarization of the economy, which de facto redefined the role of the monetary authority.

The first of the institutional reforms was implemented in 1992 and granted operational autonomy to the Central Bank. Its most important implication is that it eliminated the capacity of the Central Bank to finance public expenditure. In addition, it granted independence in the choice of policy instruments. While the 1992 reform was a significant step and likely contributed to the initial success of the stabilization efforts that followed, the reform was incomplete in that it did not grant political independence to the monetary authority.

This was particularly important given the structure of the board of the Central Bank. Until 1998, the board of the Central Bank (called the Monetary Board) consisted of seven members: a chairman appointed directly by the president (often an active commercial banker himself), two members appointed by private business associations, one member appointed by the association of bankers, two members appointed by the government and the Minister of Finance. Moreover, there was no legal requirement that members of the Monetary Board should quit their administrative responsibilities in the private sector, or that they should sell their shares in the private banks (Jácome, 2004). The direct presence of representatives of private interest groups created a natural environment where conflicts of interest could emerge.

The second reform introduced in 1998 during the Constitutional Assembly gave the Central Bank not only operational, but also political independence, which was "locked" into the Constitution. In 1998, the corporate representatives on the Monetary Board were replaced by a Board of Directors whose members were full-time technocrats and could not hold shares in any financial institution in the private sector. They were to be nominated by the president and appointed by Congress. The 1998 changes became effective before the banking crisis. Shortly after, in January 2000, dollarization was implemented, and this meant that the policymaking role of the Central Bank had to be redefined and its political importance reduced, as the country opted to give up its ability to have a monetary policy—an extreme form of policy rigidity.

7.2 The Players

This section describes the actors in the exchange-rate PMP as well as the changes in their roles throughout the period.

The composition of the Monetary Board, or Board of Directors of the Central Bank, changed in 1998. Until then, there was a formal corporate representation of banks and private business associations. This structure was vulnerable to conflicting interests.[43] The Monetary Board was also characterized by high turnover rates. Between 1979 and 1992, the average president lasted for a period of 13 months. Between 1992 and 2000, the average declined to 12.5 months. Regionally, of the 13 presidents of the Monetary Board during the first period, 10 came from the Sierra, while in the second period only one out of four did.

[43] Jácome (2004) describes specific cases when these conflicts arose.

The Board of Directors of the Central Bank was established in 1998 to replace the Monetary Board. With the aim of providing the Central Bank with political independence, its members were to be technocrats nominated by the president and appointed by Congress. Traditionally, most of the technocrats in the Central Bank were from the Sierra, and in fact this was true for four of the five people who have served on the Board of Directors since its creation and until 2004. After the dollarization of the economy in 2000, the role of the Central Bank was redefined.[44] The turnover rate also decreased. Since dollarization, the average duration of a Board president has been 16.5 months.

The fact that until 1998 two of the seven members of the Monetary Board were directly appointed by banks and business associations confirms the direct involvement of these groups at the highest levels of PMM decision-making. Probably the most outstanding example of the power of these groups is the strong stand they took to promote dollarization, which is discussed below.

Lastly, popular protest became an increasingly powerful mechanism for social movements to express their views and gain government attention during the period of study. Probably the most remarkable change in the nature of social protest was its increasing power to generate policy reversals (in areas such as subsidies or pensions), as well as to support governmental removals from office.

7.3 Outer Features of Exchange-Rate Policies

How volatile was the level of the exchange rate in Ecuador compared to other Latin American economies in the period of study?[45] Between 1980 and 1990, Ecuador appears to have: (a) higher volatility in its export prices (like Venezuela and Paraguay, whose exports also rely on few products) and (b) a higher correlation of its real exchange rate to the fluctuations in external markets. However, the volatility of Ecuador shifts significantly in the second period (1990-2002). Here, it experiences both relatively less volatile export prices[46] as well as a lower correlation between its real exchange rate and the fluctuations in external markets. In the second

[44] Its mission was to "warrant the functioning of the dollarized economy and promote economic growth." Source: http://www.bce.fin.ec/contenido.php?CNT=ARB0000002.

[45] The cross-country comparison of volatility is done by comparing the degree of responsiveness or endogeneity of the real exchange rate to movements in the terms of trade, as measured by the R2 coefficient for a bivariate linear regression of real exchange rate on the exports price index. Annual data between 1980-2002 were used.

[46] A significant diversification of Ecuador's exports occurred during the 1990s. Shrimp exports reached their peak, and flowers and other non-traditional agricultural exports experienced rapid growth.

half of this period, there is also a move toward an increased independence of the monetary authority, which can be seen as power delegation to specialized bureaucracies and is reflected in a series of institutional reforms. Relative to other Latin American countries, Ecuador has experienced extreme volatility in its export prices over the last 20 years. However, and conditional on these fluctuations, its policy response has not been drastically more compensatory or volatile relative to that of other countries in the region.

7.3.1 Three Periods of Exchange-Rate PMP and their Inner Features

We propose to characterize the exchange-rate PMP during 1980-2004 into three different periods. The first period, between 1980 and 1992 will be referred to as one of **regime volatility**, when each incoming government proposed a change in the exchange-rate regime. The second period is one of **regime stability with adjustments** and began in August 1992 and continued until the adoption of dollarization in January 2000. This period is characterized by relative stability in terms of the choice of exchange-rate regime, since throughout most of this period, the exchange rate was the principal tool used to anchor agents' inflationary expectations. Finally, the third period started after the formal dollarization of the economy, and implied the extreme regime choice in terms of **rigidity** and a de facto end of exchange-rate policy.

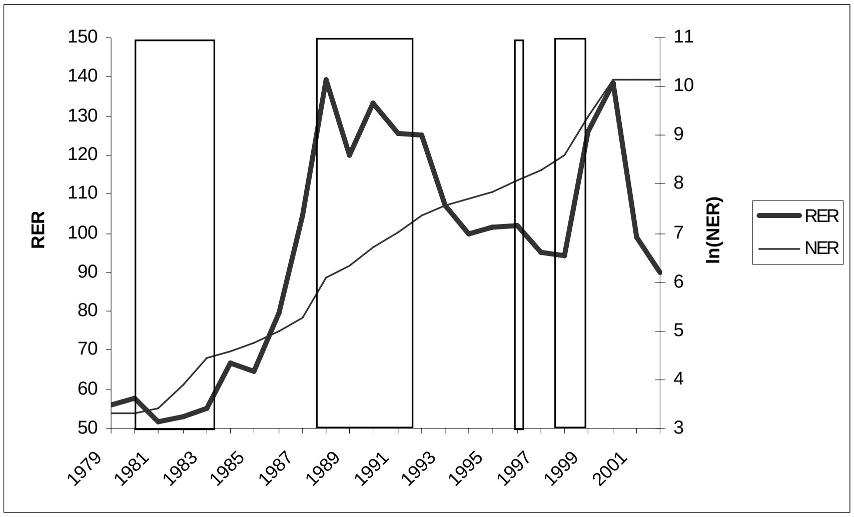
The period of **regime volatility** ranges from the early 1980s to 1992. During this period, we observe that exchange-rate regimes shift for two main reasons: because of changes in government administrations and to adjust for shocks. In this period, six different exchange-rate regimes were implemented over a period of 12 years, or three administrations. At two points, there was a move away from fixed exchange-rate regimes (1983 and 1986). Both cases came after a series of shocks and likely represented a quest for policy flexibility.

Figure 8 illustrates the trends of nominal and real exchange rates[47] over this period. The real exchange rate depreciated throughout and moves consistently in that direction over most of the period. In fact, during the period of regime volatility, the main objective of exchange-rate policy was to maintain purchasing power parity. The trend was not fully reversed until 1992, when the exchange-rate policy became the main instrument of the government's stabilization program. This is the period where the Central Bank had the least independence, both political

[47] Following the convention of the Central Bank of Ecuador, the World Bank index was normalized so that a *decrease* in the index of real exchange rate represents a *real appreciation*. In addition, gray bars represent the periods of the different governments in office.

and operational. Moreover, turnover of the authorities was also high: the average duration of the president of the Monetary Board was13 months.

Figure 8. Nominal and Real Exchange Rates



Source: Authors' compilation.

We characterize the second period—between 1992 and 2000—as one of **regime stability with adjustments.** Several elements differentiate this period from the previous one. First, the incoming government in 1992 used exchange-rate policy as part of its stabilization program, which was successful in lowering inflation during the first two years before a series of shocks affected the economy. Second, this government also introduced institutional reforms that gave the Central Bank operational independence. Between 1992 and 1999, there was only one change in the exchange-rate regime (over seven years and four government administrations). After 1999, and with the replacement of the crawling bands regime, a "transition" phase with very particular characteristics began. We argue that there was a period of stability until 1999; in fact, the change from a dirty float to a regime of crawling bands that occurred in 1994 was part of the government's program to decrease inflationary expectations. The direction of the move (from a more to a less flexible regime) in the middle of a government regime aimed to strengthen the credability of the government's effort to generate macroeconomic stability. While the stabilization program was relatively successful in the first years, (though not popular, due to the nature of stabilization measures), the government's aim was to reduce inflation to one-digit levels. Figure 7 shows that the real exchange rate remained appreciated until 1999.

Stability was a common denominator over this period, not only in terms of the policies implemented, but also in terms of the team in charge of the reform. While the average duration of the president of the Monetary Board over this period was 12.5 months, a generation of young economists positioned themselves well and securely in technocratic jobs at an intermediate level of the public administration. A remarkable fact is that four incoming governments from very different political backgrounds restrained the main framework of the exchange-rate policy—as well as a number of the technical policymaking staff—with substantial stability.

Towards the second half of this period, and especially after 1995, a series of shocks—including the effects of the war with Peru, the Mexican crisis, droughts, the resignation of Vice-President Dahik and the ousting of President Bucaram, El Niño, and the crises in Brazil and Russia—hurt the Ecuadorian economy substantially. In this context, the response of the authorities was to adopt subsequent adjustments to the crawling band (its slope, level and width), which in turn eroded the credibility of the regime and led to its replacement in 1999.

The third period in the exchange-rate policymaking process is one of **rigidity**, with the adoption of dollarization in 2000. The complexity of the context surrounding the adoption of this regime is discussed in more detail in the next section. The two government administrations succeeding the one that adopted dollarization have sustained this exchange-rate regime with no changes as of 2004. In fact, this stability extended to other spheres of the policymaking process. The turnover ratio of the president of the Board of the Central Bank decreased by about 25 percent, with the average duration of a president increasing to 16.5 months. In terms of the level of the exchange rate, there was a sharp depreciation during the crisis, but it seemed to reverse after 2001 to pre-crisis levels.

7.4 Dollarization

In this section, we discuss in more detail the process that preceded the adoption of a dollarized economy in Ecuador in 2000. The hypothesis we propose is that the important regional component in the preference for dollarization—where Guayaquil led strong lobbying efforts in favor of this regime—can be explained because of political economy reasons. In particular, it was the consequence of a banking crisis that was also regionally differentiated, as well as of a lack of satisfaction with the Central Bank.

The discussion of the adoption of a rigid exchange-rate regime goes back to 1996 during the government of President Bucaram. After taking office, the government expressed an interest in adopting convertibility, like Argentina had done at the time. The Argentine team was contacted for advice and it recommended the implementation of a series of reforms prior to convertibility. The government announced that convertibility would be implemented by December 1997 and announced the implementation of the reforms suggested by the Argentines. Of these, the elimination of the gas subsidy to achieve fiscal balance accelerated Bucaram's loss of popularity—especially in the Sierra—and ultimately led to his downfall in February 1997.

Once President Alarcón's interim government was installed, the idea of convertibility was abandoned. President Alarcón's economic team opted to maintain the crawling-band exchange-rate regime. Undertaking structural reforms was also not on the interim government's agenda. However, starting in the second half of 1997 and throughout 1998, there was concern about the de facto dollarization of many transactions in the economy, especially on the Coast, where agriculture had been severely hit by El Niño in the winter of 1997-1998. Ecuador was also exposed to financial crises in Brazil and Russia, as well as to low international oil prices. At the same time, discussions regarding the exchange-rate policy reflected concern over the loss of credibility of the bands system due to permanent adjustments to its width, level and slope.

When President Mahuad's government took office in August 1998, there was no change in the choice of exchange-rate regime. Anecdotal evidence suggests that President Mahuad's economic team—aware of the collapse of the credibility of the crawling band regime—considered switching to a free float earlier than they actually did. What prevented them from implementing this policy was a reluctance to expose the economy to an overshooting of the exchange rate—which would likely occur at least temporarily with the free float—in a context where the banking crisis had started revealing itself.[48] It was only in 1999 that a change in the monetary model and exchange-rate regime toward one of rigidity made a strong comeback in the national debate. This time, the proposed regime was not convertibility, but dollarization. A key element of the story is that dollarization in Ecuador was lobbied for and politically pushed to a large extent by the Guayas Chamber of Small Industries (Cámara de la Pequeña Industria del Guayas, CPIG) and its president, the businesswoman Ms. Joyce de Ginatta.[49] The logic—as presented by de Ginatta—was that given that dollarization implied completely renouncing

48 The beginning of the crisis (and its contagion effects) is identified by Jácome (2004) as occurring in April 1998 with the closure of Solbanco, a relatively small bank. The closure of Banco de Préstamos (a medium-size institution) followed in August 1998.

49 At the time of her appointment at CPIG, Ms. de Ginatta was a well-known local businesswoman who owned a large chain of hardware stores.

exchange rate policy, it required fewer reforms (in the fiscal sector and labor markets) and relied less on strong, credible institutions than a fixed exchange-rate regime such as convertibility would have.

From the beginning of 1999, de Ginatta led a campaign for dollarization and advocated its potential benefits.[50] During the months before dollarization, several foreign speakers were invited to deliver talks in which they favored anything from a strong currency to a concrete policy option such as dollarization. These visitors often met with local politicians to discuss their views. As with many public policy debates in Ecuador, the one on dollarization had a clear regional component. Dollarization was an option pushed by the Coast and specifically, by Guayaquil. This, at first sight, would contradict the expected pro-exporter bias that has characterized Guayaquil.

We propose that some of the reasons behind this policy preference were not purely economic in nature, but political as well, and that they aimed at removing power from the monetary authorities based in the Sierra (where Quito is located). The reasons for the discontent of the Guayaquilean political and economic elites were many. The credibility of the crawling bands had been eroded. In addition, the banking crisis was overwhelmingly a crisis of the financial institutions of the Coast.[51] In the eyes of Guayaquil, the monetary authorities had failed to aid the city's banks and were partly responsible for their collapse.[52]

It is interesting to note that the implementation of a free-float regime coincided with the beginning of the debate on dollarization that was pushed by de Ginatta and her business organization in February 1999. Political economy reasons can explain why an exports-oriented region led a campaign for a rigid exchange-rate regime at a time of (or as a response to) a newly adopted, flexible exchange-rate regime. But more importantly, the success of the coastal elites in

---

50 More information on the views and accounts of the pro-dollarization movement can be found at http://www.dolarizacionecuador.com/.

51 The reasons for the regional component of the financial crisis are analyzed more extensively in Jácome (2004). Among them is the fact that the coastal productive sector had been hard hit by El Niño in previous years. The common perception is that the nature of coastal businessmen is more likely to be risk-loving than that of their counterparts in the Sierra. In fact, the coastal banks that closed during the crisis were banks with riskier portfolios.

52 A quote from Arteta and Hurtado (2002) better describes the regional divide of the 1998-1999 period as well as the fact that even politicians at the highest level participated in it (note in parentheses is ours): "Repeatedly, the mayor of Guayaquil (i.e., former President Febres Cordero) declared that he would 'rise-up' the Coast against the 'centralism of Quito' if those banks were closed. The threats produced the desired effects temporarily. That is, the banking superintendence delayed interventions and corrective prudential measures were not implemented. Eventually, of course, all the protected institutions failed anyway."

accomplishing their objectives is illustrated in the fact that in less than 11 months, Ecuador had dollarized the economy and President Mahuad was out of office.

Table 6. Timeline of Exchange Rate Policy Decisions, by Government

Date	Regime	Level
PERIOD 1: REGIME VOLATILITY		
Osvaldo Hurtado, May 1981 – August 1984		
March 82	Fixed exchange rate with a dual market (a "free" market and an "intervention" market to which devaluations apply)	20 percent devaluation
May 82		32 percent devaluation
March 83	Central Bank can intervene in "free" market Pre-announced daily "mini-devaluations"	27 percent devaluation
June 83		Adjust daily rate of devaluation
León Febres Cordero, August 1984 – August 1988		
September 84	Fixed exchange rate and end of "mini-devaluations"	
November 85	Unification of the "official" and "intervention" exchange rate markets	
January 86	Re-establishment of the "official" and "intervention" markets	
August 86	Liberalization of exchange rate (free float)	
March 88	Stop free float – establish fixed exchange rate in the "official" market and establish a band in the "intervention" market	
Rodrigo Borja, August 1988 – August 1992		
August 88	Fixed exchange rate with a dual market Pre-announced weekly devaluations	
May 89		Adjust rate of devaluation
October 89		Adjust rate of devaluation
January 90		Adjust rate of devaluation
January 91		Adjust rate of devaluation
July 91		Adjust rate of devaluation
November 91		Adjust rate of devaluation
January 91		Adjust rate of devaluation
PERIOD 2: REGIME ADAPTABILITY		
Sixto Durán Ballén, August 1992 – August 1996		
September 92	Stabilization program based on dirty float (ER as anchor to control inflationary expectations)	32 percent devaluation
November 92	Liberalization of sales of exporters' US dollars	
January 93	BCE starts a trading floor for exchange rate	
September 93	Unification of markets (eliminate dual market)	
December 94	Pre-announced crawling band	
February 95		Adjustment to the band[1]
October 95		Adjustment to the band[2]
Abdalá Bucaram, August 1996 – February 1997		
August 96		Adjustment to the band[3]
Fabián Alarcón, February 1997 – August 1998		
March 97	New mechanism of exchange-rate auctions	Adjustment to the band[4]
March 98		Adjustment to the band[4]
Jamil Mahuad, August 1998 – January 2000		
September 98		Adjustment to the band[5]
February 99	Clean float	
January 00	Adoption of US dollar in substitution of the sucre	
PERIOD 3: RIGIDITY		
Gustavo Noboa, January 2000 – January 2003		
Lucio Gutiérrez, January 2003 – April 2005		

1: Adjustments to the slope and width of the band.
2: Adjustment to the level of the band.
3: Adjustment to the slope, width, and level of the band.
4: Adjustment to the slope and level of the band.
5: Adjustment to the width and level of the band.

Sources: Araujo (1998); Burneo (1994) and Jácome (2004).

8. Beyond Delegation and Deadlock

What factors can explain the paradoxical coexistence of policy volatility and policy rigidity? The previous sections have shown that, in a context of high political fragmentation, short-term horizons, and "last-ditch" veto players, the Ecuadorian policymaking process has been shaped in different policy areas by two factors: a) whether the legislators (the current Congress, a previous Congress, or even an earlier constitutional assembly) have delegated policymaking power to the bureaucracy, and b) whether the president has the institutional power to control the agenda-setting process. In the case of congressional policymaking, the president controls the agenda by initiating urgent bills that invert the logic of legislative deadlock: if Congress is unable to act, the president's policy preference becomes the reversionary point. In the case of bureaucratic delegation, in contrast, the president controls the agenda by appointing technically decisive players.

Given the fragmentation of the Ecuadorian party system, in policy areas in which there is no delegation and the president is unable to exercise much agenda-setting power, the PMP has been generally slow and inefficient (or just unable) to respond to exogenous shocks. The rigidities in government spending, discussed in the section on fiscal policy, illustrate this pattern well. In the absence of delegation, the PMP may become sensitive not only to exogenous shocks, but also to endogenous political shocks if the president uses his legislative powers (particularly the use of urgent bills and partial vetoes). In the short run, Congress may simply let the president's policy "happen" and yet the policy may never be implemented due to the action of last-ditch veto players like the protest movements or the Constitutional Tribunal. Even if this is not the case, in the medium run a change in administration may easily bring a new change in policy.

A different set of problems emerges when legislators delegate policymaking power to the bureaucracy. When the president and corporate actors set the agenda for the bureaucracy by appointing the heads of the agencies, the result may be a different form of policy volatility. Our discussion of the Monetary Board in the previous section illustrates this issue. When, in contrast, agencies are relatively autonomous, they may create the conditions for policy adaptability but only if they can mobilize technical resources and guarantee high public regardedness. The example of Internal Revenue Service (SRI) so far has matched this description. Overall, the absence of a meritocratic civil service and an independent judiciary has further undermined effective policy delegation.

A large number of institutional reforms over the last two and a half decades suggest that long-term adjustments to the Ecuadorian PMP may not be (or at least are not entirely) a matter of legal reformation. Changes in informal institutions and practices may be essential in order to address some of the deeply rooted causes of policy rigidity and volatility: the short time horizons of party leaders, the lack of policy congruence across regional actors and the repeated activation of last-ditch veto players. But reforming informal institutions can be more difficult. This is certainly an area in which academic knowledge is weaker, public information is obscured by stereotypes and frustration and political consensus is, no doubt, much more difficult to achieve.

References

Ames, B. 2001. *The Deadlock of Democracy in Brazil*. Ann Arbor: The University of Michigan Press.

Amorim Neto, O. 1998. “Cabinet Formation in Presidential Regimes: An Analysis of 10 Latin American Countries.” Presented at the Latin American Studies Association, Chicago.

---. 2002. “Presidential Cabinets and Legislative Cohesion in Brazil.” In: S. Morgenstern and B. Nacif, editors. *Legislative Politics in Latin America*. Cambridge: Cambridge University Press.

Amorim Neto, O. and F. Santos. 2001. “The Executive Connection. Presidentially Defined Factions and Party Discipline in Brazil.” *Party Politics* 7(2): 213-234.

Araujo, M.C. 1998.*Gobernabilidad durante la crisis y políticas de ajuste*. Quito: Proyecto CORDES-Gobernabilidad.

Arteta, G. 2003. “Antes y Después del SRI.” *Carta Económica*, 5.

Arteta, G. and O. Hurtado. 2002. “Political Economy of Ecuador: The Quandry of Governance and Economic Development.” Unpublished manuscript, CORDES. Quito.

Banco Central del Ecuador. *Información Estadística Mensual*. www.bce.fin.ec.

----. *Memoria Annual del Gerente*. (1993-2002).

Beckerman, P. 2002. “Longer-term origins of Ecuador’s “predollarization” crisis.” In: P. Beckerman and A. Solimano, editors. *Crisis and Dollarization in Ecuador*. Washington, D.C.: The World Bank.

Bromley, R. J. 1977. *Development Planning in Ecuador*. University of Wales: Centre for Development Studies.

Burbano de Lara, F. and M. Rowland García. 1998. *Pugna de Poderes: Presidencialismo y Partidos en el Ecuador, 1979-1997*. Quito: Corporación de Estudios para el Desarrollo-Fundación Konrad Adenauer.

Burneo, D.F. 1994. “Políticas macroeconómicas y tipo de cambio real: el caso del Ecuador 1982-1994,” Nota Técnica del Banco Central del Ecuador No. 22.

Carey, J.M., and M. S. Shugart. 1995. “Incentives to Cultivate a Personal Vote: a Rank Ordering of Electoral Formulas.” *Electoral Studies* 14(4): 417-439.

---. 1998. “Calling out the Tanks or Filling Out the Forms?” In: J. M. Carey and M. S. Shugart, editors. *Executive Decree Authority*. New York: Cambridge University Press.

Cheibub, J-A., A. Przeworski and S. Saiegh. 2004. “Government Coalitions and Legislative Success under Presidentialism and Parliamentarism.” *British Journal of Political Science* 34(4): 565-87.

Conaghan, C.M. 1994. “Loose Parties, “Floating” Politicians, and Institutional Stress: Presidentialism in Ecuador, 1979-1988.” In: J. J. Linz and A. Valenzuela, editors. *The Failure of Presidential Democracy-Vol. 2-The Case of Latin America*. Baltimore: The Johns Hopkins University Press, pp. 254-285.

---. 1995. “Politicians Against Parties: Discord and Disconnection in Ecuador's Party System.” In: S. Mainwaring and T. R. Scully, editors. *Building Democratic Institutions: Party Systems in Latin America*. Stanford, CA: Stanford University Press, pp. 434-458.

Coppedge, M. 1998. “The Dynamic Diversity of Latin American Party Systems.” *Party Politics* 4:547-568.

Cox, G. and M. McCubbins. 2001. “The Institutional Determinants of Economic Policy Outcomes.” In: S. Haggard and M. McCubbins, editors. *Presidents, Parliaments and Policy*. Cambridge: Cambridge University Press.

Cox, G.W. and S. Morgenstern. 2002. “Reactive Assemblies and Proactive Presidents: A Typology of Latin American Presidents and Legislatures.” In: S. Morgenstern and B. Nacif, editors. *Legislative Politics in Latin America*. Cambridge: Cambridge University Press.

De la Torre, A., R. García-Saltos and Y. Mascaró. 2001. “Banking, Currency, and Debt Meltdown: Ecuador Crisis in the Late 1990s.” World Bank Working Paper. Washington, D.C.: World Bank.

Fernández, G. and C. Lara. 1998. *Los Shocks Exógenos y el Crecimiento Económico del Ecuador.* Nota Técnica del Banco Central del Ecuador No. 48.

Frieden, J. and E. Stein. 2001. “The political economy of exchange rate policy in Latin America: an analytical overview.” In: J. Frieden and E. Stein, editors. *The Currency Game: Exchange Rate Politics in Latin America*. Washington, D.C.: Inter-American Development Bank, pp. 1-19.

Gavin, M., R. Hausmann, R. Perotti and E. Talvi. 1996. “Managing fiscal policy in Latin America and the Caribbean: volatility, procyclicality and limited creditworthiness.” Washington, D.C.: Inter-American Development Bank, Working Paper 326.

Grindle, M. and F.E. Thoumi. 1993. "Muddling Toward Adjustment: The Political Economy of Economic Policy Change in Ecuador." In: R. H. Bates and A. O. Krueger, editors. *Political and Economic Interactions in Economic Policy Reform: evidence from eight countries*. Oxford: Blackwell.

Hallerberg, M. and P. Marier. 2002. *Executive Authority, the Personal Vote, and Budget Discipline in Latin American and Caribbean Countries*. Unpublished manuscript: University of Pittsburgh.

Helmke, G. 2002. "The Logic of Strategic Defection: Court-Executive Relations in Argentina under Dictatorship and Democracy." *American Political Science Review* 96(2): 291-304.

Hey, J.A.K. and T. Klak. 1999. "From Protectionism Towards Neoliberalism: Ecuador Across Four Administrations (1981-1996)." *Studies in Comparative International Development* 34(3): 66.

Hurtado, O. 1990. *Política Democrática: los últimos veinte y cinco años*. Quito: Fundación Ecuatoriana de Estudios Sociales y Corporación Editora Nacional.

Iaryczower, M., P.T. Spiller and M. Tommasi. 2002. "Judicial Independence in Unstable Environments, Argentina 1935-1998." *American Journal of Political Science* 46(4): 699-716.

Jácome, L.I. 1996. *Tipo de cambio nominal y real en el Ecuador. Una mirada a la experiencia con regímenes de minidevaluaciones y de flotación dirigida.* Nota Técnica del Banco Central del Ecuador No. 32.

----. 2004. "The Late 1990s Financial Crisis in Ecuador: Institutional Weaknesses, Fiscal Rigidities, and Financial Dollarization at Work." International Monetary Fund Working Paper # 04/12. Washington, D.C.: International Monetary Fund.

Jones, M. 2005. "The Role of Parties and Party Systems in the Policymaking Process." Paper prepared for the Inter-American Development Bank's Workshop on State Reform, Public Policies and Policymaking Processes, February 28-March 2, Washington, D.C.

Jones, M. and S. Mainwaring. 2003. "The Nationalization of Parties and Party Systems-An Empirical Measure and an Application to the Americas." *Party Politics* 9(2): 139-166.

Jones, M., S. Saiegh, P.T. Spiller and M. Tommasi. 2002. "Amateur Legislators-Professional Politicians: The Consequences of Party-Centered Electoral Rules in a Federal System." *American Journal of Political Science* 46(3): 656-669.

Lora, E. 1997. "A Decade of Structural Reforms in Latin America: What Has Been Reformed and How to Measure it." *Inter-American Development Bank Working Paper Green Series* 348. Washington, D.C.: Inter-American Development Bank.

Lora, E. and U. Panizza. 2002. "Structural Reforms in Latin America Under Scrutiny." *Inter-American Development Bank Working Paper* 470. Washington, D.C.: Inter-American Development Bank.

Lowi, T. 1964. "American Business, Public Policy, Case-Studies, and Political Theory." *World Politics* 16: 677-715.

Mainwaring, S. and A. Pérez-Liñán. 1997. "Party discipline in the Brazilian Constitutional Congress." *Legislative Studies Quarterly* 22(4): 453-483.

Mainwaring, S. and T.R. Scully, editors. 1995. *Building Democratic Institutions-Party Systems in Latin America.* Stanford: Stanford University Press.

Mainwaring, S. and M.S. Shugart. 1997. "Conclusion: Presidentialism and the Party System." In: S. Mainwaring and M. S. Shugart, editors. *Presidentialism and Democracy in Latin America*. Cambridge: Cambridge University Press, pp. 394-439.

Mejía Acosta, A. 2002. *Gobernabilidad Democrática-Sistema Electoral, Partidos Políticos y Pugna de Poderes en Ecuador, 1978-1998*. Quito: Fundación Konrad Adenauer.

---. 2003. "La Reelección Legislativa en Ecuador: Conexión Electoral, Carreras Legislativas y Partidos Políticos (1979-2003)." In: F.F. Dworak, editor. *El Legislador a Examen. El Debate Sobre la Reelección Legislativa en México: Una Perspectiva Histórica e Institucional*. México, DF: Fondo de Cultura Económica.

---. 2004. *Ghost Coalitions: Economic Reforms, Fragmented Legislatures and Informal Institutions in Ecuador*. Ph.D. Dissertation, Department of Political Science, University of Notre Dame, Notre Dame, Indiana.

Mershon, C. 1996. "The Costs of Coalition. Coalition Theories and Italian Governments." *American Political Science Review* 90(3): 534-54.

Mills, N.D. 1984. *Crisis, Conflicto y Consenso. Ecuador: 1979-1984*. Quito: Corporación Editora Nacional.

Morgenstern, S. 2002. "Explaining Legislative Politics in Latin America." In: S. Morgenstern and B. Nacif, editors. *Legislative Politics in Latin America*. Cambridge: Cambridge University Press, pp. 413-445.

Morley, S., R. Machado and S. Pettinato. 1999. *Indexes of Structural Reform in Latin America*. Santiago, Chile: United Nations-Economic Commission for Latin America and the Caribbean.

Pachano, S. 1991. Los Diputados. Una Elite Política, Biblioteca de Ciencias Sociales. Quito: Corporación Editora Nacional.

----. 2004. "El Territorio de los Partidos. " In: *Partidos Políticos en la Región Andina: entre la crisis y el cambio*, edited by R. A. M. Miriam Kornblith, Simón Pachano, Martín Tanaka, Elisabeth Ungar Bleier, Carlos Arturo Arévalo. Lima: IDEA-Ágora Democrática.

---. 1998. *La Representación Caótica*. Quito: FLACSO-Konrad Adenauer.

Pachano, S. and E. Pizzarro. 2002. "Atomización y Regionalización Partidista: Colombia y Ecuador." Presented at the La Crisis de Representación en los Andes, Notre Dame, Indiana.

Payne, J.M., D. Zovatto G., F. Carrillo Flórez and A. Allamand Zavala. 2002. *Democracies in Development. Politics and Reform in Latin America*. Edited by the Inter-American Development Bank, Washington, D.C.

Pérez-Liñán, A. 2003. "Presidential Crises and Democratic Accountability in Latin America, 1990-1999." In: S. E. Eckstein and T. P. Wickham-Crowley, editors. *What Justice? Whose Justice? Fighting for Fairness in Latin America*. Berkeley: University of California Press, pp. 98-129

Pérez-Liñán, A. and J.C. Rodríguez-Raga. 2003. "Veto Players in Presidential Regimes: Institutional Variables and Policy Change." Presented at the Annual Meeting of the American Political Science Association, Philadelphia, August 28-31.

Sánchez-Parga, J. 1998. *La Pugna de Poderes*. Quito: Abya-Ayala Ediciones.

Shugart, M.S. and J.M. Carey. 1992. *Presidents and Assemblies. Constitutional Design and Electoral Dynamics.* Cambridge: Cambridge University Press.

Snyder, R. and D. Samuels. 2001. "Devaluing the vote in Latin America." *Journal of Democracy* 12(1)

Spiller, P.T., and M. Tommasi. 2003. "The Institutional Foundations of Public Policy: A Transactions Approach with Application to Argentina." *Journal of Law, Economics, and Organization* 19(2): 281-306.

Strom, K. 1990. *Minority Government and Majority Rule*. Cambridge: Cambridge University Press.

----. 1995. "Parliamentary Government and Legislative Organization." In: H. Döring, editor. *Parliaments and Majority Rule in Western Europe*. New York: St. Martin's Press.

Talvi, E. and C. Végh. 2005. "Tax Base Variability and Pro-cyclicality of Fiscal Policy." *Journal of Development Economics*, forthcoming.

Taylor-Robinson, M. and C. Diaz. 1999. "Who Gets Legislation Passed in a Marginal Legislature and is the Label Marginal Legislature Still Appropriate? A Study of the Honduran Congress." *Comparative Political Studies* 32(5): 589-625.

Tsebelis, G. 2002. *Veto Players: How Political Institutions Work*. Princeton: Princeton University Press.

Weaver, R.K. and B.A. Rockman. 1993. *Do Institutions Matter*. Washington, D.C.: The Brookings Institution.

Yashar, D.J. 1998. "Contesting Citizenship-Indigenous Movements and Democracy in Latin America." *Comparative Politics* 31 (1): 23-42.