

Forum Series on the Role of Institutions in Promoting Economic Growth

**Comments on Barry R. Weingast's
“The Performance and Stability of Federalism, Mexican
Style: An Institutionalist Perspective”**

**Prepared by Ed Connerley
Office of Democracy and Governance, USAID**

Forum 7

Institutional Barriers to Economic Change: Cases Considered

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About the Series

The objectives of the Forum Series are to help USAID make its donor assistance more effective and sustainable by incorporating insights from the New Institutional Economics into USAID's programming and delivery of development assistance. Services for Forums 6,7, and 8 are provided by the Mercatus Center at George Mason University and its consultants and the Center for Institutional Reform and the Informal Sector (IRIS). Editor for Forums 6, 7, and 8 is Peter Boettke, the project director for this portion of the Series with support from the overall project director, Clifford Zinnes, and the Forums Steering Committee (Ed Connerley, Jim Elliott, Jonathan Sleeper, and Mark Gellerson), chaired by the activity's COTR, Fred Witthans. Funding for the Series is provided by USAID's Bureau for Economic Growth, Agriculture, and Trade, Office of Economic Growth through SEGIR/LIR contract PCE-00-97-00042-00, Task Order 07. Copyright 2003 by the Mercatus Center.

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**Comments on Barry R. Weingast's
"The Performance and Stability of Federalism, Mexican Style: An
Institutionalist Perspective"**

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It is a distinct pleasure to have the opportunity to comment on Dr. Weingast's excellent paper and the opportunity to read and listen to the papers, comments and discussions of today's Forum. I greatly appreciate the efforts put forth by The IRIS Center at the University of Maryland, the Mercatus Center of George Mason University and the Economic Growth Office of the Economic Growth, Agriculture and Trade Bureau of USAID to create this occasion for reflection and learning.

I am not formally and extensively trained in either Political Science or Economics, the two disciplines that Dr. Weingast so ably employs in his analysis of the performance and stability of federalism in Mexico over the past several decades. Nor am I an expert in the history and affairs of Mexico. My observations concerning Dr. Weingast's paper are based on nearly two decades of experience trying to understand political economy and institutional economics and their application to the analysis of democracy and governance situations in developing and transitional countries. In these comments, I will seek both to improve my (and your) understanding of the analyses presented in this paper and further clarification of Dr. Weingast's thinking about the application of these and similar analyses to the problems encountered in the promotion of (hopefully) sustained, relatively rapid economic growth and sustained, relatively democratic governance. My reading of the relevant literature and the accumulated experience of donor efforts over what is now more than five decades of attempts to promote "development" is that success is intimately linked to both economic growth and to democratic governance and that, if

sustained for periods far exceeding USAID's normal planning and programming cycles, economic growth and democratic governance may become, to some degree, self-enforcing (institutionalized). The discussion of "federalism, Mexican style" contained in this paper deserves our attention because it brings together these three key macro-variables (economic growth, democratic governance and institutionalization) in an integrated analytic framework over a timescale that allows Dr. Weingast to reach institutionally relevant conclusions.

There are a number of aspects to this paper that render it fruitful for those of us engaged in promoting development. I want to briefly list three aspects of the paper that, in my opinion, contribute simultaneously to its applicability and its academic rigor. Among these aspects are:

1. The hegemonic punishment game --- the game enables us to envision the essentials of "success" from the point of view of a very important player, the PRI;
2. The perspectives of multiple, yet essential actors --- the game and roles within the game are discussed from the point of view of PRI leadership, PRI member politicians who are potential defectors (usually state-level elected officials), interest group representatives (some of whom are also potential defectors) and, importantly, the opposition-leaning pivotal voter.
3. The role of supra-national influences --- Though the analysis and the edifying core game are focused on a single nation, the analyst is fully conscious of exogenous forces beyond the control, perhaps beyond even the influence, of the most powerful Mexican actors.

There is a fourth aspect of the paper that I'm tempted to add to the above list, the choice of an extended timescale. However, it seems to me that in this particular choice we are faced with a divergence between the needs of academic rigor and the needs of applicability. The extended timescale contributes greatly to insight and learning, but doesn't offer potential appliers (such as USAID) much in the way of verifiable results within the intervals within which performance is measured.

In its discussion of a “Theory of a hegemonic party,” this paper raises, but does not fully explore, interesting questions as to the emergence of enduring political cartels in post-conflict countries. In its description of how enduring cartels are able to prevent defections it is argued that

“...it takes an unusual circumstance to form a stable political cartel. In particular, something must aid the cartel’s ability to prevent defection. The answer, we hypothesize, is the threat of social disorder. Consider the case of the formation of the PRI in Mexico in the late 1920s. Although the end of the Mexican Revolution meant the cession (sic) of wide-scale violence, major factions continue (sic) to maintain their separate armies, and for over a decade the renewal of civil war was a constant threat. Moreover, presidential elections were more often settled with pistols than the ballot box.” (page 15)

“The threat of social disorder” (or social disorder itself) is a defining characteristic of failed and failing states and a history of recent conflict is one of the better predictors of future conflict. Those of us interested in promoting peace and stability need to examine our peace making and conflict prevention practices to determine their potential for contributing to the inadvertent creation of hegemonic parties. African examples of potentially hegemonic parties that have resulted from extensive international peace making assistance might include SWAPO in Namibia, Frelimo in Mozambique and the MPLA in Angola. Though none of these parties meet the full specifications of a hegemonic party at this time, each of these national political situations could evolve in the direction of a single enduring cartel. Though each of them has governed their respective countries since independence, neither SWAPO nor Frelimo are amalgams of former rivals. The MPLA recently incorporated the remnants of its former rival Unita and has always depended on distribution of the spoils of power and thievery to maintain its coalition.

The paper makes no direct effort to characterize developing country governments, but the Mexico example, discussed in great detail, and four additional references to “developing countries” (pages 13, 21, 40 and 41) suggest that developing countries often engage in *goal distortion* (“...the party in power subverts the goals (sic) public policies for partisan

gain.” Page 13), should not be assumed to be benevolent (Page 21), and undertake trade liberalization only because their “old development model failed” (Pages 40 and 41). To the extent that a characterization of developing country governments can be deduced, it would seem to be of the “grabbing hand” (rather than hidden hand or helping hand) variety (Shleifer and Vishny, 1998). It is a curious fact that democracy promotion efforts are usually cast in terms of a normative conception of the expected outcomes of democracy assistance, but seldom based on an explicit characterization of the current state of “the state.” In the absence of an accepted characterization of the state as the “grabbing hand” type, despite plentiful evidence, we are persuaded that we have identified the right “partners” with appropriate and sufficient political will to bring about improvements in democratic institutions. The system of development assistance, in general, and democracy assistance, in particular, might also be characterized as “tragic and brilliant.” Brilliant in that donors frequently maintain regimes that they and developing country citizens do not like; tragic in that donor assistance diminishes the already weak incentives of these regimes to respond to the their citizens.

The section “How Revenue Sharing Affects Subnational Government Decisions” (pages 23-25) offers very interesting insights into the incentives created for subnational governments by national government revenue sharing systems. A principal part of this argument rests on a citation to Careaga and Weingast (2003) in which, it is stated, it has been shown that “revenue systems are subject to the *fiscal law of 1/n* where n is the number of subnational governments.” (page 24) I have not consulted the cited work. It is possible that my concerns are addressed there. However, in the absence of knowledge of the cited work I’m left with a question as to how n is defined in particular cases. In the discussion of the Mexico case n equals the number of states. There is no explanation of why the number of states, rather than the number of municipalities or the number of states plus the number of municipalities, is the “correct” n. It would be illuminating to see this “law” applied to instances in which multiple levels of subnational government are included in the analysis.

This paper claims an “institutionalist perspective,” but isn’t completely clear what that means. A thorough reading of the paper makes clear that an “institutionalist” examines change over long periods of time and imputes change to institutionalized incentives, in this case the institutionalized structure of federalism, Mexican style. The meaning of “institutionalist” is somewhat obscured by the failure to specifically comment on the PRI. Is it an institution or an organizational actor in the game? My surmise is that it is seen as an organizational actor.

I’d like to close these remarks with a speculation that goes far past what a rational empirical researcher like Dr. Weingast is likely to claim. What is presented here, and in other works, as Market-Preserving Federalism is unnecessarily modest in its claimed applicability. There are hints and outright statements in that small fraction of the literature on market-preserving federalism that I have read that it is applicable beyond that group of countries that refer to themselves as federal. Indeed, there are a large number of studies dealing with China, a country that few would have argued was federal some 10 to 15 years ago. The paper under consideration here hints at the elasticity of the term “federal” with its discussion of “centralized federalism” (Page 5) and a citation to Lijphart’s work on “non-centralized” federal systems (Page 28). This growing body of work is, in my opinion, at least an important contribution to a greatly needed theory of governance. At some point in time, it will become evident that most countries, whether formally unitary or federal, must give serious consideration to the five characteristics associated with market-preserving federalism. The mainstream governance literature contains additional specifications of “good governance,” including, for example, additional emphasis on “horizontal accountability” in government, but the structures of societal, as distinct from governmental accountability, are better developed here. To illustrate what I mean by societal accountability, I’ll use a brief quotation from Dr. Weingast’s 1995 article, *The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development.*” Before reading the quotation, I want to point out that Dr. Weingast, at the foot of the first page of the 1995 article, gratefully acknowledges helpful conversations with 6 persons who have presented papers at this series of forums, including two who are with us today, Peter Boettke and Douglass North.

The others are Robert Bates, Avner Greif, Pablo Spiller and Oliver Williamson. The 1995 article was, as I have mentioned at previous forums, “prepared under a cooperative agreement between the Institution for Policy Reform (IPR) and the Agency for International Development.” I take this to be a reference to our current host, the U.S. Agency for International Development? The quotation is as follows:

“The fundamental political dilemma of an economic system is this: A government strong enough to protect property rights and enforce contracts is also strong enough to confiscate the wealth of its citizens. Thriving markets require not only the appropriate system of property rights and a law of contracts, but a secure political foundation that limits the ability of the state to confiscate wealth. Far from obvious, however, are the circumstances that produce a political system that plays one role instead of the other.”

I know of no clearer statement of the challenge that faces us, nor clearer guidance as to the likely paths forward.