

Development and the Limits of Institutional Design

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Francis Fukuyama
Bernard L. Schwartz Professor of International Political Economy
School of Advanced International Studies
Johns Hopkins University

As a starting point for this discussion, I take for granted the assumption of this conference of the Global Development Network that “institutions matter.” I want to proceed directly to the question of what the coming research agenda on institutions ought to be, based on what we know about them at the present. In my book *State-Building: Governance and World Order in the 21st Century* (2004), I surveyed what we knew about institutions at the micro level of organizations, and argued that public administration was not a science susceptible to formalization under a set of universal rules and principles. In this paper I want to move to the level of macropolitical institutions, and discuss what we do and don’t know about how they are related to development outcomes. At this higher level of political organization, I want to make a similar case that there is no such thing as an optimal formal political institution. While we have accumulated a certain body of knowledge concerning how such institutions relate to outcomes, the full specification of a good set of institutions will be highly context-dependent, will change over time, and will interact with the informal norms, values, and traditions of the society in which they are embedded. It is indeed in the end possible to overestimate the importance of certain kinds of formal institutions, and to seek institutional reforms in conditions where imperfect institutions can actually be made to work quite adequately.

INSTITUTIONS MATTER – OR DON’T THEY?

There is by now a huge empirical literature making the case that “institutions matter” for economic growth (see inter alia Knack and Keefer 1995; Acemoglu and Robinson 2000, 2002; Rodrik and Subramanian 2003; Kaufmann and Kraay 2005; Chhibber et. al. 2006). In recent years, the only systematic counterargument to the institutionalist one has been made by Jared Diamond, Jeffrey Sachs, and their followers

(see Diamond 1997, Sachs and Warner 1995, and Sachs and McArthur 2001) who have pointed to the importance of material factors such as resource endowments, disease burdens, climate, and geographical location as determinants of economic growth. I believe that the institutionalists have won this argument hands down: Easterly and Levine (2002) and Acemoglu and Robinson (2002) 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 that 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 pre-war 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 the underlying structural conditions conducive to democracy.

This type of anti-institutionalism was of course the longstanding position of most Marxists, who maintained that the state in a capitalist democracy was simply the “executive committee of the bourgeoisie,” reflective of underlying social forces and not an autonomous agent in the shaping of outcomes. In a curious way this belief in state as superstructure jibed with a certain American anti-statist penchant (see Lipset 1995) 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 (McClellan 1953; Almond 1963); in modernization theory, sociology and anthropology played as important a role as political science in explaining development outcomes.

Institutions and the autonomous state were re-inserted into the research agenda only in the 1970s and 80s, which came 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 (see Nettl 1968, Mann 1984; Skocpol, Evans, et. al. 1985). In addition, the rise of Douglass North's new institutional economics gave a 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 a large literature not just on the general question of state autonomy, but also a rich and contextualized literature on institutional design that continues up to the present. The debate on presidentialism started by Linz (1990), discussed in much greater depth below, was one important example of the new focus on institutions and institutional design in this tradition.

The new institutional economics muddied the waters in one important way, however, which has led to confusion in subsequent thinking about institutions. North (1990) defines 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 was 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 were thus the typical objects of public policy to be manipulated at will.

Informal institutions, by contrast, reflected embedded social practices that were 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 oftentimes failed to separate them out clearly as a distinct conceptual category subject to a 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.¹ One is Samuel Huntington, who in recent years has been making a larger argument in favor of the centrality of culture in shaping political outcomes. His book *Who Are We?* (2004) points to the importance of culture in the shaping of American

¹ One important source for thinking about informal institutions is the large literature on social capital.

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 (p. 59):

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.

While Huntington has been severely criticized for his policy prescriptions regarding Mexican immigration. But his broader point that American national identity has not simply been a political one based defined by institutions like the Constitution and system of laws but also rooted in certain religious and cultural traditions – what he labels Anglo-Protestantism – would seem to be incontrovertible has an *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 on independence from Spain or Portugal modeled many political institutions explicitly on those of the United States, failed to achieve North American levels of either growth or political stability.

I do not believe 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, mould 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 are critical for the proper functioning of formal institutions, and a political science that pays attention only to the design of formal institutions and fails to understand normative and cultural factors will 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 AFTER

I will illustrate 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 over the last two decades. This debate was initiated by Juan Linz in his article “The Perils of Presidentialism” (1990)², in which he 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.

Linz pointed to four basic problems with presidential systems. First, presidential systems were inherently majoritarian, which led to the possibility that a president would be elected by a slim plurality of the population and therefore lack legitimacy. Second, presidential systems had rigid terms and did not provide easy mechanisms for removing a president who had lost legitimacy after being elected. Parliamentary systems dealt with this problem through no-confidence votes; impeachment was the messy alternative in presidential ones. Moreover, term-limited presidents often spent a great deal of time and political capital figuring out how to add terms to their tenure. The third problem had to do with dual legitimacy. In a presidential system, both the executive and the legislature

² This article, which was published in the *Journal of Democracy* in 1990, circulated for several years prior to that as a mimeo.

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 tended to personalize politics, emphasizing the character and foibles of the president rather than the broad program of a political party.

Although he did not address this issue explicitly, Linz was concerned with two separate design goals that were in some sense at cross purposes. On the one hand, he was concerned with effectiveness of democratic decision-making, and was thus concerned 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 was difficult was to optimize both effectiveness and legitimacy simultaneously.

In many respects, Linz's concerns about presidentialism remain well-founded. Many of the new democracies in Asia, for example, are presidential, and they have experienced many of the problems that Linz predicted (see Fukuyama, Dressel, and Chang 2005). Indonesia, the Philippines, South Korea, and Taiwan have all initiated impeachment proceedings against sitting presidents. Presidents Wahid and Estrada were actually removed from power (in the latter case, through means many deemed illegal), while Presidents Chen and Roh survived the campaigns against them. In all four cases, however, presidents found themselves facing legitimacy crises, commanding minority

parties or coalitions in the legislature, and often unable to get their agendas enacted into law. Politics in each of these countries has been highly personalized, focusing on charges of corruption, nepotism, or the glamour surrounding particular candidates.

Linz's critique of presidentialism was immediately critiqued by Lijphart (1991), Horowitz (1990), Shugart and Carey (1997), 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 required strong political parties; while party discipline could to some extent be engineered, party fragmentation was also based on the religious, ethnic, class, and geographical structure of the underlying society. Presidentialism by contrast had certain advantages: voters knew exactly whom they were electing, and that official remained directly accountable to voters, in contrast to parliamentary systems where parties or coalitions of parties could remove chief executives without any change in the popular mandate. The inherent majoritarianism of presidential systems could, 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 (1991) early on argued that a single design axis like the nature of executive power could not be understood in isolation from other aspects of the political system; electoral systems, in particular, were critical in determining the overall effectiveness of a political system. He suggested the following matrix for characterizing combinations of executive and electoral systems:

Figure 1.

Presidential/PM v. Electoral Systems

	Plurality	PR
Presidential	US, Philippines	Latin America
Parliamentary	Westminster	Continental Europe

Lijphart argued that presidential systems coupled with single-member plurality systems like that of the United States tended to produce two relatively strong and cohesive parties (Duverger's Law; Duverger 1950). While the possibility of different parties gaining control of the executive and legislative branches has in fact been a reality for much of recent American history, this has not led necessarily to gridlock because politics was still organized around two relatively coherent competing ideological points of view. From his standpoint, the worst combination was presidentialism together with proportional representation in the legislature, which he argued characterized many political systems in Latin America. This 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.

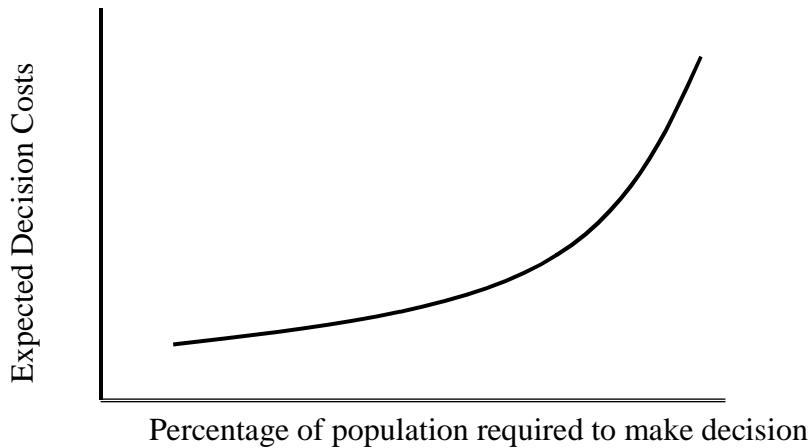
A MORE GENERAL SYSTEM FOR CATEGORIZING POLITICAL SYSTEMS

It soon became clear that presidentialism interacted not just with the electoral system, but with virtually all other aspects of the political system. Cox and McCubbins

(in Haggard and McCubbins 2001) introduced the general concept of *veto gates*: that is, actors within the political system that have the power to stop or modify legislation or policy. All political systems can be arrayed on a continuum from a perfect authoritarianism that had only one veto gate (the dictator's will), to a perfect consensual democracy in which all citizens had to agree to a policy. The concept of veto gates in a sense reprises the conceptual framework laid out by Buchanan and Tullock (1962) to explain the principle of majority voting, where they posited a clear tradeoff between legitimacy and effectiveness (see Figure 2).

Figure 2.

Participation v. speed of decision-making (Buchanan and Tullock)



The more members of a society that 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 had no inherent normative logic; one could choose any point on the curve in Figure 2 as an

appropriate tradeoff between effectiveness and legitimacy and in the case of constitutional law supermajorities were indeed often required. In the case of monetary policy, by contrast, many democracies delegated 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 PR) tends to increase fragmentation, as do electoral cycles not synchronized with presidential ones. PR systems with thresholds reduce fragmentation.
- Party discipline. Strong parties (e.g., those operating under closed-list systems) are better able to make decisions than ones with weak discipline.
- Bicameralism. An upper house adds another veto gate, 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 2x2 matrix, but by an n-dimensional matrix that would array 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.

Since it is not practical to graphically portray an n-dimensional matrix, we will have to substitute a continuum like that on the x-axis of Figure 2 instead 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 which has 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 players.

1. Classical Westminster (New Zealand before 1994)
2. Parliamentary/PR with cohesive parties, no federalism (Austria, Belgium, Netherlands, Thailand)
3. Premier-presidential, no federalism (French 5th Republic, Finland)
4. Presidential with plurality voting, with federalism (US, Philippines)
5. Parliamentary with fragmented parties (French 4th Republic/Italian republic pre-1994)
6. Presidential with PR 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 form³ is parliamentary with a plurality voting system and party discipline, leading to exaggerated majorities in 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 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, and leads to what some have described as a democratic dictatorship. In the 2001 British general election, for example, the Labour 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 a relatively weak one. It 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 US political system that increases rather than decreases decisiveness is its single-member plurality voting system. A British Prime Minister's budget is approved within days of its being submitted to parliament; an American budget, by contrast, takes the better part of a year to pass, and never survives in the form proposed by the president.

³ 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, courts, including European courts, have increasingly been able to limit the discretion of the British parliament.

While there are clear differences between the Westminster system and the US 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 notional ranking of 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 are so detailed that they are invisible to most outside observers (e.g., World Bank country directors or North American academic specialists). At other times they are informal, and intrude into the realm of political culture that will be explored further in the next section. Let me give an example concerning legislative coherence.

Legislative coherence 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: PR 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, in which the parties were unable to control the use of their own party labels (Archer and Shugart in Mainwaring and Shugart 1997); Brazil has open-list PR, a traditionally weak party system, and supposedly weak party discipline (Mainwaring 1995; Mainwaring in Mainwaring and Shugart 1997). Argentina, by contrast, should have much greater legislative coherence, since it has a closed-list PR system and relatively coherent parties (Corrales 2002).

The actuality is rather different. Colombian presidents have in fact 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.⁴ 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 (Limongi and Figueiredo 2000). 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 have had strong legislative majorities/pluralities in Congress.

The reason for this 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 PR. 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 Cardoso and Lula have used this power not to build clientelistic bases but to enact public-regarding reforms of fiscal federalism or 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, by contrast, legislative coherence was undermined by the way that the electoral system interacted with federalism. While the national electoral system was closed-list PR, voting was done by province and it was not the national party but the provincial party chiefs that determined the voting lists. The national party was in fact not a cohesive bloc but an alliance of provincial fiefdoms (Tommasi in Tungodden et. al. 2004). 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 with the Peronist party. The entrenched power of provincial party bosses is also the reason why this system will be extremely difficult to reform. The coherence of the Argentine legislature, then, was more apparent than real, and goes far in explaining why Menem continued to rule by decree 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, comparable to

⁴ An example of this was President Gavarias' bypassing of the legislature in the constitutional

Pareto optimality in economics. Political systems seek conflicting social goods between which there is often a continuous tradeoff. 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 describe this tradeoff 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 tradeoff between decisiveness and resoluteness largely corresponds to the tradeoff 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 things 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 times 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 that 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 a certain part of the academic and policy communities in favor of decisive over resolute/legitimate systems. One version of this was the “authoritarian transition,” advocated four decades ago by Samuel Huntington (1968) and re-articulated more recently by Huntington’s student Fareed Zakaria (2003). They argued not simply that authoritarian modernizers were more decisive, but that in many developing countries liberal autocracy alone was capable of supply basic public goods like physical security and public order that were preconditions of development of any sort.

But even among those committed to development under democratic conditions, there was a pronounced bias in favor of decisiveness (see Sachs in Williamson 1994). The argument went something as follows. A typical developing country needed 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 needed to be undertaken in the context of economic crisis such as a current account deficit leading to currency devaluation and high interest rates. While these reforms were expected to bring stability and long-term economic growth, they also produced a great deal of transitional pain as workers were laid off or consumers lost subsidies. Technocratic experts could see the long-term logic of these policies, but ordinary voters and politicians might not; therefore, a developing country in this position needed a decisive political system that would 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-

legitimizing as it produced long-term stability and economic growth. This was the path followed by Chile under General Pinochet.

Political systems with excessive checks and balances, by contrast, slowed down decision-making and imposed many other decision costs as interest groups were paid off. What Geddes (1996) refers to as the “politician’s dilemma” is the phenomenon that reformist governments often need to pay such a high price to get reform that they end up undermining the goals of the reform that they are seeking to achieve. This price would presumably be lower in a more decisive political system.

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 illegitimate over time; 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 Andres Perez in 1989-90 provoked opposition not just within the broader Venezuelan society, but within Perez’s own Accion Democratica (Adeco) party (Corrales 2002). 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 Chavez). Similarly, the Russian Federation under Boris Yeltsin had a strong presidential system biased toward decisiveness, in which many important reforms were passed by decree. The privatizations of the 1990s were undertaken by a weak state with weak legitimacy; while they may have made economic sense, they

provoked strong popular opposition and were thus easily undone by President Vladimir Putin.

The preference for decisive political systems, moreover, reflects a moment in history stretching from the mid-1980s through the late 1990s in which the development problem was seen as excessive state scope, and in which the posited solution was in almost all cases understood to be liberalizing economic reforms. In the early 21st century, the agenda has already begun to shift: left-leaning or outright populist presidents have come to power in Brazil, Ecuador, Argentina, Uruguay, Venezuela, Bolivia, Taiwan, and South Korea. In many cases their agenda is the reassertion of state power, re-regulation of the economy and re-nationalization of certain economic sectors, control over the media and civil society, or else dramatic changes in foreign policy. 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 since the founding of their republic expressed a strong preference for a system of checks and balances that limits government power. This relatively weak political system reflects the preferences of American political culture (Lipset 1995), which has always been distrustful of state power. Checks and balances make large-scale reform much more difficult, but in the long-run it also reduces the risks of the

government being captured by politicians advocating policies that would not receive the support of 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-early 1980s could not have been carried out but for the exaggerated parliamentary majorities held by the Conservative Party. Similarly, Roger Douglas' liberalizing reforms in the mid-1980s benefited from New Zealand's even purer Westminster system.⁵ Both stand in sharp contrast to the situation faced by Chancellor Angela Merkel under Germany's far less decisive institutional rules, which have forced her into a coalition and will sharply limit the kinds of liberalizing policies she will be 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, it worked only indifferently well. How each formal set of institutional rules plays out in practice is thus highly dependent on 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 central bank or judicial independence,⁶ have a clear logic and are broadly accepted as being desirable. Changes in electoral rules have broadly predictable effects, and 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 designed to force the country's 4-5 large parties into two broad left-right coalitions, which has in fact happened.
- Japan changed its single non-transferable vote system to a mixture of single-member constituencies and PR in 1994. The SNV system 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 ten years to produce the desired effect, Prime Minister Joichiro Koizumi's electoral victory in 2005 marked the demise of the faction system.
- Italy modified its low-threshold PR system that produced notoriously weak coalition governments to a mixed single-member/PR 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 will revert back to a modified form of PR in 2006.

⁵ New Zealand ceased to have a pure Westminster system when their electoral system was changed from single member first-past-the-post to mixed member proportional in 1994.

⁶ Though even there, judiciaries that are too independent of public opinion have become highly controversial in the United States and other developed democracies that can take basic judicial independence for granted.

- 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 1994. 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 PR system that had produced weak coalitions, to a mixed system of 400 single-member constituency and 100 PR seats. The reform has given the current 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 like 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 would have 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 (Tommasi and Saiegh 1999). The solution to this problem – putting states and other subunits under hard budget constraints – is relatively straightforward conceptually; what is hard is implementation, 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. (See Stein, Tommasi et. al. 2006).

POLITICAL CULTURE

As noted above, most conventional analyses of the formal structure of political institutions would have come to the conclusion that Brazil should produce weaker government than Argentina, given its open-list PR system, weak political parties, and entrenched federalism. And yet, Brazil weathered the period from 1990-2005 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 over the past 15 years but for the preceding 15 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 as 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 longstanding 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: Park Chung Hee replacing Syngman Rhee in 1961; Yowery Museveni coming to power in Uganda after a period of misrule by Idi Amin and Milton Obote; Botswana discovering diamonds on its territory

while Seretse Khama was president. These shifts were totally unpredictable *ex ante* and thus something about which social scientists have little to say.

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. Carlos 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 disregard of law and rules seems simply to be lower, particularly in the latter case. A well-functioning rule of law is not simply 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 law and rules.

As noted earlier, 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 ex-colonies of Spain, and yet they all have distinctive political cultures with respect to 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 experience like war or economic crisis. And it is clearly key to understanding why certain formal political institutions do or do not work.

CONCLUSIONS

As a result of scholarly work that has been done on the subject of macropolitical institutions over the past generation, we have developed a considerable body of knowledge about how they work, and how certain types of institutional reforms will yield certain kinds of results. We know how to design electoral systems to increase or decrease the number of political parties in a party system; how to increase or decrease party discipline; or how to change the rules of federalism to promote greater fiscal responsibility on the part of states. We also know that there are certain types of institutions that are in virtually all circumstances undesirable, for example, overly politicized judicial systems.

On the other hand, the discussion above should make clear a number of points:

- In the realm of institutional design, there is no such thing as an optimal political institution or universally valid design criteria. Changes in design parameters often shift the balance between competing social goods; whether a particular balance of goods (e.g., between decisiveness and resoluteness/legitimacy) is appropriate will depend on the particular circumstances of a society at a particular point in time. A society's needs or environment can change over time, necessitating different types of institutions.
- Institutions often come as complex, interdependent packages. It is oftentimes not possible to achieve one particular outcome (e.g., strengthening the coherence of a party system) without attending to several dimensions of institutional design simultaneously. Understanding the interplay of different aspects of institutional design requires a highly detailed knowledge of how

those institutions work on a micro level, encompassing both formal and informal rules.

- Good institutions are heavily dependent on local context, traditions, habits, and political culture. People without this local knowledge often do not understand how even existing institutions actually work, much less how to reform them. While comparative knowledge of foreign models helps expand the universe of alternative design possibilities, local knowledge is necessary to understand the possibilities available to a given society.
- In terms of a research agenda, we need to invest more in regional or area studies that focuses on local knowledge. Large cross-country regressions that seek to uncover general causal relationships are much less useful at this point. People with the best access to local knowledge are academics or practitioners who live in the societies being studied. Such a cadre exists in more developed regions like Asia, South Asia, and Latin America, but is much weaker in Africa.
- Leadership matters. Much as this reduces our ability to predict behavior or influence outcomes, it is fact of political life.
- Finally, formal institutions matter, but they probably matter less than some of the current academic literature suggests. Formal institutions are embedded in a matrix of informal norms, values, traditions, and historical path-dependencies, what we have labeled political culture. Without a supportive political culture, even the best institutions will not work well. Alternatively, formal institutions that seem less than optimal (e.g., Brazil's party/electoral system, or American presidentialism) can often be made to work with the right leadership, judgment, and political will. It is sometime preferable to work within the context of imperfect existing institutions than to spend political capital on long-term institutional reforms.

Most of what has been said in this paper concerns the supply side of institutions.

But institutional reform will not take place in the absence of demand for good institutions, and this must be generated within the society in question. Demand for good institutions must be translated into political power if reform is to happen. International donors have only limited influence over this process.

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