Journal of Applied Economics. Vol XVI, No. 1 (May 2013), 1-32

POLITICAL INSTITUTIONS, INTERTEMPORAL COOPERATION, AND THE QUALITY OF PUBLIC POLICIES

Carlos Scartascini and Ernesto Stein*
Inter-American Development Bank

Mariano Tommasi
Universidad de San Andrés

Submitted August 2010; accepted November 2012

While economists have tended to focus on specific public policies when developing recommendations, the achievement of welfare objectives might depend more on the quality of policies than their content. This paper develops several measures of the qualities of policies across countries, arguing that the quality of public policies depends on each polity's ability to strike intertemporal transactions necessary to develop and sustain effective policies. The analytical framework developed here indicates that this ability depends on several characteristics of political institutions, such as congressional capabilities, judicial independence, and bureaucratic independence and professionalism. The empirical evidence presented supports this idea.

JEL classification codes: D72, D78, H10, H50, O10
Key words: political institutions, public policies, government capabilities, intertemporal cooperation, judicial independence, party institutionalization, congressional capabilities, bureaucratic quality

---

* Ernesto Stein (corresponding author): Research Department, Inter-American Development Bank, 1300 New York Ave, NW, Washington DC 20577; e-mail ernestos@iadb.org. Carlos Scartascini: Research Department, Inter-American Development Bank, 1300 New York Ave, NW, Washington DC 20577; e-mail carlossc@iadb.org. Mariano Tommasi: Departamento de Economía, Universidad de San Andrés, Vito Dumas 284, B1644BID Victoria, Buenos Aires, Argentina; email tommasi@udesa.edu.ar. We are particularly grateful to Heather Berkman, Lorena Caro Zambrano, Diego Focanti, María Franco Chuaire, and Juan Sebastián Galán, who provided assistance collecting and updating the data at different stages of this project. Fabiana Machado helped us to coordinate some of the data collection efforts and provided very valuable ideas and suggestions. We have greatly benefited from the comments of the referees and editor of the Journal as well as from those of colleagues and participants at several conferences and seminars. The information and opinions presented in this document are entirely those of the authors, and no endorsement by the Inter-American Development Bank, its Board of Executive Directors, or the countries they represent is expressed or implied.

I. Introduction

In every state, big or small, new or old, public policies play a fundamental role in influencing economic and social outcomes. In studying the effects of policies on various outcomes of interest, analysts have paid particular attention to the specific content of those policies. While recognizing that the content of policies is indeed important, in this paper we depart from this tradition, and focus instead on certain characteristics of policies which, we think, are every bit as important as their content. For example, are policies stable, so that they have time to work? Can they be adjusted when they fail, or in response to changing socioeconomic circumstances? Are they well implemented and enforced? Are they geared toward the public interest, or do they cater to special interests? Using a variety of international data sources, we put together a dataset to capture these characteristics of policies around the world, and study their political and institutional determinants.

Other authors before us have pointed out the importance of certain key policy characteristics such as the ones we focus on here. For instance, Rodrik (1995) analyzed six countries that implemented a set of policies that shared the same generic title—"export subsidization"—but had widely different degrees of success. Rodrik relates their success to such features as the consistency with which the policy was implemented, how the policy was bundled (or not) with other policy objectives, and how predictable the future of the policy was.

The effect of policies on the final economic and social outcomes of interest depends on the actions and reactions of economic and social agents, who take into account their expectations about the future of the policies in question before deciding their responses. As Rodrik explains, in reference to trade reform, "it is not trade liberalization per se, but credible trade liberalization that is the source of efficiency benefits. The predictability of the incentives created by a trade regime, or lack thereof, is generally of much greater importance than the structure of these incentives. In other words, a distorted, but stable set of incentives does much less damage to economic performance than an uncertain and unstable set of incentives generated by a process of trade reform lacking credibility."[1]

Engerman and Sokoloff (2008) take this argument further by adding to the role of credibility that of policy flexibility in explaining growth: "Credible commitment to acknowledge private property rights, whether in the interests of the elite or the

[1] Rodrik (1989, p. 2). For models formalizing the effects of policies of uncertain duration in several economic contexts, see Calvo and Drazen (1998).