

Political Institutions, Policymaking, and Policy Stability in Latin America*

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Abstract

In some Latin American nations policy change occurs frequently, while in others it is stable, less prone to shifts with the prevailing political climate or shocks. The conditions under which institutional rules and the powers of key actors influence the capacity for governance vary, and this variation is seldom addressed in the literature. This project examines the effects of the interactions between key policymakers (the executive and the legislature) in Latin America on policy stability across different institutional frameworks. Countries with simultaneously strong executives and weak legislatures are shown to have unstable policy environments, as are countries with a history of unified government and, to a lesser extent, candidate-centered electoral systems.

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Introduction

The conditions under which institutional arrangements and the power of key players influence the capacity of political actors to govern vary significantly across Latin America. One result of this variation has been a significant disparity in the level of policy stability across these countries. This paper seeks to analyze the determinants of this disparity by focusing on the relationship between policy stability, political institutional, and presidential and legislative powers.

Policy stability is an important feature of democratic governance, as a delicate balance between resoluteness and adaptability is necessary for effective government. On the plus side, legislation that is resolute will not shift with the prevailing political climate, leading to a predictable political environment. However, a policy environment that is too obstinate will have difficulty adjusting when necessary legislative changes are in order. Mainwaring (1993, 218) notes that policy immobilism may lead to coups or presidential usurpations of power. Thus, too much policy stability may lead to governmental *instability*. In this paper, therefore, we do not normatively consider policy stability as an ideal condition, especially because some might label it as policy gridlock.

An important feature of policy stability is its relation to economic growth. Rodrik (1991) shows that, because the private sector will withhold economic investment until the uncertainty that comes with changing policies dissipates, even moderate amounts of policy uncertainty can greatly reduce investment. Thus, nations that undergo frequent policy change will likely experience less economic growth. Policy environments that are either too flexible or too obstinate may also work to retard economic growth due to their relationship with governmental instability. Barro (1991) finds governmental instability to be negatively related to GDP growth due to its adverse effect on property rights. Meanwhile, Alesina et al. (1996, 191) reach the same conclusion, noting that risk-averse economic agents may be hesitant to take economic initiatives in unstable nations, perhaps choosing to instead invest abroad. Similarly, foreign investors are also likely to prefer stable political environments, thus keeping their money away from unstable political systems.

The purpose of this paper is not to analyze the details of any specific policy; rather it seeks to explain the institutional determinants of an outer feature¹ of public policy. Outer features are more naturally linked to the institutional environment than are the contents of policies. Content may shift back and forth within certain institutional environments in response to realization of a political shock, while features such as stability or adaptability will remain the same. Moreover, focusing on outer features also allows comparability across policy issues, which is not possible in a study that solely analyzes the contents of policies.

This study analyzes policy stability as a function of the characteristics of a nation's institutional arrangements, investigating the conditions under which policy change is a fluid process, either due to institutional design or the extraction of gains from exchange by relevant players. The analysis explores the notion that formal and informal incentives for the executive and the legislature to form working relationships can enable policy change beyond what would be expected by looking only at preferences and veto power.

“Veto players” theory (see Tsebelis 2002) models policy change as a function of the number of important, veto wielding, actors involved in a decision and the preferences of each actor. The underlying assumption is that political fragmentation increases transaction costs and reduces the size of a possible win-set that could beat the *status quo*, thus limiting the probability of policy change; the *status quo* changes only if this change is agreed upon by all actors. This project expands on the veto players literature by considering the relative powers and institutional incentives of actors (executive and legislators), in addition to their preferences. Even given a fixed number of veto points, one would expect more or less political transactions to take place depending on the political transaction costs that arise given the political institutions. Where those institutions are more conducive to intertemporal cooperation

¹ These characteristics are qualities such as stability vs. volatility, flexibility vs. rigidity, coordination vs. coherence, decisiveness vs. resoluteness (Inter-American Development Bank 2006; Haggard and McCubbins 2001), overall quality and investment-related qualities, private vs. public regardedness, and balkanization.

among the actors, greater gains from political exchanges should materialize, despite the fixed number of veto points. The contribution of our approach is that in addition to taking into account the number of veto players and their preferences, we also consider the ability those players have to achieve cooperation via gains from trade mechanisms.

Previous research provides in-depth analysis of the policymaking processes within individual countries in Latin America (for example, Mainwaring and Scully 1995; Mainwaring and Shugart 1997; Morgenstern and Nacif 2002, and several studies by the Research Department of the Inter-American Development Bank, 2006). These studies give insight into how certain institutional variables and the powers of particular actors affect policy stability within individual countries. However, they often fail to consider cross-country variation in institutional arrangements and the powers of important political actors. To help fill this gap, using several Latin American countries as our units of analysis, we show that the nature of the relationship between a nation's legislature and executive affects its overall level of policy stability. Moreover, unified government decreases policy stability as it lowers the costs of political transactions between these two actors.

The next section review the literature related to policy stability and proposes an approach to understand the determinants of policy stability that focuses on the effect of presidential powers and electoral rules.² This approach is subsequently tested econometrically with cross-country data from Latin America. We conclude with two case studies that look at the policymaking processes in Venezuela and Brazil.

A Theory of Policy Stability in Latin America

The features of a nation's policy environment can be understood as a function of interactions between key policymakers, conditional on institutional arrangements. If political institutions allow actors

² We also built a formal model (see the appendix) that takes into account gains from trade as a function of two key institutional variables, presidential powers and electoral rules, on policy stability.

to maneuver freely, striking deals and forming relationships, policy stability should lessen. Conversely, if a nation's institutional setup precludes smooth working relationships between policymakers, or if the relative powers of key actors lead to stalemate, changes to the policy status quo will be uncommon.

In the presidential nations of Latin America, policy creation is the product of an interactive relationship between the executive and the governing legislative coalition. The nature of this game is dependent on the relative powers of these two entities, but also varies according to the institutional arrangements by which they are constrained. The institutional power held by the president may allow him to impose proactive agendas and limit legislators' role in the creation of policy. In situations of this nature, the president is empowered to block the legislation he does not like as well as to force his own legislative priorities and unilaterally implement policy change. However, if the legislature of a nation is strong relative to the executive, it can act as an effective check on presidential prerogative, successfully delaying or blocking proposed changes to the policy status quo. Cox and Morgenstern (2002, 448) note that the executive and the legislature are involved in a bilateral veto game of this nature in the presidential nations of Latin American. In this game, the executive generally introduces policy and the legislature acts as a reactive power (Morgenstern 2002, 414), with policy outcomes depending on the relative powers of the two players.

The executive and the legislature can also be thought of as "veto players" in the policymaking process, and previous research has examined policy stability as a function of a nation's veto players. As Tsebelis (2002, 2) notes, in order to change policy, "a certain number of individual or collective actors have to agree." Therefore, departures from the status quo are less likely when these actors are numerous. Haggard and McCubbins (2001, 5) note that expanding the number of veto players will increase (or at least not decrease) the number of interests taking part in a decision. If this decision relates to a public policy outcome, it can be reasoned that more veto players will lead to more stable policy.³

³Many studies have applied veto players theory to specific policy outcomes. For example, Tsebelis and Chang (2004) show that countries with several veto players have difficulty altering budget structures. Also, Tsebelis (2002,

However, there are situations when the executive and the legislature can form a working relationship even when, *prima facie*, policy change may seem unlikely. That is, one actor may be willing to allow a policy to drift away from its preferred point in exchange for reciprocal behavior by another. For example, potential resistance to policy change may be overcome by the presence of tradable currencies that come with electoral rules that encourage a personal vote, such as open-list proportional representation (Pereira and Mueller 2004; Foweraker 1998). In such systems, the president can reward legislators with spending in their home district if they agree to support his policies in congress. Conversely, there are circumstances where stability may prevail even in systems where instability is expected; perhaps due to a shortage of currencies able to compensate actors' losses. For example, when there is uncertainty concerning the actual effects of enacted legislation. Therefore, our approach goes beyond a veto players' viewpoint because it incorporates possibilities of bargaining and gains from trade among these players constrained by a given institutional setting.

Understanding the diversity of actors' interests is also important when examining policymaking. Haggard and McCubbins (2001) note that the diversity of interests and preferences of important actors in an institutional setting also affects the policymaking process, stating: "If power is separated but purpose is unified, then the effective number of vetoes may be near one, as each separate institution is working toward a common goal. On the other hand, if each player's payoffs are independent from the others (e.g. their electoral fates are independent of one another), then the effective number of vetoes may be near the maximum number of vetoes." Cox and McCubbins (2001, 27) note that "changing policy becomes

173; 1999) shows that an increase in the number of veto players leads to a decrease in the amount of significant laws passed in a polity. Hallerberg and Basinger (1998) demonstrate that, in OECD countries, more veto players are related to increased stability in tax rates. Cunningham (2006) shows that civil war disputes last longer when multiple veto players must approve a settlement. Acosta and Coppedge (2001), Amorim Neto and Borsani (2004) and Arvate (2006) predict poor economic performance when multiple veto players with significant policy differences characterize a policy space.

increasingly costly as the number of parties to a negotiation, or the diversity of their preferences increases.”

Accordingly, the policymaking process will be much more fluid under unified government. That is, when the executive and the governing coalition are of the same political party. Indeed, Fiorina (1996, 166) asserts that in a situation of divided government, when the president’s party does not hold the majority of seats in congress, there is a “more subtle, more indirect effect on the political process, such as raising the level of executive-legislative conflict.” According to this view, divided government leads to deadlocks, stalemates, and ineffective government (Cutler 1988; Sundquist 1988). Thus, an executive and a governing coalition with unified purpose should have an easier time creating or changing policy.⁴

In this paper we put special emphasis on the impact on policy stability of bargaining between legislatures and the executive. In Latin America, the exchange of support by the legislature for patronage from the executive is a major feature of most political systems. In the Appendix to this paper we present a formal model of executive-legislative relations that focuses on the gains to trade between the executive and a coalition in Congress. The key aspect of the model is that these trades can lead to policy changes beyond those that would seem possible by looking only at the separation of preferences and number of players. The extent to which such exchanges can get realized depends crucially the extant political institutions which we divide into two separate variables; i) the executive’s legislative powers (θ in the model in the appendix) and ii) the electoral rules (γ). The level of the executive’s legislative power is determined by features such as decree power, proposal power, veto power, tradable political currencies, etc. Similarly, institutions that make the legislature more or less able to constrain the executive affect the level of this variable. Electoral rules affect the extent of trades because they determine the incentives of the actors in their quest for political survival as well as the constraints they face. This variable indicates,

⁴ Also note that Epstein and O’Halloran (1999) posit that congress delegates less and constrains more under divided government, thus producing executive branch agencies with less authority to change the policy status quo when purpose is separated.

for example, how easily an executive can construct an electoral majority that shares his preferences. In systems in which the electoral rules facilitate tradable political currencies and in systems where legislators rely on personal characteristics to attract votes, this variable will be higher. The same is true in nations where electoral rules tend to favor unified government because both sides will be unified in purpose.⁵ In the same manner this variable is affected by the executive's ability to influence the congressmen's decision to run for reelection, their nomination, their place in the party list, their ability to garner campaign contributions, etc.

There are two channels through which the executive's legislative powers and electoral rules affect the final policy that is chosen. The first channel is through the executive's cost of influencing the coalition in Congress. Where the political institutions provide better instruments and impose fewer constraints for the executive to offer compensation to the coalition for policy concessions, the lower will be the executive's cost and thus the greater will be the probability of trades getting realized, ultimately leading to greater levels of expected policy change.

The second channel is somewhat less straightforward. It involves the value that the coalition places on the compensation received by the coalition for supporting a policy they normally would not support. The total value of the compensation received depends on both the quantity of the good they receive as well as on the 'price' of that good, where the 'price' is a function of how valuable that good is to the receiving actor. The issue is that the value of a given political good received by the coalition, such as pork-related project or a given job in the federal bureaucracy, is not independent of the circumstances in which it is received. Depending on the political institutions receiving the same political good from the executive might be worth more or less to the legislator. If the use of political currencies is well

⁵ We are aware that unified/divided government may not be a direct consequence of electoral institutions. However, PR electoral systems rarely manufacture majorities (see, e.g. Taagepera and Shugart 1989; Lijphart 1994). In fact, elections in proportional systems, which are predominant in Latin America, tend to result in minority situations, in which no single party (including the president's party) holds a majority of its own.

institutionalized and accepted by society as a legitimate practice, then a given compensation will be worth significantly more than it would if the trade had to be done in a furtive manner.

The essence of the model presented in the Appendix is that exchanges between the executive and the legislature can increase the level of policy change. The extent to which these opportunities for gains from trade can be realized depends on the existence of political institutions that reduce the transaction cost and lubricate these exchanges. Comparative static exercises on the equilibrium conditions show how greater legislative powers of the president and influence through electoral rules lead to greater probability of policy changes. In the next section these hypotheses will be tested using a proxy for executive power (θ) and an index of electoral incentives for candidate-centered voting (γ).

An Econometric Test of the Theoretical Predictions

In order to analyze the impact of political institutions on policy stability we regress a set of variables suggested by the discussion in the previous section against a measure of policy stability. The test is restricted to Latin American countries due to data availability, though using only Latin nations also implicitly controls for hard-to-quantify factors such as culture and mores. Table 1 lists the value of each nation in our study for our dependent variable, *policy stability*, which is taken from Stein and Tommasi (2006, 11-13). The measure is constructed using six indicators:

- 1) The standard deviation of the Fraser Index of Economic Freedom, which evaluates how well a nation's policies and institutions enhance economic freedom. Using the time de-trended standard deviation of this index for all the years since 1974 gives a sense of volatility for each nation (Stein and Tommasi 2006, 12). Note that although the Fraser index is designed to capture a country's commitment to neoliberal policies, the use of the variation in the index over time is ideologically-free and captures instead the issue of policy stability.
- 2) A survey question from the Executive Opinion Survey of the World Economic Forum Global Competitiveness Report (GCR), which gauges the degree to which legal and political changes undermine the planning capacity of businesses within a nation;

- 3) From the GCR survey, a question which examines how well new governments honor contractual agreements and obligations of previous governments;
- 4) A survey question from State Capabilities (SC) Survey of 150 experts in Latin American nations by the Inter-American Development Bank. The question inquires the capacity of the government to set and maintain priorities among conflicting objectives;
- 5) From the SC Survey, a question that examines how well governments ensure policy stability;
- 6) From the SC Survey, a question that examines a nation's propensity to maintain international commitments.⁶

Each component of the measure was normalized and given a similar weight. The resulting measure is summarized in Table 2.⁷

[Table 1 about here]

[Table 2 about here]

As is the case with most subjective measures of political and economic phenomena, this index of policy stability is not perfect. There are two potential drawbacks of the measure.⁸ First, some of the variables that make up the index of policy stability do not account for preferences, or the desire for change. For example, if the incumbent prefers the status quo and is constitutionally powerful relative to the legislature, we should expect no change. Our model thus makes the assumption that powerful players in Latin America move to change policy when given the opportunity. This assumption is important for the first indicator above (Fraser Index of Economic Freedom) but is relevant to a lesser degree for the other indicators as the survey respondents may factor into their responses their perceptions of the governments' preferences.

⁶ Although the surveys used in items 2 to 6 aim at measuring a diverse set of issues such as competitiveness and state capabilities, the specific questions used here are designed to get exactly at the issue of policy stability.

⁷ Note that the values of the variable are reported incorrectly in the given source. We obtained the correct values directly from the authors.

⁸ We are grateful for an anonymous reviewer for pointing this out.

The second potential drawback of the measure stems from the fact that certain facets of it may be differently affected by the ideological preferences of the governing party. For example, the maintenance of international agreements or fiscal responsibility measures are more likely under a neoliberal government than one of the left, meaning that the stability of such commitments may be a product of ideology rather than the system's capacity for change. To be sure the index is "ideology independent," we gathered a nominal indicator of governing party ideology from the Database of Political Institutions (Beck et al. 2001), which we coded 1 for leftist, 2 for centrist, and 3 for rightist. This measure correlates at only 0.232 with the stability index, indicating that it is capturing something beyond ideology, namely policy stability.

Independent Variables

To predict policy stability, we employ four theoretically driven explanatory variables. Table 2 describes the independent variables used and provides descriptive statistics.

Executive power: As all of our cases are Latin American countries, every nation included in this study is presidential democracies. To test the effects of presidential power, we use a measure of from the Inter-American Development Bank (2006, 49). The measure is a weighted average of proactive executive powers, such as decree power or budgetary power, and reactive powers such as vetoes, and plebiscite powers. Proactive powers afford the executive the unilateral ability to alter the status quo at his/her leisure (Mainwaring and Shugart 1997). Reactive powers, meanwhile, allow the president to resist legislative efforts to alter the status quo (Inter-American Development Bank 2006, 47).

As noted, presidents and legislatures in Latin America are generally involved in a bilateral game in which the president introduces policy and the legislature reacts. Therefore, we expect an increase in executive power to decrease policy stability, especially if the legislature is weak; a president who enjoys substantial leverage may essentially have the ability to enact policy, with or without the support of the legislature. An increase in executive power corresponds to an increase the θ parameter in our formal model.

Legislative power: Though Latin American legislatures generally function reactively, they are not necessarily a “rubber-stamp” for presidential policies. In fact, most reactive legislatures are capable of blocking unfavorable legislation or changing amending executive bills. According to Saiegh (2005, 7), these legislatures actually operate as “blunt veto player[s].” A legislature that is capable of putting a check on executive actions will likely help insulate the policy status quo within a nation.

To proxy legislative power we use a congressional capabilities measure from Stein and Tommasi (2006). This measure includes such variables as the strength and specialization of congressional committees, the confidence that the public has in congress as an institution, the confidence that business leaders have in congress as an institution, the level of education and legislative experience of legislators, their technical expertise, and the extent to which congress is a desirable career place for politicians. The measure also includes three subjective measures from Saiegh (2005), which are based on country studies and secondary sources, including a University of Salamanca survey of legislators.

Because strong legislatures will have greater ability to serve as a veto to presidential prerogatives, legislative power and policy stability should have a positive relationship. The correlation between these two variables is 0.738, indicating the stronger legislatures may act as effective checks on the executive. Note that this variable also accounts for the θ parameter in our model; as legislative power increases, the relative power of the executive decreases, meaning that θ also decreases. Barring extreme circumstances (e.g. electoral reforms), because the legislature generally acts as a reactive power in Latin American nations (Morgenstern 2002, 414), we do not expect that strong legislatures will seek to bypass presidential resistance and change policies proactively.

Electoral Rules: Our formal model predicts that as γ increases, it is easier for the executive and the legislature to formulate policy change. To quantify γ , we rely on a measure by Joel W. Johnson and Jessica S. Wallack,⁹ based on the work of Carey and Shugart (1995). This measure is designed to gauge the degree to which an electoral system provides incentives for candidate-centered voting. It takes into

⁹ Available at <http://dss.ucsd.edu/~jwjohnso/espv.htm>

account district magnitude, type of balloting (open- or closed-list), vote pooling across candidates of the same party, and whether voting is for parties, individuals, or several individuals within parties.

Carey and Shugart (1995) posit that as incentives to garner a personal vote increase, candidates seeking to be elected are guided toward constituency service and the delivery of pork. In these systems, the president may reward legislators with spending in their home district in return for policy support; a tradable currency is introduced to the executive and individual legislators. As a consequence, it is expected that stability will lessen under personalistic electoral institutions due to a greater number of bills passed or approved.¹⁰

Brazil, for example, elects its legislators from large districts with open-list proportional representation. This system encourages legislators to emphasize their personal characteristics, as they are voted for by name and must distinguish themselves from several competitors (Shugart et al. 2005). Thus, interactions between the president and legislators in Brazil are facilitated by the existence of the aforementioned tradable currencies. Accordingly, Pereira and Mueller (2004) find that Brazilian president allocates funding to particular legislative districts in anticipation of support for his day-to-day policies. In addition, Hallerberg and Marier (2004) examine budget formulation across Latin American and Caribbean nations and find that the executive is most capable of controlling the budget when incentives for the personal vote are high.

Unified government: Under unified government the executive and the legislative majority¹¹ will have similar ideological leanings and therefore similar policy goals. Unified government would thus be an increase in γ (effect of electoral rules) in the previous section, as it will be easier for the executive to find

¹⁰ Alternatively, Cox and McCubbins (2001, 37) argue that when a legislature has more “individual politicians that control their own fates,” it becomes “harder to initiate and sustain collective action.”

¹¹ Two institutional features characterize most Latin American countries: strong presidentialism and proportional representation rule for electing members of the congress. This institutional arrangement does not provide incentives for a majority party in congress. Indeed, these rules encourage a post-electoral coalition-based system in which the government majority consists of several parties pledging support to the executive.

a workable majority in congress. Thus, because the cost of policymaking will be lower when the legislative body (bodies) is (are) controlled by the same party as the executive, we expect unified government to be negatively related to policy stability.

To measure the existence of unified governments in the years leading up to 2004, when our stability measure was coded, we simply formulate a dummy variable to equal 1 when the party of the executive controlled entire legislature for most of the years between 1999 and 2004. Thus, we measure the most extreme type of unified government; when the president's party controls the legislature alone, she does not need to bargain with coalition parties or incentivize smaller fringe parties to introduce or change policy. Less blunt measures of presidential support in the legislature are available, such as the percentage of seats held by the president's party. However, such measures ignore the relative size and preferences of other coalition or opposition parties. Our data for this measure is from the Database of Political Institutions (Beck et al. 2001).

Development: Within our model we include the standard control variable of *GDP per capita* to gauge the overall level of development within each nation.¹² We expect that more developed countries are less likely to have precarious policymaking environments.

Empirical Test and Results

We test our empirical model using OLS regression. To capture the interplay between the executive and the legislature in the policymaking process, we include an interaction between legislative power and executive power in our model. This allows the impact of executive power on policy stability to vary at different levels of legislative power. The negative effect of executive power on policy stability should be most pronounced when the legislature is weak. Alternatively, as legislatures gain in strength, they should

¹² Our per capita GDP measure comes from the website of the International Monetary Fund for the year 2004 and is weighted for purchasing power. We report it in thousands of U.S. dollars.

be able to effectively check the president and the effect of executive power on policy stability should wane.

The results of the regression are shown in Model 1 of Table 3. The model fits the data well, with an adjusted R^2 of .711. This result further emphasizes the importance of a nation's institutional setup in relation to the stability of its policies.

[Table 3 about here]

According to the results, policy is less stable in countries with recent experiences with unified government. This is because the executive and the legislature have similar ideal points, thereby lessening the cost of policy production. The coefficient on the *unified* dummy variable is about -0.48, and is statistically significant. Countries with recent experiences of unified government are expected to score 0.48 units lower on our stability variable than those with divided government, all else equal. This corresponds to about one quarter of the range of the variable. In terms of the model in the appendix, the result shows that as γ increases due to merging ideal points, policy production becomes a more fluid process.

Regarding the *electoral rules* variable, a coefficient of -0.036 was estimated, which, with a p -value of 0.11, just misses conventional levels of statistical significance. All else equal, a country with the maximum value on our *electoral rules* variable, 12, will have a score on our stability variable 0.40 units lower than a country with the minimum value, 1. This corresponds to about one fifth of the range of the stability scale. Thus, there is some support for the thesis that candidate-centered electoral systems introduce tradable currencies to the executive and the legislature. Where the political institutions are favorable, there is greater ability for the executive and individual legislators to trade pork for patronage, and policy creation becomes a relatively inexpensive process.

The coefficients on the constituent parts of interaction terms involving continuous variables are essentially meaningless and should not be interpreted (Braumoeller 2004).¹³ Accordingly, we illustrate the effect of executive power on policy stability across the range of the *legislative power* variable in Figure 1.¹⁴ As expected, an increase in executive power decreases policy stability most drastically when legislatures are weak. However, when legislatures are strong, an increase in the executive's power has no effect on policy stability. Phrased differently, when executive power is large because legislative power (relative to executive power) is low, increasing the executive's power will likely lead to an alteration of the *status quo*, as she may change policy with relative ease.

[Figure 1 about here]

Sensitivity Analysis and Competing Theories

Our empirical test, though limited by a small sample size, serves to corroborate our formal theoretical expectations. Because of the low sample size, we conducted numerous sensitivity analyses. First, to assure that our regression was not driven by any one case, we reestimated the equation eighteen times, excluding each country one by one. The results consistently matched those of the full model, and only in rare instances did significance levels of our key variables greatly exceed the conventional .10 *p*-value. We do not show each of the eighteen models in the interest of space.

We also re-estimated our model controlling development with the human development index¹⁵ and democratic age¹⁶ rather than GDP per capita. The model was insensitive to the choice of control

¹³ The coefficient on a constituent variable of a continuous-variable interaction in an OLS regression is equal to the marginal effect of that variable when the other constituent variable of the interaction term is equal to zero. Thus, the coefficient provides very little information and should not be used in hypothesis testing.

¹⁴ This figure was created with the help of code provided as an accompaniment to work by Brambor et al. (2006), available at <http://homepages.nyu.edu/~mrg217/interaction.html>.

¹⁵ The United Nations Human Development Index, see <http://hdr.undp.org/en/>.

¹⁶ From Persson and Tabellini (2003).

variable. In addition, we re-estimated the standard errors using the Huber-White robust formulation, which performs better than the usual OLS standard errors in the case of heteroscedastic error variance and with small sample sizes. The resulting standard errors were very similar in size, and, in turn, significance levels were essentially unchanged.

Next, we conceptualize the relative powers of the executive and the legislature in an alternate way. Rather than using an interaction term to gauge the relative strengths of each actor, we simply create a variable gauging the relative strength of the executive as compared to the legislature. To do so, we first normalize the *executive power* and *legislative power* variables to have a zero mean and unit variance. We then subtract *legislative power* from *executive power*. The resulting variable, *executive dominance*, thus gauges the extent to which the executive's power dominated that of the legislature. The results of this specification are shown in Model 2 of Table 3.

The results again corroborate our expectations about the effect of presidential power; as the power of the executive over the legislature increases, policy stability declines. However, the other explanatory variables of interest lose significance in this specification. The fit of this model is weak (adjusted $R^2 = .245$), and an F-test indicates that the overall model is only marginally significant ($F = .105$). Thus, we are inclined to place more importance on the results of the original model specification, displayed in Model 1 of Table 3.

We also re-estimate our initial model using a more simplistic measure of the number of veto players from the Database of Political Institutions (Beck et al. 2001). The measure counts the number of veto players by considering opposition control of the legislature, the number of legislative chambers, and the number of parties that are not in opposition, but are ideologically similar to the opposition parties.¹⁷ If our theory is correct, the raw number of veto players should have less of an effect on policy stability than our theoretically derived variables, which take the relative powers of important actors into account.

¹⁷ The measure does not count the number of chambers as veto points if the president controls the lower house *and* there is a closed-list system, as this implies great executive control over the legislature.

Model 3 of Table 3 shows the results of a bare model in which we replaced all of our theoretically important variables with the simpler measure. There is a positive relationship between stability and veto players, though the coefficient is slightly statistically insignificant. We then re-insert our initial variables into the equation, the results of which are displayed in Model 4 of Table 3. The new veto player's measure becomes entirely insignificant, and the p -value of each of the original variables increases, likely due to the decrease in degrees of freedom in our small sample. In addition, as evidenced by the decrease in the adjusted- R^2 as compared to the original model, the addition of the raw veto players does not increase the explanatory power of the model. Nevertheless, though it is now estimated with less precision, the interactive relationship between congressional and executive power remains similar to the one represented in Figure 1.

Another contending theory, most notably advanced by Sartori (1994; 1976) and McRae (1968), puts forth a behavioral explanation of policy stability as a product of both party system fragmentation and ideological polarization. That is, when party systems are both fragmented and polarized, the policy environment should be extremely rigid. To test this theory, we first gathered data on the effective number of parties, using Laakso and Taagepera's (1979) common measure.¹⁸ To gauge the polarization of the parties, we again looked to the Database of Political Institutions, which labels the economic policy of each of the three largest government parties and the largest opposition party as Left (3), Center (2), or Right (1). We used the standard deviation of these positions in each country as our measure of polarization.

Model 5 of Table 3 shows the estimation of a model in which we removed our theoretically important variables and instead included the number of parties, their polarization, and an interaction between the two. There is no apparent relationship between the covariates and policy stability. Model 6 of Table 3 shows the estimation of the same equation after we re-insert our initial variables. The p -values of

¹⁸ This variable is measured as $\frac{1}{\sum p_i^2}$, where p_i = the proportion of seats won by party i in legislature.

our theoretically derived variables increase as compared to the original model. However, although it is again estimated with less precision due to a decrease in degrees of freedom, the interactive relationship between congressional and executive power still holds, similar to what we obtained in Figure 1. Moreover, as evidenced by the decrease in the adjusted-R² relative to that of the original model, the addition of the behavioral variables do not increase the explanatory power of the model.

We conduct another test to tease out the relationship between unified government, incentives for the personal vote, and policy stability. As noted, under electoral rules that create incentives for the personal vote, presidents can reward legislators for support with spending in their home district, thus increasing policy fluidity. Jones et al. (2002, 667) argue that in party-centered systems legislators will vote in order to please the party powers that be to obtain higher ballot positions. This adherence to party discipline may increase the amount of bills passed, thus decreasing policy stability. Thus, chief executives with a legislative majority have the ability to use *party-centered* electoral rules to impose discipline and get bills approved. If this is the case, an interaction between *unified government* and *electoral rules* should indicate that personalistic electoral rules actually have a *positive* effect on stability, relative to party-centered rules, when government is unified. That is, we expect to see a strong positive and significant coefficient on the interaction term between *unified government* and *electoral rules*.

The results of this estimation are shown in Model 7 of Table 3. Counter to expectations, the coefficient on the interaction term is statistically significant and negative. The effects of the other variables and their significance levels remain similar. In Latin America, personalistic electoral rules have a negative effect on policy stability, and one that is not conditioned by unified or divided government.

Finally, as mentioned, Jones et al. (2002) indicate that party-centered electoral rules decrease the independence of individual legislators, thereby decreasing legislative power. This points to a theoretical correlation between our *electoral rules* variable and our *legislative power* variable. Such a correlation could introduce collinearity to our regression models and artificially inflate the standard errors. In the data, the correlation between the two variables is moderate at .457. To check for any ills associated with collinearity, we calculated variance inflation factors (VIFs) for both variables after an estimation of an

additive version of the model depicted in Model 1 of Table 3.¹⁹ The VIFs are 1.98 and 1.34 for *legislative power* and *electoral rules*, respectively. This indicates that the standard error on *legislative power* is about twice as large as it would have been with no collinearity, and the standard error on *electoral rules* 1.3 times as large. These values are not problematically high, and, if anything, the collinearity only made it more difficult to confirm our theoretical expectations.²⁰

After several re-specifications, re-codings, and re-estimations, our theorized interactive relationship between legislative and executive power holds, while variables from competing theories do not appear to independently affect policy stability in Latin America. The number of veto players matters, as do relative ideologies, but not until relative capabilities and incentives of major actors are taken into account does a full picture of the policymaking environment emerge.

The Cases of Venezuela and Brazil

The previous sections indicate that when legislatures are weak and do not serve a veto function, executives can easily bypass them to formulate or change policy. In addition, when the preferences of these two actors merge, either due to unified government or favor trading from electoral incentives, policy creation becomes a more fluid process. Stein and Tommasi (2006, 35-36) note the uniqueness of the interplay between institutions, political cleavages, and socio-economic structures that occurs within nations, calling for historical comparative country studies to examine such phenomena. Accordingly, given the small ‘n’ in our database and in order to better-understand our models of policy creation, we take a closer look at Venezuela and Brazil. In addition, these case studies allow us to take into account some intra-country variance that the econometric tests were not able to capture. Along the way we refer to our econometric model, noting how changes in the nations’ observed variable values might affect their level of policy stability. These cases were chosen because they represent polar cases on our dependent

¹⁹ We removed the interaction term, which introduces collinearity by design, to calculate VIFs.

²⁰ We thank three anonymous reviewers for suggesting the additional empirical tests in this section.

variable, *policy stability*. In addition, Venezuela embodies a recent change in one of our key independent variables, *executive power*. As mentioned before, we see these case studies as complementary to our formal and econometric models and as such the cases may discuss aspects that were not necessarily included in the other analysis such as party discipline, coalition government, judiciary, or bureaucracy.

Policymaking in Brazil

The key feature of Brazilian political institutions is the strong powers of the president (decree powers, veto powers, legislative rules, budgetary process, etc.). These powers allow the president to initiate, pursue and approve much of his policy agenda and to create a stable supporting coalition that enables him to pursue his agenda. Why then, if policymaking is an easy task for the president in Brazil, does the country have such stable policies, scoring a 2.97 on the stability index?

Saying that the president is the most powerful player does not mean that he can do whatever he wants or that he is not institutionally constrained by other players. Brazilian political institutions provide two sets of safeguards against abuse of those powers. The first is the fact that the electoral connection for the president is such that he has incentives to pursue sensible macroeconomic policies, as he is seen by the electorate as being responsible for outcomes related to basic issues such a strong economy, economic growth and stabilization. Given the strong presidential powers, failure in these areas cannot be credibly blamed on other political players such as Congress or the judiciary. The second is the fact that although the separation of powers is clearly biased towards the president, several other political actors (governors, political parties, independent judiciary, public prosecutors, professional bureaucracy, etc.) with different motivations (separation of purpose) are able to check the president's actions in different ways. Thus, if an incompetent or ill-intentioned president were to come to power, strong presidentialism would not mean a blank check to pursue misguided policy.

The Brazilian judiciary, for instance, is quite independent, due to clauses in the 1988 Constitution that allow it to determine its own budget and appoint lower court judges. In fact, in order to have access to the judiciary candidates have to be approved in a very competitive exam, which is totally independent from political influences. Moreover, Supreme Court justices serve until the age of 70 (Inter-American

Development Bank 2006, 173) and the Supreme Court can rule on issues of constitutionality regarding laws and decrees. Expectedly, the Brazilian judiciary is an effective guardian of the constitution, not hesitant to rule against the executive (Inter-American Development Bank 2006, 173).

The bureaucracy in Brazil also enjoys a high level of autonomy (Inter-American Development Bank 2006, 71). Most appointments are instituted through a system of competitive exams and salaries are high, and as an institutional actor, the bureaucracy has the capability of constraining the executive and thus contributing to the stability of policies (174). Indeed, an independent, professional bureaucracy is likely to remain uninfluenced by political happenings and maintain policies so long as they do not need revision.

Another reason for policy stability in Brazil is the unusually high degree of party discipline, relative to other open-list systems. Party leaders control interactions between individual legislators and the executive, therefore gaining control over their votes. Thus, cooperative interactions between legislative parties over time are low-cost, increasing the likelihood of a party maintaining a unified front against a presidential initiative (Inter-American Development Bank 2006, 171). Although, the high amount of effective parties in Brazil may hamper the ability of the president to rely on a workable majority in Congress (Ames, 2001), the executive has been able to build and sustain coalition majority in Congress.

In addition the president possesses considerable discretion over patronage (such as jobs and individual budget amendments), which, together with the career incentives of congressmen, lead to well-institutionalized trade of policy support for patronage. Moreover, the executive has exclusive power to initiate the annual budget. Although legislators have the right to propose individual amendments to the annual budget, it is the executive, who is entitled to determine which amendment will really be appropriated, making the budget contingent on the amount of available resources in the national treasury. As shown in Pereira and Mueller (2004) and Alston and Mueller (2006), the Brazilian President rewards those legislators who routinely vote for his interests by executing their individual amendments to the annual budget and, at the same time, punishes those who vote less for his preferences. This is done by

selectively executing their individual amendments (pork barrel policies). The result is that Congress tends to approve many of the policy reforms proposed by the executive, yet still holds checks on the powers of the President.

Figure 1 helps demonstrate the nature of the executive-legislative interplay in Brazil, which has a relatively strong lower house, scoring 2.4 on our legislative power variable. Based on the information displayed in Figure 1, it is apparent that the marginal effect of executive power in nations with strong legislatures is not significantly different from zero. Thus, it is clear why the powerful Brazilian executive does not lead Brazil into a volatile policy environment. While the president in Brazil is equipped with strong decree and budgetary powers, the strength of the nation's other key players keep policy in Brazil quite stable.

Policymaking in Venezuela

Of the nations included in this study, Venezuela has the lowest observed level of policy stability, scoring a 1.64 on our dependent variable. Historically, Venezuela enjoyed stable policy due to a powerful legislature capable of checking the executive and an institutionalized party system unlikely to undergo dramatic shifts (Kornblith and Levine 1995). Moreover, presidents were bound by the powers given to them by the legislative branch – no president could “govern comfortably without the support of Congress” (Crisp 1998, 142-143). However, in recent years Venezuela's policies have become much more volatile, mostly due to the reforms of Hugo Chávez, which have afforded immense powers to the executive.

The 1999 Constitution, formed shortly after Chávez took power, afforded the president the ability to call referendums to create or change policy and to approve constitutional reforms (Monaldi et al. 2006, 43). Before this constitution, the Venezuelan president had arguably the weakest legislative powers in the world (30). Moreover, in the summer of 2000, Chávez successfully saw the “Enabling Act” through Congress, which afforded him a year of decree power. Previous Venezuelan presidents have also enjoyed *enabling laws*, but have not exercised their decree powers to the extent that Chávez has (25-26). In fact, in November 2001, Chávez enacted 49 decrees.

An examination of Figure 1 helps illustrate effect of the dynamic between the president and the legislature in Venezuela. Venezuela's score on our legislative effectiveness variable is only 1.9. At this level of legislative power, the marginal effect of a unit increase in presidential power is about -1.0, meaning a unit increase in executive power corresponds with a unit decrease in policy stability. Thus, a usurpation of power by an executive in this environment of legislative ineffectiveness is particularly detrimental to policy stability.

Moreover, the effective number of parties in Venezuela has dropped as compared to the numbers observed in the late 1990s, perhaps making it easier for the president to find a "workable" majority in Congress. The effect of unified government on stability, according to our model, is about -.50. This implies that a president with an ideologically similar legislative coalition will have an easier time modifying the status quo. Also note that, since 1989, 82 percent of legislators have lasted just one term, making it difficult to form working coalitions, which can effectively check presidential power (Monaldi et al. 2006, 23). Moreover, the judicial branch in Venezuela is quite weak and politicized (Crisp 1998, 143-144), therefore not serving as an effective check on presidential actions.

Also note that the 1999 Constitution allows Chávez (and future executives) to run for concurrent reelections (Monaldi et al. 2006, 34). Furthermore, Chavez has expressed interest in again changing the Constitution to remove presidential term limits. In this case, the life of the executive would drastically increase, allowing him to further solidify his powers.

In sum, Venezuelan policy, though historical very stable has recently entered a period of volatility. Much of this change is due to the powers recently afforded to the executive under the presidency of Hugo Chávez. Based on the theoretical predictions made and empirical relationships observed in this study, it is likely the Venezuela's public policies will remain ephemeral for years to come. This is because there seems to be a low likelihood of executive power diminishing or other veto actors gaining the power to place an effective check on the president in the foreseeable future.

Conclusion

Understanding the features of a nation's policy environment is important, as countries with indecisive policy may experience gridlock, unable to address changing national circumstances, while nations with volatile policy will be subject to extreme changes with the prevailing political environment. According to the theory and models developed here, policy stability in Latin America can be understood as a function of interactions between key policymakers, conditional on their relative powers, their preferences, and the institutional setup to which they are bound. Moreover, the conditions under which institutional arrangements and the power of key players influence both the capacity of political actors to govern and the costs that are involved in the governing process vary by nation.

While several studies provide insight into country-level policymaking processes, this study creates a model that predicts policy stability as a function of cross-national variations along these dimensions. In addition, it adds to the veto players' tradition of explaining *status quo* change by formally considering the incentives and relative powers of actors.

Several factors are found to have significant effects on the stability of policies across Latin American nations. First, there is evidence that strong legislatures act as stabilizers in the policymaking process. If the legislature effectively challenges the executive, policymaking will be a high cost endeavor for the executive, thus increasing the stability of the status quo. However, if legislature is unable to serve as a gate to policymaking, the policy environment within a nation will be precarious as the executive will be able to act unchecked.

In addition, unified governments are shown to correspond with less stable policies. This is because the executive and the legislature have similar preferences in unified systems, making it easier to form working relationships and thereby expediting the policymaking process. In addition, systems in which candidates have incentives to seek a personalistic vote generate incentives for presidents and legislators to trade favors. More specifically, the executive can reward individual legislators with personal favors, which help them achieve reelection, in return for support of his legislative docket.

Any proposed change to policy will experience delay or failure when it faces strong actors with divergent preferences. Through informal and formal theory, an econometric test, and case study

techniques, we have demonstrated how various country-level arrangements affect the policymaking process. While individual nations have idiosyncrasies that cannot necessarily be captured outside of the error term of any statistical model, it is apparent that certain institutional conditions do uniformly affect policy stability across Latin America. Thus, one can imagine how institutions could be “engineered” to protect or destabilize the status quo in a given nation. This is important because a balanced level of policy stability is vital to numerous democratic and economic outcomes.

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Appendix - A Model of the Mechanics of Policy Stability

In this appendix we provide a formal presentation of the model of executive-legislative relation that is described in the text. Apart from recognizing the distinct preferences and powers of these players, as in the veto player theory, it emphasizes the conditions that make bargaining among them possible. In addition, the model highlights the costs that arise from executive-legislative interactions conditioned by the relative powers of each player and has the advantage of clearly demonstrating the mechanics of the compensation game.

We assume that the executive and each member of congress have well defined preferences over a given issue along a single dimension.²¹ We also assume that a given policy reform is being considered and the executive, who is the agenda setter, wishes to influence congress to bring the result as close as possible to its preferred point.²² In order to do this it needs to muster the support of a coalition of parties that has enough votes to approve the issue on the floor. Figure A1 shows a hypothetical configuration of

²¹ Using a single dimension has the benefit of simplifying the exposition as it allows us to show the utilities associated with each policy in the figures. Furthermore, the cost of this simplification is relatively minor in the legislative voting context as argued by Poole (2005: 14) for the 104th to 106th US Congress “... Voting in Congress is almost purely one-dimensional – a single dimension accounts for almost 90 percent of roll call voting choices...” Leoni (2002) shows that this result extends to the Latin American context as well.

²² This assumption does not necessarily imply that the president always wants change. It could be exactly the opposite with the president interested in preserving the status quo and making policy stable. That is, we do not have a normative bias about policy stability or policy change. We are grateful to an anonymous reviewer for pointing this out.

preferences for the executive (P), the coalition median (K) and the opposition median (O).²³ It is assumed that the coalition is able to coordinate its members so as to act as a unitary agent.²⁴

The executive's utility is given by $U^P = -\beta|P-x| - C(x, \theta, \gamma)$, where x is the final policy that is chosen and β is a parameter that measures the intensity of the executive's preference for this issue (that is, the slope of the utility function). The closer the final policy, x , is to the president's preferred preference, P , the higher (in absolute terms) will be the president's utility. $C(x, \theta, \gamma)$ is the cost to the executive of influencing the coalition. The further the final policy is from the coalition's preferred point, the higher the cost to the executive, so that it is assumed that $C_x \geq 0$ and $C_{xx} \geq 0$. The cost is also influenced by the political institutions that determine the executive's legislative powers, captured by θ , and the electoral rules, captured by γ . The more powerful the executive relative to the legislature, the higher will be θ , easing the process of policy change. This parameter can also be thought of as a vector composed of the several legislative powers held by the executive.

Similarly, γ captures the effect of electoral institutions on the relationship between the executive and the legislature. It indicates, for example, how easily an executive can construct an electoral majority that shares his preferences. An increase in θ or γ will thus make it less difficult (or cheaper) for the executive to influence the legislative coalition for any given policy result, that is, $C_{x\theta} < 0$ and $C_{x\gamma} < 0$. The executive's utility curves are shown in Figure A1, with the highest point at P and sloping down as the chosen policy distances itself from that point. The cost of influencing the coalition shifts the curve downward as shown in the figure.

[Figure A1 about here]

²³ This configuration of preferences is only illustrative. The model is more general to any other configuration of preferences.

²⁴ Alston and Mueller (2006) present a similar model and show how the model can be extended to include n parties in the coalition. However, their model does not control for institutional parameters such as presidential power and electoral rules as we do here.

The coalition's utility function is $U^K = -\alpha|x - K| + V(x)$ where α is a parameter that measures the intensity of the coalition's preferences for the given issue. The function $V(x)$ measures the compensation the executive provides for the coalition to support the policy change from the *status quo*. $V(\cdot)$ translates from the policy units into the coalition's utility, that is, it measures the value given by the coalition to different policy outcomes. In general the coalition will have some means to block or hinder changes desired by the executive. Thus the executive will either have to compensate the coalition to support the change or force the change against its will. Deployment of either of these two methods is not without costs. The means available for the executive to provide compensation will vary from country to country and may include things such as access to pork, patronage, cabinet portfolio, jobs, committee assignments, campaign support, transfers to constituents and interest groups, support for other policies, etc. The decision by the coalition whether to support or deny the new policy is represented by the following restriction on the executive's choice of x : $-\alpha|k - x| + f(\theta, \gamma)V(x) \geq -\alpha|k - x_0|$, where x_0 is the *status quo* policy. Abstracting from $f(\theta, \gamma)$, this restriction states that the coalition's utility at the new policy must be at least as high as at the *status quo* for it to provide support. The function $f(\theta, \gamma)$ represents the effect of the political and electoral institutions on the ability of the executive to obtain support from the congressmen. When $f(\theta, \gamma) > 1$, the purchasing power in terms of support of each unit of compensation, $V(x)$, given by the executive is increased by a factor of $f(\theta, \gamma)$. When the political institutions are such that $f(\theta, \gamma) < 1$ the value of the compensation to the coalition is reduced. The restriction will always be binding for points in between K and P so that the cost function $C(x, \theta, \gamma)$ in the executive's utility function is the cost of providing the compensation $f(\theta, \gamma)V(x)$. The more centralized the executive's legislative powers and the more majoritarian the electoral rules, the higher will be the political purchasing power of a given unit of compensation given by the executive, so that $f_\theta \geq 0$ and $f_\gamma \geq 0$.

The executive's problem is thus:

$$\begin{aligned}
& \text{Max}_x - \beta | P - x | - C(x, \theta, \gamma) \\
& \text{subject to} \\
& -\alpha(x - K) + f(\theta, \gamma)V(x) \geq \alpha(x_0 - K)
\end{aligned} \tag{1}$$

This problem shows that the executive's choice of which policy point to propose is constrained by the fact that the coalition must be compensated if the new policy is further from its preferred point than the *status quo*. The amount of compensation necessary for the constraint to be met depends not only on the new policy but also on the legislative and electoral institutions. The first order condition of this problem is:

$$\beta - C_x(x, \theta, \gamma) - \lambda\alpha + \lambda f(\theta, \gamma)V_x(x) = 0 \tag{2}$$

where λ is the Lagrange multiplier of the restriction and can be understood as the marginal utility of the executive from compensating the coalition with $V(x)$. In equilibrium β , the marginal benefit to the executive of moving x , will equal the marginal cost of compensating the coalition. The restriction is always binding for points between K and P , so that the marginal loss α to the coalition from having the policy move closer to P is compensated with $f(x, \theta, \gamma)V(x)$.

To interpret the model, suppose that policy is initially at the point SQ where the executive's utility is at point II and that of the coalition at point I.²⁵ The least that the executive can achieve is to propose a policy at point x_o , which would represent an improvement from utility II to utility IV. This would be approved by the coalition as it is just as well off at this point as it was at the *status quo*. Depending on the political institutions the executive can achieve points even closer to P than x_o . If the executive proposed a change of policy to x_l , for example, the coalition would receive utility equal to point VII, which is worse than what it received at the status quo, thereby negating its support of the proposal. However, the executive could compensate the coalition so as to bring its utility up to point VIII, which is equivalent to

²⁵ Note that utility is measured vertically from the bottom to the top, with the highest utility on the vertical line at each actor's preferred point.

the utility at points I and III. If $f(\theta, \gamma) > 1$, then the actual amount of compensation $V(x)$ necessary may be up to a point such as IX which is below point VIII.

Policy at x_1 gives the executive a gross utility at point V. However, providing compensation comes at a cost so that its utility curve is shifted down by $C(x, \theta, \gamma)$ and the net utility is at point VI. The executive's actual proposal will be at the point that maximizes its utility. Note in the figure that the utility at point x_1 (VI) is an improvement to that at point x_0 (IV), but that the utility at point x_2 (XII) is not. This implies that the optimal point in this example will be in between x_1 and x_2 .

The first-order condition (2) can be totally differentiated with respect to θ and γ to show that the greater the legislative powers of the executive and the greater its partisan powers generated by electoral rules, the closer the final policy will be to the executive's preferred point, hypotheses that are tested empirically in this paper:²⁶

$$\frac{\partial x}{\partial \theta} = \frac{-\lambda V_x f_\theta + C_{x\theta}}{-C_x + \lambda f_x V_x} \geq 0 \quad (3)$$

$$\frac{\partial x}{\partial \gamma} = \frac{-\lambda V_x f_\gamma + C_{x\gamma}}{-C_x + \lambda f_x V_x} \geq 0 \quad (4)$$

²⁶ By assumption $C_x > 0$, $C_{xx} \geq 0$, $V_x > 0$, $V_{xx} = 0$, $f(\theta, \gamma) > 0$, $f_\theta > 0$, $f_\gamma > 0$. The multiplier $\lambda > 0$ because relaxing the constraint increases the executive's utility. It is also assumed that more centralized legislative powers for the executive and less proportional the electoral rules decrease the cost of providing compensation to the executive. That is, $C_{x\theta} < 0$ and $C_{x\gamma} < 0$. $V_{xx} = 0$ because the coalition's utility is linear. If it were quadratic V_{xx} would be positive, though the results would only change if this term were sufficiently large.

Table 1: Policy Stability in Latin American Nations

Country	Policy Stability
Chile	3.39
Dominican Republic	3.25
Uruguay	3.02
Costa Rica	3.01
Brazil	2.97
Colombia	2.84
Mexico	2.79
El Salvador	2.69
Honduras	2.60
Panama	2.39
Peru	2.28
Paraguay	2.13
Bolivia	2.10
Nicaragua	2.04
Guatemala	2.03
Ecuador	1.93
Argentina	1.84
Venezuela	1.64

Table 2: Variables and Summary Statistics

Variable	Description	Mean	S.D.	Min.	Max.
Policy Stability	The degree to which public policy is insulated from the political climate. Higher values correspond with more stable policy environments.	2.44	0.49	1.64	3.39
Executive Power	A weighted average of the president's proactive, reactive, and plebiscite powers. Higher values correspond to more executive power.	0.37	0.16	0.19	0.66
Legislative Power	A subjective measure of Latin American business leaders' confidence in congress. Higher values correspond to more legislative power.	1.90	0.39	1.40	2.70
Unified Government	Dummy variable, which equals 1 if the party of the executive controlled the entire legislature for most of 1999-2004.	0.17	0.38	0	1
Electoral Rules	The degree to which the electoral setup encourages legislators to emphasize their personal characteristics when seeking election. Higher values correspond to more personalistic systems.	4.28	3.59	1	12
GDP Per Capita	2004 gross domestic product measured in thousands of dollars and weighted for purchasing power.	6.50	3.00	2.68	12.47

Note: variable sources listed in the text.

Table 3: Political Institutions and Policy Stability

Variable	Model Number						
	1	2	3	4	5	6	7
Executive Power	-6.313 (.050)			-4.724 (.202)		-0.528 (.169)	-0.597 (.076)
Legislative Power	-0.048 (.943)			0.094 (.896)		0.056 (.946)	0.001 (.999)
Exec. Power × Leg. Power	2.873 (.063)			2.263 (.184)		2.650 (.148)	2.700 (.097)
Electoral Rules	-0.036 (.112)	0.001 (.968)		-0.045 (.184)		-0.034 (.313)	-0.029 (.255)
Unified Government	-0.482 (.026)	-0.231 (.423)		-0.196 (.628)		-0.537 (.147)	-0.323 (.369)
Executive Dominance		-0.244 (.056)					
Veto Players			0.149 (0.127)	0.106 (.420)			
Effective Number of Parties					0.054 (.739)	0.004 (.982)	
Polarization					0.360 (.552)	0.266 (.651)	
Eff. Parties × Polarization					-0.055 (.756)	-0.075 (.640)	
Elec. Rules × Unified Gov.							-0.028 (.587)
GDP Per Capita (\$1000s)	0.031 (.236)	0.074 (.051)	0.083 (.030)	0.034 (.200)	0.077 (.072)	0.012 (.713)	0.034 (.221)
Constant	2.793 (.044)	1.993 (.000)	1.349 (.008)	1.953 (.249)	1.648 (.010)	2.530 (.167)	2.652 (.068)
R ²	.813	.423	.336	.825	.278	0.836	.819
Adj. R ²	.711	.245	.247	.703	.056	0.651	.692
Prob. > F	.002	.105	.047	.004	.338	0.022	.005
N	18	18	18	18	18	18	18

OLS regression coefficients in cells. Two sided *p*-values in parentheses

Figure 1: The Marginal Effect of Executive Power on Policy Stability as Legislative Power Changes

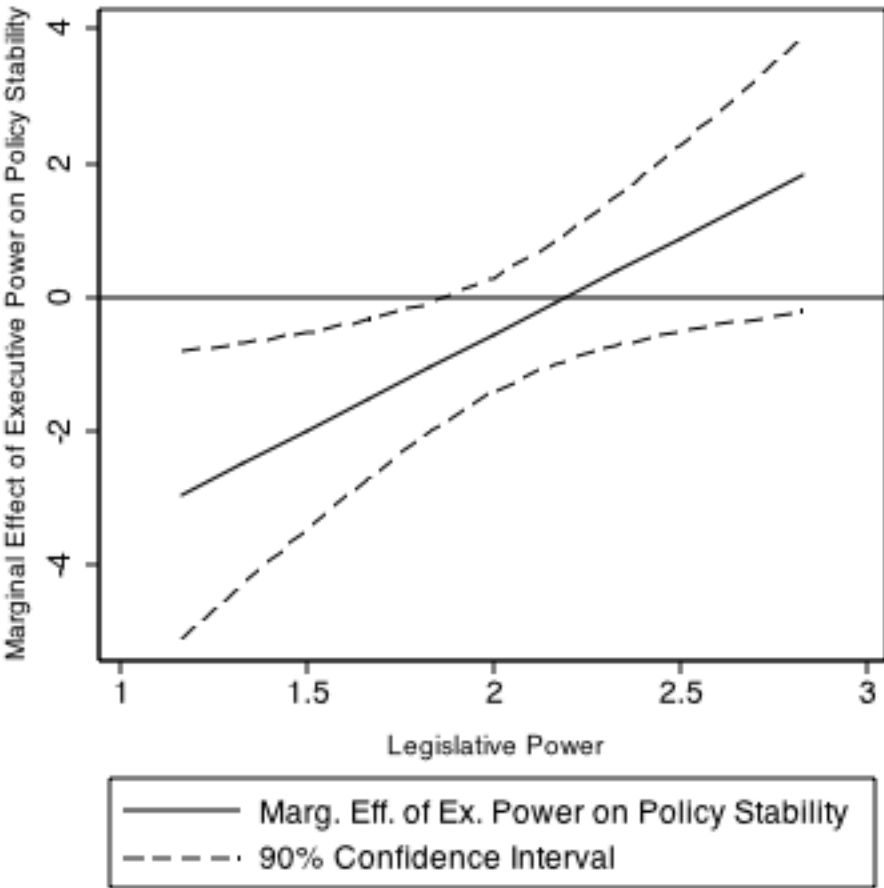


Figure A1: The Executive-Legislative Game

