

The Choices Governors Make: political institutions and policy outcomes in the Brazilian states

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Context

- “Political Institutions, Policymaking Process and Political Outcomes” – IADB.
- “Political Institutions, Policymaking Process and Political Outcomes in Brazil” (2006)
- “The Politics of Policies” (2006).
- “Who Decides on Public Expenditures? A Political Economy Analysis of the Budget Process: The Case of Brazil ” (2006)
- “Regulatory governance in the Brazilian infrastructure industry”, World Bank, PPIAF publication, 2006.
- “Explaining the effectiveness of the Audit Courts in the Brazilian states” , 2006.



Project objectives

- Develop a methodological framework for the analysis of sub-national *policy-making*
- Test and validate methodology through
 - Econometric tests with panel data for the universe of the states for the last decade
 - In-depth case studies (RS, ES, MG, PE, BA,RR)

Research questions

- What factors account for the wide variation in developmental policy outcomes in the Brazilian states?
- Why some state governments are able to provide public goods
 - Administrative efficiency, a professionalized bureaucracy, fiscal balance and adequate health and education services
- What factors account for the wide variation in patterns of *rent-seeking and corruption*?
- Why some states are more efficient in the use of public resources than others?
- Why some states governments tend to specialize in the provision of private goods
 - public sector jobs, loopholes and exemptions as well as targeted transfers to specific clienteles?

Conceptual framework

- Institutions matter (North 1994)
- Good institutions reduce transactions costs and foster inter-temporal transactions, which are crucial for cooperation, development and good governance
- Institutions have independent effects on the quality of governance
- Political pluralism and contestability (political competition) are key to ensuring that public goods are provided
- Contestability and levels of institutionalization are important predictors of the quality of policies
- Levels of institutionalization reflect:
 - The degree of independence and professionalism of State Assemblies, *Tribunais de contas*, State judiciary, and bureaucracy

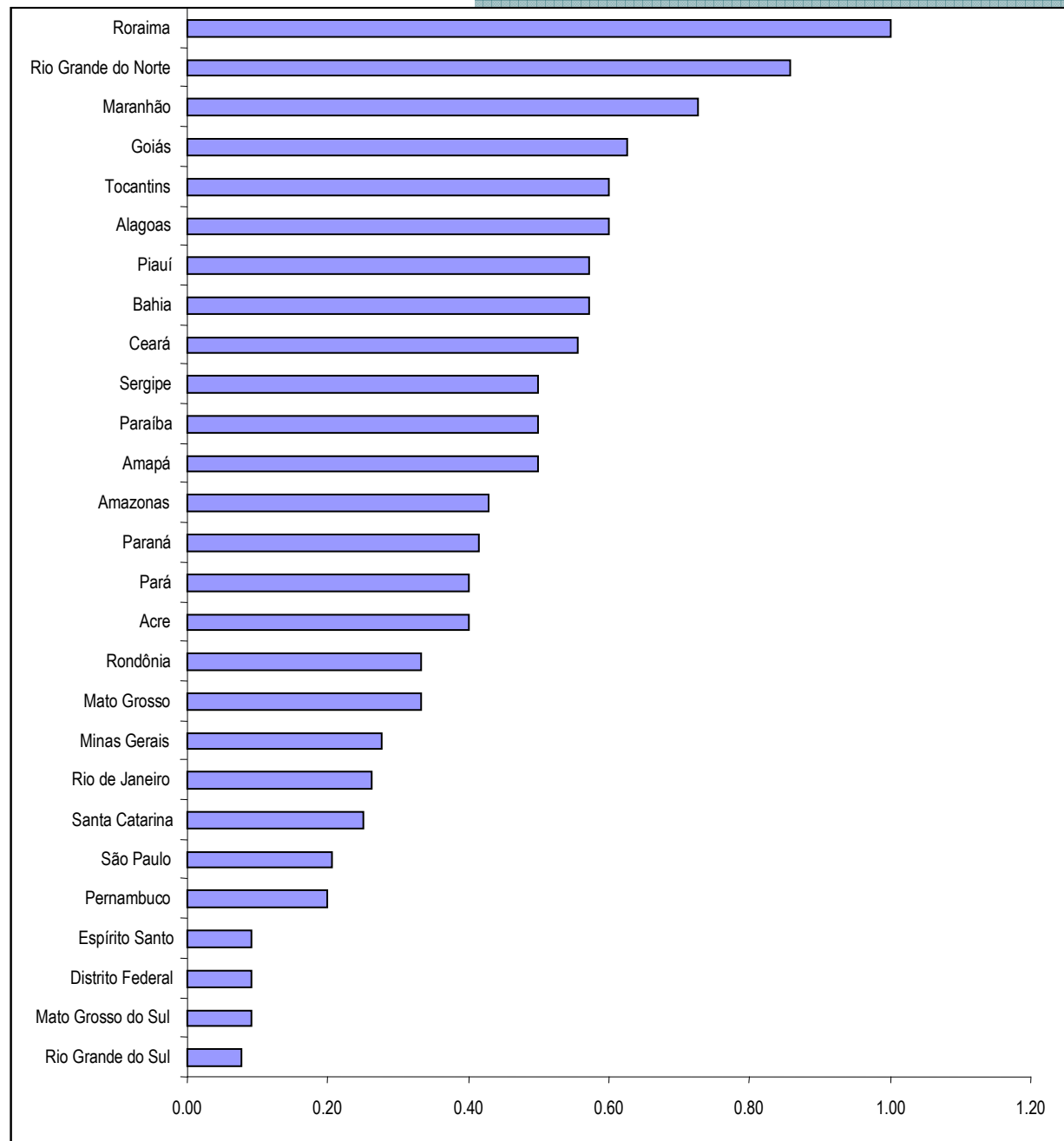
Dependent and independent variables

- Dependent variables
 - Personnel expenditures
 - Fiscal management
 - Corruption
 - Administrative efficiency
 - Health and education expenditure
- Independent variables
 - Checks & balances index
 - A set of political competition indicators
- Controls
 - GDP
 - HDI

Checks & Balances Index Components:

Num.	Name	Description	Source
1	Regulatory Agencies	Regulatory Governance Index. Measures governance of state and federal reg. agencies in Brazil based on survey data. States with no agency at the time of the studied were set at 0.53 (avg. of other states). Data for 2004/2005.	Correa, Melo, Mueller and Pereira (2006).
2	Judiciary*	Index composed of three variables using principal component analysis: i) an efficiency index calculated through nonparametric efficiency frontiers; ii) ratio of number of cases tried over cases opened. iii) number of new cases opened per 100,000 inhabitants.	i) Swengberger, 2006, pg 79. ii) Ministério da Justiça. 2004. Diagnóstico do Poder Judiciário. iii) CNJ Indicadores Estat. da Justiça Estadual 2005, pg.278, 2004.
3	Public Prosecutors*	Index composed of three variables using principal component analysis: i) Expenditures with public prosecutors per resident; ii) Number of prosecutors per 100,000 residents. iii) Number of staff per 100,000 residents.	Sadek and Lima (2006).
4	Audit Office	An index of the level of activity in each state's Audit Office (TCE).	Melo and Pereira (2006).
5	National Justice Council (CNJ)	Number of procedures initiated in each state by the CNJ (agency that serves as a watchdog over the Judiciary) divided by state GDP (divided by 100,000). Data for 2006.	Corregedoria Nacional de Justiça. 2006
6	Media	Percent of all media concession in each state are not in the hands of politicians. [1]	Santos, S. S. e Capparelli. 2005
7	Civic Community index	An index of Civic Community in the states constructed by principal component analysis using (i) voter turnout (1990-2006), (ii) <i>voto de legenda</i> (1990-2006), and (iii) nonprofit sectors workers per capita (ABONG-IBGE 2002 study).	Timothy Power

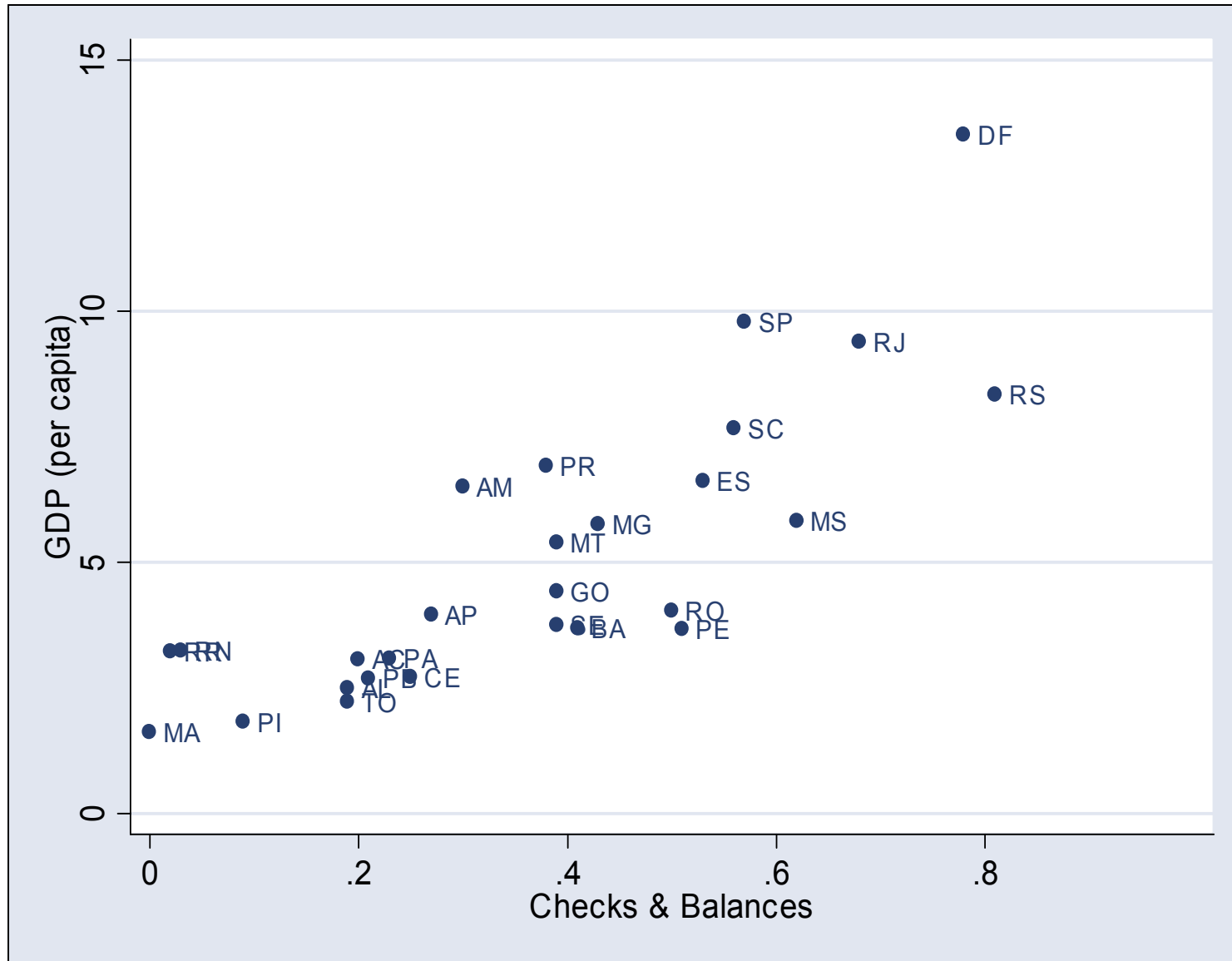
% media controlled by politicians



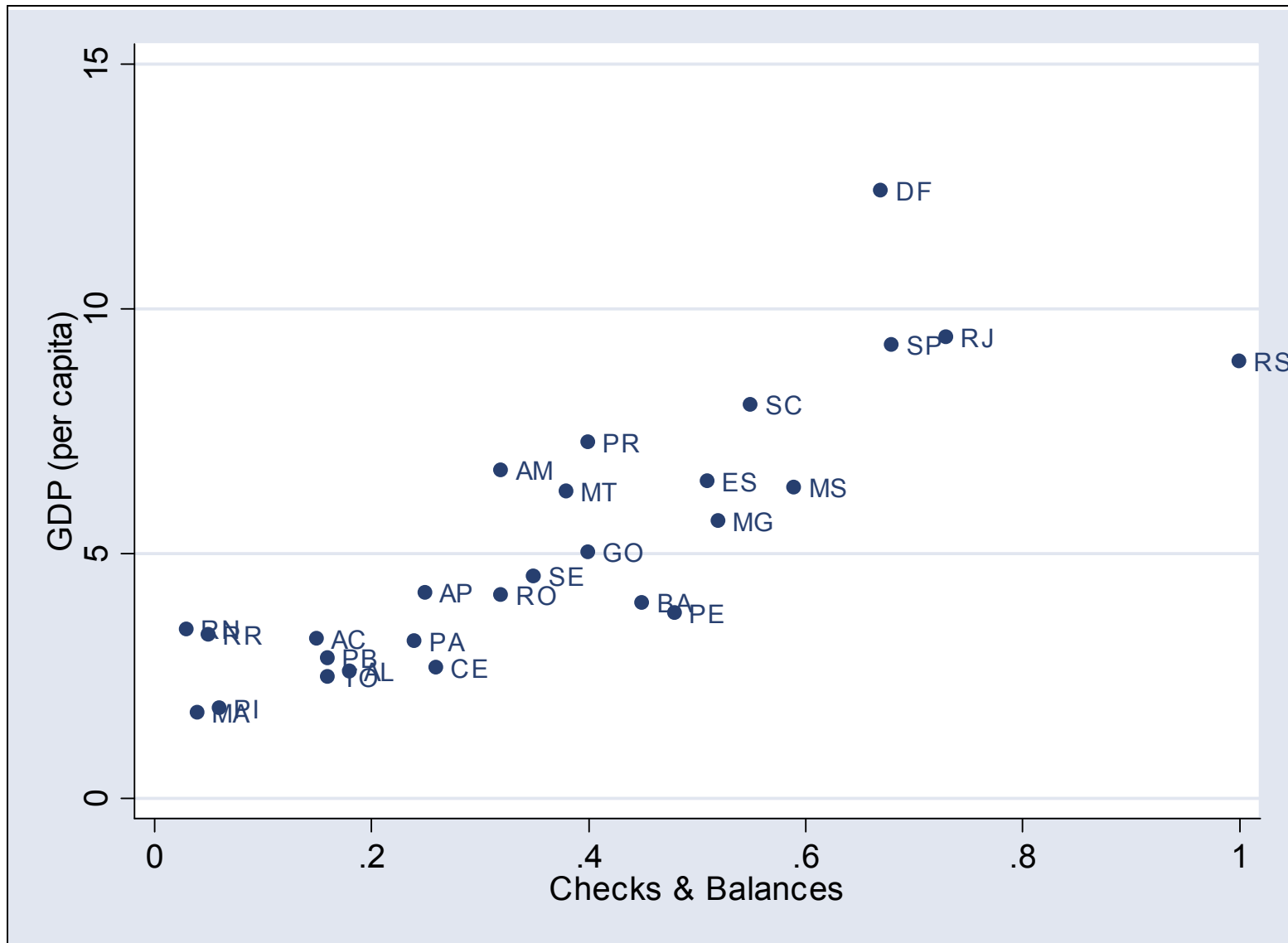
Index of Checks & Balances

Num	State	C&B Index 1999-2002	State	C&B Index 2003-2006
1	Rio Grande do Sul	0.813	Rio Grande do Sul	1.000
2	Distrito Federal	0.775	Rio de Janeiro	0.728
3	Rio de Janeiro	0.684	São Paulo	0.684
4	Mato Grosso do Sul	0.619	Distrito Federal	0.671
5	São Paulo	0.569	Mato Grosso do Sul	0.585
6	Santa Catarina	0.555	Santa Catarina	0.545
7	Espírito Santo	0.530	Minas Gerais	0.519
8	Pernambuco	0.509	Espírito Santo	0.506
9	Rondônia	0.501	Pernambuco	0.483
10	Minas Gerais	0.426	Bahia	0.454
11	Bahia	0.414	Paraná	0.402
12	Mato Grosso	0.390	Goiás	0.400
13	Sergipe	0.389	Mato Grosso	0.377
14	Goiás	0.387	Sergipe	0.345
15	Paraná	0.378	Rondônia	0.318
16	Amazonas	0.299	Amazonas	0.315
17	Amapá	0.271	Ceará	0.258
18	Ceará	0.248	Amapá	0.247
19	Pará	0.227	Pará	0.242
20	Paraíba	0.207	Alagoas	0.183
21	Acre	0.198	Paraíba	0.161
22	Tocantins	0.189	Tocantins	0.159
23	Alagoas	0.186	Acre	0.146
24	Piauí	0.088	Piauí	0.059
25	Rio Grande do Norte	0.032	Roraima	0.049
26	Roraima	0.023	Maranhão	0.043
27	Maranhão	0.000	Rio Grande do Norte	0.029
	Average	0.367	Average	0.367
	St. Deviation	0.222	St. Deviation	0.240

Checks & Balances Index (1999-2002)



Checks & Balances Index (2003-2006)





Indicators of political competition

- Effective number of parties
- Candidates per seat at state elections
- Number of parties in governor's coalition
- Governors' margins of victory (past and expected)
- Possibility of reelection (whether governor is lame duck or not)

Governor's Choices as a Function of Checks & Balances, Political Competition and Economic Variables

	(1) Civil Servant Expenditures (%)	(2) Variation of Civil Servant Expen. over electoral cycle	(3) Primary Deficit	(4) Health Expenditures (% of GDP)
Checks & Balances index	-0.231** (-2.39)	-1.250* (-1.95)	-89.222** (-2.26)	0.010* (1.91)
Checks & Balances Index squared			58.065* (1.91)	
Initial level of Civil Servant Expend. (%)		-7.352*** (-3.24)		
Electoral competition in the State Assembly	0.069** (2.63)	-0.097** (-2.61)		0.008* (1.85)
Electoral competition in the State Assembly sqrd.	-0.007** (-2.84)			
Electoral competition House of Represent.	-0.013 (-1.57)		-3.584* (-1.92)	0.012*** (3.20)
Effective number of parties in State Assembly				0.003* (2.09)
Number of parties in Governor's coalition	0.001 (0.78)	-0.015* (1.68)	0.445** (2.11)	
Margin of victory in last election (Gov.)	-0.004 (-0.73)			0.004 (1.44)
Expected Margin of victory in next election	-0.016*** (-2.93)			
Governor in President's Party		-0.169** (-2.33)	3.935** (2.37)	-0.018*** (-3.35)
Lame duck Governor	-0.015* (1.73)	0.142** (2.11)		-0.008* (-1.77)
Pork (%gdp/1000)				0.0002*** (3.74)

(cont.)

(cont.)

	(1) Civil Servant Expenditures (%)	(2) Variation of Civil Servant Expen. over electoral cycle	(3) Primary Deficit	(4) Health Expenditures (% of GDP)
Gini coefficient of wealth concentration	8.693* (1.75)			
Gini squared	-7.984* (-1.79)			
GDP per capita	-0.0548** (-2.36)	0.058 (0.49)		0.013 (1.45)
GDP			-0.0001*** (-3.39)	
Education			-1.249* (1.87)	
Period			4.063 (1.54)	
Constant	-1.650 (-1.17)	1.407** (2.24)	87.458*** (4.03)	-0.077 (-1.67)
Method	Fixed Effects. 2 periods, 27 states	Fixed Effects. 2 periods, 27 states	Fixed Effects. 2 periods, 27 states	Fixed Effects. 2 periods, 27 states
Periods	1999-2002 2003-2006	1999-2002 2003-2006	1999-2002 2003-2006	1999-2002 2003-2006
Observations	54	54	54	54
R-squared (within)	0.75	0.51	0.63	0.85

Determinants of Politicians Wealth Variation

Politicians' Wealth Variation	
Checks & Balances index	-8.385** (-2.12)
Checks & Balances Index squared	6.359* (0.102)
Initial level of Wealth	0.0000 (0.66)
Electoral competition State Assembly	-0.284* (-2.44)
Effective number of parties in the House	0.436** (2.50)
Expected Margin of victory in next election	0.698*** (2.95)
Number of Parties in Governor's coalition	-0.141** (-2.18)
GDP per capita	0.113 (0.53)
Number of respondents/seat in Wealth variable	-2.599 (-1.31)
Constant	4.34*** (2.89)
Method	Random Effects - 2 periods, 27 states
Periods	1999-2002 2003-2006
Observations	54
Hausman test for random vs. fixed effects	$\chi^2(8) = 9.17$ p-value = 0.3282
R-squared	R-sq: within = 0.4610 between = 0.2718 overall = 0.3546

Notes: In parentheses, t-stats. *** indicates significant at 1%, ** at 5%, and * at 10%.

Determinants of Expenditure Efficiency

	Expenditure Efficiency
Checks & Balances index	1.183** (2.04)
Initial level of Expenditure Efficiency	-0.084 (-1.27)
Electoral competition State Assembly	0.105** (2.06)
Electoral competition House of Represent.	-0.225** (-2.38)
Governor in President's Party	-0.160 (-0.95)
Gini	3.505 (1.35)
GDP per capita	-0.103* (-1.62)
Constant	-1.343 (-0.92)
Method	Random Effects 2 periods, 27 states
Periods	1999-2002 2003-2006
Observations	54
Hausman test for random vs. fixed effects	$\chi^2(6) = 4.10$ p-value = 0.6636
R-squared	R-sq: within = 0.2310 between = 0.3421 overall = 0.2803

Notes: In parentheses, t-stats. *** indicates significant at 1%, ** at 5%, and * at 10%.

Main messages

- Political contestability is necessary but not sufficient condition for good performance
- Checks & Balances is key intervening variable
- Efforts should target at strengthening sub-national institutions, particularly C&B.
- There is no one size fits all in institutional design
 - Attention to contextual incentive structures is key
- Second-best politically viable solutions should replace optimal technical solutions

Main messages

- Strong leadership may undermine institutions and may not be sustainable overtime
- Attention should be paid to systemic impacts of initiatives involving institutional changes
- Initiatives in Monitoring and Evaluation, Transparency and Participation do not operate in a political vacuum.
- Incentive incompatibility may undermine projects in these areas
 - Governments with short policy horizons have disincentives to professionalize bureaucracy
- Lessons from the states