

**STRUCTURAL REFORM IN LATIN AMERICA: INTERNATIONAL AND  
DOMESTIC CONSTRAINTS IN THE INITIATION, IMPLEMENTATION, AND  
CONSOLIDATION OF THE STRUCTURAL REFORM PROCESS**

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# **STRUCTURAL REFORM IN LATIN AMERICA: INTERNATIONAL AND DOMESTIC CONSTRAINTS IN THE INITIATION, IMPLEMENTATION, AND CONSOLIDATION OF THE STRUCTURAL REFORM PROCESS**

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## **I. INTRODUCTION**

Just as the 1980s have been called the “lost decade” for Latin America, the period from 1985 to 1995 can be called the “structural reform decade” for the area. During this period, the vast majority of the countries in the region enacted major stabilization and structural reform programs. The former were implemented to achieve macroeconomic stability, while the latter were enacted to change the domestic economic structure and the development strategy from an inward oriented and state dominated import substitution industrialization model towards an outward oriented and private sector dominated export growth model (Inter-American Development Bank 1997).

All the Latin American countries that undertook the economic reform trend faced a similar international economic and political environment by the mid-1980s. In the economic realm, due to the debt crisis that started in August 1982, the Latin American countries faced an almost absolute cut in the credits offered by commercial banks and international financial institutions, and had to transfer large amounts of financial resources to the industrialized countries to honor their previously contracted debt obligations. In the international political arena, the world was experiencing the beginning of the end of the Cold War, and the socialist route to development started to show its limitations.

The structural reform in Latin America began as an isolated and very slow process; only Chile started it as early as the mid-1970s. However, by the late 1980s and 1990s, it acquired its full force in the region, and virtually all Latin American countries started to implement structural reform measures domestically. This process became a sweeping regional movement when the previous attempts to use structuralist policies to solve the economic crisis had failed. Even if all the countries faced a relatively similar international political and economic environment, and even if the structural reform process followed the same direction in the vast majority of the countries in the region -- towards a more open economy externally and a more liberal economic system domestically--, the timing of initiation, the depth of its implementation, and its degree of the consolidation vary considerably from country to country. On one hand, cases like Chile and Mexico were early reformers, which have enacted a deep structural reform, and have consolidated it by the mid-1990s. On the other, cases like Brazil and Ecuador were late reformers, which have implemented a superficial structural reform, and are far from consolidating it. The rest of the Latin American countries vary within these extreme cases (Edwards 1995: 8-9).

Being so, two fundamental questions seem obvious: why are so many Latin American countries implementing a structural reform process now, after several decades of following the opposite policies, and why does this reform process vary so much between the countries of the region? (Rodrik 1996). In other words, first, why did most Latin American leaders --especially the executives-- decide to initiate a structural reform process in the second half of the 1980s and 1990s? Second, what explains the variation in when, how, to what extent, and how permanently the structural reform process was enacted in the various Latin American countries? More specifically,

how can we explain the variation among these cases in terms of: 1) the timing of the initiation of the structural reform, 2) the depth to which it was enacted, and 3) its degree of consolidation?

The first question has been extensively debated in the literature on economic reform, and several tentative answers have been provided. However, the second question has been overlooked most of the time, and few attempts have been made to theoretically and systematically answer it. I believe it is possible to develop a parsimonious model that explains theoretically the variation in the structural reform process in Latin America, and subject it to rigorous empirical scrutiny. In order to do so, it is necessary to take several steps. First, it is essential to explain why the Latin American executives perceived, or not, the structural reform process as desirable relative to the status quo, and which are the variables that explain the change in the preferences of the executives. Then, it is necessary to elaborate a theoretical explanation of why and how certain variables explain why those executives that favored the structural reform enacted it so differently, in terms of its timing of initiation, depth of implementation, and degree of consolidation, that is, impeding --or at least making difficult-- its future reversal.

I believe it is not possible to analyze the structural reform process in the region strictly using international or domestic variables, due to the fact that a very important part of its impetus was international while its implementation depended more on domestic variables. I will argue that the initial force that caused the structural reform was international, while the capacity of the executives to initiate and enact the structural reform to a certain depth, and then to consolidate it, depends on the domestic political institutions. Not only does the initial impetus for the initiation of the structural reform depend on international factors, but also its enactment and consolidation has clear international consequences. By establishing a more liberal market-oriented economy and following an export-oriented industrialization model region wide, Latin America is setting the basis for increased commercial and financial integration in the world economy, at the same time that it revitalizes and facilitates regional and sub-regional economic integration. Sub-regional free trade (i.e. NAFTA) and common market agreements (i.e. MERCOSUR) have already been created and are in the process of deepening and consolidation, while a regional free trade agreement, the Free Trade Area of the Americas (FTAA), was set in motion in the Summit of the Americas in Miami in 1994, and all the leaders of the region are committed to its completion by the year 2005 (Feinberg 1997).

Based on the existing literature, I will argue that the change in the executive's disposition towards the structural reform relative to the status quo that triggered the initiation of the structural reform is related to external factors, particularly to the economic and debt crisis of the 1980s. This regional crisis changed the perceptions regarding the viability of the Import Substitution Industrialization (ISI) state-dominated economic model, or autarkic capitalism (Waisman 1992), especially in face of the failure of the heterodox programs, the collapse of the Soviet Union and the central planning option, the example of the East Asian economies, and the advice --and to some extent pressure --of the international financial institutions. All this opened the door for the structural reform process in the region.

I will further argue that the variation in the actual implementation of the structural reform can be explained using domestic institutional variables. Domestic political institutions are the rules that define who has the power to initiate policies (agenda setting), and who has the power to legislate, amend, and veto these policy initiatives, or reverse them once they are legislated in the domestic political systems. The domestic institutions define who the agenda setters are, and the location of the veto points in the system. They also affect directly the number and nature of the veto players positioned at these veto points. The veto points are the institutional hoops that a policy initiative needs to go through to become law, and thus, to become enacted legally. The veto players are those

actors positioned at the veto points who decide whether a policy initiative goes through it or not, that is becomes law or not. The nature of the veto players varies in two dimensions: first, they can be congruent or incongruent, depending on whether there is a unification or division of purpose between the veto players positioned at different veto points (i.e. executive and legislature); second, they can be cohesive or uncohesive, depending on whether their purpose is unified or divided within themselves, that is, between the leadership and membership within the veto player (i.e. political parties in the legislature). In sum, the number of veto points and the number and nature of the veto players positioned at these veto points depend on the domestic institutions.

My central argument is that what motivated the initiation of the structural reform were international variables, but that in order to explain how it was enacted in the different countries, domestic variables have to be taken into consideration. Being so, *ceteris paribus*, the larger the number of veto points, and the larger the number and the less congruent and cohesive the nature of the veto players in the system, the more difficult it will be to change the status quo, and viceversa. Therefore, countries with a larger number of veto points and larger number of incongruent and uncohesive veto players in their institutional system will find it more difficult to initiate the structural reform process, and thus, they will tend to be later reformers, and viceversa. Also, for the same reason, once the structural reform is initiated in these systems, it will tend to be enacted to a smaller depth, and viceversa. However, *ceteris paribus*, the larger the number of these veto points and players, and the more incongruent and uncohesive the latter, the more consolidated the enacted structural reform will tend to be, because it will be more difficult to reverse it once it has been legislated, and viceversa. In sum, the institutional variation within the Latin American countries is one of the central variables that explains the variation in the timing, depth, and consolidation of the structural reform process in the region.

## II. THE STATE OF THE ART ON STRUCTURAL REFORM

### A. Introduction

During the last two decades, the literature on Latin America has concentrated, almost exclusively, on two central developments that have been taking place in the region --and world wide-- since the early 1980s: political and economic liberalization. At the beginning of the 1980s, most theoretical approaches regarding Latin America were centered on the analysis of authoritarian forms of political domination and state-controlled economic development (Cardoso and Faletto 1979; Linz and Valenzuela, 1994; O'Donnell and Schmitter, 1986). Thus, the literature of that time, which concentrated more on the obstacles of democratic transition and the difficulties of market reform, was unable to account adequately for the wave of political and economic liberalization that swept the area in the 1980s and 1990s.

However, as the democratization and economic reform process spread all over the region and started to be regarded as relatively permanent, political scientists and political economists responded to the challenge of explaining these political and economic transformations, and started to develop new approaches to study these new phenomena in the area. After more than a decade of debate, a large majority of the analysts that specialize in Latin American agree that democracy will tend to be the "only game in town" in the political arena, and that a liberal and market-oriented economy will also tend to be the "only viable game in town" in the economic arena in Latin America in an increasingly globalized world (Domínguez and Lowenthal 1996; Linz and Stepan 1996; Smith, Acuña and Gamarra 1994). What is still under discussion is the degree of democratization that has been achieved in the region, and the type of liberal market economy that should prevail in it.

So, where does this research fit within the existing literature on Latin America? This research uses a combination of international relations and domestic institutional theories to explain the political economy of structural reform in the region. It argues that international variables and domestic political institutions matter in the generation of public policies directed to transform the economic development strategy in Latin America. Thus, it is an effort to build a bridge between the international political economy and the institutional literature on Latin America.

### B. Definition of economic reform, stabilization, and structural reform

Even if it is widely agreed in the literature that a liberal economic reform is the only feasible option for Latin American economic development in an increasingly globalized world, it is not sufficiently clear what is meant by this term. On the contrary, the term has been used in a very fuzzy way in the literature, and in most cases, analysis aggregate many different concepts and strategies -- some related to government policies, others to the effects of these policies, and even others to changes in the structure of the government itself-- under the idea of economic reform. Therefore, before going any further, it is necessary to clarify what should be understood by economic or structural reform in the literature on Latin America of the 1980's and 1990's, and more important, how this concept will be used in this research. Thus, the central point of this section will be to introduce and define the dependent variable of this research.

According to the orthodox or neoliberal stream of the literature, economic reform in Latin America is a synonym of what has been called the "Washington Consensus" on economic policy and reform. Williamson (1990) summarizes this idea by saying that the Washington Consensus is centered in ten key economic reforms which most neoliberal economists in the 1980s considered essential to solve the economic problems in Latin America and world wide: fiscal discipline, public expenditure priorities, tax reform, financial liberalization, unified exchange rates, trade liberalization, foreign direct investment, privatization, deregulation, and respect for property rights. Other authors use the concept of economic reform as synonym of stabilization or structural adjustment. Thus, several conceptualizations of the term "economic reform" have appeared in the literature in the last decade. The following are the most important:

1. Economic reform as "Washington Consensus": it means the enactment of the ten key economic reforms listed by Williamson, summarized by prudent macroeconomic policies, outward orientation, and free-market capitalism (Costin and Vanolli 1998; Edwards 1995; Williamson 1990 and 1994).
2. Economic reform as "stabilization": it means achieving balance in government spending, the current account, and the price level (control of inflation). There are two stabilization models: reduce expenditure, increase taxes, cut monetary supply, and establish market exchange rates (orthodox model), and the combination of orthodox stabilization measures with income policies, like freezing wages and prices, and establishing credit controls (heterodox model) (Bruno and Easterly 1996; Haggard and Kaufman 1995; Haggard and Webb 1994).
3. Economic reform as "structural change": it means changing the economic structure and the development strategy from inward-oriented, state-dominated import substitution industrialization toward outward-oriented, private-sector-dominated export-led growth (Inter-American Development Bank 1997; Stallings 1992; Waisman 1998).

The Washington consensus definition of economic reform is problematic, because it aggregates macroeconomic policies directed to achieve economic stability with liberalization policies

aimed at structural reform, without maintaining a distinction between them. The second and third definitions of economic reform are also problematic, because the former focuses exclusively on the stabilization component of the reform, while the later concentrates only on its structural adjustment part.

Therefore, for the sake of clarity, instead of talking of economic reform in general, it is necessary to maintain a clear distinction between two related, but different, processes encompassed by it: stabilization (macroeconomic policies, such as fiscal, monetary, and exchange rate, aimed at achieving economic stability), and structural reform (liberalization policies, such as removal of external and domestic price distortions, privatization, and reduction of the state, directed at changing the economic structure and the development strategy from an inward oriented, state dominated, import substitution industrialization model towards an outward oriented, private sector dominated, export led growth model) (Rodrik 1996). Therefore, for clarity, in this research the term “economic reform” will be avoided, and stabilization and structural reform, as defined above, will be used instead.

It is possible to pursue stabilization measures without structural reform (the Austral and Cruzado plans in Argentina and Brazil during the 1980s are examples of this). However, it is not possible to successfully implement a structural reform process without prior stabilization. Thus, the latter is a necessary condition for the former, however not a sufficient one (Edwards 1995).

Now that stabilization and structural reform have been differentiated and defined, it is necessary to ask which are the most important theoretical challenges that the existing literature on the field has addressed and which have been overlooked? Also, are the arguments developed in the existing literature able to explain in a satisfactory way the dramatic economic change that Latin America has been going through? What are their limitations? Is it possible to solve these limitations, and if so, to propose plausible explanations to the questions that have not been adequately addressed in the existing literature?

### C. Political economy, institutions, and structural reform in Latin America

#### 1. Political economy of structural reform

The central questions addressed in the political economy literature on Latin America during the last decade are: why are Latin American governments reforming their economies, after so many decades of following policies of the opposite kind, and what are the characteristics of the reform efforts and how do these affect their successful implementation? (Rodrik 1996). This section will concentrate in reviewing the literature on the political economy of structural reform, in order to assess to what extent the previous questions have been answered satisfactorily and which aspects of the reform still need to be further explored and explained.

In his comprehensive review of the literature on the political economy of policy reform, Haggard (1998) aggregates the diversity of approaches in two broad categories: those that concentrate on the role of social preferences and interest groups, and those that highlight the importance of institutional arrangements. The former present the policy reform as a process based on coalition-building, where the success of the reform depends on the formation of a pro-reform winning coalition that is able to enact its preferred policies by defeating or obtaining the acquiescence of other groups who oppose the reform. The latter concentrate on the way in which constitutional design, decision-making procedures, and the incentives faced by politicians affect the policy reform process and its possibilities of success (Haggard 1998: 1-2).

a. Social preference and interest group approaches

The social preference and interest group approaches have made important contributions to the understanding of the reform process. This section will review the questions addressed and the arguments made by this segment of the literature.

For example, to explain why the reform was delayed in many cases, Alesina and Drazen (1991) develop a “war of attrition” model, and argue that the reform will be initiated only when the group opposing it stops blocking its implementation, which happens until their marginal costs of impeding it are equal to their marginal costs of accepting it. To explain the delay in trade liberalization, Fernandez and Rodrik (1991) argue that due to the uncertainty in the distribution of the costs and benefits of the reform, the groups that would become winners after the reform do not know their identity before it happens, and thus will not pressure for its implementation. Others, like Alt, Frieden, Gilligan, Rodrik, and Rogowski (1996), argue that exogenous technological shifts have reduced the cost of trade and thus increased the opportunity costs of protection, and that this generates incentives for the potential beneficiaries of trade liberalization (capital and skilled labor in the industrialized world, and unskilled labor in developing countries) to pressure for it.

Bruno and Easterly (1996) empirically test the proposition that the reform process responds to economic crisis. They find that the proposition is only true when the economic crisis is defined in terms of high inflation, and not when it is defined in terms of slow growth, even if persistent. Others, like Krueger (1993) and Tomassi and Velasco (1996), argue that crisis can lead to reform through a Bayesian update in beliefs which generates the recognition that the status quo is unsustainable, causing a change in preferences and making the reform desirable.

These analysis have also concentrated their efforts in explaining the nature of the reform in three broad areas: 1) sequence (whether the reform should be implemented as a package of policies or as a sequence of policies); 2) speed (whether the reform should be made gradually or radically); and, 3) compensatory mechanisms (whether the introduction of compensatory mechanisms for the losers facilitates the reform process, and if so, how should they be implemented) (Haggard 1998: 10-11).

Most of the authors in this segment of the literature agree that rapid economic transformation is desirable. However, the strategy to achieve it, taking into consideration the fact that reforms could be reversed, is the center of the debate. For example, Przeworski (1991) argues that due to the extremely high costs of economic reform and the complementarity of the reforms, the political group in control of the government --especially the executive-- will prefer imposing a radical reform package, because he knows that he will only be able to impose it in the honeymoon period after the election, and that the reforms will have to be moderated due to popular pressure. Thus, the more successful economic reforms will be those that were imposed initially through a shock or radical reform package. Other authors, like Rodrik (1995) argue that gradualism and sequencing are a better option, because they open the possibility of increased support for the reforms if initially successful, propelling the reform forward, and at the same time permitting fine tuning if necessary. Finally, with regards to the last point, Bresser Pereira, Marval, and Przeworski (1993) argue that in order to make the structural reform sustainable, it is necessary to avoid open and organized opposition to it from those groups which are negatively affected in the short term, specially because these groups are well localized, know who they are, and have organizational capacity. Thus, to make the reform desirable --or at least acceptable-- to these groups, compensatory mechanisms in the form of targeted social policies can be implemented to mitigate the negative short term effects of the reform.

## b. Institutional approaches

In broad terms, institutional approaches argue that actors in a political system face incentives which are structured by the pattern of rules or institutions in which they interact, and that they will try to maximize their payoffs through strategic interaction with other actors in the system, under the constraints imposed by these pattern of rules or institutions. This section focuses on two central points: first, it argues that institutional variation is extremely important in explaining policy variations, and second, it reviews some examples of how this institutional variation has been used to explain the differences in policy-making in general, and the structural reform process in particular, in Latin America.

Most of the earlier literature on Latin American institutions held that the failure of the countries in the region to achieve democratic stability and to generate effective public policies and economic development was due to the political institutions that prevail in Latin America, particularly presidentialism (Linz and Valenzuela 1994; Mainwaring 1993). The newer institutional literature in the region argues that, *per se*, presidentialism does not account for these failures, and that Latin American presidential systems are very different one from the other. There are important variations in the presidential systems in Latin America that are due to the combination of several institutional variables, like the constitutional rules, the electoral system, the party system, and the formal and informal partisan and legislative powers of the executive. Thus, I agree with the argument that Latin American presidential systems are not homogeneous, and that the institutional variation is the actual key to explain how these systems function (Shugart and Carey 1992; Mainwaring and Shugart 1997; Carey and Shugart 1998). Also, due to the fact that the forms in which these various institutional rules are combined are central elements of the political and economic outcomes in each country, institutional engineering in some of these variables can be done to improve the political and economic performance of these regimes.

What does this newer literature say about how Latin American presidential systems are institutionally different from each other, and how this affects the functioning of these systems? Mainwaring and Scully (1995) argue that the institutionalization of the party systems in Latin American countries (measured by the stability of interparty competition, the roots of parties in society, the acceptance of parties of elections as the only legitimate institutions to achieve power, and stable and structured party organizations), is important for the process of democratic consolidation and effective governance (high: Chile, Venezuela, Colombia, Costa Rica vs. low: Brazil, Ecuador, Bolivia). The institutionalization of the party system is central to facilitate the provision of public policy that enhances economic development, growth, and national welfare. They also argue that presidential systems function better when there is not extreme multi-partism and when ideological polarization is low (high: Brazil, Chile, Ecuador vs. low: Costa Rica and Argentina). In systems with a smaller number of parties and less polarization, agreement between the elected representatives (executive and legislature) is more likely, and thus, also the enactment of public policy.

Stressing the same point, Mainwaring and Shugart (1997) argue that the presidential systems in Latin America are very diverse, and that this variation has very important effects on how these systems function. They provide evidence to show that the nature of the party system is fundamental to the functioning of the Latin American political systems. For example, a smaller number of parties makes divided government --the situation in which a party or stable coalition opposed to the executive holds a majority of the seats in the legislature, in both or the sole houses (Mainwaring and Shugart 1997: 429)-- more likely, while a larger number of parties makes it more likely that no single party controls a majority of the seats in the legislature (small: Venezuela, Costa Rica, and Argentina

vs. large: Brazil, Ecuador, and Bolivia). In systems with more party discipline, the relations between the executive and the legislature are more predictable (high: Mexico and Venezuela vs. low: Brazil, Ecuador, and Colombia), and this predictability decreases the likelihood of deadlock between executive and legislature in the system. They also find that strong formal presidential powers are correlated with low partisan powers (Brazil, Chile today, Ecuador, and to some extent Colombia), and that the presidential powers are formally limited when the partisan power of the president is high (Mexico, Venezuela, and Costa Rica). Thus, in systems where the executive can count with the support of his party in the legislature to pass his preferred policy, strong formal powers are not that necessary, while in systems where the president lacks partisan control and thus support in the legislative branch, he needs to have stronger formal powers to be able to push for his preferred policies.

More specifically, in the area of economic stabilization, Haggard and Kaufman (1995) develop a model in which the state of the economy at the time of the enactment of the economic growth policies accounts to some extent for the outcome of the reform; most of the countries that started these policies in a non-crisis situation (like Chile under Pinochet) were successful in its implementation, while countries that were undergoing an economic crisis had more problems stabilizing and reforming their economies (for example Brazil under Sarney and Collor, and Argentina under Alfonsín). They also discuss the role of the party system in explaining the success or failure of the economic growth policies. They argue that the more polarized and/or fragmented the party system, the more difficult it will be to reach a consensus among the key political actors in the system regarding the economic policies, and therefore the lower the probabilities that this they will be successful (like in Argentina and Brazil). They also argue that a strong executive is necessary to start the implementation of the economic policies (Mexico and Chile), while an institutionalized and non-polarized party system is better for its continuation and deepening (Chile, Costa Rica, and Venezuela).

In another line of argument, Bresser, Maravall, and Przeworski (1993) argue that democracy is not the specific political system of a particular level of economic development, but a consensus agreement or cooperative equilibrium that is reached when all the relevant political forces are willing to comply spontaneously to the democratic rules, accepting defeats and waiting for the next election without conspiring against the system. The democratic institutions can consolidate when they offer the central political groups incentives to process their demands within the institutional democratic framework, and thus, it is easier to provide effective public policies in democratic systems which are institutionally consolidated (Venezuela, Costa Rica, and to some extent Chile), than in systems that are still under consolidation (Peru or Ecuador). Following a similar perspective, Smith, Gamarra, and Acuña (1994) concentrate on the dimension of the transitional stage to democracy. They argue that the first democratic government (Sarney in Brazil, Alfonsín in Argentina, Aylwin in Chile) will be more interested in deepening democracy and increasing the legitimacy of the new regime than in achieving impressive economic results. When this first democratic generation leaves office, democracy tends to be more institutionalized, and thus, the second generation can concentrate more in economic policies (Menem in Argentina, Cardoso in Brazil, and Frei in Chile). Thus, the farther away the transition period is in the past, the more interested and successful will be the governments in office in establishing economic liberalization policies.

## 2. The roads taken and not taken in explaining the structural reform

As it was discussed in the previous section, the literature on the political economy of policy reform, both in its institutional and social preference and interest group veins, has generated a large

set of ideas on the reasons that lead to the stabilization and structural reform process, and about the variables that affect its implementation and success. Williamson (1994) summarizes the most common arguments drawn from the literature about the reform process. In Rodrik's (1996, 32) words, these arguments are:

1. Policy reforms emerge in response to crisis
2. Strong external support (aid) is an important condition for successful reform
3. Authoritarian regimes are best at carrying out reform
4. Policy reform is a right-wing-program
5. Reformers enjoy a "honeymoon period" of support before opposition builds up
6. Reforms are difficult to sustain unless the government has a solid base of legislative support
7. A government may compensate for the lack of a strong base of support if the opposition is weak and fragmented
8. Social consensus is a powerful factor impelling reform
9. Visionary leadership is important
10. A coherent and united economic team is important
11. Successful reform requires economists in positions of political responsibility
12. Successful reform requires a comprehensive program capable of rapid implementation
13. Reformers should mask their intentions to the general public
14. Reformers should make good use of the media
15. Reform becomes easier if the losers are compensated
16. Sustainability can be enhanced by accelerating the emergence of winners.

These ideas are a good summary of the different lines of investigation in the political economy literature on structural reform, and give an approximate idea of the current knowledge about the reform process. Williamson and Haggard (in Williamson 1994: 589) accept that there are no fully robust generalizations about the reform process, and that none of the elements was either necessary nor sufficient for a successful reform process. However, they argue that some of the ideas are strongly supported by the evidence (strong political base, visionary leadership, and coherent economic team), others have some support (crisis, honeymoon period, and comprehensive programs), and others have no support whatsoever (authoritarian regimes are better, and right-wing program).

The previous ideas are directed to explain why and how the stabilization and structural reform took place --even if many times no clear differentiation is made between the two processes--, that is, explain the reasons that led to the economic reform process and its success or not in the Latin American countries. However, the literature has overlooked other aspects of the structural reform process, particularly when, to what extent, and how permanent these changes are, that is, the variation in the timing, depth, and consolidation of the structural reform. This research seeks to fill this very important gap in the literature, by developing a parsimonious model that theoretically and systematically explains the variation in these dimensions of the structural reform, and subjecting it to rigorous empirical scrutiny.

#### D. Explaining the structural reform

From the previous sections, it is clear that: 1) international variables affect the actions of state actors, 2) there are several dimensions of variation in the structural reform process in Latin America (several of them still unexplained); 3) there are various areas of institutional variation between the

political systems in the region; 4) institutional variation should matter in the actual functioning of these systems, specifically in the generation and enactment of public policies; and, 5) the structural reform is one of the central public policies generated and enacted in the area in the last decade. Therefore, in sum, it should be possible to explain the change in the preference of the executive's desire to initiate the structural reform using international variables, and to explain most of the variation in this structural reform process in Latin America through the variation in the domestic institutions of these countries.

In the previous discussion of the institutional literature, several institutional dimensions (and their combinations) appear to be important to explain public policy initiation and implementation, in this case the structural reform. Using a veto player model will permit the comparison between different institutional configurations (Immergut 1992; Huber 1992; Tsebelis 1995; Tsebelis and Money 1997; Drake and McCubbins 1998; Cox and McCubbins 1999), and their effects on the structural reform process. I will extend the traditional veto player model in such a way that it is possible to analyze the institutional variations in both democratic and authoritarian systems. Such a model will be developed in the next section.

### **III. EXPLAINING THE VARIATION IN THE STRUCTURAL REFORM PROCESS IN LATIN AMERICA**

#### A. Introduction

In order for a structural reform process to take place, it is necessary that an actor in the domestic political system attempts to implement it. Such an actor existed in all the cases: the executive. Thus, in order to explain the structural reform process, it is necessary to start by asking the following question: Why did Latin American executives decide to initiate a structural reform process of the national economies of their countries in the 1980s and 1990s, and some even before? A simple answer to this question is: because they perceived the structural reform process as desirable relative to the status quo, **and** they had the power and resources to enact it (Heller, Keefer, and McCubbins 1998). I stress the conjunction of these two factors, because it is not only necessary for politically motivated executives to want to enact the structural reform, they also need to have the capacity to do so.

However, such a simple answer leads us to two rather complicated questions: first, why did Latin American executives perceive the structural reform process as desirable relative to the status quo, and second, why did they have the power and resources to enact it? In order to answer the first question, it is necessary to make several assumptions regarding the preferences of the executive, and to theoretically explain how these preferences might be affected --and changed from not supporting structural reform to supporting it-- by certain variables. To answer the second question, it is necessary to assume that there are certain variables that empower (or not) the executives with the resources or capacity to enact the structural reform process, and also to theoretically explain how these variables affect the capacities of the executive to enact (or not) the economic reform process, and if so, when, how deeply, and how permanently. In sum, the enactment (or not) of the structural reform process (Dependent Variable) depends on certain variables (Independent Variables) that make the executives prefer (or not) the enactment of the structural reform over the status quo, and empower them (or not) with the capacities to do so.

## B. The timing, depth, and consolidation of the structural reform

Portraying the structural reform as a dichotomous variable (reform/no reform or successful/unsuccessful) is too simple, and does not explain the central concern of this research: explaining the dramatic variation in when, how much, and how permanently the structural reform process was enacted in the various Latin American countries. That is, explaining the variation among the Latin American countries in terms of: 1) the timing of the initiation of the structural reform, 2) the depth to which it was enacted, and 3) its degree of consolidation. Thus, it is necessary to think about the structural reform process not only in dichotomous terms, but as a process with several dimensions of variation which, I will argue, can be observed, measured, and expressed numerically.

### 1. Timing of initiation

Even if the vast majority of the Latin American countries implemented structural reform programs during the last decade, the timing of initiation varied considerably between cases. There were countries that started the reform very early --on or before 1985--, like Chile, Bolivia, and Mexico. Other countries followed later in the 1980s, like Uruguay, Costa Rica, and Venezuela. Some others initiated the reform during the early 1990s, like Argentina, Colombia, and Peru. Finally, some countries seriously committed to start the reform process only in the mid-1990s, like Brazil and Ecuador.

In this research, the timing of initiation of the structural reform will be measured based on the initial serious public declaration of intention made by the executive to implement a structural reform program. In order for this declaration of public intention to be serious, it must be accompanied with an initial plan to start the reform. To guarantee the objectiveness of this measure, the actual year of initiation of the structural reform will not be assigned by the author, but taken directly from two very reliable sources (Edwards 1995; Inter-American Development Bank 1997). This variable will be coded as  $t_{ini}$ . Thus,

$t_{ini}$  = year of initiation of structural reform

This variable will be transformed to make it reflect the timing of initiation compared to the other cases. Making 1985 or before the base timing of initiation ( $t_0$ ), and limiting the analysis to those reforms started on or before 1995 ( $t_{max}$ ), this variable will be normalized using the following equation:

$T_{ini} = (t_{ini}-t_0)/(t_{max}-t_0)$ ; where  $t_0 = 1985$ ,  $t_{max} = 1995$ , and  $T_{ini}$  exists in the  $[0,1]$  interval.

This means that the smaller the value of  $T_{ini}$ , the earlier the timing of initiation of the structural reform, and viceversa. This variable will be the first dependent variable of this research.

### 2. Depth of the structural reform

A second dimension of variation of the structural reform is the degree or level to which it was enacted, that is the depth of the structural reform. The structural reform program is formed by a variety of policies directed to change the economic structure and development strategy from an inward oriented, state dominated ISI model towards an outward oriented, private sector dominated export led model. This program can be divided in four broad categories, depending of the issue area that the policies enacted are directed to reform: 1) fiscal policy, 2) monetary policy, 3) trade policy, and 4) administrative policy. The depth of the reforms enacted within each of these issue areas can be observed and measured (using a proxy), and expressed by a bounded set of real numbers.

These numbers can be normalized and, thus, be expressed by a real number within the  $[0,1]$  range, where 0 and 1 mean, respectively, no reform and the deepest level of reform enacted by any country in the Latin American region in each of the issue areas. Once the depth of the reforms is

calculated and normalized in all four issue areas, these numbers can be integrated into a single number (by averaging them, in a weighted or unweighted manner). Once this is done, two options are possible: 1) analyze the structural reform in each of the issue areas separately one from the other, or 2) analyze the structural reform as a whole. I will follow both paths in this research.

When integrating the areas, I will argue that the number that results from this process represents the depth of the structural reform process as a whole. This number will be called the **Structural Reform Index (SRI)**. This SRI will be the second dependent variable in this research project. The SRI can take any real value within the [0,1] range, where 0 represents no structural reform, and 1 represents the deepest level of structural reform as a whole (the deepest level of reform enacted by any of the countries in the region in all four areas). Thus, the higher the value of the SRI within the [0,1] range, the deeper the structural reform enacted.

I believe it is important to build an index to measure the degree of the structural reform for two reasons: first, it enables us to make comparisons between cases at a certain moment in time, and second, it permits us to compare the progress of the structural reform within a country through time.

As I argued previously, the structural reform process is composed by a number of policies which seek to transform the domestic economic structure and development strategy from an inward oriented and state dominated import substitution industrialization model towards an outward oriented and private sector dominated export-led growth model. These policies can be grouped in four broad categories: 1) fiscal policy (public revenues and expenditures), 2) monetary policy (money supply, exchange and interest rates), 3) trade policy (barriers to external trade), and 4) administrative policy (the state as an apparatus of governance, regulation, and production). In a structural transformation toward a more outward oriented and private sector dominated domestic economy, we would expect to observe a reduction of the participation of the state apparatus as regulator and producer (administrative policy), and as a consumer and spender (fiscal policy). Also, there should also be a reduction in the barriers to external trade (trade policy), and in the power of the state to create money and control the exchange rate (monetary policy). In sum, the domestic economic structure should display increasingly liberal characteristics with the enactment of the structural reform.

If this is true, we can use proxies to quantify the depth of the structural reform in these areas by measuring the degree of liberalization achieved in them. By doing so, I am assuming that the policies enacted in these issue areas --the inputs-- (which are extremely difficult to observe and measure), generated the desired results --the policy outputs-- (which are easier to observe and measure).

Since the issue areas will be analyzed both separately and integrated into the SRI, the measuring of the variables will be done in two ways. To analyze each of the issue areas, the real values for each year of each of the operationalized variables during the period will be used; to integrate the SRI, the variables will be normalized using the formulas developed below.

The fiscal policy reform will be measured based on government consumption as percentage of the GDP, which is a proxy of government participation as consumer and spender in the domestic economy. To normalize this variable, which will be coded as FISCN, the following equation will be used:

$$FISCN = (FISCT_{ini-1} - FISCT_{max}) / FISCT_{ini-1}^1$$

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<sup>1</sup>.  $FISCT_{ini-1}$  and  $FISCT_{max}$  are the government consumption as percentage of the GDP in the year before the initiation of the reform and in 1995 respectively. If  $FISCT_{max} > FISCT_{ini-1}$ , then the value of  $FISCT_{ini-1}$  will be assigned to  $FISCT_{max}$ . To decrease the probability that short term fluctuations affect the accuracy of this measure, instead of only using the values of the year prior to the initiation of the reform and 1995, an average of three years can be used. In that

FISCN exists in the [0,1] interval, and the higher the value of FISCN, the deeper the structural reform in the fiscal policy area for a country in particular.

The monetary policy reform will be measured based on the annual growth rate of the monetary supply (M2), which can be seen as proxy of the government as money creator and monetary discipline. To normalize this variable, which will be coded as MONEN, the following equation will be used:

$$\text{MONEN} = (\text{MONET}_{t_{ini-1}} - \text{MONET}_{t_{max}}) / \text{MONET}_{t_{ini-1}}^2$$

MONEN exists in the [0,1] interval, and the higher the value of MONEN, the deeper the structural reform in the monetary policy area for a country in particular.

The third area of reform, trade policy, will be measured based on the ratio of imports and exports to the GDP, which is a widely used proxy of trade openness and trade liberalization. To normalize this variable, which will be codified as TRADN, the following equation will be used:

$$\text{TRADN} = \text{abs}[(\text{TRADT}_{t_{ini-1}} - \text{TRADT}_{t_{max}}) / \text{TRADT}_{t_{ini-1}}]^3$$

TRADN exists in the [0,1] interval, and the higher the value of TRADN, the deeper the structural reform in the trade policy area for a country in particular.

Finally, the last area of reform, administrative policy, will be measured based on the economic activity of state-owned enterprises as a percentage of GDP, using this as proxy of the government as apparatus of governance, regulation, and production. To normalize this variable, which will be codified as ADMIN, the following equation will be used:

$$\text{ADMIN} = (\text{ADMIt}_{t_{ini-1}} - \text{ADMIt}_{t_{max}}) / \text{ADMIt}_{t_{ini-1}}^4$$

case,  $\text{FISCt}_{t_{init}} = (\text{FISCt}_{t_{ini-2}} + \text{FISCt}_{t_{ini-1}} + \text{FISCt}_{t_{ini}}) / 3$ , and  $\text{FISCt}_{t_{maxi}} = (\text{FISCt}_{t_{max-1}} + \text{FISCt}_{t_{max}} + \text{FISCt}_{t_{max+1}}) / 3$ ; thus,  $\text{FISCt}_{t_{init}}$  and  $\text{FISCt}_{t_{maxi}}$  would substitute  $\text{FISCt}_{t_{ini-1}}$  and  $\text{FISCt}_{t_{max}}$  in the previous equation. Also, to compare FISCN with the other Latin American cases the following equation can be used:  $\text{FISCN}_{\text{comp}} = \text{FISCN} / \text{FISCN}_{\text{regmax}}$ ; were  $\text{FISCN}_{\text{regmax}}$  takes the value of the largest FISCN of all the cases in the region. Thus,  $\text{FISCN}_{\text{regmax}}$  exists in the [0,1] interval, and the higher its value, the deeper the structural reform in the fiscal policy area for a country, compared to all the other countries in Latin America.

<sup>2</sup>.  $\text{MONET}_{t_{ini-1}}$  and  $\text{MONET}_{t_{max}}$  are the annual growth rates of the monetary supply (M2) in the year before the initiation of the reform and in 1995 respectively. If  $\text{MONET}_{t_{max}} > \text{MONET}_{t_{ini-1}}$ , then the value of  $\text{MONET}_{t_{ini-1}}$  will be assigned to  $\text{MONET}_{t_{max}}$ , and if  $\text{MONET}_{t_{max}} < 0$ , then the value of 0 will be assigned to  $\text{MONET}_{t_{max}}$ . Again, to decrease the probability that short term fluctuations affect the accuracy of this measure,  $\text{MONET}_{t_{init}} = (\text{MONET}_{t_{ini-2}} + \text{MONET}_{t_{ini-1}} + \text{MONET}_{t_{ini}}) / 3$ , and  $\text{MONET}_{t_{maxi}} = (\text{MONET}_{t_{max-1}} + \text{MONET}_{t_{max}} + \text{MONET}_{t_{max+1}}) / 3$ ; and  $\text{MONET}_{t_{init}}$  and  $\text{MONET}_{t_{maxi}}$  substitute  $\text{MONET}_{t_{ini-1}}$  and  $\text{MONET}_{t_{max}}$  in the equation. Again, to compare it with the other Latin American cases the following equation can be used:  $\text{MONEN}_{\text{comp}} = \text{MONEN} / \text{MONEN}_{\text{regmax}}$ ; were  $\text{MONEN}_{\text{regmax}}$  takes the value of the largest MONEN of all the cases in the region. Thus,  $\text{MONEN}_{\text{regmax}}$  exists in the [0,1] interval, and the higher its value, the deeper the structural reform in the monetary policy area for a country, compared to all the other countries in Latin America.

<sup>3</sup>.  $\text{TRADt}_{t_{ini-1}}$  and  $\text{TRADt}_{t_{max}}$  are the ratios of imports and exports to the GDP  $((\text{IMPt}_i + \text{EXPt}_i) / \text{GDPt}_i)$  in the year before the initiation of the reform and in 1995 respectively. If  $\text{TRADt}_{t_{max}} < \text{TRADt}_{t_{ini-1}}$ , then the value of  $\text{TRADt}_{t_{ini-1}}$  will be assigned to  $\text{TRADt}_{t_{max}}$ , and if  $\text{TRADN} > 1$ , then the value of 1 will be assigned to TRADN. To decrease the probability that short term fluctuations affect the accuracy of this measure,  $\text{TRADt}_{t_{init}} = (\text{TRADt}_{t_{ini-2}} + \text{TRADt}_{t_{ini-1}} + \text{TRADt}_{t_{ini}}) / 3$ , and  $\text{TRADt}_{t_{maxi}} = (\text{TRADt}_{t_{max-1}} + \text{TRADt}_{t_{max}} + \text{TRADt}_{t_{max+1}}) / 3$ ; and  $\text{TRADt}_{t_{init}}$  and  $\text{TRADt}_{t_{maxi}}$  substitute  $\text{TRADt}_{t_{ini-1}}$  and  $\text{TRADt}_{t_{max}}$  in the equation. To compare it with the other Latin American cases the following equation can be used:  $\text{TRADN}_{\text{comp}} = \text{TRADN} / \text{TRADN}_{\text{regmax}}$ , were  $\text{TRADN}_{\text{regmax}}$  takes the value of the largest TRADN of all the cases in the region. Thus,  $\text{TRADN}_{\text{regmax}}$  exists in the [0,1] interval, and the higher its value, the deeper the structural reform in the trade policy area for a country, compared to all the other countries in Latin America.

<sup>4</sup>.  $\text{ADMIt}_{t_{ini-1}}$  and  $\text{ADMIt}_{t_{max}}$  are the activity of state owned enterprises as a percentage of the GDP in the year before the initiation of the reform and in 1995 respectively. If  $\text{ADMIt}_{t_{max}} > \text{ADMIt}_{t_{ini-1}}$ , then the value of  $\text{ADMIt}_{t_{ini-1}}$  will be assigned to  $\text{ADMIt}_{t_{max}}$ . Once again, to decrease the probability that short term fluctuations affect the accuracy of this measure,  $\text{ADMIt}_{t_{init}} = (\text{ADMIt}_{t_{ini-2}} + \text{ADMIt}_{t_{ini-1}} + \text{ADMIt}_{t_{ini}}) / 3$ , and  $\text{ADMIt}_{t_{maxi}} = (\text{ADMIt}_{t_{max-1}} + \text{ADMIt}_{t_{max}} + \text{ADMIt}_{t_{max+1}}) / 3$ ; and  $\text{ADMIt}_{t_{init}}$  and  $\text{ADMIt}_{t_{maxi}}$  substitute  $\text{ADMIt}_{t_{ini-1}}$  and  $\text{ADMIt}_{t_{max}}$  in the equation. Once again, to compare it with the

ADMIN exists in the [0,1] interval, and the higher the value of ADMIN, the deeper the structural reform in the administrative policy area for a country in particular.

To analyze the overall structural reform, the structural reform index (SRI), which measures the overall depth of the structural reform process, can be constructed by averaging the normalized values that measure the depth of the structural reform in the four issue areas that compose it, using the following equation:

$$\text{SRI} = w_1\text{FISCN} + w_2\text{MONEN} + w_3\text{TRADN} + w_4\text{ADMIN}^5$$

The SRI exists in the [0,1] interval, and this means that the higher the value of SRI, the deeper the overall structural reform process. Begin so, the SRI provides a proxy measure of the depth of the structural reform process in each country, and it varies from 0 (no reform) to 1 (the deepest level of reform enacted by any of the countries in the region in all four areas). This SRI will be the second dependent variable in this research.

### 3. Consolidation of the structural reform

“Consolidation” is one of the most fuzzy terms in the literature on political democratization and economic liberalization (Linz and Stepan 1996). Edwards (1995: 9) defines consolidation of the structural reform as the state in which, on one hand, there is public recognition and acceptance of the reforms and a broad and stable political coalition that supports it, and on the other, there are formal institutions that increase the transparency of economic and political processes and that shield the reform from the short-run effects of political cycles, therefore making it more difficult to reverse it.

What is meant by consolidation in this research follows closely Edward’s definition. By consolidation I mean increasing the costs of reversal of a structural reform that follows a path of deepening by creating institutions that “tie the hands” of the policy makers (North 1990; Drake and McCubbins 1998), normally by introducing new veto actors in the policy-making process. There are two parts in this definition: 1) path of deepening, and 2) creation of institutions that “tie hands”.

Instead of using consolidation as an absolute concept, I prefer to talk about the consolidation trend of the structural reform. A structural reform may be considered to follow a trend towards consolidation when 1) it has been implemented for at least n years --possibly five or more--, 2) and has survived (if it is the case) changes in governments, 3) without reversal in any of these years (measured by the first derivative, which must be  $>$  or  $=$  to 0).

Also, apart from this consolidation trend, new institutions must be created or old institutions adapted to make the reversal of the reform more difficult (that is, to tie the hands of policy-makers). This can be achieved by increasing the costs of reversal by including new actors in the decision-making arena, like more independent central banks or currency boards in the monetary area, external partners through the negotiation of free trade agreements or common markets in the trade area, private sector interest groups through the privatization of state owned enterprises in the administrative area, and increased legislative control over government spending in the fiscal area.

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other Latin American cases the following equation can be used:  $\text{ADMIN}_{\text{comp}} = \text{ADMIN}/\text{ADMIN}_{\text{regmax}}$ ; were  $\text{ADMIN}_{\text{regmax}}$  takes the value of the largest ADMIN of all the cases in the region. Thus,  $\text{ADMIN}_{\text{regmax}}$  exists in the [0,1] interval, and the higher its value, the deeper the structural reform in the administrative policy area for a country, compared to all the other countries in Latin America.

<sup>5</sup>. Here,  $w_1 + w_2 + w_3 + w_4 = 1$ ,  $0 < w_i < 1$ . The  $w_i$ s can serve to weigh the importance of the issue areas to the overall structural reform process. If  $w_1 = w_2 = w_3 = w_4 = .25$ , then we are assigning the same importance to all the issue areas; for the moment, I will do so, unless I find a compelling argument that any of the issue areas is more important to the structural reform process as a whole than the others.

### C. What explains the variation in the structural reform process?

Which are the variables that explain the variation between the Latin American countries in terms of 1) the timing of the initiation of the structural reform, 2) the depth to which it was enacted, and 3) its degree of consolidation? I will argue that there are two sets of variables that help to explain these variations. I will group these variables based on the pattern of constraints each of them generates.

The two sets of variables are structural and institutional, and they permit to establish causal relationships in terms of underlying patterns of material and rule-based constraints respectively. By using structural and institutional variables, I will try to explain the variation in the initiation, enactment and consolidation of the structural reform process in two complementary ways: 1) on one hand, in terms of underlying systemic structures, especially material constraints, which establish the range and possibilities of action and, thus, shape the executive's preferences and possible actions, and 2) on the other, in terms of patterns of rules or institutions that constrain the executive's actions by shaping their incentives and, thus, their interests, limiting in such a way their options by placing them in a strategic interaction environment, in which they will try to maximize their payoffs subject to the institutional constraints. I will argue that structural variables are more helpful to explain why the structural reform was enacted in the first place (the desirability and motivations that lead to its initiation), while institutional variables serve better the purpose of explaining the variation in the timing, depth and consolidation of it.

#### 1. Desirability of the structural reform

As I argued previously, the Latin American executives are the key actors in the initiation and implementation of the structural reform. For this reform to take place, they have to perceive the structural reform process as desirable relative to the status quo, **and** they need to have the power and resources to enact and consolidate it (Drake and McCubbins 1998). So, why did Latin American executives perceive the structural reform process as desirable relative to the status quo, and how did they have the power and resources to enact it?

To tackle the first part of the question, I will provide an argument regarding the preferences of the executive, and then, I will theoretically explain how these preferences might be affected --and changed from not supporting structural reform to supporting it-- by external structural variables. To tackle the second part of the question, I will argue that there are several institutional variables that empower the executives with the resources to initiate, enact, and consolidate the structural reform, and then, I will theoretically explain how these institutional variables affect these executive powers.

I will assume that executives are purposive and rational actors who want to maximize their power in order to attain five goals: personal welfare, personal power, internal order, external order, and power over policy making decisions (Drake and McCubbins 1998). The reasons or motivations why they want to maximize their power, even if rational, are known only to themselves, and they are very difficult to establish (Ames 1987). However, it is possible to argue that there are some institutional factors that structure the strategies used to accomplish their goals.

A necessary condition to maximize their power is to remain in office during their term, and to maximize the possibilities of reelection (if possible) or of transcending, that is transferring power to someone who shares the same or similar goals (normally someone from the same political party). In authoritarian systems, executives can not take their tenure in office for granted; they need to have the support of a constituency, a selectorate (Shirk 1993; Roeder 1993), to stay in office. In democratic systems, they need to have the support of the electorate to be reelected or to transcend, and specifically in parliamentary systems, the cabinet must also maintain the support of parliament

members to retain office in between elections. The veto points model developed in the next section will permit the inclusion of both authoritarian and democratic systems in the analysis of the structural reform.

Executives use public policies as instruments to achieve support from their constituencies to remain in power and to transcend. These public policies are used by executives to reward social groups in a position to contribute to the executive's tenure or its possibilities to transcend. Thus, executives have incentives to provide policies that benefit their constituents. If this is the case, I will argue that the executives will initiate and enact the structural reform process if it benefits their constituents.

Heller, Keefer, and McCubbins (1998) argue that political leaders (executives in our case) can find a liberalizing reform desirable (a structural reform towards an export oriented and private sector dominated economy in this research project) relative to the status quo (of a import substitution oriented and state dominated economy in the Latin American case), if any of four sufficient conditions exist: 1) a change in the leadership, 2) a coalition realignment of the government's constituency, 3) a change in the value of the status quo due to an external shock, or 4) an internal change of the status quo due to the accumulation of the leadership's own decisions. All these changes can occur due to external structural variables.

I will argue that in the Latin American case, the change in the executive's desirability towards the structural reform relative to the status quo, that triggered the initiation of the structural reform can be explained by external structural factors, mostly of economic nature. The most important structural factor was the economic and debt crisis of the 1980s, which most believed was a result of the crisis of the ISI, state based development model. The structural reform became desirable, because the executives believed that the immediate costs and future benefits of changing the economic model and development strategy were better for the executive's constituency than the costs of maintaining the ISI state dominated model. This transformation of beliefs was the result of a combination of several factors: first and foremost, the idea that the ISI state dominant development strategy had failed, but also, the successful example of the Chilean and East Asian experiences, the advise and pressures of the international financial institutions (IMF, WB, and IADB), the collapse of the Soviet Union and the central planning option (Edwards 1995), and the empowerment of domestic pro-reform actors due to changes in the international system. Thus, international variables explain why the Latin American state leaders' preferences shifted to prefer the initiation of the structural reform process, but not when, how deep, and how permanently this process was implemented. That is, in the Latin American case, all the dogs barked sooner or later (all the executives saw the structural reform as desirable due to international factors, and thus initiated it). What varied dramatically was when the dogs barked, how loud they barked, and how durable the barking was. So, which are the central variables that affect the executive's resources to initiate, enact, and consolidate the structural reform, and how do they do so?

## 2. Institutions and executive capacity: a veto points and players model

The capacity of the executives to initiate and enact the structural reform to a certain depth, and then to consolidate it, depends on the domestic political institutions. These are the rules that define who has the power to initiate policies (agenda setting), and who has the power to legislate, amend, and veto these policy initiatives, or even reverse them once legislated, in the domestic political system.

The domestic institutions define, on one hand, which are the veto points, and on the other, affect directly the number and nature of the veto players in the system. The veto points are those

institutional gates that a policy initiative needs to clear in order to become law, and thus, to be enacted legally. The veto players are those actors in the system positioned at the veto points; they decide if a policy initiative passes through it or not, and thus becomes law or not. The nature of the veto players depends on how congruent and cohesive they are, that is if they have a common purpose or not between veto points and within the veto points respectively. By using a veto player model, it is also possible to analyze both democratic and authoritarian systems in the structural reform process: in democratic systems, the institutional veto points and partisan veto players will be taken into account, and in authoritarian systems, the relevant institutional veto points and veto players must be included.

In democratic systems, I will argue that the number of veto points and the number and nature of the veto players depend on the domestic political institutions. Specifically, the constitutional system --whether the system is presidential or parliamentary--, and the legislative structure --whether the system is unicameral or bicameral, and whether it is symmetric or asymmetric in the case of bicameral systems--, define how many and where the veto points are located in the system. Also, I will argue that the vast array of electoral rules have a direct effect on the number and nature of the veto players positioned at those veto points. In authoritarian systems, the institutional veto points and the number and nature of the effective veto players depend on how the institutional rules of the system are structured by the ruling elite.

In order to construct a veto points model which includes both authoritarian and democratic systems, the following institutional features of each system must be taken into consideration.<sup>6</sup> First, is there a separation of power between the government and the ruling political institution in the system? (Yes = democratic; No = authoritarian). The ruling political institution in authoritarian systems can be an authoritarian party, military junta, dictator with its clique, or absolute monarch with its government council. Second, is there a division of power between the executive and legislative powers within the government? (Yes = presidential in democratic, and power separated in authoritarian; No = parliamentary in democratic, and power fused in authoritarian). Third, is there a division of purpose between the executive and the legislative powers within the government? (Yes = divided government in democratic presidential, coalition government in democratic parliamentary, and collegial government in separated and fused authoritarian; No = unified government in democratic presidential, majoritarian government in democratic parliamentary, and unified purpose government in separated and fused authoritarian). A division of purpose between certain actors in a system happens when these actors have distinct preferences over policy (Cox and McCubbins 1999: 6). Finally, fourth, is there a division of purpose between the party leadership and party members in democratic systems or between the leadership of the ruling political institution and its rank and file in authoritarian systems? (Yes = uncohesive parties or ruling political institution in democratic and authoritarian, respectively; No = cohesive parties or ruling political institution in democratic and authoritarian, respectively).

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<sup>6</sup>. I am very grateful to Matthew Shugart for helping me develop this model.

FIGURE 1

				<u>Authoritarian systems</u>	
			N	Q4	N = (1) Unif. purpose and fused w/ cohesive ruling pol. inst.
			Y	Q4	Y = (2) Unif. purpose and fused w/ uncohesive ruling pol. inst.
	Q2	N			
		Y			
			N	Q4	N = (5) Unif. purpose and separated w/ cohesive ruling pol. inst.
			Y	Q4	Y = (6) Unif. purpose and separated w/ uncohes. ruling pol. inst.
	Q2				
Q1			N	Q4	N = (7) Collegial and separated w/ cohesive ruling pol. inst.
			Y	Q4	Y = (8) Collegial and separated w/ uncohesive ruling pol. inst.
					<u>Democratic systems</u>
			N	Q4	N = (9) Majoritarian parliamentary w/ cohesive parties
			Y	Q4	Y = (10) Majoritarian parliamentary w/ uncohesive parties
	Q2	N		Q4	N = (11) Coalition parliamentary w/ cohesive parties
		Y		Q4	Y = (12) Coalition parliamentary w/ uncohesive parties
			N	Q4	N = (13) Unified presidential w/ cohesive parties
			Y	Q4	Y = (14) Unified presidential w/ uncohesive parties
	Q2				
			N	Q4	N = (15) Divided presidential w/ cohesive parties
			Y	Q4	Y = (16) Divided presidential w/ uncohesive parties

Q1: Is there a separation of power between the government and the ruling political institution in the system?

Q2: Is there a division of power between the executive and legislative powers within the government?

Q3: Is there a division of purpose between the executive and the legislative powers within the government?

Q4: Is there a division of purpose between the party leadership and party members in democratic systems or between the leadership of the ruling political institution and its rank and file in authoritarian systems?

The answers to the first two questions establish the number of veto points in the system, while the last two define the nature of the veto players positioned at the veto points in terms of their congruence (Q3) and cohesion (Q4). The number of veto players will be given by the effective number of groups positioned at the veto points (by definition, one –the head of government-- for the executive, and one or more –the effective number of parties in democracies and the effective number of factions in authoritarian systems— in the legislature).

The central argument of this research is that, on one hand, *ceteris paribus*, the larger the number of veto points and the number of incongruent and uncohesive veto players in the system, the more difficult it will be to change the status quo, and thus, the later the structural reform will be initiated and the smaller its depth. On the other hand, *ceteris paribus*, the larger the number of these veto points and players and the higher their level of incongruence and uncohesiveness, the more consolidated the enacted structural reform will be, because it will be more difficult to reverse it once it has been legislated. This argument is consistent with the veto player literature (Tsebelis 1995), but including the variation in the nature of these veto players, what Cox and McCubbins (1999) call the division of purpose, and extending it to authoritarian systems. In sum, my central point is that the institutional variation within the Latin American systems is one of the central variables that explains the great variation in the timing, depth, and consolidation of the structural reform in these countries during the 1980s and 1990s.

Being more specific, the Latin American executives that are able to control the veto players positioned at the institutional veto points in the system will be able to enact an earlier and deeper structural reform, and this capacity depends directly on how the system is structured institutionally and on how the party system (or ruling political institution in authoritarian systems) and the executive-party (or ruling political institution) relations are structured (which are directly related to the electoral rules). Thus, executives who are the leaders (or have direct control over the leaders) of cohesive parties (or ruling political institution) that control all the veto points in the system (by

controlling a majority of the veto players at those veto points) will be more successful in being early reformers and enacting a deeper structural reform.

There are several dimensions of variation in the previous affirmation: 1) number of veto points, 2) number of veto players positioned at the veto points, and 3) nature of veto players positioned at the veto points (congruence) and within them (cohesion). Each of these dimensions will be measured for each regime since the initiation of the structural reform (on a regime term basis). The central hypotheses of this research project follow from these dimensions of variation, both for democratic and authoritarian system:

H1: *Ceteris paribus*, the larger the number of veto points in the system, the later the initiation of the structural reform and the smaller its depth.

H2: *Ceteris paribus*, the larger the number of veto players positioned at the veto points, the later the initiation of the structural reform and the smaller its depth.

H3: *Ceteris paribus*, the smaller the degree of congruence and cohesiveness of the veto players positioned at the veto points and within them, the later the initiation of the structural reform and the smaller its depth.

H4: *Ceteris paribus*, the higher the costs of reversing the structural reform through the creation of institutions that tie the hand of policy-makers by including new actors in the policy-making process, the more permanent a structural reform in trend of consolidation will be.

#### a. Number of veto points

Shugart and Carey (1992), and Mainwaring and Shugart (1997) define presidentialism according to four elements: 1) the executive is elected popularly (thus, there is independence of origin), 2) the terms of the executive and the legislators are fixed (thus, there independence of survival); 3) the executive designates and dismisses the cabinet members, who are responsible to him; and 4) the executive has certain authority over law making. The central characteristic of presidentialism is the independence of origin and survival of the executive and the legislature, that is, the division of power. Thus, by definition, there are at least two institutional veto points in presidential systems. By contrast, in parliamentary systems there is a fusion of powers. The origin and survival of the executive depends on the legislature (Lijphart 1992), and thus, there is a single institutional veto point. Authoritarian systems can have either a separation or fusion of executive and legislative powers in government, depending on how the system is structured institutionally.

Everything else equal, systems that have a fusion of the executive and legislative powers should be more decisive, that is more able to enact and implement policy change, because an increase in the number of institutional veto points increases the transaction costs to generate policy change. Because more interests have to be aggregated in order to reach a majority to change the status quo, policy change is more costly in terms of time and resources (Shugart and Carey 1992; Moe and Caldwell 1994; Mainwaring and Shugart 1997; Cox and McCubbins 1999).

The vast majority of the countries in the Latin American region with over 200,000 inhabitants are presidential systems --20 out of 26--, and only Bahamas, Barbados, Belize, Jamaica, Suriname, and Trinidad and Tobago have parliamentary systems. Having the data available for these countries will permit to test if constitutional system variation affects the enactment and implementation of policy change, specifically the structural reform.

With regards to the legislative structure, the existence of an extra veto point in bicameral presidential systems has also been seen in the literature as making policy change more difficult (Tsebelis 1995, Tsebelis and Money 1997), thus making bicameral systems less decisive than

unicameral ones. Only bicameral systems which are symmetric, that is where both houses have similar powers over policy making (Lijphart 1984), will be treated as having an extra veto point. This hypothesis will also be tested using the structural reform as a case of policy change.

The institutional veto points variable will be operationalized as follows: Dummy variables for constitutional system (CONST = 0 for parliamentary or fused authoritarian systems, 1 for presidential or separated authoritarian systems), and legislative structure (LEGNUM = 0 for unicameral, 1 for bicameral, both in democratic and authoritarian systems, where applicable). The previous dichotomy on presidential or parliamentary systems does not account for the vast array of hybrid systems, like premier-presidential or president-parliamentary (Shugart and Carey 1992). Even if none of these systems are found currently in Latin America, I will try to expand the model in the future, to make it, ideally, transportable to other regions where these systems exist.

### *b. Number of veto players*

Lijphart (1996) argues that the effect of electoral systems on the number and relative sizes of political parties is so strong that it is difficult to think of any other mechanism that affects party systems in the same way. Several authors have studied the effects of these electoral rules on the party system (Duverger 1954; Taagepera and Shugart 1989; Lijphart 1994; Mainwaring and Shugart 1997; Cox 1997; Cox and McCubbins 1999), and have proved that the different elements of the electoral rules (electoral formula, district magnitude, electoral thresholds, the electoral cycle and timing of the elections, intra-party choice voting, etc.) affect the party system (specially the number, competition, and coalition building), and also the individual parties (specially their cohesiveness, alliance strategies, institutionalization, and political moderation). The majority of this literature portrays the party system as a dependent variable; in this research it will be analyzed as an independent variable.

As the number of veto players increases, the number of interests that have to be taken into account to build a legislative coalition to modify the status quo increases, and thus, so does the cost, in terms of time and resources, to enact and implement a policy change. Therefore, the higher the number of veto players positioned at the veto points, the more indecisive the polity will be. This hypothesis will also be tested using the structural reform as a case of policy change. The veto player variable will be operationalized using a proxy, the effective number of parties (ENP) at the lower or single house in democratic systems. For authoritarian systems, I still have to find a good proxy to measure the number of veto players in the ruling political institution; for now, I will use only a dichotomous variable (0 for fused, 1 for separated). Bicameral systems in Latin America (with the exception of Argentina, Brazil, Chile, and Mexico recently) have similar veto player compositions; thus, for the sake of simplicity, only the composition of the lower house will be taken into account in these cases. Another option would be to use these countries as a subset of cases, including also the effective number of parties in the upper house (ENPH) to test if this variable is relevant for the enactment of the structural reform among them.

### *c. Nature of the veto players*

Several authors have studied how the electoral system contributes to individual party cohesion (Shugart and Carey 1992; Shugart and Carey 1995; Mainwaring and Shugart 1997; Cox 1997; Cox and McCubbins 1999). They argue that the electoral rules regarding the extent of intra-party competition, party leadership control over nomination and ranking in party lists, and vote pooling among candidates of the same party, have a direct effect on the cohesion of the party. Specific electoral rules create incentives for party uncohesiveness or “candidate oriented” instead of “party-oriented” elections. For example, due to the fact that voters decide which candidate gets

elected from the party list in proportional representation electoral systems with open lists, candidates have incentives to differentiate from their co-partisans (the party label does not serve this function among same party members), and openly compete against each other in elections. Thus, they seek a different tag from the party label on which to win elections, and this generates fractionalized and uncohesive parties.

In this research, a proxy of the nature of the veto players will be used, both for the nature of the veto players between the veto points (congruence) and within these veto points (cohesion). Being consistent with the existing literature (Mainwaring and Shugart 1997; Cox and McCubbins 1999), the individual parties in democratic party system will be considered cohesive if, according to the electoral law, the party leadership controls: 1) candidate selection and 2) candidate ranking in party lists (where applicable), and 3) if there is vote pooling among party candidates or lists within districts; if any of these 3 characteristics does not hold, the party system will be considered uncohesive. The congruence of the veto players positioned at different institutional veto points in democratic systems (executive and legislature) depends on whether the system is unified or divided in presidential systems, and majoritarian or coalitional in parliamentary systems. In authoritarian systems, the congruence of the government structure of the ruling political institution will be determined based on whether its members vote together on most issues most of the time (unified = congruent) or not (collegial = incongruent), and the cohesiveness within the ruling political institution between the leadership and the rank and file will be assessed depending on whether the former have the same purpose or policy preferences of the latter (cohesive) or not (uncohesive).

The nature of the veto players variable will be operationalized as follows: a dummy variable for cohesiveness within the parties in democratic systems or the ruling political institution (leadership vis a vis the rank and file) in authoritarian systems (PACOH = 0 for cohesive, 1 for uncohesive), and a second dummy variable for congruence between the executive and legislative powers in democratic systems, and of the government structure of the ruling political institution in authoritarian systems (INDIP = 0 for unified presidential, majoritarian parliamentary or unified authoritarian, 1 for divided presidential, coalitional parliamentary, or collegial authoritarian).

Based on the previous operationalization of the dependent and independent variables, the following statistical models can be constructed, which include the number of institutional veto points, and the number and nature of the veto players:

$$\text{SRI (or each issue area)} = \beta_0 + \beta_1\text{CONST} + \beta_2\text{LEGNUM} + \beta_3\text{ENP} + \beta_4\text{PACOH} + e \quad [1]$$

$$T_{\text{ini}} = \beta_0 + \beta_1\text{CONST} + \beta_2\text{LEGNUM} + \beta_3\text{ENP} + \beta_4\text{PACOH} + e \quad [2]$$

Based on the hypotheses presented above, and assuming that executives are interested in implementing the structural reform, we can make the following deductively valid predictions (all of them with a *ceteris paribus* clause):

- P1: Parliamentary and fused authoritarian systems should reform earlier and deeper (in each issue area and as a whole) than presidential and separated authoritarian systems.
- P2: Unicameral systems should reform earlier and deeper (in each issue area and as a whole) than bicameral systems.
- P3: Systems with smaller effective number of veto players in the single or lower house (or ruling political institution in authoritarian systems) should reform earlier and deeper (in each issue

area and as a whole) than those with a higher number. In the subset of bicameral systems with different veto player composition in the upper house, the same should happen.

P4: Systems with congruent and cohesive veto players should reform earlier and deeper (in each issue area and as a whole) than systems with incongruent and uncohesive veto players.

P5: Systems that present higher costs of reversing the structural reform (in the form of institutions that tie the hand of policy-makers by including more actors in the policy-making process), will present a more permanent structural reform in trend of consolidation.

In order to test the previous predictions, I will run various ordinary least squares (OLS) regressions based on equations [1] and [2] of the statistical model. If the theoretical explanation developed in this research is acceptable, I would expect to obtain negative values in all the coefficients of the independent variables when doing a multivariate regression analysis for equation [1], that is, the larger the number of institutional veto point, and the larger the number and incongruence and uncohesiveness of the veto players at these veto points, the smaller the structural reform enacted. For equation [2], I would expect to obtain positive values in all the coefficients of the independent variables, that is, the larger the number of institutional veto point, and the larger the number and incongruence and uncohesiveness of the veto players at these veto points, the later the reform will be initiated. Also, I would expect the coefficients in both equations to be statistically significant (95% confidence). This statistical analysis will be done in the next section of this research.

#### **IV. STATISTICAL ANALYSIS**

Since the central interest of this research is explaining the structural reform process in Latin America as a whole, in order to avoid a selection bias, all independent Latin American countries will be included in the statistical analysis, and the only restriction will be population. I will calculate the values for the dependent and independent variables for the 26 Latin American countries that are independent by 1995 and that have at least 200,000 inhabitants by 1995. Unfortunately, I am not able to include Cuba due to the lack of data; however, I will try to do so in the future.

##### A. Depth of the reform

First, I ran the regression for equation [1]. I excluded constitutional system at this point, but will try to include it later. Thus, the equation used is:

$$\text{SRI} = \beta_0 + \beta_1 \text{LEGNUM} + \beta_2 \text{ENP} + \beta_3 \text{PARCOH} + e \quad [1.1]$$

```
reg sri4ab enp legnum parcoh
```

Source	SS	df	MS			
Model	2.02150811	3	.673836036	Number of obs = 26		
Residual	9.19855715	22	.418116234	F( 3, 22) = 1.61		
				Prob > F = 0.2153		
				R-squared = 0.1802		
				Adj R-squared = 0.0684		
				Root MSE = .64662		
Total	11.2200653	25	.44880261			

sri4ab	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
enp	-.1825362	.0932305	-1.958	0.063	-.3758845	.010812
legnum	-.1227275	.277925	-0.442	0.663	-.6991087	.4536538
parcoh	-.0898327	.2932261	-0.306	0.762	-.6979464	.518281
_cons	.4847925	.3674404	1.319	0.201	-.2772322	1.246817

As I expected, the all the coefficients have a negative sign, however, none of them are statistically significant at the 0.05 level of confidence (ENP is very close though). I proceeded by excluding the least significant variable (PARCOH).

```
. reg sri4ab enp legnum
```

Source	SS	df	MS			
Model	1.98226526	2	.991132628	Number of obs = 26		
Residual	9.2378	23	.401643478	F( 2, 23) = 2.47		
				Prob > F = 0.1069		
				R-squared = 0.1767		
				Adj R-squared = 0.1051		
				Root MSE = .63375		
Total	11.2200653	25	.44880261			

sri4ab	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
enp	-.1918243	.0864092	-2.220	0.037	-.3705753	-.0130733
legnum	-.1401852	.2666081	-0.526	0.604	-.6917061	.4113356
_cons	.4959448	.3583578	1.384	0.180	-.2453749	1.237264

By excluding PARCOH, the effective number of parties variable statistically significant at the 0.05 level of confidence, but LEGNUM is still not significant; thus I proceeded by excluding it.

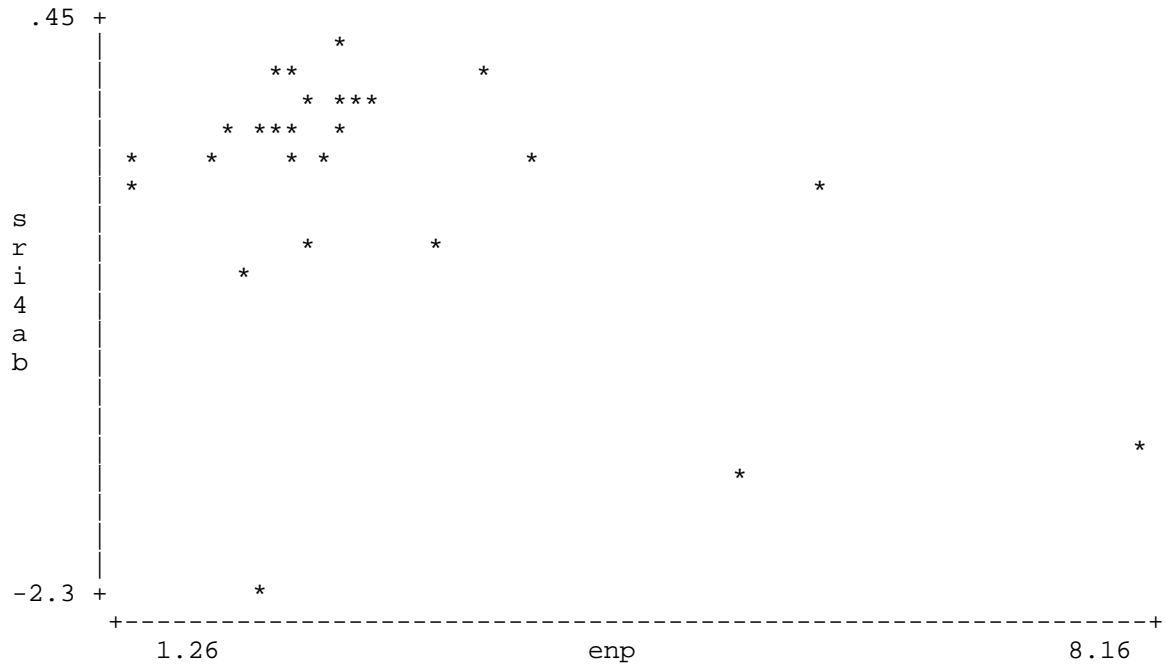
```
. reg sri4ab enp
```

Source	SS	df	MS			
Model	1.87122038	1	1.87122038	Number of obs = 26		
Residual	9.34884487	24	.389535203	F( 1, 24) = 4.80		
				Prob > F = 0.0383		
				R-squared = 0.1668		
				Adj R-squared = 0.1321		
				Root MSE = .62413		
Total	11.2200653	25	.44880261			

sri4ab	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
enp	-.1827637	.0833875	-2.192	0.038	-.354867	-.0106604
_cons	.3775773	.2745907	1.375	0.182	-.1891501	.9443047

```
. plot sri4ab enp
```



By excluding LEGNUM, the effective number of parties variable is still statistically significant at the 0.05 level of confidence, and the adjusted R-squared value goes up significantly. I continued by restricting the regression to those countries that have a population of over 10 million.

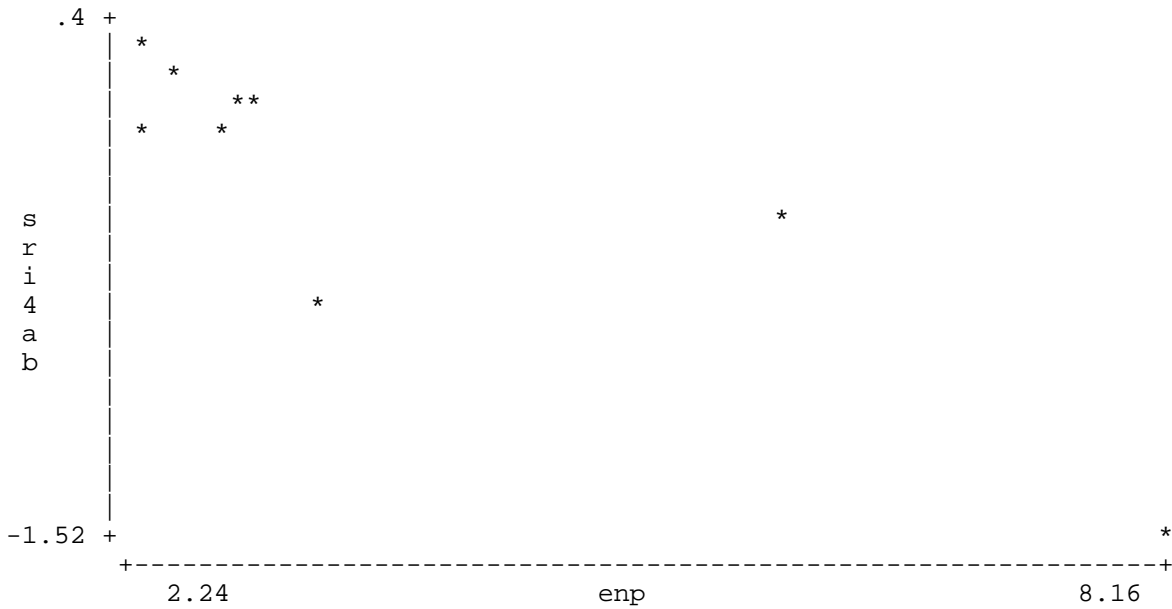
```
. reg sri4ab enp if size10==1
```

Source	SS	df	MS			
Model	2.24645999	1	2.24645999	Number of obs =	9	
Residual	.645228862	7	.092175552	F( 1, 7) =	24.37	
Total	2.89168885	8	.361461107	Prob > F =	0.0017	
				R-squared =	0.7769	
				Adj R-squared =	0.7450	
				Root MSE =	.3036	

sri4ab	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
enp	-.2606065	.052789	-4.937	0.002	-.3854328	-.1357803
_cons	.882904	.2177442	4.055	0.005	.3680208	1.397787

```
. plot sri4ab enp if size10==1
```



The results of this regression are impressive. Not only is the coefficient of the ENP variable statistically significant at the 0.01 level of confidence, but also the adjusted R-squared value increases dramatically to .7450. The fit of the regression line to the data is very good, and thus, I could argue that a very large amount of the variation of the DV is explained by the IV. An increase of one unit in the effective number of parties reduces the depth of the reform in .2606 units. I also wanted to check the results of the regression analysis if I restricted the regression to those countries that have a population of over 5 million.

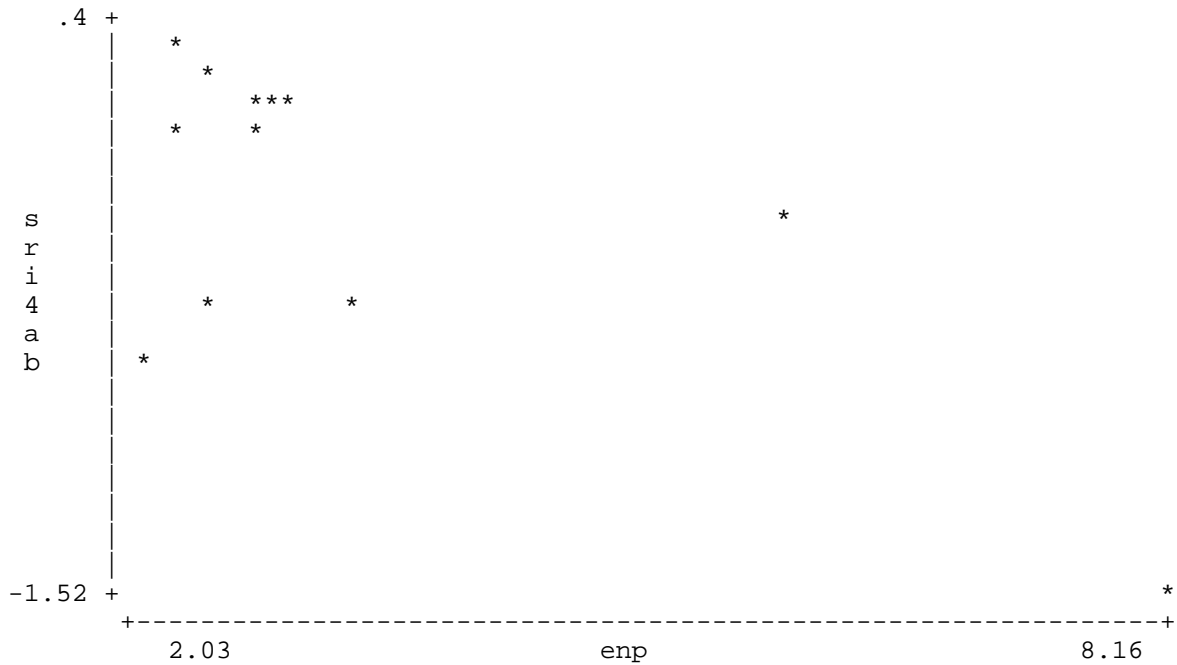
```
. reg sri4ab enp if size5==1
```

Source	SS	df	MS			
Model	1.78505259	1	1.78505259	Number of obs =	13	
Residual	1.82263968	11	.165694516	F( 1, 11) =	10.77	
Total	3.60769227	12	.300641022	Prob > F =	0.0073	
				R-squared =	0.4948	
				Adj R-squared =	0.4489	
				Root MSE =	.40706	

sri4ab	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
enp	-.2179367	.0663986	-3.282	0.007	-.3640791	-.0717944
_cons	.6320515	.2447662	2.582	0.025	.0933247	1.170778

```
. plot sri4ab enp if size5==1
```



The results of this regression are also impressive, but not as much as for those countries over 10 million inhabitants. The coefficient of the ENP variable statistically significant at the 0.01 level of confidence, but the adjusted R-squared value is of .4489. The fit of the regression line to the data is still very good, and thus, I could argue that a large amount of the variation of the DV is explained by the IV. An increase of one unit in the effective number of parties reduces the depth of the reform in .2179 units.

From this statistical analysis, I can conclude that the most important institutional variable to explain the depth of the structural reform is the effective number of parties. For the whole data set, it is statistically significant at the 0.05 level, and a unit increase in it reduces the depth of the reform in close to 0.2 units. If the analysis is restricted to those countries with a population of over 10 million, the results are impressive: almost 75% of the variation of the depth of the reform is explained by a single variable, the effective number of parties in the lower or single house, which is very significant statistically (0.002 level). For these cases, an increase of 1 unit in the ENP reduces the depth of the structural reform in 0.26 units.

### B. Timing of initiation of the reform

The second step in my analysis is running the regression for equation [2]. Again, I excluded constitutional system at this point, but will try to include it later. Thus, the equation used is:

$$T_{ini} = \beta_0 + \beta_1 \text{LEGNUM} + \beta_2 \text{ENP} + \beta_3 \text{PACOH} + e \quad [2.1]$$

I first started by doing a simple linear regression analysis, following the same steps as with equation [1.1]:

```
reg tini enp legnum parcoh
```

Source	SS	df	MS	Number of obs =	26
Model	1.067827	3	.355942333	F( 3, 22) =	4.20
Residual	1.86332684	22	.084696675	Prob > F =	0.0171
				R-squared =	0.3643
				Adj R-squared =	0.2776
Total	2.93115384	25	.117246154	Root MSE =	.29103

tini	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
enp	.1144178	.0419607	2.727	0.012	.0273967	.201439
legnum	-.1489175	.125087	-1.191	0.247	-.4083322	.1104971
parcoh	.0627839	.1319737	0.476	0.639	-.2109128	.3364805
_cons	.2138595	.1653756	1.293	0.209	-.1291086	.5568276

```
. reg tini enp legnum
```

Source	SS	df	MS	Number of obs =	26
Model	1.04865852	2	.524329259	F( 2, 23) =	6.41
Residual	1.88249532	23	.081847623	Prob > F =	0.0061
				R-squared =	0.3578
				Adj R-squared =	0.3019
Total	2.93115384	25	.117246154	Root MSE =	.28609

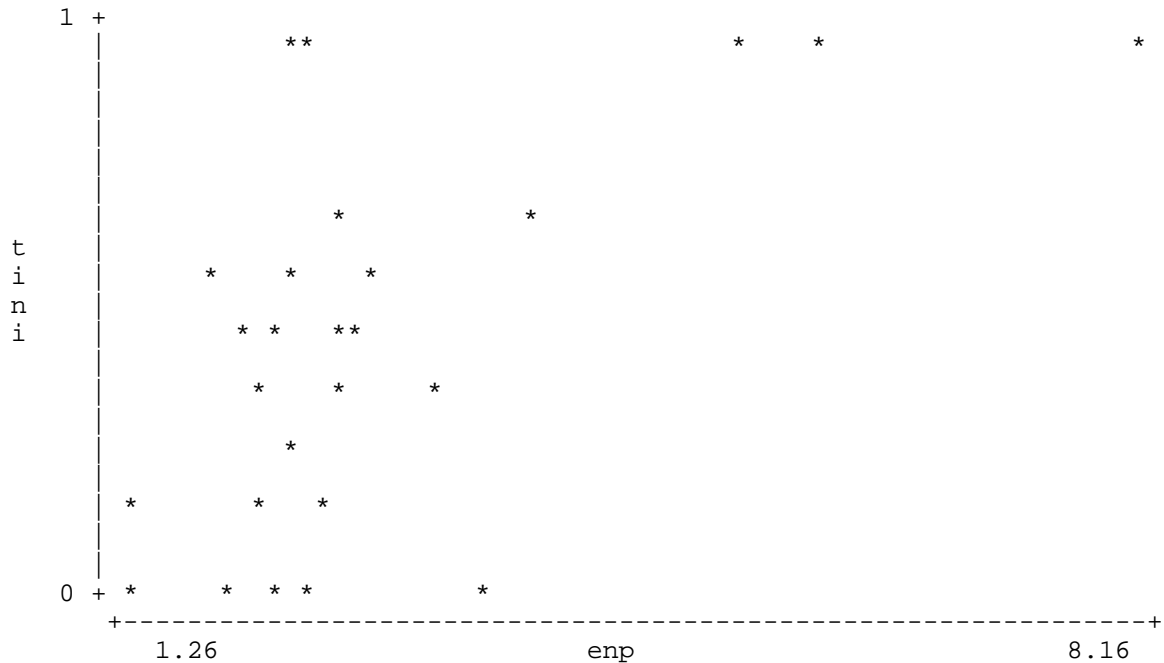
tini	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
enp	.1209092	.039007	3.100	0.005	.0402171	.2016013
legnum	-.1367164	.1203527	-1.136	0.268	-.385685	.1122522
_cons	.2060652	.1617706	1.274	0.215	-.1285828	.5407132

```
. reg tini enp
```

Source	SS	df	MS	Number of obs =	26
Model	.943041205	1	.943041205	F( 1, 24) =	11.38
Residual	1.98811264	24	.082838027	Prob > F =	0.0025
				R-squared =	0.3217
				Adj R-squared =	0.2935
Total	2.93115384	25	.117246154	Root MSE =	.28782

tini	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
enp	.1297456	.0384541	3.374	0.003	.0503803	.2091109
_cons	.0906267	.1266273	0.716	0.481	-.1707192	.3519726

```
. plot tini enp
```



After excluding the variables which were not significant, and including only the ENP, some very interesting results are evident. The results of the last regression are impressive. Not only is the coefficient of the ENP variable statistically significant at the 0.01 level of confidence, but also the adjusted R-squared value is high, .2935, that is almost a third of the variation of the DV is explained by the IV. An increase of one unit in the effective number of parties increased the timing of initiation of the reform in 1.2975 years.

Now then, linear regression is not optimal in this case, because the dependent variable measures how long it takes for the structural reform to initiate. Thus, using a duration model seems optimal. First, I prepared the data for duration analysis:

```
stset tinid
```

```
failure event: (assumed to fail at time=tinid)
obs. time interval: (0, tinid]
exit on or before: failure
```

```
-----
26 total obs.
0 exclusions
-----
26 obs. remaining, representing
26 failures in single record/single failure data
123 total analysis time at risk, at risk from t = 0
earliest observed entry t = 0
last observed exit t = 10
```

There is no right or left censoring, because all the cases started the structural reform in the period analyzed. Then, I calculated the Kaplan-Meier estimate of the survival function (please see graph in appendix). The rate of failure appears to be relatively constant throughout the period. Thus, I decided to run an exponential duration model to calculate the probability that a country initiates the structural reform in a given year given the ENP in the system.

```
. stereg enp, time
      failure _d: 1 (meaning all fail)
      analysis time _t: tinid
```

```
Iteration 0: log likelihood = -135.4679
Iteration 1: log likelihood = -132.65066
Iteration 2: log likelihood = -132.41429
Iteration 3: log likelihood = -132.41384
Iteration 4: log likelihood = -132.41384
```

Exponential regression -- log expected-time form

```
No. of subjects =          26          Number of obs   =          26
No. of failures =          26
Time at risk    = 123.0000017
Log likelihood  = -132.41384
LR chi2(1)     =          6.11
Prob > chi2    =          0.0135
```

```
-----+-----
      _t |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-----+-----
      enp |   .3449579   .1595006     2.163   0.031     .0323425   .6575732
     _cons |   .3997602   .5179835     0.772   0.440    - .6154688   1.414989
-----+-----
```

The coefficients for the exponential analysis are significant at the 0.05 level (actually at the 0.031 level). Based on these results, I calculated a table to interpret the coefficients of the exponential model in term of expected duration. The results are as follow:

Enp	beta	E(duration)
1	0.3449579	1.4119305
2	0.3449579	1.9935477
3	0.3449579	2.8147507
4	0.3449579	3.9742323
5	0.3449579	5.6113397
6	0.3449579	7.9228216
7	0.3449579	11.186473

Based on these results, we would expect a country with an ENP of 1 to initiate the reform very soon, in one and a half years after the initial shock which made the reform desirable; with an ENP of 3, it increases to almost 3 years, and with an ENP of 6, to almost 8 years.

## V. CONCLUSIONS

After conducting the preliminary OLS regressions that derive from the proposed model, in order to test the central predictions of this research, several conclusions can be reached. It is important to mention that these conclusions are as preliminary as the regressions are, because there is still some data missing in the database, particularly in the administrative policy area.

First, the proposed inverse relations between the independent variables and the dependent variable seem to hold (all the coefficients of the regression results are negative), that is, the higher the number of veto points and incongruent and uncohesive veto players, the later the structural reform will be initiated and the smaller the depth to which it will be enacted. However, none of the

coefficients are significant at the 0.05 level of confidence for the level of implementation equation (ENP is the closest one with a level of 0.063), and only the ENP coefficient is significant at the 0.05 level for the initiation equation (it is actually significant at the 0.012 level).

Second, if the model is restricted to include only the ENP as an explanatory variable, the coefficient of this variable becomes significant at the 0.038 level for the level of implementation equation, and the adjusted R-squared increases considerably. Now then, if the model is further restricted to include only those countries with at least five (13 cases) and then ten million inhabitants (9 cases), the results are impressive: in both cases, the coefficient of ENP becomes significant at the 0.01 level, and the value of the adjusted R-squared increases dramatically to 0.4489 and 0.7450 respectively. This means that the fit of the OLS regression line fits very well to the data, and thus, it can be argued that a large amount of the variation in the depth of implementation of the structural reform can be explained by the effective number of veto players in the system (almost  $\frac{1}{2}$  and  $\frac{3}{4}$  of the variation respectively). However, what remains to be explained is why this very strong relation only applies to the larger Latin American countries (in terms of their population).

Third, regarding the timing of initiation equation, the same impressive results are evident if the OLS model is restricted to one explanatory variable, ENP (statistically significant at the 0.01 level of confidence with an adjusted R-squared of .2935). However, a linear model like OLS is not optimal for this case because the explained variable, the timing of initiation, measures how long it takes a country to initiate the structural reform. Thus, it is best to use a duration model that takes into account the probability of initiating the reform in a given year, such as the exponential duration model. The results from this analysis support the hypothesis that, as the number of veto players increases in the system, the initiation of the structural reform will be postponed, that is initiated later in time. Systems with a small number of veto players will initiate the reform very early (i.e. when ENP = 1 the reform will start in less than 1.5 years after the shock which made it desirable), while systems with a large number of veto players will tend to postpone it for a long time (approximately 8 or 11 years if ENP is equal to 6 or 7 respectively).

In sum, the general intuition of the veto points and players model proposed for this research seems to be supported by the provisional statistical analysis. However, the importance of the explanatory variables included in the model is very asymmetric: one of them, the ENP (which measures the number of veto players in the system), seems to have a very large explanatory power (specially for larger countries), while the effect of the other included variables seems to be small. This information will be used to correct the proposed veto player model of this research.

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Institutional and party system variables (1985-1995) Part I										
Num.	Country	Code	Constitutional System (Parl.=0, Pres.=1)	Number of Leg. Houses (Unic.=0, Bic.=1)	Power of Leg. Houses (Asym.=0, Sym.=1)	Electoral Formula for Legislature (Plur.=0, PR=1)	Electoral Formula for Executive (Plur.=0, Runoff=1)	Lower or Single House District Magnitude (M)	Absolute number of Parties in Lower or Single House	Effective number of Parties in Lower or Single House
1	Argentina	ARG	1	1	1	1	1	10.3	16	2.82
2	Bahamas	BHS	0	1	0	0	n.a.	1.0	2	1.34
3	Barbados	BRB	0	1	0	0	n.a.	1.0	3	1.84
4	Belize	BLZ	0	1	0	0	n.a.	1.6	3	2.00
5	Bolivia	BOL	1	1	1	1	1	14.4	8	3.70
6	Brazil	BRA	1	1	1	1	1	19.0	18	8.16
7	Chile	CHL	1	1	1	0.5	1	2.0	8	2.47
8	Colombia	COL	1	1	1	1	1	5.0	2	2.24
9	Costa Rica	CRI	1	0	n.a.	1	1	8.1	5	2.42
10	Dominican Rep.	DOM	1	1	1	1	1	4.0	3	2.43
11	Ecuador	ECU	1	0	n.a.	1	1	3.2	13	5.95
12	El Salvador	SLV	1	0	n.a.	1	0	8.2	8	2.73
13	Guatemala	GTM	1	0	n.a.	1	1	6.9	7	2.72
14	Guyana	GUY	1	0	n.a.	1	0	43.4	4	2.14
15	Haiti	HTI	1	1	1	0	1	1.0	8	2.46
16	Honduras	HND	1	0	n.a.	1	0	7.1	3	2.03
17	Jamaica	JAM	0	1	0	0	n.a.	1.3	2	1.26
18	Mexico	MEX	1	1	1	0.5	0	16.6	4	2.29
19	Nicaragua	NIC	1	0	n.a.	1	0	8.1	10	2.74
20	Panama	PAN	1	0	n.a.	0.5	0	1.8	12	4.06
21	Paraguay	PRY	1	1	1	1	0	4.7	3	2.38
22	Peru	PER	1	1	1	0.5	1	4.8	13	2.91
23	Suriname	SUR	0	0	n.a.	1	n.a.	5.1	8	5.36
24	Trinidad & Tobago	TTO	0	1	0	0	n.a.	1.0	3	2.23
25	Uruguay	URY	1	1	1	1	0	5.2	4	2.65
26	Venezuela	VEN	1	1	1	0.5	0	8.8	5	3.31

Institutional and party system variables (1985-1995) Part II											
Num.	% Seats Held by Executive in Lower or Single House	% Seats Held by Opposition in Lower or Single House	Institutional Cohesion (Coh.=0, Uncoh.=1)	Party Cohesion (Coh.=0, Uncoh.=1)	Population 1995 (in thousands)	Country size (>10 millions=1, otherwise=0)	Country size (>5 millions=1, otherwise=0)	Country size (>1 million=1, otherwise=0)	GDP 1995 (in millions of U.S.Dollars)	Reform Initiation (year)	Timing of Initiation (early=0, late=1)
1	0.52	0.48	0	0	34,267	1	1	1	205,008	1990	0.5
2	0.85	0.15	0	0	276	0	0	0	3,047	1985	0.0
3	0.68	0.32	0	0	261	0	0	0	1,716	1991	0.6
4	0.55	0.45	0	0	217	0	0	0	491	1985	0.0
5	0.40	0.60	1	0	7,414	0	1	1	6,692	1985	0.0
6	0.38	0.62	1	1	161,469	1	1	1	479,357	1995	1.0
7	0.58	0.42	0	1	14,242	1	1	1	46,414	1975	0.0
8	0.57	0.43	0	1	35,101	1	1	1	60,386	1990	0.5
9	0.49	0.51	1	1	3,424	0	0	1	7,236	1988	0.3
10	0.48	0.52	1	0	7,921	0	1	1	7,350	1995	1.0
11	0.23	0.77	1	0	11,476	1	1	1	15,584	1995	1.0
12	0.33	0.67	1	0	5,768	0	1	1	7,203	1989	0.4
13	0.54	0.46	0	0	10,621	1	1	1	9,717	1992	0.7
14	0.54	0.46	0	0	834	0	0	0	587	1989	0.4
15	0.82	0.18	0	1	7,180	0	1	1	1,542	1995	1.0
16	0.55	0.45	0	0	5,663	0	1	1	3,671	1990	0.5
17	0.88	0.12	0	0	2,547	0	0	1	4,353	1987	0.2
18	0.60	0.40	0	0	90,320	1	1	1	258,461	1985	0.0
19	0.45	0.55	1	0	4,140	0	0	1	1,936	1990	0.5
20	0.46	0.54	1	0	2,631	0	0	1	6,902	1992	0.7
21	0.50	0.50	0	0	4,894	0	0	1	7,311	1991	0.6
22	0.56	0.44	0	1	23,855	1	1	1	49,048	1991	0.6
23	0.47	0.53	1	1	409	0	0	0	320	1995	1.0
24	0.53	0.47	0	0	1,306	0	0	1	5,355	1987	0.2
25	0.32	0.68	1	1	3,185	0	0	1	9,962	1987	0.2
26	0.24	0.76	1	0	21,491	1	1	1	69,965	1989	0.4