FALLING BEHIND
Explaining the Development Gap Between Latin America and the United States
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Do Defective Institutions Explain the Development Gap between the United States and Latin America?

Francis Fukuyama

One of the most obvious ways that development in the United States has differed from that of Latin America concerns political institutions. The United States is the world’s oldest continuously existing democracy, the country that in many respects invented modern democracy. While Latin America is, on the whole, more democratic than other parts of the world, including fast-developing Asia, no Latin American country has ever had an uninterrupted history of democratic rule, and the deviations in the region, in terms of authoritarian government, suppression of human rights, civil conflict, and violence, have frequently been severe. Democracy and rule of law are ends in themselves, and they are also obviously related to a society’s ability to achieve other objectives like economic growth, social equity,
Do Defective Institutions Explain the Development Gap?

2 Understanding how and why political institutions differ between the United States and Latin America is, then, key to understanding the larger puzzle of the latter region’s lagging development.

What is it about the political institutions of the United States that differs from those found in Latin America? Is there some clause or provision in the U.S. Constitution that does not exist in other parts of the Western Hemisphere that accounts for the difference in the quality of government? And, if so, could we fix the problem of democratic governance by fixing institutions at this level? It is not likely that the answer to these questions will be yes. Many Latin American countries deliberately modeled their political orders on that of the United States, although they differ in details; there is enough variance throughout the region, however, that if the problem lay only in the design of formal institutions, countries would have fixed whatever did not work over time and evolved toward more efficient ones.

This suggests that there is another, deeper problem in Latin America that explains the political development gap. Formal political institutions in the United States were deliberately designed to inhibit strong political action and to limit the power of government, and yet they have not prevented the United States from acting decisively at times of national crisis or need. Within America’s relatively decentralized institutional structure, the society has been able to generate consensus at key junctures for reasons that have to do with a political culture that has prized consensus and compromise even as it promoted competition. This consensus broke down and could not be mediated by the political system on only one important occasion, the American Civil War, when the issue of slavery had to be settled by violence. But at all other times, social conflicts have been mediated within the constitutional framework originally laid out by the American founding fathers.

The same has not been the case in Latin America. The region’s social conflicts have been more severe, and the ability of social groups to use formal political institutions to resolve, mediate, or mitigate them has been much less effective. While reform of formal institutions can ameliorate certain types of political dysfunctions (e.g., the problem of fiscal federalism in Argentina or Brazil), the root causes of political instability and weak governance are likely to exist at the deeper levels of social structure or political culture.

Indeed, I will argue in this chapter that institutions matter much less than many people think, if by “institutions” one means formal, visible macropolitical rules defined by constitutions and law: presidencies,
In recent years, a great deal of attention has been paid to the importance of institutions for economic development, leading to a broad consensus that “institutions matter.” Institutions in this sense include such things as property rights, credible enforcement of contracts, the rule of law, mechanisms for conflict resolution, and so on. As a starting point for this chapter, it is assumed that this consensus on institutions is correct. There is by now a huge empirical literature supporting this case.

The only systematic counterargument to the institutionalist one has been made by Jared Diamond, Jeffrey Sachs, and their followers, who all point to the importance of material factors such as resource endowments, disease burdens, climate, and geographical location as determinants of economic growth. Yet the institutionalists have won this argument hands down: Easterly and Levine, as well as Acemoglu, Robinson, and Johnson, have shown, for example, that resource endowments are important only as mediated through institutions, e.g., by providing more or less favorable conditions for the emergence or survival of certain types of institutions. The institutions themselves remain the proximate causes of growth and, in many cases, can be shown to be exogenous to the material conditions under which a given society develops.

If one goes further back in history, however, one finds a different kind of anti-institutional argument, which was much more popular in the years immediately following World War II, but which has not been articulated so clearly in recent years. American political science in the prewar period focused heavily on legal studies and formal political institutions. But the collapse of democracy in the 1930s in the face of the twin totalitarian challenges of communism and fascism convinced many observers that the exact specifications of formal institutions
mattered much less than underlying structural conditions conducive to democracy.

This type of anti-institutionalism was, of course, the long-standing position of most Marxists, who maintained that the state in a capitalist democracy was simply the “executive committee of the bourgeoisie,” reflective of the underlying social forces and not an autonomous agent in the shaping of outcomes. In a curious way, this belief in the state as superstructure jibed with a certain American antistatist penchant that saw the state simply as a mechanical processor of societal demands, without interests or a logic of its own. Much of the post–World War II research agenda focused not on the design of formal institutions, but on subjects like political culture or value systems; in modernization theory, sociology and anthropology played as important a role as political science in explaining development outcomes.

Institutions and the autonomous state were reinserted into the research agenda only in the 1970s and 1980s, partly in response to recognition of the importance of state-directed development in regions like East Asia, which could not simply be accounted for by structural or cultural models. In addition, the rise of Douglass North’s new institutional economics gave new legitimacy to the study of institutions in economics, as well as a powerful set of new conceptual tools. These converging streams led to a bursting of the dykes and the emergence of not just a large literature on the general question of state autonomy, but also a rich and contextualized literature on institutional design, which continues up to the present. The debate on presidentialism started by Juan Linz—discussed in greater depth below—was one important example of the new focus on institutions and institutional design in this tradition.

However, the new institutional economics muddied the waters in one important way, leading to confusion in subsequent thinking about institutions. North defined institutions as “the humanly devised constraints that shape human interaction,” whether formal or informal. The eliding of formal and informal institutions made North’s definition conceptually robust and useful as a means of attacking the institution-less premises of earlier neoclassical economics. But the older anti-institutionalist position had been built around the distinction between formal and informal institutions: it argued that formal legal structures, at best, depended on and, at worst, were undermined by factors like political culture, discordant value systems, or social structures that gave rise to political preferences at odds with the institutional structure.

There is also a very important practical difference between formal and informal institutions. Formal institutions can be established,
abolished, or changed literally with the stroke of a pen. They are thus the typical objects of public policy to be manipulated at will. Informal institutions, by contrast, reflect embedded social practices that are often hard to perceive and measure—and even harder to manipulate through the usual levers provided by public policy. It is one thing, for example, to mandate certain terms and appointment rules for Supreme Court justices, but if politicians routinely fail to follow them because packing the Supreme Court has become a normative behavior for an entire political elite, then one has left the realm of conventional public policy. The new institutionalism of course recognized the importance of informal institutions, but often failed to separate them out clearly as a distinct conceptual category subject to very different evolutionary dynamics.

Today, there are relatively few scholars who continue to insist on the importance of the distinction between formal and informal institutions and the priority of the latter over the former. One is Samuel Huntington, who has been making a larger argument in favor of the centrality of culture in shaping political outcomes; for example, in one of his works, he points to the importance of culture in the shaping of American national identity and in the success of American democracy. One could not have a clearer statement of the older anti-institutionalist position than the following:

Would America be the America it is today if in the seventeenth and eighteenth centuries it had been settled not by British Protestants but by French, Spanish, or Portuguese Catholics? The answer is no. It would not be America; it would be Quebec, Mexico, or Brazil.

Although Huntington has been severely criticized for his policy prescriptions regarding Mexican immigration, his broader point that American national identity has not simply been a political one defined by institutions like the Constitution and the system of laws but also is rooted in certain religious and cultural traditions—what he labels Anglo Protestantism—would seem to be incontrovertible as a historical fact. It is an interpretation of American society that was shared by observers from Tocqueville to Bryce to Lipset, and constitutes one long-standing answer to the question of why Latin America, which upon independence from Spain or Portugal modeled many political institutions explicitly on those of the United States, has failed to achieve North American levels of either growth or political stability.

Nonetheless, this chapter does not support the argument that political culture determines political or economic outcomes. Culture
changes over time and is shaped by formal institutions even as it shapes them. Formal institutions matter; they change incentives, mold preferences, and solve (or fail to resolve) collective action problems. On the other hand, the informal matrix of norms, beliefs, values, traditions, and habits that constitute a society is critical for the proper functioning of formal institutions, while a political science that pays attention only to the design of formal institutions without understanding normative and cultural factors will inevitably fail. A large cultural variable like Catholicism may not be very helpful in explaining or predicting political behavior or institutional development, but a norm that assumes that bureaucratic appointments ought to favor friends and relatives over people with formal credentials might. One must therefore look both to formal and informal institutions in explaining the difference in development outcomes between different societies, taking each side of the equation seriously, as well as the importance of their interaction.

The Perils of Presidentialism and What Comes After

This section illustrates the complexity of the problem of specifying the nature of good formal political institutions by recapping the history of the evolution of the debate over institutional design that has taken place since the mid-1980s. This debate was initiated by Linz, who argued that political instability in Latin America was due to the fact that many of the democracies there were presidential rather than parliamentary, based on a North American model that did not work well in other parts of the hemisphere.16

Linz pointed to four basic problems with presidential systems. First, presidential systems are inherently majoritarian, which leads to the possibility that a president may be elected by a slim plurality of the population and therefore lack legitimacy. Second, presidential systems have rigid terms and do not provide easy mechanisms for removing a president who has lost legitimacy after being elected. Parliamentary systems deal with this problem through no-confidence votes; impeachment is the messy alternative in presidential systems. Moreover, term-limited presidents often spend a great deal of time and political capital figuring out how to add terms to their tenure. The third problem has to do with dual legitimacy. In a presidential system, both the executive and the legislature are directly elected and thus have separate sources of legitimacy; since they survive separately, there is always the possibility of gridlock and political paralysis when the two branches are
controlled by different parties. And finally, presidential systems tend to personalize politics, emphasizing the character and foibles of the president rather than the broad program of a political party.

Linz’s critique of presidentialism was based on one prominent case, the election in 1971 of the socialist Salvador Allende as president of Chile. Allende received a mere 37 percent of the popular vote, but nonetheless proceeded to take this as a mandate to initiate a series of radical economic policies, like nationalization of the banking system, which provoked an economic crisis and then a coup by General Augusto Pinochet. Linz pointed out that, in a parliamentary system, Allende would have been forced into a coalition with the Christian Democrats, which would have constrained his ability to change economic policy as he did.

Although he did not address this issue explicitly, Linz was concerned with two separate design goals that are in some sense at cross-purposes. On the one hand, he was concerned with the effectiveness of democratic decision making and thus that the dual legitimacy of presidential systems would lead to executive-legislative deadlock. On the other hand, he was also concerned with legitimacy and the possibility that an executive would receive support from a relatively small minority of the population. One can see immediately that the mutual checking of the two branches is actually an advantage with respect to legitimacy, while the plurality election of a president may be an advantage with regard to effectiveness. What is difficult is to optimize both effectiveness and legitimacy simultaneously.

Linz’s critique of presidentialism was immediately attacked by Lijphart,Horowitz,Shugart and Carey, and a variety of other authors. These critics pointed out that parliamentary systems could be as weak and illegitimate as presidential ones; indeed, some, like the interwar Weimar Republic or the French Fourth Republic, became illegitimate because of their weakness. Parliamentary systems require strong political parties; while party discipline can to some extent be engineered, party fragmentation is also based on the religious, ethnic, class, and geographical structure of the underlying society. Presidentialism, by contrast, has certain advantages: voters know exactly whom they are electing, and that official remains directly accountable to voters, in contrast to parliamentary systems, where parties or coalitions of parties can remove chief executives without any change in the popular mandate. The inherent majoritarianism of presidential systems can, moreover, be tempered by requirements for second-round runoffs or, as in Nigeria or Sri Lanka, requirements that the president receive pluralities in multiple electoral districts.
Lijphart argued that a single design axis like the nature of executive power cannot be understood in isolation from other aspects of the political system; electoral systems, in particular, are critical in determining the overall effectiveness of a political system. He suggested the matrix presented in figure 8.1 for characterizing combinations of executive and electoral systems.

Lijphart argued that presidential systems, coupled with single-member plurality systems like that of the United States, tend to produce two relatively strong and cohesive parties. While different parties gaining control of the executive and legislative branches has been a reality for much of recent American history, this has not led necessarily to gridlock because politics is still organized around two relatively coherent competing ideological points of view. From his standpoint, the worst combination is presidentialism together with proportional representation in the legislature, which he argued characterizes many political systems in Latin America. This has led not just to gridlock, but to presidents having to bargain with disorganized and fragmented parties—the worst features of both parliamentary and presidential systems.

A More General Method for Categorizing Political Systems

It soon became clear that presidentialism interacted not just with the electoral system, but with virtually all other aspects of the political system. Gary Cox and Mathew McCubbins introduced the general concept of veto gates—that is, actors within the political system who have the power to stop or modify legislation or policy. All political systems can be arrayed on a continuum from a perfect authoritarianism...
that has only one veto gate (the dictator’s will), to a perfect consensual democracy in which all citizens have to agree to a policy.

The concept of veto gates in a sense reprises the conceptual framework laid out by James Buchanan and Gordon Tullock to explain the principle of majority voting, where they posited a clear trade-off between legitimacy and effectiveness (see figure 8.2). The more members of a society who participate in a decision, the higher are the expected decision costs; for large societies, the costs rise exponentially as one approaches consensus. Buchanan and Tullock argued that the principle of majority voting has no inherent normative logic; one can choose any point on the curve in figure 8.2 as an appropriate trade-off between effectiveness and legitimacy, and in the case of constitutional law, super-majorities are, indeed, often required. In the case of monetary policy, by contrast, many democracies delegate decision rights to an independent central bank with a very small number of decision makers.

The concept of veto gates as used by Cox and McCubbins does not refer to individual voters, but to organized institutions within the political system that, through delegation, have veto rights in political decision making. It becomes clear that legislatures and the rules under which they are elected are only one of several possible veto gates. These include:

- The electoral system. Proportional representation usually increases the number of veto gates over plurality systems because it leads
to a more fragmented party system. Small district size (especially when combined with proportional representation) tends to increase fragmentation, as do electoral cycles not synchronized with presidential ones. Proportional representation systems with thresholds reduce fragmentation.

- **Party discipline.** Strong parties (e.g., those operating under closed-list systems) are better able to make decisions than parties with weak discipline.

- **Bicameralism.** An upper house adds another veto gate, because it is often based on territorial criteria and/or electoral rules different from those in the lower house.

- **Federalism and decentralization.** Federalism delegates important decision rights to subunits like states, which can be further delegated to even smaller subunits like municipalities and districts.

- **Independent judiciaries.** If courts are truly independent and have powers of constitutional review, as in the United States, they can constitute a major check on the powers of the other two branches. Courts can intervene in different ways as well, from merely interpreting legislative intent to initiating policies on their own.

From the above, it should be clear that political systems need to be categorized not by Lijphart’s 2 × 2 matrix, but by an n-dimensional matrix that arrays all of these design axes against one another. It is possible to come up with a very large number of combinations of design features that will add or subtract veto gates from the political system, thus shifting the balance between effectiveness and legitimacy.

Because graphically portraying an n-dimensional matrix is not practical, an alternative is to substitute a continuum like that on the x axis of figure 8.2 as a means of ranking different political systems. Political systems with different types of veto gates are hard to compare in the abstract. Is a system with weak party discipline but no federalism and an independent constitutional court stronger or weaker than one with federalism, cohesive parties, and a somewhat politicized court? Is the premier-presidential system of the French Fifth Republic, whose president does not appoint the cabinet but does have clear reserved powers in foreign and defense policy and does not have to devolve powers to federal subunits, stronger or weaker than the American presidential system, whose president appoints the cabinet and shares powers in foreign affairs?

Taking these complexities into account, it is nonetheless possible to do a rough rank ordering of different political systems in terms of their aggregate number of veto gates:
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2. Parliamentary with proportional representation with cohesive parties, no federalism (Austria, Belgium, Netherlands, Thailand)
3. Premier-presidential, no federalism (French Fifth Republic, Finland)
4. Presidential with plurality voting, with federalism (United States, Philippines)
5. Parliamentary with fragmented parties (French Fourth Republic, Italy pre-1994)
6. Presidential with proportional representation and fragmented parties (Colombia, Brazil)

Of all democratic systems, the classical Westminster system has by far the fewest veto gates and is capable of the most decisive action. Such a system in its pure form is parliamentary with a plurality voting system and party discipline, leading to exaggerated majorities in the parliament; there is no federalism or decentralization, no written constitution and therefore no requirements for supermajority voting, and no judicial review. A simple majority in the parliament (which, given the electoral system, can represent less than a majority of the popular vote) is sufficient to change any law in the land, which leads to what some have described as a democratic dictatorship. In the 2001 British general election, for example, the Labor Party received only 42 percent of the popular vote and yet received 62.5 percent of the seats in Parliament, while the Liberal Democrats received almost 19 percent of the popular vote and got only 8 percent of the seats.

The American system, by contrast, is deliberately designed to place many more veto gates—what Americans call checks and balances—in front of executive decision making, by adding separated powers, bicameralism, federalism, weak party discipline, and judicial review. The only important feature of the U.S. political system that increases rather than decreases decisiveness is its single-member plurality voting system. The vastly greater decisiveness of the British system can be seen in the fact that a British prime minister’s budget is approved within days of its being submitted to Parliament, while an American budget takes the better part of a year to pass and never survives in the form proposed by the president.

While there are clear differences between the Westminster system and the U.S. system, and between either of them and those that prevail in Argentina or Peru, the actual behavior of political systems may not correspond to a simple quantitative tabulation of veto gates. As will be
seen below, even the attempt at ranking systems above can be very misleading. Within the broad categories of veto gates given above, there are countless other rules that affect the ability of political systems to generate decisions or enforce policies. Sometimes, these rules are formal, but most outside observers (e.g., World Bank country directors or North American academic specialists) do not have the time or the patience to understand how they actually function. At other times they are informal and intrude into the realm of political culture, which will be explored further in the next section.

Legislative coherence—a pertinent example here—is the ability of legislatures to pass legislation, hopefully legislation that is public-regarding rather than patronage-based and/or clientelistic. Legislative coherence is the product of the interplay of various institutional design features, such as the electoral system (usually held to be the prime determinant), party discipline, rules concerning executive-legislative interaction (i.e., presidentialism and which branch controls the legislative agenda), and the party system, which reflects the underlying structural conditions of the society.

Political scientists associate legislative incoherence with the following factors: proportional representation systems, particularly those with open-list voting and no minimum thresholds; weak party discipline; and party systems that are not firmly anchored in important social groups or cleavages. By this account, Colombia and Brazil have traditionally been put forth as examples of weak legislative systems. The former has coherent parties but very weak party discipline: the parties are unable to control even the use of their own party labels.23 Brazil has open-list proportional representation, a traditionally weak party system, and apparently weak party discipline.24 Argentina, by contrast, should have much greater legislative coherence, since it has a closed-list proportional representation system and relatively coherent parties.

However, the actuality is rather different. Colombian presidents have had to work with incoherent legislatures that have demanded particularistic payoffs in return for votes, as the theory predicts. Major reforms have required Colombian presidents to resort either to emergency powers or to maneuvers of questionable legality.25 The Brazilian Congress, on the other hand, has actually been able to pass a large volume of legislation since ratification of the 1988 Constitution; while presidents have never had legislative majorities of their own party, they have nonetheless been able to put together coalitions of parties with relatively strong party discipline in support of far-reaching reforms like the Fiscal Responsibility Law of 2000, which restricted
the ability of Brazilian states to run budget deficits. Argentina, on the other hand, has suffered from legislative incoherence despite the fact that presidents from both the Partido Justicialista (the PJ, or Peronist, Party) and the Alianza por el Trabajo, la Educación y la Justicia have had strong legislative majorities or pluralities in Congress.

This situation has to do with the fact that legislative coherence is the product of the interplay of many more rules than the usual ones of open- or closed-list proportional representation. Brazilian presidents, for example, through their control over fiscal policy and bureaucratic appointments, have been able to discipline legislators and enforce party-line voting. That Presidents Fernando Henrique Cardoso and Luiz Inácio “Lula” da Silva have used this power not to build clientelistic bases but to enact public-regarding reforms of fiscal federalism and the social security system may reflect changing political culture rather than formal institutions. Nonetheless, the result is contrary to the expectations of many political scientists and at odds with simple models of how formal rules correlate with policy outcomes.

In Argentina, on the other hand, legislative coherence was undermined by the way that the electoral system interacted with federalism. While the national electoral system was closed-list proportional representation, voting was done by province, making the provincial party chiefs, and not the national party, responsible for determining the voting lists. The national party was thus not a cohesive bloc, but an alliance of provincial fiefdoms. In the years leading up to the economic crisis of 2001, the Argentine government could not maintain fiscal discipline because the PJ’s leader, president Carlos Menem, got into a spending duel with Eduardo Duhalde, governor of Buenos Aires province and Menem’s leading rival within the Peronist party. The entrenched power of provincial party bosses is also the reason that this system will be extremely difficult to reform. The coherence of the Argentine legislature, then, was more apparent than real, which goes far in explaining why Menem continued to rule by decree even when his party possessed a majority in Congress.

Why There Is No Optimal Political System

The groundwork has already been laid for the beginning of an explanation of why there can be no such thing as optimality in the design of political systems. Political systems seek conflicting social goods between which there is often a continuous trade-off. The balance of goods that
the system seeks to achieve will depend on a host of contextual factors like the society’s historical traditions and political culture, the external environment, economic conditions, and the like.

Cox and McCubbins described this trade-off as one between decisiveness and resoluteness. Systems with fewer veto gates produce more decisive political decisions. On the other hand, decisions that have to be vetted by more actors within the political system generally produce more lasting results, because there are fewer players interested in overturning the initial decision—hence greater resoluteness. It should be clear that the Cox-McCubbins trade-off between decisiveness and resoluteness largely corresponds to the trade-off between effectiveness and legitimacy described earlier. That is, the more members of a society who participate in a decision, the more legitimate it is (with perfect legitimacy being perfect consensus); the reason that legitimate decisions are resolute is because there are fewer interest groups or sectors of society opposed to the decision.

To complicate matters a bit further, excessive resoluteness/legitimacy can sometimes undermine itself, while decisiveness on occasion becomes self-legitimizing. That is, a democratic political system with excessive decision costs often fails to produce policies of any sort, leading to voter disillusionment not just with the current administration, but with democracy as a whole. Societies may actually express a preference for the decisiveness of authoritarian governments, which can cut through the miasma of ordinary politics and get things done.

What is the optimal political system for a developing country that seeks rapid economic growth? There was for a long time a strong bias on the part of certain academic and policy communities in favor of decisive over resolute/legitimate systems. One version of this was the “authoritarian transition,” which was advocated in the 1960s by Samuel Huntington and rearticulated more recently by Huntington’s student Fareed Zakaria. They argued not simply that authoritarian modernizers were more decisive, but that, in many developing countries, liberal autocracy alone was capable of supplying basic public goods like physical security and public order, which are preconditions of development of any sort.

But even among those committed to development under democratic conditions, there has been a pronounced bias in favor of decisiveness. The argument goes something as follows. A typical developing country needs liberalizing economic reform, usually in the form of tariff reductions, deregulation, privatization, and reductions in consumer subsidies (i.e., the famous Washington Consensus). Often, these policy
reforms need to be undertaken in the context of an economic crisis, such as a current account deficit leading to currency devaluation and high interest rates. While these reforms are expected to bring stability and long-term economic growth, they also produce a great deal of transitional pain as workers are laid off or consumers lose access to subsidized goods. Technocratic experts can see the long-term logic of these policies, but ordinary voters and politicians might not; therefore, a developing country in this position needs a decisive political system that will shield technocratic experts from populist demands and push through long-term public-regarding policies. A decisive system that implemented successful reforms would then become self-legitimating as it produced long-term stability and economic growth. This was purportedly the path followed by Chile under General Pinochet.

Political systems with excessive checks and balances, by contrast, slow down decision making and impose many other decision costs as interest groups are paid off. What Barbara Geddes referred to as the “politician’s dilemma” is the phenomenon that reformist governments often need to pay such a high price to implement reform that they end up undermining the goals of the reform itself. This price would presumably be lower in a more decisive political system.

Mexico under the presidency of Vicente Fox illustrates this problem. The Mexican political system is roughly similar to the U.S. system: presidential and federal, though with a mixed proportional representation/plurality voting system. During the decades of dominance by the Partido Revolucionario Institucional (PRI), most observers categorized Mexico’s political organization as a strong presidential system, because Mexican presidents often acted like authoritarian rulers. In retrospect, however, it is clear that this was simply the by-product of PRI dominance of the executive and legislative (and, indeed, the judicial) branches. Fox’s election in 2000 produced a president of a different party, the Partido Acción Nacional (PAN), which did not command a majority in the Congress and which could not put together a coalition in favor of major reforms like modernization of utilities or reform of the judicial system. The Mexican political system, in other words, began behaving like a typical presidential system with checks and balances, biased toward resoluteness rather than decisiveness, and the result was political gridlock.

In the end, it is not clear that decisive political systems are preferable to resolute/legitimate ones from the standpoint of long-term development. Constitutional rules that amplify executive power by reducing veto gates can produce policies that come to be regarded as
illegalit; without a broader underlying social consensus, reforms are likely to be undermined over time. There have been a number of notable cases of this. The liberalizing reforms undertaken by Venezuelan president Carlos Andrés Pérez in 1989–1990 provoked opposition not just within the broader Venezuelan society, but within Pérez’s own Acción Democrática (Adeco) Party. Pérez used his office, supported by a small group of technocrats, to change policies, without making a broad-based effort to convince Venezuelan society of their necessity and logic. Even though the reforms produced economic growth, they were immediately undermined not just within the political system, but outside it as well (in the form of the military coups launched by Hugo Chávez).

The preference for decisive political systems, moreover, reflects a moment in history stretching from the mid-1980s through the late 1990s, during which the development problem was seen as partially caused by excessive state scope, and the posited solution was, in almost all cases, understood to be liberalizing economic reforms. In the early twenty-first century, the agenda has already begun to shift: Left-leaning or outrightly populist presidents have come to power in Brazil, Ecuador, Argentina, Uruguay, Venezuela, and Bolivia. In many cases, their agenda is the reassertion of state power, re-regulation of the economy and renationalization of certain economic sectors, and control over the media and civil society. Decisive political systems will only enhance the ability of populist presidents to enact bad economic policies and return their countries to state control and closed markets.

Institutions are only enabling devices; those that facilitate or encourage strong and decisive political decision making are only as good as the policies being pursued. What inhibits the ambitions of a liberalizing reformer also checks the power of a would-be populist dictator. If decisive government were always preferable, then we should always want Westminster-type systems with their largely unchecked executive powers. But Americans have expressed, since the founding of their republic, a strong preference for a system of checks and balances that limits government power. This relatively nondecisive political system reflects the preferences of American political culture, which has always been distrustful of state power. Checks and balances make large-scale reform much more difficult, but in the long run, they also reduce the risk of the government being captured by politicians advocating policies that are not supported by the broader society. The preference for resolute/legitimate political systems over decisive ones can thus be seen as a preference for lower long-term political risk.
There is no optimal level of long-term political risk, and thus no optimal balance between decisiveness and resoluteness/legitimacy. The United States and Britain are among the world’s oldest and best-established democracies, and yet they have completely different political systems arising out of very different historical experiences. The largely unchecked Westminster system is a high-risk institutional arrangement that has worked reasonably well in the English-speaking world where it has been implemented. Margaret Thatcher’s reforms of the late 1970s and early 1980s could not have been carried out but for the exaggerated parliamentary majorities held by the Conservative Party. Similarly, Roger Douglas’s liberalizing reforms in the mid-1980s benefited from New Zealand’s even purer Westminster system.32 Both stand in sharp contrast to the situation faced by Chancellor Angela Merkel under Germany’s far less decisive institutional rules, which following the election of 2005 forced her into a coalition and sharply limited the kinds of liberalizing policies she was able to put into place.

But a Westminster system would likely produce disastrous results if transported to a country with a different social structure and political culture (e.g., an ethnically fragmented society with a dominant ethnic group). Where it has been copied, it has been heavily modified to meet local conditions, as in the case of India, the success of whose democracy would scarcely be conceivable in the absence of thoroughgoing federalism. The American presidential system, which is much less decisive than the Westminster system, has nonetheless been capable of achieving decisive action at certain critical junctures in American history. When American presidentialism was transplanted to Latin American countries, however, it worked only indifferently. How each formal set of institutional rules plays out in practice is thus highly dependent on the local social context, tradition, history, and the like.

The fact that we cannot specify an optimal set of formal institutions does not mean that we have no knowledge of the likely impact of changes to formal institutional rules. A number of institutional reforms, like a central bank or judicial independence,33 have a clear logic and are broadly accepted as being desirable. Changes in electoral rules have broadly predictable effects. For example, there are a number of recent cases where electoral reform has produced desired results:

- Chile, which always had a coherent party system, has been operating since 1988 under an electoral system that was designed to force the country’s four or five large parties into two broad Left-Right coalitions, which has in fact happened.
• Japan changed its single nontransferable vote (SNV) system to a mixture of single-member constituencies and proportional representation in 1994. The SNV system had forced parties to run multiple candidates in the same electoral district, which was blamed for the factionalism within the ruling Liberal Democratic Party. While it took over 10 years to produce the desired effect, Prime Minister Junichiro Koizumi’s electoral victory in 2005 marked the demise of the faction system.

• Italy modified its low-threshold proportional representation system, which had produced notoriously weak coalition governments, into a mixed single-member proportional representation system in 1994, which had the desired effect of forcing parties into broad Left-Right coalitions. Italian politicians gamed the system, however, to ensure the survival of the smaller parties, and the system reverted back to a modified form of proportional representation in 2006.

• New Zealand, which had a classical Westminster-style single-member plurality voting system in its Parliament, changed over to a mixed-member proportional system in 1996. The result has been broader representation of smaller parties, together with relatively weak coalition governments in place of the two-and-a-half-party system that prevailed earlier.

• In Thailand’s 1997 Constitution, the electoral system was changed from a multiseat, multiple vote plurality system, which had produced weak coalitions, to a mixed system of 400 single-member constituency and 100 proportional representation seats. The reform has given Prime Minister Thaksin Shinawatra an absolute legislative majority.

In addition, there is accumulating knowledge about the design of federal systems. Federalism has posed a problem for many large states in Latin America, including Argentina, Brazil, and Mexico, because the subunits were delegated too much budgetary discretion and could run fiscal deficits. This differed from the situation in the United States, where most states are constitutionally prohibited from running budget deficits and face hard budget constraints based on their own ability to raise revenues. In Argentina and Brazil, by contrast, states could run deficits that had to be covered by the federal government, a form of fiscal federalism that undermined overall budget discipline. In Argentina, the rules were particularly problematic because they were constantly being renegotiated; governors would spend a great deal of time politicking in
Buenos Aires rather than raising their own tax revenues. The solution to this problem—putting states and other subunits under hard budget constraints—is relatively straightforward conceptually, yet difficult to implement since such a reform means a de facto shift in power from the states to the federal government. Brazil, despite its supposedly weak political parties and strong federalism, moved in this direction with passage of the Fiscal Responsibility Law, while Argentina has failed to deal with this problem due to the entrenched power of state-level politicians.34

The fact that we can connect certain changes in institutional designs with certain behavioral outcomes does not mean that institutional change is easy to bring about; institutions are in fact very “sticky” or path dependent. The transaction costs of institutional change are often far greater than the transaction costs of weak or suboptimal institutions. Societies need to generate political will to bring about reform and to prevent new institutions from being undermined by losers in the initial struggle.

**Political Culture**

As noted above, most conventional analyses of the formal structure of political institutions would have come to the conclusion that Brazil would produce a weaker government than Argentina, given its open-list proportional representation system, weak political parties, and entrenched federalism. And yet, Brazil weathered the period from 1990 to 2005 better than Argentina, avoiding the latter’s severe economic crisis in 2001–2002 and moving ahead with a series of structural reforms and public policies. And both countries have done much less well than neighboring Chile, not just since the 1990s, but for the preceding 15 years as well. What accounts for these differences?

One factor is clearly leadership. Economists generally do not like to talk about independent variables like leadership because it amounts to throwing a massive random-number generator into their models. They prefer modeling institutions and hierarchy endogenously, as the result of strategic interactions of individual agents who cannot achieve collective action without it. But leadership is more often than not exogenous. It was simply Argentina’s bad luck that Carlos Menem chose to throw away the positive legacy of his first term as president by seeking not just a second but a third term as well, leading him into a spending competition with Eduardo Duhalde. President Cardoso, by contrast, chose not to waste his political capital seeking ways to remain in office, but used it rather to try to solve some long-standing
public policy problems. Many good development outcomes are thus attributable not to the structure of formal institutions, but rather to the emergence of the right leader at the right time.

The only way in which leadership may become a more tractable variable is when a certain leadership style is not simply the outgrowth of the foibles of a particular individual, but reflective of a broader political culture. Menem was widely blamed for packing the Argentine Supreme Court with his political cronies, but he was neither the first nor the last Argentine president to do so. Argentine elites have been notorious for avoiding or manipulating rules they find inconvenient, a behavioral tendency that shows up not just in Supreme Court appointments, but in rates of tax compliance and ordinary corruption. These phenomena exist in Brazil and Chile as well, but the degree of disregard of laws and rules seems to be lower, particularly in the latter case. A well-functioning rule of law is not merely a set of visible formal institutions like courts, bar associations, police, and judges. No formal arrangement of incentives will make such a system operate properly unless the participants share a certain normative respect for laws and rules.

As already noted, there was an earlier critique of institutionalism that argued that formal institutions mattered less than variables like political culture and social structure in explaining political and development outcomes. This critique remains valid, but only if we understand political culture properly. To say that political culture is important is not necessarily to affirm the importance of certain large cultural categories like “Catholicism” or “Anglo Protestantism.” Chile, Argentina, Ecuador, and Costa Rica are all predominantly Latin Catholic countries and former colonies of Spain, and yet they all have distinctive political cultures with respect to the rule of law, something that can be seen clearly in their very different rankings on various indices measuring levels of corruption and governance. Political culture varies among groups and regions within societies and over time; it is shaped not only by large symbolic forces like religion, but by shared historical experiences like war or economic crisis. And it is key to understanding why certain formal political institutions do or do not work.

The United States as an Nondecisive Form of Government

The importance of political culture can be seen clearly if we look closely at American political institutions and how they have functioned over the years. In the context of the analytical framework presented above,
the United States has a relatively nondecisive set of formal institutions, meaning that the system has a large number of veto gates that bias it toward resoluteness/legitimacy. This choice was a deliberate one: the American republic was born in a revolution against centralized monarchy, and the American founders sought to create a system of checks and balances to prevent the reemergence of strong, centralized power. The dual legitimacy of its presidential system is something with which many Americans are comfortable; poll data indicate that a majority of Americans are actually happier when the presidency and Congress are controlled by different parties, and they want the two branches to serve as checks on each other’s power. And yet, the American political system has been capable of decisive action as well, from mobilizing to fight a series of wars, to building a twentieth-century welfare state during the New Deal and Great Society years, to scaling back that same welfare state from the Reagan presidency to the present. The American political system has, of course, produced its share of political failure, deadlock, and missed opportunities. But over the years, it has proved adaptable to changing conditions, at least when compared to the political systems of other developed democracies in Europe and Japan.

In American history, major policy initiatives have not been achieved through the inherent powers of the executive. As noted earlier, an American president is much weaker than a British prime minister. The president has no guaranteed majority in either house of Congress, and American presidents have been stymied by Congress even when their own party controlled the legislative branch (e.g., the defeat of Bill Clinton’s health care reforms in the early 1990s). Nor have American executives undertaken major initiatives through grants of special emergency powers by Congress. Some of the most impressive legislative accomplishments by American presidents, like Harry Truman’s passage of the Marshall Plan, or Ronald Reagan’s passage of tax cuts during his first term, occurred when the other branch of government was under the control of the opposition political party.

Successful American presidents have achieved their goals not by exploiting the formal powers accorded to them, but by using their office as a “bully pulpit” to rally broad public support across party lines. Indeed, some of the most effective American presidents—such as Franklin Roosevelt, Truman, and Reagan—have understood that their chief function was to communicate broad messages and build coalitions across party lines. President Lyndon Johnson, for all of his failings in foreign policy, was able to enact major legislation regarding civil rights
and poverty by using his intimate knowledge of Congress gained during his days as Senate majority leader. Those who took a more technocratic approach to policymaking—like Jimmy Carter or Bill Clinton (at least with regard to his health care initiative)—were far less successful.

The example of the United States shows that a political system biased toward resoluteness/legitimacy can nonetheless be capable of decisive action. Great Britain, by contrast, is a case of a political system heavily biased toward decisiveness, which nonetheless has not used its inherent executive powers to trample over the rights of minorities. While Britain entered the modern era as a relatively homogeneous country in ethnic and religious terms, it inherited a highly stratified class structure that could have been the basis for serious class conflict. Yet, despite the society’s evident ideological differences, neither fascism nor communism took root there as occurred in other European countries. The Westminster system could have easily facilitated sharp oscillations in public policy between Left and Right, something that did not happen arguably until the arrival of Margaret Thatcher. Rather, Britain saw the displacement of the Liberals by the Labor Party and the steady growth of the welfare state under both Labor and Conservative governments throughout the first seven decades of the twentieth century.

Argentina began this same period with a similar degree of ethnic and religious homogeneity, and yet managed to exacerbate existing class differences through a series of violent oscillations between Left and Right. Differences in the design of the formal political system simply cannot explain this divergence in behavioral outcomes. They can, however, be readily attributed to differences in political culture.

**Conclusions: Social Structure and the Limits of Institutional Design**

Formal political institutions do, in the end, matter. As a result of scholarly work done over the past generation, we can relate certain institutional forms to certain outcomes, e.g., how to design an electoral system to increase or decrease the number of parties, how to improve party discipline, how to promote greater fiscal responsibility on the part of states, and how to decrease incentives for patronage and clientelism. We also know that certain types of institutions are almost always dysfunctional and should be avoided, such as an overly politicized judicial system or patronage-based public expenditures.
On the other hand, there is no such thing as an optimal political institution. Institutions are only as good as the policies they promote, and no set of procedural rules for making political decisions will by itself ensure good public policy. These rules often seek to maximize two competing social goods, like decisiveness and resoluteness/legitimacy, and societies will vary in their preference for long-term risk in policymaking. Leadership matters a great deal; with good leadership, apparently dysfunctional institutions can be made to work well, while no set of rules will fully compensate for bad leadership. And while we understand cause-and-effect relationships between certain forms of institutional design and policymaking outcomes, the institutions in question come in highly complex, interdependent packages where a change in one requires complementary changes in several others, or else it will produce unanticipated consequences.

All would-be institutional reformers face what Barbara Geddes calls the “politician’s dilemma”: they can either spend their political capital achieving some short-term policy change, or they can spend it reforming the underlying institution. But in pursuing the latter, they often have to pay so much to get what they want that they undermine the very policies they hoped to promote.

It is not clear that going for deeper institutional reform is always the right choice. Take the case of Mexico today. As noted above, Mexico has a presidential system and federalism that is biased toward resoluteness/legitimacy and away from decisiveness. From the standpoint of a reformer seeking to liberalize the Mexican economy, President Fox’s inability to pass major reforms through the Mexican Congress was intensely frustrating. The dual legitimacy of the presidential system led to legislative-executive gridlock, while federalism allowed Fox’s opponents, like Andrés Manuel López Obrador, to prosper and pursue policies at odds with those of the president. One might be tempted under these circumstances to try to change the institutional rules to increase the power of the president, by biasing the electoral system to produce more decisive majorities, by reducing the autonomy of the states, or by providing the president with emergency powers. All of these potential measures presuppose, however, that it is a liberal reformer who is president and that he is being blocked by populist or reactionary forces. Were the shoe to be on the other foot and an Hugo Chávez–type populist were to come to power, then these exact same institutions would serve as checks on a president pursuing bad policies.

The U.S. system, as noted above, is not necessarily more decisive than the Mexican one in its formal institutional rules. Presidents of the
United States who have wanted to promote ambitious reform agendas of course want as large a base for their own party as possible, but often they have sought to cross party lines to build coalitions in favor of particular policies. All of this is a function of leadership, persuasion, campaigning, compromise—in other words, traditional political skills put at the service of public-regarding policies. In the United States, building consensus has always been a slow matter, and it should not be surprising that Mexico’s first president to come from a party other than the PRI should have trouble doing this. But the problem lies not in the formal institutions as much as with the skill with which they are exploited. President Cardoso’s relative success in getting important legislation through a formally weak Brazilian system should be seen as an example of this.

The preceding argument that formal institutions need to be supplemented by a supportive political culture should not be taken as a form of cultural essentialism, that is, the view that societies are locked into certain outcomes due to unmanipulable cultural characteristics. Political culture reflects the shared experiences of groups of people at particular points in time and can readily evolve under the influence of leadership, education, new environments and challenges, foreign models, and the like.

Besides political culture, another factor that makes democratic politics more difficult in Latin America is social structure. Democratic institutions are designed to mitigate social conflict, but their ability to do this depends in part on how severe those social conflicts are. Latin America is full of countries with sharp class, ethnic, and racial divisions, many of which have been the fault lines that have triggered coups, insurgencies, extralegal actions, and so on. In other cases (like Argentina), new lines of social cleavage were created de novo where none existed previously.

Democratic politics in Latin America has often been the province of social elites. Venezuela and Colombia, considered for many decades to be the best examples of stable democracy in the region, are cases in point. The 1958 Pacto de Punto Fijo in Venezuela and the 1957 National Front accord that ended the period of La Violencia in Colombia were democratic transitions negotiated by two dominant elite parties that then shared power for the next four decades. This top-down approach preserved the positions of COPEI and Adeco in Venezuela and the Liberal and Conservative parties in Colombia at the expense of other political actors, leading to the progressive ossification of both political systems. Given large social stratifications and weak states in both cases, it is inevitable that the excluded parties would over time try to force
their way into the system, through guerrilla insurgency in the case of Colombia and by populist military coup in Venezuela.

Countries with serious underlying social conflicts face a chicken-and-egg problem with regard to institutional development. It is hard to see how either Venezuela or Colombia can create democratic institutions that are stable in the long run without being more socially inclusive, but the very process of inclusion weakens or dismantles existing democratic institutions. Something similar is going on with regard to indigenous groups in Bolivia with the election of Evo Morales as president in 2005. Hopefully, existing democratic institutions will be used as the bridge to greater inclusion, but that depends very much on the agenda, ideas, and aims of the groups being included.

The United States began its national existence as a democracy excluding slaves, women, indigenous peoples, and propertyless whites from the political process. The system could not bring about the inclusion of the first of these groups without a bloody civil war, and the inclusion of the others was a process that stretched over 200 years and in certain respects is still incomplete. On the other hand, with the important exception of the Civil War, America’s social cleavages were never so severe that they could not be managed peacefully within the system’s existing rules. It helped that an open frontier, immigration, and rapid economic development reshuffled the social deck periodically in ways that weakened the positions of older entrenched elites.

The trade-off between decisiveness and resoluteness/legitimacy presumes that, at the resoluteness end of the scale, the system represents something close to the whole of the political community. The problem with elite politics in Latin America is that even those systems biased toward resoluteness/legitimacy tend to be exclusionary and are therefore not, in a full sense, legitimate. This is not due to the formal or deliberate disenfranchisement of parts of the population; rather, it is the result of social cleavages, stratification, and economic inequality. Those systems with large numbers of veto gates have the worst of both worlds: they are not capable of decisive action, nor do they buy for themselves strong social consensus. Until this larger problem is addressed through the entry of a wider range of actors into the political system, no amount of institutional engineering will ever produce stable and legitimate democracy.

Notes


Institutional Factors in Latin America’s Development
Do Defective Institutions Explain the Development Gap?


13. One important source for thinking about informal institutions is the large literature on social capital.


15. Ibid., p. 59.
16. Linz, “The Perils of Presidentialism.” This article circulated as a mimeo for several years prior to its publication in the *Journal of Democracy*.
19. This is Duverger’s Law; see Maurice Duverger et al., *L’Influence des systemes electoraux sur la vie politique* (Paris: Colin, 1950).
22. The British system is no longer a pure Westminster system; there is a bicameral legislature with increasing devolution of powers to different regions in Britain. In addition, the courts, including European courts, have increasingly been able to limit the discretion of the British Parliament.
24. Mainwaring and Shugart, *Presidentialism and Democracy in Latin America*.
25. An example of this was President César Gaviria’s bypassing of the legislature in the constitutional reform of 1991.
32. New Zealand ceased to have a pure Westminster system when its electoral system was changed from single member first-past-the-post to mixed member proportional in 1994.
33. Though even in those instances, judiciaries that are too independent of public opinion have become highly controversial in the United States and other developed democracies that take basic judicial independence for granted.
34. Stein et al., *The Politics of Policies*.
American presidents have taken on special powers during wartime, such as Abraham Lincoln’s suspension of habeas corpus during the Civil War and Franklin D. Roosevelt’s internment of Japanese American citizens during World War II. More recently, President George W. Bush claimed special powers with regard to treatment of “enemy combatants” and using wiretapping as part of the war on terrorism. But these decisions have been very controversial and unusual in American politics.


While the Democrats controlled both houses of Congress during his presidency, the Democratic Party itself was heavily influenced by southerners opposed to civil rights legislation and in control of many key congressional committees.