

Workshop on Political Economy

The RIDGE/LACEA-PEG Workshop on Political Economy was held in Montevideo on 26-27 March 2015. Several relevant topics, in particular for Latin America, were discussed in seven sessions and in a Policy Debate. These included investment in state capacity and development, political accountability, political instability, violence and institutional reform. The program of the workshop can be found on: <http://www.ridge.uy/wp-content/uploads/2014/12/Program-PE2.pdf>

The main issue discussed was state capacity, broadly understood. The main concepts surrounding state capacity addressed at the Forum were: governability and policy framework, state control of territory and avoidance of internal armed conflict, administrative or implementation capacity, fiscal capacity, legal capacity and accountability as a mechanism to improve implementation and service delivery. The workshop ended with a Policy Debate on institutional capabilities for policy design, implementation and service delivery.

The connection between institutional and political history, on one side, and state capacity and governability, on the other side, was largely discussed. The long-run exposure to statehood and to contemporary non-democratic regimes can condition the performance of democracies, affecting contemporary conflict and governance outcomes, as discussed in Sessions 2 and 4.

In particular, the role of education in generating and improving state capacity and governability was clearly stated in Sessions 1 and 6. Education not only affects growth, demography and development, but it is also a tool for nation-building. In this sense education was presented as an effective tool for population homogenization in terms of preferences, values and shaping political attitudes. Education can then enhance state capacity through the creation of a nation identity with shared values and opinions.

The state control of territory was also emphasized as a requirement for governability, being the monopoly of violence a key element. Evidence shows that a state trying to acquire monopoly of violence through paying for performance could be counterproductive. High-powered incentives can have very perverse effects and create an incentive to corrupt institutions.

Regarding accountability, the reelection motive was presented as the mechanism for holding politicians accountable. Some undesirable effects were highlighted regarding expenditure and pandering. For example, evidence presented showed that elected officials are more likely to spend more than appointed officials, in terms of targeted transfers and bureaucracy size. Also, enforcement of eligibility conditions of welfare programs is weaker in the presence of strong electoral incentives. Finally, it was found that public good provision increases when taxes increase, but not when other sources of public revenue do. Taxes were presented as the most voter sensitive source of government revenue.

The administrative or implementation capacity was a central concept, particularly highlighted in the Policy Debate. Bureaucratic efficiency is presented as a determinant of the feasible or optimal policies and bureaucratic quality as a source of policy flexibility. It was stated that successful public service delivery, and state intervention in general, relies on a competent bureaucracy, as well as in coordination and consistency among state organizations, and public and private institutions. Some examples were presented of how public service delivery or expenditure can be negatively affected

by the quality of bureaucracy. For instance, low quality bureaucracy may lead to a rise in expenditure in the face of external vulnerability, bureaucratic turnover together with "non-legitimate" promotions or expected audit on public procurement.

Other relevant issues not directly related to state capacity were also discussed: the relationships between politics and private agents, such as firms and organized crime. Evidence was presented of nepotism and organized crime backing up a particular political party in exchange of favorable policies.

The meeting ended with a Policy Debate on State Capacity. Speakers were Alvaro García (Director of the Uruguayan Oficina de Planeamiento y Presupuesto), Pablo Sanguinetti (Chief Economist, CAF), Ernesto Stein (IADB), and Ernesto Dal Bó (UC Berkeley). The main definition of state capacity discussed on the Policy Debate was institutional capabilities for policy design, implementation and service delivery. The key element discussed was the administrative or implementation capacity and how the successful intervention of the state in the economy depends upon the quality of its bureaucracy and the good coordination and coherence among relevant private and public organizations.

All participants agreed on the necessity and importance of policy evaluation and highlighted the key involvement of academics from the start. There is an obligation to evaluate the impacts and externalities of public policies. For such thing to be possible, objectives must be clear upfront, when policies are first designed. Design and implementation processes should be planned together; it is a learning process that should be evaluated constantly.

Some facts, challenges and policy implications of bureaucracy compensation schemes were discussed. Presenters mentioned several stylized facts: the public sector tends to pay the less educated workers more and the better educated less than the private sector; the wage structure in the public sector seems to be quite compressed; there is lower wage dispersion within occupations; promotion seems to be less meritocratic; and there is lower incidence of pay for performance in the public than in the private sector. In such conditions, bureaucrat's compensation schemes might lead to a bad selection of workers and provide low incentives for effort.

Some implications for policy: quality of bureaucracy could improve by better linking compensation to performance. Some measures could be higher wages for more qualified positions; steeper wage curve over career progression; more meritocratic promotions (and dismissals); pay for performance schemes. Of course other state capabilities matter.

Participants argued about the pros and cons of granting more or less autonomy to bureaucracy. Innovation requires autonomy, but autonomy fosters outcome heterogeneity. Also, the greater the autonomy of the bureaucracy, the greater the need for effective selection and monitoring of bureaucrats.

Regarding coordination and coherence among relevant private and public organizations, it was stated that tacit knowledge, flexibility and discretion are required for designing and implementing productive development policies. This represents a challenge to traditional public sector organizations, subject to rigid rules and in advance authorization. External or mixed agencies are more flexible in terms of hiring policies and have longer horizons.



Some mechanisms were discussed on how private-public and public-public cooperation can be better performed: ministerial cabinets, rotation of responsibilities between involved institutions, budget mechanisms. The transversal mainstreaming across the state was pointed out as very important for building state capacity and enhance cooperation and coordination among public institutions.