

Call for Research Proposals

The Political Economy of Productivity *Actors, Arenas, and Policymaking*

A research project funded by the Country Studies Initiative of the IDB (CSI).

June, 2008
Washington, DC

NOTE:

These terms of reference are to be read in conjunction with the following additional materials:

- Murillo, V, C. Scartascini, and M. Tommasi (2008), *The Political Economy of Productivity: Actors, Arenas, and Policies*, available as of July 21st, 2008.

I. Justification for the Project

The evidence suggests that, on average, Latin American and Caribbean countries are underperforming other developing countries in terms of productivity growth. This differential productivity can explain why the region has shown very modest economic growth in the last 15 years and why, despite unusually favorable international conditions over the last half decade, the region has lagged behind other regions in economic growth.

The productivity of the economy is the outcome of a number of individual and collective decisions undertaken by economic and social actors. Some of the reasons that may prevent productivity gains may be strictly related to the functioning of firms. However, a large part of the decisions may have to do with economic policies, as well as the way they are designed and implemented. First, some economic policies may explicitly or inadvertently favor low-productivity substitution. Second, some policies may shield certain firms from the competition of other firms and reduce firms' incentives to undertake productivity-enhancing investments. Finally, some policies and regulations may prevent certain firms from growing.

Insufficient productivity in various Latin American countries is due to a number of policy-related factors, such as policy volatility, insufficient infrastructure, insufficient human capital, high prices of key inputs such as energy and telecommunications, and social protection systems or credit policies that stimulate allocation of resources towards low-productivity activities. These and other policy-related factors have different degrees of relevance in different countries at different points in time.

For example, in some countries, low productivity might relate to some general features of policymaking that induce short horizons, or to issues such as the government's inability (or lack of inclination) to invest in infrastructure. In others, the key explanation may have to do with the existence of very specific policies that help to maintain the market share of less productive firms, such as policies aimed at protecting ailing firms, special tax regimes, subsidized credit, privileged access to capital, and restrictions on land access.

Policies are the (equilibrium) outcome of a number of forces operating in the polity. In particular, powerful political actors influence each country's policymaking process in order to induce policies that favor them and/or prevent policies that might harm them. While in every country most socioeconomic actors (business actors at various levels of aggregation, unions, and different types of voters) have policy influence, their demands and the way in which they articulate their demands in the policymaking process are different from country to country. While in some countries those actors' demands do not harm productivity greatly—or across every policy margin—in others, those actors' influence is more harmful to productivity. This study will try to uncover the links between policies (that hurt productivity) and the underlying policymaking process (PMP) that generates them.

II. Objectives of the Project

The aim of this project is to identify the key political economy determinants of the adoption of various policies that may have a negative impact on productivity in Latin American and Caribbean countries. The extent to which different countries have policies deleterious to productivity can be due to a number of factors. For expositional purposes, we arrange some of those factors into three interrelated categories:

- (1) Productivity policies are a byproduct of other policies. Productivity may be not an issue taken into consideration throughout the policymaking process (or may not be well understood) because there is an explicit or implicit predominant view that other issues are of greater importance.
- (2) Some dominant actors use their political power to obtain policies that increase their own rents but have negative effects on overall productivity by creating incentives for economic decisions that lower the productivity of the economy.
- (3) Various political actors (not necessarily dominant) are able to obtain “their policies” in a rather fragmented manner, and these sets of policies introduce distortions with negative implications for productivity. This factor can operate within a given moment in time or, more likely, over time.

This project will help to determine which channels influence policies that affect productivity. In addition, the project will allow us to build a body of knowledge on the relationship between socioeconomic actors (business associations, labor unions, voters, etc), and the workings of the political system and of the policymaking process in a number of Latin American countries, which should be an essential investment for future efforts in policy reform and/or institutional reform. This research would complement previous efforts by the Bank that produced relevant publications such as the 2006 IPES, *The Politics of Policies*. Finally, this comparative project will allow us to verify the validity, in the specific context of several Latin American countries, of some relationships between interest groups, political actors, and public policies that have been postulated in the extant literature.

III. Conceptual Framework and Research Strategy

The conceptual framework is explained in great detail in Murillo, Scartascini, and Tommasi (2008), which is distributed along with these terms of reference. Here we will provide a very brief description of the methodology.

In order to understand the politics behind economic and other policies, one is led to deal with the interactions of socioeconomic interests as political actors, which take place in a political arena made up of State and partisan institutions, which themselves are populated by political actors (politicians, bureaucrats, judges and the like) with their own interests and incentives.

This project will attempt a middle-range analysis of the relevant socioeconomic interests, political actors, and institutions and arenas shaping policymaking processes in a number of country studies, drawing from various strands of literature. A valuable literature in economics addresses the interaction between interest groups and political institutions, aptly summarized and developed in Grossman and Helpman (2001), Persson and Tabellini (2000, Chapter 7) and references therein that provide some general insights, portraying key tensions and conflicts. Nonetheless, political economic models developed by economists need to be complemented with insights from other less formalized literatures in order to interpret real world cases at the level of detail necessary for this project. One issue that most formalized models tend to overlook is the temporality of policymaking. Issues arise over time, and actors strategically bring issues into the table when they believe their position has better chances. Likewise, most policy measures are adopted in addition to (or as modifications of) previous measures, and some actors who lack the power to obtain desired new legislation might nonetheless be able to block changes.

Present-day societies contain a variety of interest groups with some degree of potential influence over policymaking in various policy areas. Given the objectives of this project, we will focus largely on those types of interests and interest groups most relevant to policymaking in those spheres (economic, labor regulation, social policy) most directly relevant for productivity. Socioeconomic actors have policy preferences that can be inferred from their economic position and the overall economic structure, and other actors (ethnic or religious) are also driven by distributive expectations both economic and status/value driven.

“Official” political actors such as politicians, bureaucrats and judges care about their careers, which depend on the incentives of the political system and the constraints on making a career in the political system (politicians need constituencies to represent; bureaucrats need budget for their agencies, judges need political linkages and a law degree, etc.). These political actors and stage managers operate, then, in the arenas provided by political institutions.

These political arenas populated by professional political actors are the main places in which socioeconomic interests play their games in order to obtain beneficial policies. This project will pay special attention to the issue of how socioeconomic actors enter into these policymaking arenas. We will emphasize the question of aggregation and articulation of policy bargains over time. Preliminary exploration of the process of policymaking in some countries suggests that one salient feature in many cases is an important fragmentation of policymaking over time and across arenas.

Policies that are bad for productivity could result from rent generation for dominant political actors or from inconsistent and distortionary policies in different domains, each of which has been captured by particular interest groups (see, for instance, Mexican examples in Levy and Walton 2007, and Levy 2008).

One dimension of that problem that will receive special attention in this project is what may be called “political substitution across policy domains.” Actors who are at the losing end of some policy bargain can substitute away towards another policy domain with a different configuration of actors and perhaps obtain some benefits there. For instance, workers whose access to the formal labor market is impeded by a number of regulations which might be favorable to other workers, may not lobby for labor market deregulation as much as move their demands to a social policy arena where their plea might have better chances. This connects to issues of organization and effectiveness in alternative domains. This “issue shopping” is similar to the logic of “venue shopping” identified in the policy literature, whereby actors interested in pushing a given issue, decide strategically on the entry point within the policymaking process most likely to be favorable to the prosecution of their objectives.

In this project we will try to address these issues from a comparative perspective. The idea is to identify the degree of spatial and temporal fragmentation of the policymaking process, the degree to which institutions (broadly defined to include political parties, electoral incentives, congressional institutions, the bureaucracy, executive behavior, or corporative structures, among other factors) facilitate the internalization of concerns for productivity in the various political bargains and at the various stages of the policy process. One approach to these issues can be summarized as follows:

- (A) One needs to identify the interests that can overcome collective action barriers and thereby become relevant political actors
- (B) One must ask how “encompassing” or productivity-enhancing those effective interests are: do they care about public goods that enhance productivity, or are they merely “narrow” distributive coalitions? If the latter, how “bad” are the rents they are seeking in terms of incentives and efficiency over time? As summarized by Kahn (2000), the rents sought and obtained by various economic actors could be growth-reducing or growth-enhancing.
- (C) Given a distribution of effective interests and the degree of encompassingness and distortiveness of their respective interests, a following step puts these actors in play within a given institutional environment (political party system, etc.). Now the question becomes a systemic one: to what extent do the institutions and modes of political interaction in the country facilitate the achievement of policies that, while distributing in the direction of the stronger political actors, do so in such a way that the effects on overall productivity are internalized to the greatest extent possible?

Answering such questions in a comparative manner is part of the overall objective of the project.

We take an open-minded approach to the level of disaggregation and style of argument used by each team to construct and support their arguments. For instance, some teams may focus on broader configurations of policies and policymaking, while

others might decide to focus on a more specific number of policies, which have been identified as crucial for productivity in the country.

Also, some authors may decide to pick specific “moments” of politics and policymaking if such episodes provide a convenient window for examining the broader issues of the country’s PMP affecting productivity. For instance, one might argue that the current political crisis in Argentina surrounding the increase in taxation of agricultural exports represents one such window.

Additionally, a “country study” could be organized as a paired comparison of two or more countries within the region or contrast with countries from outside the region, in order to build a comparative argument.

In the rest of this section we suggest some possible guiding questions, which might assist as an organizational device for the country studies and for the later comparisons of the broader project. We suggest organizing some of the relevant information in a multi-dimensional “matrix” including:

- (1) Actors: key socioeconomic interests.
- (2) Mechanisms/currencies utilized by socioeconomic actors in their political demands.
- (3) Venues: arenas of the policymaking process, including political institutions.
- (4) Policy domains: policy areas.

For expository simplicity we will formulate the suggested questions from an actor-centered perspective, streaming from (1), but the same story can be told from different angles—for instance, from the point of view of a president trying to put together a political coalition in congress, including some political parties, some socioeconomic actors, and some classes of voters.

Socioeconomic actors who are relevant political actors (and even those who are somewhat ignored in political equilibrium for lack of information or of organization) need to be identified. For each of those actors, questions to answer include the following:

- What are their (policy) interests?
- At what level of aggregation do they operate?
- Why is that the level of aggregation?
- How long have they been in existence and/or organized?
- With what other actors do they coalesce for specific policy demands?
- What makes them relevant political actors (what are their collective action capabilities and political resources)? What are the resources they bring to the table and that enable them to become relevant actors? What is the source of their power?
 - Money to support campaigns or to bribe politicians/bureaucrats/ judges

- Money to sway voters and/or public opinion
- Economic actions (such as capital flight) that harm the economy and hence the government
- Strikes (that hurt government and others)
- Semi-peaceful activities such as piquetes (roadblocks and blockades)
- Violence (by politically motivated and/or hired actors)

A related axis will identify the entry points of socioeconomic interests and actors into the policymaking process and the **venues** in which they make their demands. It is therefore necessary to identify the main characteristics of those venues and of the PMP in general. In some countries interest groups are closely aligned with political parties and exercise influence through those parties, while in other countries members represent their interest groups by holding offices in government. More generally, these venues include:

- Presidency
- Cabinet (presence of interest group member in the Cabinet or presence of indirect representative as a minister)
- Congress
- Political party
- Local government
- Bureaucracy
- Judiciary (non-enforcement of adverse legislation)
- Street
- Public Sympathy

In each case, we seek a factual description of the modes of articulation of each group or sector with the policymaking process, as well as an attempt to explain that articulation.

Finally, it is also necessary to have a description of the relevant policy domains, including the texture and characteristics of the policy in question, its distributive implications, and its intertemporal properties. Is it a policy that has to be “renewed” politically every period, or does it have status quo biases? Which institutions support its implementation over time? What is the history of the policy and of the actors around it?

Once all the above information is available, one might attempt to organize the data into a three-dimensional matrix of Actors, Venues, and Policy Domains, showing which actors play in what venues (and through which instruments) to pursue policies in what policy domain. With that matrix available, we can then begin to examine the fragmentation or articulation of the policymaking process at various stages, one of the candidate explanations for the characteristics and productivity implication of the policies in question.

IV. The Contents of the Country Projects

Each country study will attempt to explain the determinants of policies that affect productivity in each country, examining the policymaking process to identify the actors that influence policy design and implementation as well as their incentives for exerting a negative influence on productivity.

The final outcome of every project will be a document with (approximately) the following structure:

1. A general description of the country's policymaking process. It should include a description of how policies are designed and implemented and the incentives of the main actors. For example, as the aim of this section is to understand who matters and how during policymaking, the description should explain the role of the different branches of government in introducing policies. The section should additionally explore the different venues available for affecting policy. For example, do potential actors exercise influence only at the approval stage, or can they also have an impact on implementation? Finally, the section should explore the incentives of each of the actors involved in negotiations. For example, if Congress is a relevant actor, what are legislators' incentives, and whom do they serve?
2. A brief general description of the socioeconomic actors that have access to the policymaking process and the way they interact or influence public policies. Who are those actors? What influence do they have? What are the channels of influence? Where does their power and influence come from? Have they always been present/and or organized? Will they continue to be present and/or organized in the future?
3. A description of the main characteristics of policies that have an impact on productivity in the country. Among other requirements, teams will be expected to rely on secondary sources describing specific policy episodes or the passage of specific pieces of legislation, insofar as those descriptions provide insight into the workings of the policymaking system, in line with the methodology of this project.
4. A conclusion summarizing the main findings, implications for the methodology and related academic literature, main challenges the country faces, and possible recommendations for policy reforms involving the political environment, or for identifying potential key nodes for reforming political institutions.

V. Contents of Research Proposals

To participate in the project, **research institutions** should submit a proposal detailing:

- A preliminary description of the main characteristics of policies in the country that may affect productivity. This component should include a broad description, as well as some possible examples (of particular relevance) which the authors believe constitute a central case to be explained from the point of view of the broader objectives of the project, and of the methodology of the overall study.¹ The teams should also discuss the tentative hypothesis or hypotheses that will guide the attempt to explain those policy outcomes/characteristics.
- A preliminary description of the policymaking process in the country and the role of external actors and the way they influence the process, as well as the tentative hypothesis or hypotheses that will guide the attempt to explain why their influence tends to have deleterious impact on productivity.
- The research to be carried out in order to ascertain the validity of those hypotheses, including a detailed discussion of the empirical evidence and the methodology to be used.

In addition, proposals must include:

A list of the researchers who will be involved in the project. The center (or group of researchers) should present a research team justification of their capacity to meet the objectives of the project, including relevance of prior experience. Curricula vitae of the researchers may appear in a separate annex. Subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from the IDB coordinator, but the project leader should lead the entire project until its full completion.

A budget (in a separate annex) indicating the time and resources that will be used within the context of the research work plan must be included. The budget proposed by the research center (or research group) should desegregate items financed by the IDB contribution and those financed by the research center or through other sources. The budget should distinguish among amounts assigned to professional honoraria, data collection, “overhead” and other major categories of research expenditures.

VI. Selection Criteria

The research proposals will be selected according to three main factors:

¹ This project is part of the background work for next year’s IDB flagship publication on productivity. The purposes of the umbrella project are: (i) to document the extent to which there is a productivity problem in Latin America; (ii) to identify the role of public policies in this outcome; (iii) to analyze interactions in the policymaking process among actors (governments, business, unions, legislatures) to explain public policies affecting productivity growth; and (iv) to derive relevant policy recommendations.

(i) Originality and Policy Relevance. The research teams must spell out in detail the contribution of the paper in terms of its originality to the academic literature and the policy relevance of the hypotheses that are being tested.

(ii) Data and Methodology. Because of their nature, proposals for this project do not necessarily have to spell out in detail broad data collection or have advanced data processing. However, when it is necessary to choose between similarly strong proposals in terms of originality, policy relevance, and hypotheses, the availability of data and the capacity to process and make useful inferences will be weighted accordingly. Therefore, proposals should spell out in detail the sources of data (if any) that will be used, the chances of success in obtaining such data, anticipated channels for obtaining data, etc. Proposals that most closely match the methodology discussed in Murillo, Scartascini, and Tommasi (2008) (or complement this methodology in relevant ways) will have an advantage.

(iii) Team Experience. The complexity of this project will most likely require a multidisciplinary team (which may include economists, political scientists or public policy scholars). The relevance of the team's experience for the proposed project will be a very important criterion in the selection process.

VII. Coordination and Tentative Schedule of Activities

The main external advisor of the project will be Professor Mariano Tommasi of the Universidad de San Andrés. The coordinator of the project at the IDB will be Carlos Scartascini.

The tentative schedule of activities is as follows:

- **July 21, 2008: Due date for receiving proposals.** Institutions should assure that the complete documentation arrives at the IDB Research Department. Complete documentation includes: "Registration form" with all information requested, the research proposal and CVs (CVs up to three pages long). Send documentation to the attention of Raquel Gomez (email: raquelg@iadb.org).
- **July 28, 2008:** Announcement of **pre-selected** research proposals.
- **July 30-31, 2008:** Brief **telephone conferences** with the directors of the pre-selected research proposal and the evaluation committee to establish precise extent of proposals and commitments.
- **August 1, 2008:** Announcement of **selected research proposals**.

- **September 8, 2008:** Due date for **preliminary report** with an annotated outline of the research paper, data sources and possible hypothesis.
- **September 29-30, 2008: I Seminar** meeting of teams with coordinators in Washington, DC.
- **November 10, 2008:** Due date for receiving **first draft** of research paper.
- **November 19-20, 2008: II Seminar** meeting of teams with coordinators in Rio de Janeiro (prior to LACEA meetings)
- **January 19, 2009:** Due date for **second draft** of research paper.
- **March 2, 2009:** Due date for receiving **final version** of the research papers.

Studies that are of good quality will be considered for publication as working papers. A selection of the best papers may be included in a special issue of academic journal or in an edited volume similar to Stein, Tommasi, Spiller, and Scartascini (2008). Some of the best papers may be selected for presentation at a special session of LACEA 2009.

Note: Research papers must be submitted in English.

VIII. Financial Aspects

Eventhough this project uses the framework of the Latin American and Caribbean Research Network, it is actually funded by the **Country Studies Initiative of the IDB (CSI)**. The **CSI** will provide **US\$30,000** as a contribution to the total budget of the study. The payment schedule is as follows:

- 20 percent within 15 days of signing the formal agreement between the IDB and the respective research center.
- 10 percent within 30 days of presenting and approving the report with an annotated outline of the research paper, data sources and possible hypothesis.
- 20 percent within 30 days of presenting and approving the first draft of the research paper
- 20 percent within 30 days of presenting and approving the second draft of the research paper and upon delivery of the datasets utilized by the study to the IDB.
- 30 percent upon approval by the Bank of the final research paper.

Note: Fees for unjustified delays at any stage of the project will be charged in the form of a reduction in the corresponding payment of **\$200 per day of delay**. Failure to comply with any of the terms of the contract will imply a partial return of the funds paid up to the stage at which the failure occurs.

MAIN SUGGESTED BIBLIOGRAPHY

Drazen, Allan (2006) "Is there a Different Political Economy for Developing Countries? Issues, Perspectives, and Methodology" Mimeo, Maryland.

Fernández-Arias, Eduardo, Rodolfo Manuelli, and Juan S. Blyde. 2006. *Sources of Growth in Latin America. What is Missing?* Washington, DC: Inter-American Development Bank.

Grossman and Helpman (2001), *Special Interest Politics*, MIT Press.

Growth Diagnostics Country Studies (Various authors, 2007) (to be made available through IDB's internet)

Guerrero, Lopez-Calva and Walton (2006) "The Inequality Trap and its Link to Low Growth in Mexico"

Inter-American Development Bank. 2005. *The politics of policies*. Economic and Social Progress in Latin America and the Caribbean 2006 Report. Washington, DC. (Published by Harvard University Press)

Available online at: <http://www.iadb.org/res/ipes/2006/index.cfm?language=english>

Khan, Mushtaq and Jomo K.S. (2000) *Rents, Rent-Seeking and Economic Development. Theory and Evidence in Asia*. Cambridge University Press.

Levy, Santiago (2008) *Good Intentions, Bad Outcomes: Social Policy, Informality, and Economic Growth in Mexico*. Brookings Institution Press

Levy, Santiago and Michael Walton. 2007. *Equity and Growth in Mexico*. forthcoming

Lewis, William. (2004), *The Power of Productivity*, UChicago Press.

Persson, Torsten and Guido Tabellini. 2000. *Political Economics: Explaining Economic Policy*. Cambridge, MA, MIT Press.

Schneider, Ben Ross (2005) "Business Politics and Policy Making in Contemporary Latin America." Background paper for the Interamerican Development Bank annual report 2005, *The Politics of Policies*. March.

Stein, Ernesto, Mariano Tommasi, Pablo T. Spiller and Carlos Scartascini. (2008). *Policymaking in Latin America: How Politics Shapes Policies*. Harvard University Press.

Streeck, Wolfgang and Katheleen Thelen. 2005. *Beyond Continuity*. Oxford University Press.

A large number of additional bibliographical sources are presented in the accompanying paper.