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**When Democracies Deliver  
Governance Reform in Argentina and Brazil**

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**When Democracies Deliver  
Governance Reform in Argentina and Brazil**

**by**

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**When Democracies Deliver**  
**Governance Reform in Argentina and Brazil**

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This dissertation assesses two competing approaches to public administration reform. Through an in-depth analysis of governance reforms in Argentina and Brazil, I demonstrate that, contrary to conventional wisdom, incremental changes sequenced over time (“problem-solving” reforms) are more effective in reducing corruption, increasing transparency, and enhancing accountability than swift, ambitious overhauls pushed through by political leaders (“powering”). Drawing on cognitive-psychological insights about decision making, I show that gradual, sustained changes are more promising because they allow for modifications and corrections along the way and do not depend on finding *the* right solution *ex ante*, a notoriously difficult task in the complex world of policy making.

In addition, I examine the influence of political-organizational context on policymakers’ decisions to either embark on sweeping transformations or proceed more gradually. I argue that executive power concentrated in single-party cabinets facilitates large-scale change, while executive power sharing frustrates “big bang” reform attempts. The absence of repeated overhauls and the diverse actors involved in policy making in

contexts of coalitional presidentialism, however, provides opportunities for technical experts within the state to advance individually small but often cumulatively significant changes. Paradoxically, political-organizational contexts that hinder grand reform attempts may facilitate greater long-term success.

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## **Chapter 1: Introduction**

### **THE PUZZLE: THE VARIED ADVANCES IN QUALITY OF GOVERNANCE**

Waves of democratization—Latin America in the 1980s or Eastern Europe in the 1990s—often raise hopes that newly elected governments will attack the corruption, cronyism, inefficiency, and red tape that often cripple states’ abilities to deliver promised goods and services. Indeed, since the third wave of democratization began, politicians in developing democracies have made countless attempts to transform how, and how well, the state works. With the advent of elections, many hoped the leaders accountable to the people would sweep out corruption and transform states that privileged autocrats and their cronies at the expense of the general interest. The results of efforts to reform the state, however, reveal significant empirical variation. On one hand, many countries have indeed made progress in increasing transparency, ensuring accountability, and strengthening institutions. On the other hand, democracies often disappoint: After the dictators and autocrats leave, corruption persists, security remains precarious, and the quality of roads, health care, and education is left wanting. Why have some countries been able to make progress in reform and state building while others remain mired in corruption and plagued by weak institutions?

Scholars have long argued that pulling developing countries out of dysfunctional equilibria of corruption and inefficiency requires radical, nonincremental, or “big bang” change (cf. Åslund 1994; Durand and Thorp 1998; Rothstein 2011, 117). Where maladies of the state are obvious and solutions seem clear, the problem is overcoming the resistance of well-known entrenched interests. Critical junctures or punctuated equilibria, rare moments of exogenous change, provide openings for imposing sorely needed reforms. If changes are more gradual, opponents will have time to organize resistance against them; if reforms are partial or incremental, they will fail to undercut the vested

interests focused on preserving the status quo. Thus, big bang change, or to use Hugh Heclo's classic term, *powering* (Heclo 1974), holds promise to reverse the fortune of countries that seem doomed to the maladies of the developing world.

Since the third wave of democratization, Latin American countries have attempted numerous powering reforms. In the 1980s and 1990s, the exceptional twin moments of democratization and economic crises gave rise to sweeping transformations of Latin American states as they adopted political and market reforms. In the following twenty years, institutions in a diverse set of domains ranging from social policy, to economic policy, to civil service were created, revitalized, or restructured. Exceptional moments passed, but Latin American presidents continued to power through crucial reforms. Organizational processes, such as budgeting, information systems, coordination mechanisms, and control and oversight were overhauled and modernized. More recently, transformations have focused on anti-corruption, transparency, and openness, with an increased use of new information technologies to achieve these desirable qualities.

The results of these changes, however, varied widely. The last twenty years of public sector reform in Latin America reveal significant empirical variation in advances in quality of governance. Argentina and Brazil—the bases of this project's case studies—are paradigmatic cases of two different paths taken by Latin American states and present an empirical and theoretical puzzle.

Beginning in the late 1980s, Argentine executives implemented numerous ambitious, rapid, and far-reaching state reforms. Conversely, in Brazil, a similar set of large-scale reforms was weakened, stalled, or halted completely. Surprisingly, many of the initially lauded institutional transformations in Argentina have been counterproductive, abandoned, or reversed entirely. Radical reforms did not produce the desired effect in Argentina, which, after numerous wholesale reforms, remains mired in

corruption and institutional weakness. Paradoxically, over time government accountability in Brazil, the laggard reformer, has gradually but markedly improved. According to the World Bank's Worldwide Governance Indicators, Brazil's score on Voice and Accountability increased from 53.8 to 63.8 between 1996 and 2011; while Argentina's declined from 59.1 in 1996 to 57.7.

What explains the eventual success of reforms in Brazil and their frequent failure in Argentina? This leads to two open and related questions: First, why does powering fail? And second, given that powering fails, why do countries continue adopting the strategy? By addressing these two key questions, this dissertation answers the broader question: Under what conditions do states in Latin American democracies transform corrupt, weak institutions into durable, accountable, transparent ones? Conversely, under what conditions do they fail to make progress in institution building?

This dissertation casts doubt on the powering thesis. Existing arguments do not adequately explain why radical attempts at reforming the state often have disappointing outcomes over time. Nor do they explain why countries are actually able to make progress in state building in the long run. They fail to do so because scholars often focus on snapshots of reform and overlook gradual transformations of the state. My study lengthens the scope of analysis and investigates significant episodes of reform in health and transportation in both Argentina and Brazil and their effects over time. In particular, I focus on government contracting (i.e., procurement) reforms. With procurement accounting for approximately 10 to 30 percent of gross domestic product in developing countries (Thai 2009, 107; Ladipo, Sánchez, and Sopher, 58), these reforms are an important empirical lens for understanding how, and how well, the state works.

## **THE ARGUMENT IN BRIEF: THE TORTOISE BEATS THE HARE**

Under what conditions are democratic states able to improve their ability to deliver goods and services to their citizens? This dissertation advances a theory of state building that explains, by invoking mechanisms of bounded rationality, why some reform strategies result in sustainable improvements and describes the political conditions under which policymakers tend to adopt such successful strategies.

What reform processes result in effective and enduring improvements? This study provides a comparative examination of two approaches to governance reform. My research suggests that the approach embraced by many Latin American policymakers and international organizations—namely, swift, wholesale reform pushed through during “windows of opportunity” (i.e., powering)—does not tend to produce effective and lasting improvements. By contrast, I find that incremental changes sequenced over time (i.e., problem-solving reforms) are more effective and durable than sweeping transformations. While powering requires selecting or designing *the* right solution beforehand, the gradual problem-solving approach allows for adjustments and corrections along the way, a far less complex task than crafting radical overhauls. Specifically, problem-solving provides two crucial advantages over the powering approach.

First, continual adjustments and modifications led by actors within the state engender an incremental learning process that allows reform tactics to evolve along the way. Instead of taking on comprehensive reform, problem-solving tackles smaller problems one by one and is often led by technocrats from within the state (*technocratic insiders*) who possess expertise *and* experience. The bounds of rationality are looser for experienced technocrats working on smaller problems than they are for political leaders and outsiders attempting to craft perfectly calibrated overhauls in one shot. Although



such change often advances slowly and haltingly, in the medium to long term these changes can accumulate and result in thorough transformations.

Second, small changes sequenced over time make reform more sustainable and help preserve bureaucratic autonomy, especially in weak institutional environments. Whereas imposition of radical change breeds resistance, problem-solving relies on tactics that avoid conflict or imposition. Such tactics often proceed under the radar. Thus, support for change is built or won as reforms produce benefits, and reformers move on to the next step with a new set of beneficiaries. In doing so, the insider technocrats who lead modest reforms without strong political backing are likely to remain at their posts when political constellations shift, safeguarding their positions and creating opportunities to extend their reforms.

The failure of powering raises a second important question: Why do countries continue to adopt this approach if it does not prove effective? More generally, why do some states tend to choose wholesale reform while others choose incremental changes?

To answer this second set of questions, I examine the influence of political-organizational context on policymakers' decisions to either embark on sweeping transformations or proceed more gradually. I argue that executive power concentrated in single-party cabinets facilitates large-scale change, while executive power sharing frustrates "big bang" reform attempts. In contexts of coalitional presidentialism, however, relative stability (due to the absence of repeated, dramatic overhauls) and the diversity of actors involved in policy making provide opportunities for technical experts within the state to advance changes that build on each other over time. Paradoxically, the dissertation argues, political-organizational contexts that hinder grand reform attempts facilitate greater long-term success. Consequently, this project embeds arguments that establish microfoundations for reform success in the broader political-institutional

context. In this way, it provides an integrated explanation for the initiation and fate of state reform in contemporary Latin America.

### **THEORETICAL RELEVANCE**

The present study has important implications for comparative politics. First, this project contributes to the growing field of research on institutional change. Extant literature has recently highlighted the importance of incremental change (Streeck and Thelen 2005; Mahoney and Thelen 2010), yet we know little about the causes of different types of change (cf. Murillo and Levitsky 2012) or their consequences. By examining the origin of reform and its evolution, this analysis addresses both of these shortcomings by demonstrating how political-organizational patterns shape variation in the bounds of rationality and the type of reform strategy pursued.

Second, with my core argument, I propose a political theory of administrative reform. Whereas specialists often examine reforms from a narrow public policy perspective that is of limited interest to political scientists, my approach helps integrate this topic into the mainstream of the discipline. Political Science, especially Comparative Politics, has tended to focus on the input side of politics (e.g., elections and political parties), while the outcomes of politics are often considered atheoretical and descriptive and are relegated to public policy. This is a problematic imbalance. Policy outcomes have immediate consequences for millions of citizens and for the quality of democracy. By connecting politics to actual outcomes, this project analyzes a neglected topic that merits greater scholarly attention.

Finally, the findings of this dissertation have important implications for the study of state reform. Policy studies often focus on specific episodes of reform: the adoption,

implementation, or initial effects of an important policy. Puzzling in any of these individual episodes appears quite unimpressive: a small adjustment here, a modification there. This research, however, shows that we only understand puzzling fully if we look at a whole sequence of reforms. As this study will demonstrate, an examination of long stretches of policy making reveals previously obscured factors crucial for the development of effective and enduring reforms.<sup>1</sup>

## **RESEARCH DESIGN**

My research employs a multi-method approach that draws on extensive fieldwork. Between August 2011 and December 2012, I conducted over 120 elite interviews (with politicians, ministers, policymakers, civil servants, auditors, businessmen, journalists, scholars, experts, and World Bank officials, among others). Through case studies and within-case comparisons I test the key implications of my theory. Process tracing of specific reforms allows me to investigate the system of interlocking parts that transmits causal forces from reform type to specific outcome (Glennan 2002).

### ***Case Comparisons***

The selection of Brazil and Argentina allows me to apply a most similar systems design, or the multivariate Millian Method of Difference (Lijphart 1971). Brazil and Argentina have similar historical, cultural, economic, and political characteristics: import-substitution industrialization, interruptions in democracy, re-democratization in the 1980s, neoliberal reforms, and state modernization. By comparing across countries with many similarities but where outcomes diverged, the method of difference facilitates

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<sup>1</sup> For examples of two excellent studies that study policy-making over long stretches see Jacobs (2011) and Patashnik (2008).

evaluation of the causal impact of the remaining differences on the dependent variable (Przeworski and Teune 1970, 32–35). Further, it has been over thirty years since both countries have democratized, which provides a track record for assessing reforms over time.

Within-case comparisons provide crucial analytic leverage for addressing challenges introduced by the classic issue of too many variables and too few cases (Lijphart 1971). I use matched comparisons of attempts to increase transparency, reduce corruption, and enhance accountability in government contracting. Comparisons of reform episodes, for example, allow for within-case tests of the proposition that incremental reforms result in more effective and enduring outcomes by holding constant background factors. Within each case, I trace processes of policy design and implementation and draw analytic leverage from comparing cases within the same country over time, across policy areas (i.e., health and transport), and across systems.

### ***Process Tracing***

In order to overcome the limitations of Mill’s methods of comparison for causal inference, the comparison between Brazil and Argentina was complemented by process tracing. Process tracing—the technique of looking for the observable implications of hypothesized causal processes, including alternative explanations to the main theory of interest, within a single case—is particularly appropriate for sequential isolation of causal factors throughout the unfolding stages of reform (George 1979; Bennett 2008). The outcomes of early reform decisions condition later decisions; instead of ignoring the importance of temporal sequence, process tracing makes such path-dependencies a part of the longitudinal analysis of reform politics. Further, an examination of long stretches of

policy making reveals factors crucial for the development of effective and enduring reforms.

## **ORGANIZATION**

The remainder of the dissertation is organized as follows. Part I presents a theory of state building and contains Chapter 2, which explains why some reform strategies result in sustainable improvements and Chapter 3, which describes the political conditions under which policymakers tend to adopt such successful strategies. Specifically, Chapter 2 discusses a number of alternative arguments. Then it demonstrates the flawed logic behind conventional wisdom regarding state reform and establishes the merits of an alternative approach (i.e., problem-solving) that draws on the insights of bounded rationality. It explains that incremental changes sequenced over time, in response to failings in previous policy, provide two crucial advantages over wholesale, rapid change: (1) Continual adjustments and modifications benefit from learning; and (2) an incremental approach makes reform more durable and helps preserve bureaucratic autonomy, especially in weak institutional environments.

Chapter 3 explains the choice of reform strategy and embeds mechanisms of bounded rationality elaborated in Chapter 2 in political-organizational context, showing how established patterns of governing create variation in the type of reform strategy pursued. Whereas executive power in Argentina concentrated in single-party cabinets facilitates large-scale change, executive power sharing in Brazil frustrates “big bang” reform attempts. In contexts of Brazilian coalitional presidentialism, however, relative stability and the diversity of actors in the policy process open up space for technocrats within the state to make small changes that can accumulate over time. Thus, in Chapter 3

I argue that established patterns of governing, rooted in the long history of how power is organized and exercised, account for the cross-national differences in the predominant reform strategies, i.e., the choice of powering versus problem-solving.

Part II is the empirical section. Chapters 4 through 7 analyze public sector reforms, with 4 and 5 focused on Argentina and 6 and 7 on Brazil. Chapter 4 on transportation in Argentina documents the powering overhaul in the early 1990s; it shows how ideal-type models failed to account for changing conditions and unforeseen circumstances and the very process of imposing changes weakened institutions, prompting a fresh set of radical reforms in 2012 that reversed those of the 1990s. This chapter demonstrates how powering creates its own unhealthy dynamic: failing to produce the expected results, but *also* making it very difficult for subsequent reformers to come in and begin a process of successful problem-solving. In doing so, it draws a baseline of for subsequent chapters by detailing the effects of the draconian, almost immediate transformations.

The findings of Chapter 5 on health in Argentina corroborate the failures of comprehensive planning required of powering. The within-country comparison of transportation and health also provides useful analytical leverage in assessing the extent to which the speed and depth of reforms affect outcomes. This chapter shows that change to the health sector did not cut as deeply, or go as far as it did in transport, but areas of comparatively greater stability were more successful at fostering gradual changes down the line. The subsector in which the *most* drastic changes were made, health care for pensioners, ultimately resulted in the most disappointing outcomes over time. Thus, Chapter 5 substantiates the negative correlation between reform speed/depth and success, and shows how delayed and stalled powering reforms can give rise to gradual, problem-solving efforts in some key areas.

Chapter 6 on transportation in Brazil demonstrates how political-organizational context affects the adoption of the powering approach that was highlighted in Chapters 4 and 5. Coalitional presidentialism, by inducing Brazilian presidents to share executive power, impeded most attempts at radical change, thus limiting the scale and speed of reform. For the few changes that did advance, however, a broader-based consensus was forged and plans were subjected to the scrutiny of a diverse set of interests and experts. Moreover, smaller-scale changes opened up greater space for experts within the state to use their longer time horizons and technical acumen to gradually sequence individually small but often cumulatively significant changes. Chapter 6 demonstrates that even though powering in Brazil has been a rare occurrence, when powering did occur, it left negative and enduring repercussions.

Chapter 7 shows that health reforms in Brazil have proceeded even more gradually and with particularly high success. The multiplicity of actors involved in the policy-making process often diluted, delayed, or halted changes. This reduced the scale of the changes attempted and thus, the complexity of reforms attempted at any given time. The sequencing of change also allowed for learning that ultimately increased success.

Chapter 8 concludes by summarizing the core findings of this study. After assessing the applicability of my theory to other areas of governance reform in Brazil and Argentina, the chapter analyzes the extent to which the argument extends to other countries in Latin America by examining reform processes in Chile and Venezuela. These countries have consistently relied on one reform type over the other, and therefore, allow for a clear illustration of and plausibility probe for my theory. Finally, I highlight the broader theoretical implications of my theory by discussing the application of

bounded rationality to studies of policy change and by highlighting the connections between historical institutionalism and bounded rationality.



## **PART I: THEORY**

### **Chapter 2: Bounded Rationality and Governance Reform**

*The best is the enemy of the good.*  
Voltaire

The return to democracy in Latin America has been followed by countless attempts to transform states into modern, efficient, transparent, and rational entities. Many dramatic reform efforts followed the dictates of predominant theories of institutional change, which argued that radical, nonincremental, or “big bang” change was required to overcome the resistance of well-known entrenched interests (cf. Åslund 1994; Durand and Thorp 1998; Rothstein 2011, 117). Have these dramatic reform efforts achieved their goals? In many countries, civil service laws have been redesigned, yet cronyism persists; transparency systems implemented, yet opacity prevails; and even new constitutions written, only to be rewritten. Why did such impressive efforts fail to bring about the anticipated results? What reform processes result in effective and enduring improvements?

This chapter first demonstrates how and why existing structural and institutionalist theories are ill-equipped to answer the research question at hand. Given the insufficiency of extant explanations, this study highlights agency, and specifically, reform strategy to fill the gap. In the following sections I present two competing approaches to public administration reform. I argue that contrary to conventional wisdom, incremental changes sequenced over time (“problem-solving” reforms) are more effective in reducing corruption, increasing transparency, and enhancing accountability than swift, ambitious overhauls pushed through by political leaders (“powering”). Drawing on insights from bounded rationality, I show that the problem-solving approach is more promising because it allows for corrections and modifications based on what

worked and what failed and does not require designing or selecting a wholesale transformation that gets to the heart of numerous problems beforehand, an extraordinarily difficult task even for experts.

This argument adds to research on bounded rationality (Simon 1955; Lindblom 1965; Jones 2001; Bendor 2003; Jones and Baumgartner 2005; Weyland 2007; Bendor 2010; Weyland 2014) by emphasizing how problem complexity and the limited capabilities of decision makers affect reform outcomes. Reform approaches informed by rational choice theories and those based on insights of bounded rationality have an important point in common—they see reform as the result of goal-oriented activities driven by actors’ interests. But powering, which rests on rational choice micro-foundations, is unrealistically optimistic about the ability of actors to achieve their reform objectives. To get such “big bang” reforms right requires a comprehensive grasp of the problem and a very well-designed, systematic plan to address it.

The weight of ample evidence—from laboratory experiments to field studies—shows that the judgments and inferences of normal mortals commonly deviate from the postulates of rational choice. Cognitive constraints mean that instead of evenhanded calculating advantages and disadvantages of reform solutions, decision makers regularly fail to meet such rational standards, often by seeking a satisfactory solution rather than the optimal solution (Simon 1956; Jones 1999; Bendor 2003).

The extent to which cognitive constraints bind and decision makers deviate from rational standards, however, crucially depends on the interaction of two factors: 1) the computational capabilities of the actor and 2) the *complexity* of the task at hand (Simon and Simon 1962, Simon 1990, 7; Bendor 2010, 3; Bendor 2003, 435). The complexity of reform tasks vary enormously, ranging from minor adjustments to radical overhauls. It is, then, the relationship between a decision maker’s mental abilities and the information-

processing demands of the problem at hand that determines whether cognitive constraints will “show through” (Simon 1996; Jones 1999, 297-8).

This chapter will show how both of these factors operate in my framework. The problem-solving approach means that more experienced, competent decision makers (technocratic insiders) tackle reforms and that they engage with more manageable tasks by dividing complex reforms into pieces. By contrast, powering means less experienced decision makers (technocratic outsiders) attempt terrifically complex reforms (swift overhauls of the state). Thus, we might expect cognitive limitations to *always* bind in the case of powering, whereas bounds of rationality loosen for experienced decision makers who modify an existing policy or experiment with a new approach in the problem-solving model.

Moreover, combining both of these factors—more capable decision makers and the simplification of the task environment—allows for learning over time. The problem-solving approach involves advancing change in increments over time. In this sequential process of solving smaller problems, reformers develop a repertoire of pragmatic moves, increasing their ability to recognize solutions to a given problem (Simon 1990; 1996). This engenders a learning process whereby policymakers enhance their cognitive resources via experiential learning. By contrast, ideal-type models of change require getting design right in one shot. Such a one-shot approach requires an optimal solution, whereas change advanced piece-by-piece works even with decision makers who satisfice—that is, seek not the best option, but an acceptable option—because it allows them to learn and correct later (Simon 1956).

The emphasis on learning also has implications for the way expertise is conceptualized in this chapter. The cognitive resources of decision makers are often thought of in terms of expertise, i.e., the education and sophistication of actors. As

regards Latin American policy making, foreign-educated technocrats might come to mind (technocratic outsiders). The theory that will be elaborated in this chapter, however, emphasizes another component of expertise—*experience*, which allows the capabilities of technocrats and government officials from within the state (referred to as *technocratic insiders*) to build over time, including knowledge of problems caused by previous policies. Thus, my application of bounded rationality to reform decision making highlights not only the importance of considering the complexity of the problem at hand, but also the importance of expertise developed by experiential learning over time.

This chapter provides the micro-foundations for the theoretical framework of this thesis. It first shows how and why existing theories are ill-equipped to answer the research question at hand by analyzing the extant comparative literature on reform and state building. Next it presents two competing approaches to reform. It then argues that incremental changes sequenced over time in response to failings in previous policy (i.e., “problem-solving” reforms) provide two crucial advantages over wholesale and rapid overhauls of the state (i.e., “powering” reforms): (1) continual adjustments and modifications benefit from learning; and (2) an incremental approach makes reform more durable and helps preserve bureaucratic autonomy. After the following sections establish the differences between reform strategies and their microfoundations, the subsequent chapter explains predominant reform strategy by embedding mechanisms of bounded rationality in political-organizational macro-developments. In doing so, Chapter 3 shows how established patterns of executive power-sharing create variation in the reform strategy pursued.

## **INSUFFICIENCY OF EXTANT APPROACHES**

### **Structural Theories**

Theories focusing on structural factors predict progress in reform and state building as a product of system-level trends. According to this approach, structural factors such as economic modernization, persistent cycles of economic crisis, or external security threats determine the quality of institutions.

Scholars have long argued that factors resulting from economic development result in the strengthening of institutions and state building; these arguments are loosely derived from modernization theory (Lipset 1959). Specifically, Goldsmith argues that greater transparency, accountability, and participation are the result of development (Goldsmith 2007, 165). Such an argument might explain differences in reform outcomes between regions, but falls short when applied to Latin America. After all, Argentina's GDP per capita has long been higher and, more recently, comparable to that of Brazil (World Bank DataBank). Moreover, in the midst of state reforms in the 1990s Argentina's rate of growth far surpassed that of Brazil (World Bank DataBank). If the arguments advanced above were correct, we would expect to see effective and enduring reform in Argentina, especially during times of high growth; yet in the past twenty-five years Argentina has made less progress than Brazil in state building, even during periods of high growth. Thus, while theories based on modernization would predict Argentina's success in strengthening institutions, these predictions have not borne out.

Moreover, such arguments fail to explain within-country variation. That is, changes in economic development cannot explain why some attempts to strengthen institutions in Brazil have failed while others are successful.

An alternative argument might suggest that persistent cycles of crisis result in variation in reform trajectories (Levitsky and Murillo 2013). According to this

hypothesis, Argentina's recurring crises, and particularly the severe economic collapse of 2001, explain its disappointing reform track record; whereas Brazil's gains in institutional strength are due to periods of greater economic stability. This argument, however, is not convincing. The Argentine crisis was largely the *result* of decisions made during periods of high economic growth. Further, improvements to institutions in Brazil began in the 1990s in the midst of crisis.

Crisis arguments, then, turn the causal arrow in the opposite direction. Indeed, structuralist arguments in general raise a series of pernicious questions regarding endogeneity: does economic growth increase institutional quality? Or does institutional quality increase economic growth and preclude economic crises? The weight of the evidence seems to suggest that indeed institutional quality is an important *cause* of cross-country differences in economic growth and prosperity (North 1990; Knack and Keefer 1995; Collier and Dunning 1999; Acemoglu, Robinson, and Johnson 2001; Kaufmann and Kraay 2002; Rodrik, Subramanian, and Trebbi 2004; Bates 2008). While economic growth might matter for state building, it does not matter alone and theories roughly based on modernization provide unconvincing explanations for reform trajectories in Latin America.

A final set of scholars posit another structuralist argument: external security threats explain successful institutional development (Tilly 1990; Doner, Ritchie, and Slater 2005; Teorell and Rothstein 2013). Tilly (1990) underscores the crucial role of war making for state building; Teorell and Rothstein (2013) argue that Sweden's loss of a significant war against Russia (1808-9)<sup>2</sup> resulted in the transition from a corrupt state to a Weberian one; and Doner et al. (2005) contend that extreme geopolitical insecurity was

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<sup>2</sup> In what is commonly called the Finnish War, Sweden lost Finland to Russia. The Finnish War, in which the existence of Sweden as a nation was threatened, gave rise to the "revolution of 1809" (Teorell and Rothstein 2013, 4).

crucial for the development of high levels of state capacity in East Asia. These arguments might explain differences between regions or countries that faced variation in external threat; however, countries such as Argentina and Brazil have no such obvious threat. Moreover, scholars such as Centeno (2002) argue that war in Latin America in the nineteenth century was directed toward destructive domestic ends and therefore did not contribute to state building in the same way as it did for European nation-states.

In sum, structuralist theories are better at explaining variation between world regions, but fall short when invoked to explain *within* country variation or the difference between Brazil and Argentina, which share many structural characteristics. Moreover, characteristics that Latin American countries do not uniformly share, such as depth or frequency of economic crises, are more likely the *result* of improved institutional quality rather than the cause.

## **Institutional Theories**

### ***Interest Driven Theories and Political Insurance***

Interest driven theories, specifically theories of political insurance, claim that high levels of electoral competition result in successful reform. Such theories are informed by the rational choice paradigm: politicians are strategic actors with the objective of maximizing their chances of winning elections (Geddes 1995). In order to achieve this objective, elected officials balance the costs of governance reforms (e.g., foregone access to state resources such as patronage) against the benefits (e.g., increased state capacity and governance outcomes). Insurance theories of reform argue that if the electoral defeat of an incumbent is imminent, such officeholders will seek reforms that increase accountability and transparency as beneficial means to tie the hands of their successors

(Moe 1990).<sup>3</sup> Thus, where electoral competition is high and there is frequent turnover of power, we should expect the strengthening of institutions.

Such arguments have often been applied to foundational moments such as the creation of courts. For instance, Ginsburg (2003) argues that increasing fragmentation augments political uncertainty, which creates incentives for designers to create more autonomous and powerful courts that can protect them when they are out of power. Bill Chavez (2004) similarly shows that electoral uncertainty and fragmentation shape the creation, design, and operation of high-level courts (2004). A similar logic has been applied to a number of other areas. For instance, Berliner and Erlich (2013) argue that electoral competition is a major driver of transparency reforms in their analysis of sub-national freedom of information laws in Mexico. The insurance argument has also been applied to post-communist state reconstruction by Grzymala-Busse (2007), who argues that even opportunistic political parties will limit their corrupt behavior and abuse of state resources when faced with strong political competition. In all of these instances uncertainty—either because of political fragmentation, political competition, or future loss of political control—motivates strategic moves by rulers to limit their own power.

The insurance arguments apply to some institutional and policy domains, but not as well to others. That is, such theories may apply to the creation of powerful courts during highly uncertain foundational moments or institutions of horizontal accountability among government officials, but they are less useful for explaining variation in the effectiveness and endurance of state reforms initiated by the executive.

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<sup>3</sup> In Moe's words, designers "do not want 'their' agencies to fall under the control of opponents. And given the way public authority is allocated and exercised in a democracy, they often can only shut out their opponents by shutting themselves out too. In many cases, then, they purposely create structures that even they cannot control" (Moe 1990, 125).



First, the logic of the political insurance argument unravels when considering officeholders' strong demands for campaign financing and the sequence of events that could induce the governing party to implement reforms that enhance accountability and transparency. According to the political insurance logic, a governing party would only implement reforms when certain of its own impending electoral doom. Only then is there reason to tie the hands of one's successor. Yet, one would expect that at precisely this vulnerable electoral time, such a party would be inclined to use public resources available to fund electoral prospects.

Second, supposing that uncertainty did induce an executive to advance reforms that limited their own power and discretion (e.g., institutional mechanisms to enhance accountability or transparency), designing such changes, especially in the midst of uncertainty and impending electoral defeat, is a complex task, one that assumes comprehensive rationality. That is, insurance arguments assume a seamless translation between interest and outcomes: If an executive wishes to increase transparency and accountability and has the power to implement reforms, such theories largely assume they will be able to design or select effective mechanisms of accountability and transparency. Insurance theories, then, confer a great deal of computing power to decision makers who are likely cognitively constrained by lack of time, information, attention, and resources. Thus, instead of their reforms automatically engendering institutions that limit presidents' discretion, we might expect them to create imperfect reforms which may also result in various unintended consequences in the real world.

Furthermore, political insurance arguments assume that if rules are adopted they will be sustained over time. This is also dubious. If the governing party passes a reform only when it foresees defeat, then there is little time to implement the changes. Even if lame ducks carried out reforms, little prevents an incoming governing party with enough

legislative support to renege on the reforms (Moe 1989; Moe 1990). Indeed, Johnson's (2012) study of stabilization funds in Latin America demonstrates that nascent institutions meant to protect natural resource revenues, created based on the political insurance logic, tend to be unsuccessful in constraining future raids of such funds.

In conclusion, while political insurance arguments may apply to some policy and institutional domains, they fail to adequately explain effective and enduring governance reforms. Many of these theories are valuable, however, in that they provide insights into some of the motivations for policies that limit the executive's discretion and how fragmentation shapes the reform processes (Bill Chavez 2004), a point discussed in further detail in Chapter 3.

### ***Formal Institutional Theories***

A final set of theories also focus on strategic choice but expect reforms to be shaped by formal political institutions. Formal rules, according to the rational choice framework, constrain behavior by defining the set of choices actors can select to maximize their self-interest (cf. Shepsle 1989).

Such arguments have been used to argue that presidential systems would result in political instability and gridlock. For instance, Linz (1994) influentially argued that presidentialism was less conducive to democratic stability because it engendered a winner-takes-all dynamic that polarizes competitors and results in zero-sum politics and deadlock. Presidentialism was expected to be particularly pernicious in Brazil. Scholars such as Mainwaring (1999) and Ames (2001) drew attention to perceived deficiencies of the party and electoral systems. Brazil's electoral system of open-list proportional representation, high average district magnitude, and federal structure result in extreme

multipartism and high levels of fragmentation (Mainwaring 1999).<sup>4</sup> This combination of multipartism and presidentialism was to exacerbate the “perils of presidentialism” by complicating interparty coalition building and was labeled as the “difficult combination” (Mainwaring 1993; Stepan and Skach 1993).

These arguments regarding the deleterious effects of formal institutions are challenged by empirical evidence in Latin America. It is precisely the countries with the “wrong” formal institutions that have fared the best in terms of governance outcomes. After all, countries with coalitional governments such as Chile and Brazil consistently lead the region in rankings of control of corruption, government effectiveness, and rule of law (Kaufmann, Kraay, and Mastruzzi 2010).

A revisionist literature has developed that seeks to explain the success of Brazil and the comparative failure in Argentina to sustain high quality policies. This literature provides some valuable contributions, but has some important weaknesses as well. For instance, Spiller and Tommasi (2007) focusing on Argentina hold that specific institutional arrangements result in low quality policies, emphasizing the importance of intra-temporal cooperation for high-quality policies. In particular, they argue that strong governors who seek to obtain fiscal favors from the executive and legislative careers linked to the province instead of the national level result in short-sighted executives and an unprofessional legislature, which in turn reduces cooperation over time and results in low-quality policies. Such an argument could plausibly explain the low quality of policies in Argentina, but it does not explain why Brazil tends to do better. After all, governors in

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<sup>4</sup> The pattern of cabinet sharing in Brazil cannot, however, be attributed solely to the existence of PR or to its electoral system. As Colomer details, the choice of electoral system are best understood as a consequence of the expectation and calculations of the established political leaders. Proportional representation systems were adopted in pluralistic constituent conventions or by political agreements among multiple political parties that expected to compete in uncertain elections and to share power in multiparty cabinets (Colomer 2004, 86).

Brazil are also powerful and the legislature is a focal point for fiscal favors (cf. González 2010).

The Spiller and Tommasi analysis has been extended to explain other countries in Latin America as well. Scartascini, Stein, Tommasi, and collaborators argue that the institutions that define the policymaking process shape incentives of political actors, which conditions the quality of policies a country will adopt (Stein et al. 2006; Scartascini, Stein, and Tommasi 2010). These authors highlight how features of the formal institutional framework, ranging from brief legislative careers (Jones et al. 2002; Saiegh 2010) to low bureaucratic capacity and autonomy (Zuwanic and Iacoviello 2010), have deleterious consequences for the quality of policies (Stein et al. 2006; Scartascini, Stein, and Tommasi 2010). Indeed, these factors and the role of intra-temporal cooperation are crucial for the quality of public policies.<sup>5</sup>

Likewise, the revisionist literature on Brazil makes some important contributions. Figueiredo and Limongi (1999; 2000), some of the first to revise the pessimistic expectations regarding Brazil's institutional structure, argue that institutions, such as presidential power and the existence of centralized leadership in the lower house, ameliorate political instability and gridlock. Similar arguments about the success of multiparty presidentialism in Latin America point to the importance of a strong executive and institutions of accountability able to check the president (Melo and Pereira 2013).<sup>6</sup> Other scholars have highlighted the importance of multiparty cabinet composition for securing governability (Deheza 1997; Amorim Neto 1998) or the importance of the

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<sup>5</sup> While their emphasis on cooperation and the importance of historical institutions for the policymaking process is well placed, their analysis fails to demonstrate why we would ever see countries move out of dysfunctional equilibrium.

<sup>6</sup> Existing analyses argue that a strong web of accountability is a precondition for the success of multiparty presidentialism (Melo and Pereira 2013). However, such arguments fail to explain where such a web comes from or how strong checks and balances develop.

executive toolbox—distributive politics and coalition formation—for maintaining legislative support (Cheibub, Przeworski, and Saiegh 2004; Raile, Pereira, and Power 2010; Chaisty, Cheeseman, and Power 2014).

As Chapter 3 will demonstrate, my research builds on what we have learned about how presidents manage the legislature in countries with multiparty presidentialism.

The problem with the literature on the quality of policies and multiparty presidentialism in Brazil, however, is its failure to address, arguably, *the* most important actor in policymaking explicitly: the executive. The quality of many public policies is ultimately determined by the executive (Bergara et al. 2006, 34), just as bureaucratic capacity and autonomy are largely determined by the executive (Ames, Carreras, and Schwartz 2012). Yet, existing literature tends to focus on the importance of the legislature (Cheibub, Przeworski, and Saiegh 2004; Raile, Pereira, and Power 2010),<sup>7</sup> although many of the most important questions of the state are exclusively in the domain of the executive and his or her cabinet. Cabinets in presidential systems are accountable not to the legislature, but to the executive. Therefore, they are largely outside of the formal institutional framework (Martínez-Gallardo 2010, 120). Yet, instead of opening up the black box of the state, existing analyses highlight correlations between multiparty presidentialism and democratic sustainability and even success, but do not explain why multiparty presidential democracies have been more successful than critics presumed, leaving many questions unanswered: What effects does Brazil's coalitional presidentialism have on reform and institutional strength? How and why have institutions of accountability been strengthened in Brazil? Why do we see greater bureaucratic

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<sup>7</sup> For exceptions, see Bersch, Praça, and Taylor (forthcoming; 2014).

autonomy and capacity in states that have coalitional presidentialism? What explains the dramatic within state variation in reform outcomes in countries such as Brazil?

In conclusion, formal institutional arguments often do not produce the anticipated results. This has been clearly demonstrated by the revisionists' attack on Linz. This newer literature does well to shed light on the importance of cooperation for quality policies and strategies presidents use to induce cooperation in fractious legislatures. Yet, at the same time these arguments fall short of identifying why cooperation occurs within the executive and the causal mechanisms that connect differences in political institutions to governance outcomes (cf. Bersch, Praça, and Taylor 2014). Above all, structural and institutional explanations cannot adequately explain within-country variation. They fail to do so because they leave little room for agency and leadership.

### **THE IMPORTANCE OF REFORM STRATEGY: A THEORY OF EFFECTIVE AND ENDURING REFORM**

Given the insufficiency of extant explanations, this study highlights agency, and specifically, reform strategy. In the following sections I present two competing approaches to public administration reform, arguing that incremental changes sequenced over time (“problem-solving” reforms) are more effective and enduring than swift, ambitious overhauls pushed through by political leaders (“powering”). After the following sections establish the differences between reform strategies, the subsequent chapter shows how political-organizational context shapes the decision to rely on powering or problem-solving.

#### **The Merits of Problem-Solving over Powering**

Which reform processes result in effective and enduring improvements? A prominent strain of literature argues that the surest way to reform the state is swift,

wholesale change (cf. Åslund 1994; Durand and Thorp 1998; Graham and Naím 1998; Rothstein 2011, 211). Drawing on Heclo (1974), I call this approach *powering*. The goals of such forceful overhauls—whether passing pension restructuring or reducing the number of civil servants—are clear and comprehensive from the outset. Proponents argue that corruption and inefficiency can be eliminated by replacing dysfunctional institutional arrangements with policy programs that engender more salutary incentive structures. Under normal conditions, however, societal interests have a stranglehold over institutions, and thus, change must be imposed by driving rapid, far-reaching reforms past beneficiaries of the status quo. If reforms are carried out more gradually, opposition forces will coalesce and block them (Graham and Naím 1998, 336); if reforms are partial or incremental, they will fail to undercut vested interests focused on preserving the status quo. Thus, political entrepreneurs and reform champions are crucial for harnessing political will and power to push change past opposition forces during windows of opportunity. Reforms successfully shepherded through the challenging phase of initial implementation, adherents posit, will become durable and self-enforcing.

A second set of scholars disagrees with the powering thesis. They illustrate that institutional reform is often the product of gradual change, resulting from efforts to address problems within the established policy-making process (Lindblom 1959; Hirschman 1973; Heclo 1974; Taylor 2009). I refer to such reform as *problem-solving*, understood as advances that seek to resolve policy problems and puzzles.<sup>8</sup> Whereas powering pursues an ideal program and has clear, comprehensive goals, problem-solving fixes existing programs, its objectives arise from addressing problems caused by the

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<sup>8</sup> I thank Bryan Jones for suggesting this term. “Problem-solving,” is used broadly in cognitive and political science literature and is greatly influenced by Herbert Simon’s later work on complex tasks with Allen Newell (Newell and Simon 1972, Simon 1996, cf. Bendor 2003, 457). I elaborate a specific meaning for the term here that draws on this earlier work. In other places I have labeled the same concept as “puzzle-solving,” drawing on Hugh Heclo’s (1974) distinction between “powering” and “puzzle-solving.”

current policies in practice. Problem-solving implies that substantial changes are achievable by sequentially advancing small, novel, partial, or indirect changes, often quietly and under the radar of political and social forces. Instead of pushing wholesale reform through at “critical junctures,” proponents of problem-solving take advantage of small opportunities and use the complexity of policy areas to advance individually minor but often cumulatively significant changes. Administrative officials convince politicians to agree to an incremental step, planning and hoping that the “one little step” sets in motion a sequence of steps that add up to significant transformation. This “reform-mongering” approach, as Hirschman labeled it, results in a “non-spectacular, stealthy style of change,” which often yields impressive results over the long run (Hirschman 1971, 335).

### **Tackling Problems versus Applying Power**

The concepts of powering and problem-solving provide a prism through which to view theories of reform strategy. While powering assumes a homeostatic equilibrium able to maintain itself against external “disruption,” problem-solving assumes a more flexible equilibrium. Thus, while proponents of powering argue that a strong push is required to bring significant change, problem-solving starts from the premise that incremental change is achievable within the existing sociopolitical environment. And whereas powering confronts opposition head-on, problem-solving tends to avoid it. Three attributes are particularly important for distinguishing powering from problem-solving: the reform proponent, aspirational level, and time frame. Powering reforms are initiated or championed by political leaders who seek to overhaul institutions within the time frame of the executive’s term; problem-solving reforms are spearheaded by state technocrats who make incremental modifications over a longer time frame.



Table 1 expands on these distinctions. The different purposes and causal processes are formulated in ideal-typical terms, but it is important to note that any particular reform may fall on the spectrum between powering and problem-solving.

Table 1      Types of Reform

	<i>Powering</i>	<i>Problem-solving</i>
<i>Proponents</i>	Politicians and political technocrats (outsiders)	Bureaucratic technocrats and civil servants (insiders)
<i>Source of Reform Attempt</i>	Surge/shift in power	Bureaucratic identification of problems
<i>Objective</i>	The goal is clear—must be imposed against opposition	The exact goal is unclear; however, experts have a clearer idea of which direction to take than political actors
<i>Timing</i>	Response only when problems worsen to crisis proportions	Continuous attempts at correcting problems before they become crises
<i>Aspirational Level</i>	Wholesale and rapid Based on ideal models	Incremental and sustained Based on experiential learning
<i>Strategy</i>	Sweeping use of political power to break through log-jams	Finding space and using technocratic capacity to make gradual advances
<i>Time frame</i>	Completed within executive's term	Sequenced over time across presidential terms
<i>Outcome</i>	Episodic—depending on Power balance	Enduring

In the early 1990s, advocates of powering highlighted the importance of the exceptional economic and political crises in Latin American and post-communist countries for *tabula rasa* state overhauls.<sup>9</sup> When these extraordinary situations passed, scholars began to shift attention from macroeconomic reforms to strengthening the state (Naím 1994), de-emphasizing the importance of “exceptional” crisis and instead

<sup>9</sup> See special issue on reform and democracy *Journal of Democracy* 5 (October 1994).

underscoring the crucial role of political entrepreneurs for imposing change regardless of opposition during “limited windows of opportunity” (Bunse and Fritz 2012, 6). Commitment of strong political leaders became the crucial element for successful reform (cf. Grindle 2004, 20; Bunse and Fritz 2012, 34–35). Such leaders, together with technocratic reform teams or “change teams,” would have the capacity to push complex overhauls of state institutions past resistance (Durand and Thorp 1998, 5; Graham and Naím 1998, 336; Grindle 2004, 187).<sup>10</sup> Scholars even coined a new term for the marriage of technocratic skill and high-level political power, “technopols” (Dominguez 1997). Such political leaders and their hand-picked experts, here referred to as “outsiders” or “political technocrats,” were seen as crucial for bringing about political and economic transformations (Grindle 1977; Camp 1985). As recent analyses have pointed out, the focus on political will and the importance of political technocrats for ensuring reform outcomes remains pervasive in the development community and among International Financial Institutions (Andrews 2013, 7-15).

By contrast, problem-solving implies that existing state actors (i.e., “insiders”) can drive the reform process without significant realignment of political forces (cf. Taylor 2009), advancing marginal changes in a gradual fashion without direct confrontation with powerful resistance (Hirschman 1973). The underlying assumption of a flexible equilibrium means it is possible to make partial changes, observe the impact, and make necessary corrections along the way. This is not a dramatic process led by political leaders or technopols with the ear of the president. Rather, technocrats or higher-level public servants fulfilling their regular professional duties are often the quiet

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<sup>10</sup> While these scholars emphasize the importance of strong political executives for successful reform, they cannot all be unequivocally labeled as adherents to the powering view. Grindle, for instance, recognizes the challenges that imposed reform later creates for sustainability (Grindle 2004, 189-194).

backers of these modest changes.<sup>11</sup> This process does not require breaking through resistance with force; instead, it is a process of “muddling through,” to use Lindblom’s (1959) term, of learning from addressing problems in previous policy by making adjustments and corrections over time, thereby assessing what is effective and what is not.

How can this slow, arduous process possibly produce advantages over powering’s promises of rapid, comprehensive, and enduring change? An evaluation of the limitations of the powering approach lends insight into problem-solving’s merits. The powering argument is based on two assumptions that are often unrealistic and unpromising in the real world: 1) It is possible to rationally design or select the appropriate reform; and 2) once implemented, dramatic, comprehensive reforms will persist as new vested interests begin to defend the status quo.

### ***Decision makers’ limitations in designing wholesale change***

The powering approach, which implies comprehensive rationality, overestimates the ability of political actors and decision makers to find the appropriate solution. If political actors were to rationally select a reform, according to the rational choice institutional approach, they would rank-order their goals and systematically evaluate the best means to achieve those ends. Yet, this is an especially daunting task when planning an overhaul to a program, agency, or ministry that aims at getting to the root of numerous problems at once. Such change is very different than simply adjusting the levels of existing policy (e.g., increasing the number of Medicare recipients). It implies that it is

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<sup>11</sup> Scholars such as Huber and Stephens also advocate for more incremental policy change as opposed to dramatic change; however, their account does not attribute change to technocratic actors, but rather to “bottom up” pressures (Huber and Stephens 2012, 257). Mahoney and Thelen’s power-distributional theory of institutional change recognizes the importance of gradual change, but says little about which types of processes engender effective and enduring change (Thelen 2010, 1-37).

possible to identify and systematically assess different reform alternatives by performing careful cost-benefit analyses. However, especially for the most complex problems the constraints on policymakers' time and information and the considerable uncertainty they face make the extensive planning required unlikely to be carried out in a systematic and balanced manner (cf. Tetlock 2005; Weyland 2009). Indeed, the selection and execution of powering reform is not like playing chess where the rules of the game are fixed and agreed to by the players ahead of time. Instead, the rules themselves are up in the air. Powering implies creating a new game from scratch and forcing players, who were engaged in a prior game, to play with an entirely new set of rules.

To execute these feats in such a complex task environment seems to require an omniscient and omnipotent political actor with extensive informational, computational, and financial resources. In short, it requires comprehensive rationality in an extraordinarily demanding task environment. We know, however, that humans often fall far short of full rationality and are instead boundedly rational (cf. Jones 1999; Bendor 2003; Weyland 2008). As Lindblom long ago argued, rationally designing wholesale comprehensive reform assumes "intellectual capacities and sources of information that men [and women] simply do not possess" (Lindblom 1959, 80). Instead of proactively seeking out alternatives, calculating advantages and disadvantages, and maximizing their utility by selecting the solution that ranks highest in terms of costs and benefits; policymakers commonly rely on heuristics that facilitate the process of making choices, often by seeking a satisfactory solution rather than the optimal solution (cf. Simon 1955; Bendor 2003).

The extent to which actors rely on cognitive short-cuts depends not only on the task environment's structure, but also on actors' computational capability, which act together, according to Herbert Simon, like a "scissors [with] two blades" (Simon 1990, 7;

Bendor 2003, 435). Thus, it is important to note that while all decision makers confront limitations such as lack of time, attention, resources, information, and intellectual and computing capacity to rationally evaluate complex problems (cf. Jones 1999, 305–309), some face tighter bounds than others. Elected officials are particularly disadvantaged: Politicians do not have the resources to be experts in more than a few areas. Their attention span is short (Jones and Baumgartner 2005), and frequently jumps from economic crisis, to health care, to agricultural policy, and so on. And while their political technocrats may have impressive academic credentials, their fate is often linked to the political actor who appointed them, resulting in shorter time horizons and an absence of the expertise important for understanding the effects of change in a new context—experience working in the government. Consequently, relying on “outsiders” to implement radical changes in new contexts heightens ambiguity, uncertainty, and unintended consequences. Thus, comprehensive reforms often fail to replace problematic institutional arrangements with functional alternatives; instead, they engender new dysfunctionalities (cf. Scott 1998).

Problem-solving, designed to cope with a world of bounded rationality, is more realistic and, consequently, more promising. The limitations of decision makers highlighted above are less acute for the proponents of problem-solving. Newell and Simon long ago noted that problem-solving performance varies greatly: In chess, there are both grandmasters and duffers (Newell and Simon 1972). What separates the two is expertise, which allows the grandmasters to remember action rules and recognize repeated patterns. Duffers, however, are left to time-consuming attempts to compute their next play (Simon 1990, 8–11). The rules of chess, of course, are more fixed and predictable than 21st-century policymaking, which requires knowledge of informal rules governing the larger context within which reforms occur.

Such expertise is developed by the study of an area over time. And *time* is what accounts for the variation in the capabilities of powering versus problem-solving proponents: Whereas political actors have many issues “on their plate” and tend to have short time horizons, bureaucratic technocrats and civil servants are able to gain experience and expertise in a given area over time, including knowledge of problems caused by previous policies. As a result of this contextual understanding, they are frequently in a better position to evaluate problems and to design solutions in a particular policy area than their elected counterparts.

Moreover, problem-solving divides complex problems into smaller steps, thereby simplifying the task environment. Instead of taking on comprehensive reform, problem-solving tackles smaller problems one by one. Efforts to resolve these smaller problems draw on decision makers’ existing knowledge and experiences, not abstract planning that requires greater time, information, and intellectual capacity than is possible. This approach does not assume that definitive solutions to complex problems exist; solutions are instead discovered by comparing locally known alternatives with the status quo (Lindblom 1959). The improvement may not be the “best” possible solution, but it is better than the status quo, it is attainable, and, most importantly, it is improvable.

Taken together, these two advantages of problem-solving—its fit with the capabilities of the decision makers and its simplification of the task environment—result in learning over time.<sup>12</sup> In the sequential process of solving smaller problems, reformers acquire a repertoire of pragmatic moves and their results, increasing their ability to recognize solutions to a given problem (Simon 1990; 1996). In this way, problem-solvers work around the opposition one step at a time. Over time, changes often build on

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<sup>12</sup> For a definition of learning see Hall (1993, 278).

themselves and cumulatively create a thorough transformation of the original policy framework. As such, state actors improve their ability to address harder questions, building their expertise, learning about different types of reforms, and discovering what it takes to guide reforms past opposition. Whereas the advocates of powering search for magic bullets, problem-solving engenders an incremental learning process that allows reform tactics to evolve along the way.

### ***Challenges to the durability of powering***

The second assumption of powering—that once implemented, reforms will persist as new vested interests begin to defend the status quo—also regularly fails to hold in the real world. Powering has two goals: the elimination of the status quo and the establishment and consolidation of a new approach. These two goals, however, create a contradiction: Success in eliminating established arrangements endangers the chances of reform consolidation.

Consider a powerful President A intent on sweeping out corruption in health care provision. By bringing in outside experts and change teams, President A may successfully overcome resistance, uproot the status quo, and establish a new approach. These changes, according to the powering logic, will generate a new set of vested interests that will defend the new policies. Deep-cutting reforms that usher in transparency or clean government, however, entail concentrated costs for opponents, often creating a backlash. Thus, when President B assumes power at  $t+1$ , she is likely to respond to the backlash and empower opponents before supporters of the diffuse benefits can organize a defense. And there is every reason to believe that B has similar power to A, especially if crises have persisted. Why, then, right after an entirely new policy framework is installed, would relevant actors believe it has staying power? The defenders

of the new program (diffuse benefits) are weaker than the *prior* defenders of the status quo (concentrated benefits) before A's reforms. Thus, B's counter-reforms will face even less resistance. Therefore, the *paradox of powering* is that triumph in the eliminatory stage hinders the probability of enduring, consolidated reforms.<sup>13</sup>

Moreover, the more “normal” the conditions under which powering is imposed, the more the paradox applies. War, earthquakes, or hyperinflation may effectively wipe out resistance to change without generating concentrated costs and backlash. However, as noted earlier, in the absence of crises, proponents of powering emphasize political will or a political leader's ability to cast a problem as a “crisis.” In non-crisis periods political technocrats—teams of experts or new political appointees that have the expertise and “will” to execute the changes—are brought in to implement reforms (Durand and Thorp 1998, 140). Yet, political capital often runs out well before a reform's diffuse beneficiaries are able to defend it against a new leader who abandons her predecessor's unconsolidated reform efforts. Over time, this process chips away at bureaucratic capacity and experience, reduces the possibility of learning from past mistakes, and leaves reforms without defenders.

When reform efforts predictably fail, powering changes are often discarded as a “partial” solution that failed to strike at the root of the problem and the search for a comprehensive model begins anew (Hirschman 1973, 240–241). Levitsky and Murillo label frequent and radical institutional change *serial replacement* (2013, 95; 2014). Although these authors are referring to overarching institutional changes, such as constitutional replacement, the same concept can be applied to public sector reform. In

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<sup>13</sup> I am grateful to Kurt Weyland for suggesting this term and idea.



weak institutional environments, then, powering can be particularly damaging to learning and institutional development.

By contrast, problem-solving engenders stability. Modest, achievable improvements do not rely on powerful politicians or their political technocrats; they rely on professionals with a deep understanding of existing problems and their political context. These professionals encounter problems and have enough experience to understand what is achievable in addressing them. Instead of relying on power, problem-solving emphasizes technical expertise and contextual knowledge. Instead of seeking to break the existing status quo, problem-solving relies on tactics that avoid conflict. Thus, the technocratic insiders who lead modest reforms without strong political backing are likely to remain at their posts when political constellations shift, safeguarding their positions and creating opportunities to extend their reforms. Whereas powering often meets strong resistance after the political will that gave rise to the changes evaporates, problem-solving tends to endure.

In sum, problem-solving reduces the complexity of the large problems that powering seeks to solve, and is more promising because insider technocrats are often less bounded than political actors. Additionally, the sequencing of reform contributes to learning over time and creates a dynamic by which experts within the state can advance change without inciting opposition and remain in a position to defend and surreptitiously extend their reforms. Finally, if the problem-solving process is successful, then there is no need for wholesale reforms.

## **CONCLUSION**

This chapter elaborates and assesses two competing approaches to governance reform. It argues that contrary to conventional wisdom, problem-solving (incremental

changes sequenced over time) is more effective than powering (swift, ambitious overhauls pushed through by political leaders). Drawing on insights from bounded rationality, I show that the problem-solving approach is more promising because it allows for modifications and corrections along the way. Such changes are based on learning from previous reforms. Thus, the problem-solving approach does not require decision makers to design or select perfectly-calibrated comprehensive reforms in one shot, a complex task that places extraordinary demands on comprehensive rationality.

The argument that problem-solving is more effective and enduring raises another set of important questions. Reform type, after all, is not determined randomly, nor is it always a matter of choice. What leads governments to power or to problem-solve? If powering is ineffective over the long-term, why do states keep powering? Of course, states do not *only* power or *only* problem-solve. Indeed they do a mixture of both (Hall 1993). At the same time, one type of reform or another is often more prevalent. What, then, causes these differences in reform approach? The next chapter addresses this question by showing how political-organizational context shapes reform type.

### **Chapter 3: An Explanation of Reform Type**

The theory of effective and durable reform advanced in Chapter 2 drew on bounded rationality to make an argument about how problem complexity and the limited capabilities of decision makers affect reform outcomes. Comprehensive attacks on problems via “powering” emerged as less effective and durable than gradual efforts to resolve problems via “problem-solving.” Such a theory does not, however, explain under what conditions governments tend to power or problem-solve. In order to account for this prior step, namely the choice of reform strategy, this chapter embeds mechanisms of bounded rationality in political-organizational context, showing how established patterns of governing create variation in the type of reforms pursued.

I argue that established patterns of governing, rooted in the long history of how power is organized and exercised, account for the cross-national differences in the predominant reform strategies, i.e. the choice of powering versus problem-solving. These entrenched patterns influence policymakers’ decisions to either embark on sweeping transformations or proceed more gradually. In short, executive power concentrated in single-party cabinets facilitates efforts at large-scale change, while executive power sharing frustrates sweeping overhauls. In contexts of coalitional presidentialism, however, relative stability (due to the absence of repeated, dramatic overhauls) and the diversity of actors involved in policy making provide opportunities for insider technocrats to advance individually small but often cumulatively significant changes. Exclusionary governing patterns in Argentina tend to foster presidents’ selection of powering, whereas inclusionary governing patterns in Brazil tend to result in the predominance of the problem-solving approach.

The subsequent sections elaborate on this argument and demonstrate how entrenched governing patterns influence both the complexity of the change attempted and the collective capabilities of the reformers—both sides of Simon’s scissors. This chapter first situates my argument within the broader paradigm of historical institutionalism and highlights the theoretical connection between historical institutionalism and bounded rationality. Next, it demonstrates the endurance of governing patterns in Brazil and Argentina and places these countries in Latin American comparative perspective, highlighting the importance of formal institutional rules, but also underscoring that institutional rules alone cannot explain such patterns. Next, it offers an explanation of the persistence of these patterns, emphasizing the sequential nature of inclusion and exclusion. Finally, it shows how these entrenched practices of governing mediate the bounds of rationality in policy decision making by shifting the locus of decision making, which affects both the collective capability of reformers and the complexity of the changes they attempt.

#### **HISTORICAL INSTITUTIONALISM AND BOUNDED RATIONALITY**

The classical version of historical institutionalism is well suited to explain continuity, but not change. Critical junctures—rare moments of uncertainty when the rules of the game are in flux, followed by long stretches of continuity—can explain, for example, how the type of regime under which a party develops has indelible effects on its long-term growth and development (Collier and Collier 1991). Yet, such arguments emphasize that after short bursts of change, institutional stasis returns as new vested interests begin to defend the status quo and the rules of the game “lock in,” generating “increasing returns” to existing institutional arrangements (cf. Pierson 2000). This

emphasis on long periods of continuity fails to explain ongoing incremental change or frequent, radical change.

More recent variants of historical institutionalism have sought to correct for this lacuna and emphasize that institutional change often occurs outside of the context of critical junctures. Scholars such as Mahoney and Thelen show that gradual and incremental change, in which actors build upon, displace, subvert, or redirect institutional rules, is, in fact, quite common (Streeck and Thelen 2005; Mahoney and Thelen 2010).<sup>14</sup> Levitsky and Murillo also demonstrate that change is quite common. However, they call attention to a very different process of change that focuses on overarching institutional changes, such as constitutional replacement. They argue that in weak institutional settings radical overhauls of institutions, which they label “serial replacement,” are indeed a frequent occurrence (Levitsky and Murillo 2013; 2014). While Thelen and her co-author’s gradual change is similar to the problem-solving process in Brazil, Levitsky and Murillo’s description of frequent and radical change accurately describes the pattern of powering change in Argentina.

The revisionist historical institutionalism does well to highlight the empirical realities of change and posit hypotheses regarding the factors that might create such patterns, but both of these efforts stop short of developing a full theory that could explain the patterns of change they highlight. Mahoney and Thelen highlight the importance of veto possibilities for either accelerating or hindering the pace of reform. Weak veto possibilities and low levels of discretion in interpretation or enforcement of rules result in patterns of institutional displacement, whereas in contexts of strong veto players and high

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<sup>14</sup> Gradual change is also highlighted in early policy process models developed in the American context, e.g., incremental adjustment from the status quo (Wildavsky 1964) or “mutual partisan adjustment” (Lindblom 1959).

levels of enforcement, layering is more common (Mahoney and Thelen 2010, 19). Moreover, they argue that problems of rule interpretation and enforcement create opportunities for change, but fail to adequately address what happens in such gaps, suggesting only that power-distributional conflict drives change (Mahoney and Thelen 2010, 4). Yet, Mahoney and Thelen (2010) is more of a classification scheme than a causal theory. For many of the episodes of “problem-solving” reform that this project will analyze, there simply is no obvious power-distributional shift that corresponds to an institutional change. These authors do highlight the role of actors such as “subversives,” who infiltrate the state apparatus in order to slowly layer new rules over the existing framework, but their approach fails to explain where these actors come from. Nor do they explain why such subversives have an advantage in advancing such reforms.

Levitsky and Murillo argue that in Latin America, where institutions are often weak, processes such as layering, drift, and conversion are less common (Levitsky and Murillo 2014:192) than radical and recurrent change. But this generalization of the region cannot be easily extended to countries such as Brazil and Chile. Indeed, “radical and recurrent” transformation characterizes the powering reforms in Argentina quite well. However, Brazil, especially in the 1990s, would be characterized as a weak institutional environment in which the policy process on a wide variety of issues took the form of gradual change. Thus, it is not the case that gradual reforms are only a product of developed democracies that Thelen et al. study. In Latin America substantial cross-national variations exists. Why, then, do we see radical and recurrent change in Argentina and gradual change in Brazil? Why have some countries in Latin America been able to escape serial displacement?

Levitsky and Murillo’s work on overarching institutional changes provides a number of important factors that may determine why serial replacement occurs more

often in certain contexts than others, citing regime instability, electoral volatility, social inequality, frequent borrowing from abroad, rapid institutional design, crises, and the de facto weakness of formal institutional veto players (Levitsky and Murillo 2013, 105). Additionally, they present valuable insights into the conditions under which changes endure: “[W]hen powerful actors are excluded from the rule-writing process, they are likely to attack fledgling institutions early on. Consequently, new institutions are unlikely to endure long enough to gain broad public legitimacy, stabilize actors’ expectations, or generate the kinds of vested interest and institution-specific investments that increase the costs of replacement” (Levitsky and Murillo 2014, 201). Notwithstanding these valuable insights, they do not develop a complete theory that would explain why we tend to see serial replacement in some countries and gradual layering in others.

In sum, the revisionist historical institutionalism does well to highlight the empirical realities of change and posit hypotheses regarding the factors that might create such patterns, but such efforts fail to adequately address the causes and consequences of change. Such shortcomings within the historical institutionalist paradigm are due in large part to the absence of microfoundations that adequately integrate structure and choice.

The work of Jones and Baumgartner makes an important contribution to filling this lacuna (2005; 2012). Their *general punctuation thesis* emphasizes the role of human limitations in processing information in a policy-making system (2005) and demonstrates how bounded rationality can serve as a microfoundation for classical historical institutionalism. Under normal circumstances, information regarding policy problems is largely ignored and responses delayed due to the overabundance of information and limits on human attention. Thus, the policy-making process typically appears to be stable, unchanging, or incremental. However, as the pressure to address problems accumulates and as attention shifts to the issue, policymakers respond and overreact to the issue,

causing policies to shift in a disjointed and episodic manner. In this way the response is disproportionate to the problem (2012, 7).

Institutional change, then, appears to follow a “critical juncture” model—exceptional changes followed by long periods of stasis. However, as Jones and Baumgartner point out, disjointed policy responses are “part and parcel of the same policymaking process that generated the periods of stability” (2012, 7). Problems are ignored until they become so acute that something finally *must* be done—this generates an overreaction to the problem, a disproportionate response. This pattern of underreacting then overreacting creates a leptokurtic distribution, characterized by many minor changes and some major breakthroughs. That is, a leptokurtic distribution has a higher central peak, more outliers than a normal distribution, and an absence of medium or proportionate changes (the type of changes that actually solve problems). Essentially, such a distribution reflects a “punctuated-equilibrium” or “critical juncture” pattern—dramatic and rare shifts followed by periods of continuity (Jones and Baumgartner 2012, 7-8).

Thus, the Jones and Baumgartner general punctuation thesis can be used to set the traditional approach of historical institutionalism on cognitive psychology’s well-corroborated findings regarding information processing and human choice. By drawing on the more empirically solid microfoundation of bounded rationality, their approach integrates periods of stasis with bursts of change. At the same time, it is important to note that their thesis alone cannot explain the cross-national variation observed by Levitsky and Murillo. Why is “serial replacement” ubiquitous in some contexts and gradual “layering” or “conversion” in others? What explains variation among countries or even time periods? What factors might tighten or loosen bounds of rationality?



In order to explain variation in information processing, Kurt Weyland's research on diffusion waves in European democratization demonstrates how organizational developments mediate the bounds of rationality (2012; 2014). Before mass political organizations arose, citizens relied on informational shortcuts in order to decide whether to rise up and emulate foreign challenges to autocrats. Bounds of rationality were especially tight for such citizens and they often made hasty, ill-informed decisions. However, with the advent of mass organizations, regular citizens began to take cues from representative leaders who were able to process information in a more proportionate fashion. Thus, bounds of rationality loosen as citizens became tied to organizations with leaders who had access to information and greater processing capacity. In this way, Weyland explains how organizational developments condition the bounds of rationality.

Drawing on Simons' early work about how organizations can compensate for cognitive limitations by enhancing information processing (Simon 1976; Bendor 2010, 165-169), such research provides insights into how bounded rationality can be embedded in organizational contexts in order to explain collective variation in capabilities and even task environments.

This project's argument contributes to efforts at theory construction within the historical institutional paradigm by drawing on the work of scholars who focus on microfoundations of change (e.g., Baumgartner, Jones, and Wilkerson 2011; Simon 1990; Weyland 2009) while embedding such insights in organizational context (Simon 1976; March and Simon 1993; Weyland 2012). We see serial replacement because of consistent overreaction to information in some contexts and comparatively more stasis in other countries that tend to process information in a more balanced, proportionate manner. In particular, powering reforms, which frequently fail to consolidate, produce crisis. This consequently results in an overreaction to information, a new round of powering,

contributing to a pattern of serial replacement. By contrast, problem-solving relies on organization, which loosens the bounds of rationality, yielding higher quality decision-making and information-processing (Simon 1976). This allows decision makers to process information in a more even-handed fashion, averts “crises,” and contributes to the pattern of gradual change. What causes this cross-national variation in organizational capabilities?

### **ESTABLISHED PATTERNS OF GOVERNING: AN EXPLANATION OF REFORM STRATEGY**

My argument addresses this question by demonstrating how established political-organizational context shapes variation in the bounds of rationality. Chapter 2 advanced a theory of effective and enduring reform that rests on insights of bounded rationality; accordingly, the variation in decision-making capacities and complexity of task environment explains reform outcomes. This theory did not, however, explain the conditions under which such variation occurs.

I argue that established patterns of governing shape cross-national differences in the predominant reform strategies. Inclusionary governing patterns—where presidents share executive power with a coalition—result in greater reliance on the problem-solving strategy, whereas exclusionary governing patterns—where presidents appoint single-party cabinets—result in greater reliance on the powering strategy.

Consistent patterns of inclusion in Brazil and exclusion in Argentina have emerged over time. Argentine presidents, who win with slim majorities, have routinely governed in an exclusionary manner, concentrating executive power in single-party majority cabinets to the exclusion of other parties, appointing primarily members of their own party or faction to the cabinet and positions within executive (Lijphart 2012, 3; Teichman 1998, 32). By contrast, scholars of Brazil increasingly recognize that

“*presidencialismo de coalizão*” (i.e., coalitional presidentialism) has become *the* established governing approach in Brazil (Abranches 1988; Melo and Pereira 2013).<sup>15</sup> An outpouring of literature in recent years has started to investigate how discretionary appointments, in addition to other executive “tools” such as pork and budget amendments (cf. Raile, Pereira, and Power 2010), are provided to political allies in tacit exchange for legislative support (Meneguello 1998). In this way, presidents, like European prime ministers, fashion multiparty cabinets and legislative coalitions. Brazilian presidents, unlikely to have a majority in Congress, have consistently shared government responsibilities with broad multiparty coalitions (cf. Lijphart 2012, 3).

While formal electoral rules shape these patterns by conditioning the size of presidents’ legislative majorities and incentives for coalition building, they do not ensure the development of informal practices that facilitate coalition building.<sup>16</sup> As Table 2’s index of coalitional necessity highlights, presidents who have a minority in the legislature have incentives to build coalitions in order to secure passage of their legislative agenda. Indeed, Brazil scores highest on the index and has developed strong power-sharing practices as its high score on proportion coalition shows.<sup>17</sup> Like Brazil, Ecuador is a case of extreme multiparty presidentialism, and while scholars have highlighted the role of

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<sup>15</sup> Coalitional presidentialism is defined by Chaisty, Cheeseman, and Power as “a strategic response to the institutional dilemmas posed by the coexistence of a presidential executive with a fragmented multiparty legislature. In order to win support for the legislative agenda of the executive, presidents must behave much like prime ministers in the multiparty democracies of Western Europe: they must first assemble and then cultivate interparty coalitions on the floor of the assembly. The objective of the president is to foster the emergence of a legislative cartel which will reliably defend the preference of the executive branch” (2012, 3). Coalitional presidentialism is labeled “multiparty presidentialism” by Melo and Pereira; Amorim Neto refers to it as a statutory strategy in which the president “appoints a majority cabinet, selects more partisan ministers, and allocates portfolios on a more proportional basis” (Amorim Neto 2006, 424). Power (2010, 25-26) provides a very broad definition that is used as a shorthand for the totality of ways in which macropolitics has adapted to the 1988 Brazilian Constitution.

<sup>16</sup> Scholars such as Chaisty, Cheeseman, and Power, have emphasized coalitional formation and cabinet inclusiveness is a *political* choice (Chaisty, Cheeseman, and Power 2012, 9).

<sup>17</sup> It is important to note that Table 2 sets a low bar for what is defined as a coalition. Inclusion of any cabinet members from other parties constitutes a coalition.

clandestine “ghost cabinets” in coalitional management, these patterns of power sharing have not developed into enduring practices.<sup>18</sup> Moreover, given institutional design, we might expect single-party cabinets in Uruguay. Yet, in large part because of the enduring and important role of factions, Uruguay has developed patterns of power sharing (Magar and Moraes 2012; Altman 2000; Caetano et al. 1988). This suggests that there is greater variation in governing patterns than formal electoral rules alone can explain.<sup>19</sup>

Table 2      Multiparty presidentialism and coalitions in Latin America circa 2003-2004

Country	Effective number of parties in Lower House	Lower House seats held by the President's party (%)	Index of coalitional necessity <sup>a</sup>	Proportion coalition <sup>b</sup>
<b>Brazil</b>	<b>7.81</b>	<b>18.50</b>	<b>63.65</b>	<b>1.00</b>
Ecuador	6.71	25.00	50.33	0.60
Chile	5.08	8.33	46.57	1.00
Bolivia	5.21	26.50	38.29	0.89
Venezuela	4.75	34.00	31.35	0.22
Peru	4.24	40.50	25.23	0.89
Mexico	2.79	37.00	17.85	0.00
<b>Argentina</b>	<b>3.18</b>	<b>48.00</b>	<b>16.54</b>	<b>0.18</b>
Colombia	2.02	20.00	16.16	0.81
Uruguay	2.73	43.00	15.56	0.91
Paraguay	2.73	51.00	13.38	0.30

<sup>a</sup> Index of coalitional necessity is obtained by multiplying the effective number of parties by the inverse of the percentage of seats held by the president's own party, then dividing by ten for ease of interpretation. Source: Calculated by author from data in Jones (2007).

<sup>b</sup> Proportion of country-months where ministers of more than one party were represented in the cabinet. Source: Martínez-Gallardo (2005; 2010:126).

Sources: Power 2010; Jones 2007; Martínez-Gallardo 2005; 2010,126

<sup>18</sup> Mejía Acosta shows that between 1979 and 1996, Ecuadorian presidents had developed clandestine mechanisms for managing coalitions, what he labels “ghost coalitions.” Yet, changes starting in 1996 disrupted practices of coalition building and undermined governability (Mejía Acosta and Polga-Hecimovich 2011). In the following years, three consecutive presidents were ousted before the end of their mandate.

<sup>19</sup> For instance, of all presidents without majority support in the legislature, 35 percent decided not to form coalitions (Martinez-Gallardo 2010, 126).

Entrenched governing patterns are shaped in large part by expectations about how a president will govern. Party (or group) A's monopolistic practices (e.g., eschewing compromise and negotiation with the opposition or even other factions of the party, stacking the bureaucracy and other institutions with loyalists, and reorienting the structure of institutions and the state to undermine the resources of would-be opponents) virtually guarantee that Party B's practices will be equally exclusionary toward Party A. In this way, a pattern of sequential exclusion is developed.

In Argentina, single-party cabinets date at least back to President Hipólito Yrigoyen (1916-1922), who established the precedent of hegemonic exclusion by appointing a narrow, rather than broad-based, cabinet. During the alternation in power between President Hipólito Yrigoyen (1916-1922) and President Marcelo Alvear (1922-1928), who were *both* from the same political party (UCR), Alvear removed nearly all Yrigoyen's loyalists from the executive and installed his own supporters, rejecting notions of power sharing within the executive even within the same party (Romero 2010: 50-53). After over a decade of military rule, the election of Juan Perón and the subsequent purge of the public sector, served to entrench the pattern of exclusion. Large numbers of bureaucratic personnel hired by previous governments were removed and Peronist loyalists installed (Buchanan 1985, 73; Kurtz 2012, 192), marking the beginning of a transformation of the state that involved the wholesale creation of institutions and sweeping changes to the economy. This pattern of gutting the bureaucracy with alternations in power between Peronists and anti-Peronists only reinforced the exclusionary governing pattern.

By contrast, if a party (or group) includes other political parties in the governing coalition—appointing coalitional allies to ministries and agencies or providing pork—it induces the next power holders to include coalitional allies. Over time smaller parties

come to expect a certain level of participation in the executive. A pattern of inclusion is developed. In Brazil, wide-ranging coalitions date back to the Second Brazilian Republic (1946-64) when the typical cabinet included parties that represented 78 percent of the seats in Congress (Abranches 1988; Ames 2001, 160).

As a pattern of sequential exclusion/inclusion is developed, the costs of deviating from the regularized practices increase as political actors develop expectations about the spoils they will enjoy with a president in power. As Pierson highlights, such political-organizational arrangements “encourage individuals and organizations to invest in specialized skills, deepen relationships with other individuals and organizations, and develop particular political and social identities. These activities increase attractiveness of existing institutional arrangements relative to hypothetical alternatives. As social actors make commitments based on existing institutions and policies, their cost of exit from established arrangements rises dramatically” (Pierson 2000, 259). Thus, political actors develop expectations and skills based on the expectation that presidents will follow the mold. For instance, many Brazilian parties expect that, regardless of which party wins the presidency, they will receive a good share of executive appointments and a certain amount of budget amendments. By contrast, Argentine political actors maintain the implicit assumption that the president will reward her own party/loyalists with advantages of discretionary appointments.

Deviation from these entrenched patterns has entailed high costs. Brazilian presidents who have governed in an exclusionary manner have been thrown out, whereas Argentine presidents who govern in an inclusionary fashion have been weakened and pushed out. For instance, since 1946, all formally democratic governments in Brazil have adopted the inclusionary governing style, with the exception of President Fernando Collor de Mello (1990-1992). Yet, Collor’s deviation demonstrates the costs of breaking

with the established approach. Upon taking office, the PRN, Collor's party in the Chamber of Deputies, comprised only 5.1 percent of the seats, but instead of distributing discretionary appointments to form an oversized coalition in Congress, President Collor reserved cabinet positions for a narrow group of cronies and technocrats (Amorim Neto 2002). Throughout his term other parties were indeed included in his cabinet, yet, by contrast to the largess of other Brazilian presidents in doling out positions within the government, Collor's allocation of portfolios was woefully insufficient. This exclusionary approach was exacerbated by his extensive use of decree power; Collor issued 36 decrees in his first 15 days in office (Amorim Neto 2002:76). When Congress reacted to this by threatening to rein in executive decrees with a bill (Power 1998: 211), Collor then attempted to backtrack, reducing the number of executive decrees and increasing the number of discretionary appointments to other parties. However, it was too late: Congress ultimately put an end to Collor's deviation from the inclusionary governing approach. After a corruption scandal erupted, President Collor was impeached by his colleagues in Congress (Weyland 1998). Other Brazilian presidents have survived severe scandals without sanction from Congress,<sup>20</sup> but Collor was different in that he neglected the importance of coalition building.<sup>21</sup>

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<sup>20</sup> For instance, President Lula da Silva survived the Mensalão vote-buying scandal, one of the more prominent incidences of corruption involving some of the highest levels of government.

<sup>21</sup> Even the most programmatic and principled Brazilian parties have avoided Collor's mistake of attempting to govern alone. For instance, in 1994 President Fernando Henrique Cardoso (1995-2002) of the social democratic PSDB party included the conservative Partido da Frente Liberal (PFL) and the clientelistic Partido Trabalhista Brasileiro (PTB) in his coalition. Such unsavory alliances ensured an oversized majority with which to pursue the president's policy goal. Luiz Inácio "Lula" da Silva (2003-2011) was initially constrained by the PT's distinctive commitment to party discipline and expectations that the vast majority of available positions in the executive would be allocated to PT members (Hunter 2010, 159-167). Yet, as Wendy Hunter points out, the once radical and programmatic PT ended up applying tactics, that it had long condemned by forging alliances with partners on the other side of the ideological spectrum (Hunter 2007). The PT accepted a running mate from the Liberal Party (PL), a small right wing party of evangelicals and businessmen. Furthermore, once in power the PT allied with the opportunistic Party of the Brazilian Democratic Movement (PMDB). In this way, the PT applied the coalitional presidentialism approach used by Cardoso and allied with a large support party (PMDB for Lula and the

Upon the return to democracy in Argentina, presidents with slim majorities have consistently fashioned single-party cabinets, concentrating power within their party or party faction. However, President De la Rúa's attempt to deviate from this well-established pattern, an experiment with coalition rule, failed miserably and sheds light on the costs of deviating from expectations (Llanos and Margheritis 2006). In 1997 two parties, the UCR and FREPASO, came together to form the *Alianza* coalition that won the presidency (1999-2001) with its campaign to wipe out corruption. However, once in office, prospects of UCR and FREPASO amicably sharing power within government agencies were short-lived. Rather than fostering cooperation, shared governing responsibilities created turf battles with each party answering to its own chain of command. Ultimately, this failed attempt at forming a coalitional government, which further exacerbated a deepening economic crisis, resulted in an ungovernable situation in which President de la Rúa resigned. Since then, subsequent presidents have maintained the custom of appointing members of their own party or faction in an exclusionary manner, perhaps most clearly under President Cristina Fernández de Kirchner, who runs the country with a narrow cabinet of personal advisors.

Deviation from the entrenched pattern that results in the ousting of presidents reinforces such practices over time and provides clear guidelines for what will and will not be tolerated by the political class. In this way, political learning contributes to the perpetuation of such patterns, reinforcing norms of executive power sharing and expectations regarding coalitional formation.

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PFL for Cardoso) that provided a network of local elites and political machines, but that tended to be silent on programmatic issues (Power 2010, 232). Smaller parties (e.g., PTB, PL, and PP) were also included in the coalition, allowing the PT and its partners to reach 65-90 percent of seats in Congress. In this way, even the least likely parties have adapted to inclusionary governing practices.



## **Exclusionary Governing Facilitates Powering**

### ***Cohesive governing groups with short time horizons: Swift, wholesale change***

In Argentina, exclusionary governing patterns result in single-party cabinets that concentrate power in loyal and cohesive teams of technocrats. If it is possible to appoint capable individuals that one trusts, why would an executive do otherwise? Such loyal technocrats (outsiders) are a key means to the president achieving his or her governance objectives. Yet, such individuals know that their time in office is limited. In Argentina, only one party or faction is in the government at a time; for instance, when a UCR president is inaugurated, the Peronists are not included in the governing coalition and vice versa. Because presidents win by slim margins, the governing group has to worry that they will no longer be in power after the next election. Thus, the absence of coalitions means that the current governing party has short time horizons, which creates incentives to rapidly move policy toward their ideal point and to push through reforms as quickly as possible.<sup>22</sup> Election cycles are brief and political constellations often short-lived. This creates time pressure to enact preferred policies and to make a difference before it is too late.

Moreover, a variety of interests often have a stranglehold over the existing institutional arrangements. Thus, in order to undercut these forces, change is often imposed by driving rapid, far-reaching overhauls of the state past beneficiaries of the status quo before they can organize a defense. Reform teams are often composed of like-minded individuals who are close to the president and are committed to similar

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<sup>22</sup> As Levitsky and Murillo (2014) note, a broad governing coalition means that the ruling coalition at  $t+1$  is likely not to be too far from the coalition that enacted the reforms, so policy stability results because of the continuity of preferences. By contrast, the absence of coalitions in Argentina means that the ruling party that creates a set of institutions may have a very different set of preferences than the ruling party that inherits the institutions. This instability of preferences is also a source of instability for institutions in Argentina.

objectives. This facilitates political cooperation within the government (cf. Huber, 1998; Treisman, 2000; Spiller and Tommasi, 2003; 2007; Martínez-Gallardo 2011). Cohesive, insulated teams are often able to pursue their objectives with alacrity, unhindered by internal dissent and foot-dragging bureaucrats (cf. Axelrod, 1970; de Swann, 1993). Presidents unconstrained by diverse cabinets are able to give these teams the power to impose reform. Thus, single-party cabinets, which engender short time horizons and access to the president, facilitate powering.

***The appointment of loyal technocrats tightens cognitive constraints***

Single-party cabinets, and specifically the appointment of loyal technocrats to positions within the executive, also shape the collective capabilities of the decision-makers. The Argentine president's discretion in appointments results in the predominance of outsiders, individuals loyal to the president's party/faction. The ability to bring in one's own personnel often results in cadres of high-level technocrats—individuals with advanced degrees (Dargent 2011). In this context, experts may possess impressive academic credentials or trajectory, but their appeal may rely less on these qualifications than on the alignment of their policy views with those of the president. Thus, a newly elected president is likely to bring into the executive branch numerous *outsiders*, not civil servants or long-standing technocrats from within the state who might slow down the president's policy pursuits, but rather individuals of confidence and great abilities who can help the president “get something done.” Indeed, Bambaci, Spiller, and Tommasi (2007) demonstrate that “temporary bureaucrats” in Argentina tend to respond to the individual political patron who recruits them (Grindle 2012). Thus, presidents select individuals who will help them quickly achieve their policy goals.

This also means, however, that the fate of these political technocrats is linked to the political actor who appointed them. The result is shorter time horizons and an absence of the type of expertise developed over time from *experience* in the public sector. This contextual knowledge is crucial for understanding the effects of change in new contexts, and without which ambiguity, uncertainty, and unintended consequences are only heightened.

Moreover, hand-selected teams of like-minded individuals are prone to the problems of “groupthink” (Janis 1982). Instead of fostering debate and deliberation to cross-check inferences and bringing to bear prior reform experiences on new problems, such tight-knit groups suffer from more severe distortions in judgment, with rash inferences reinforcing each other (Schafer and Crichlow 2010; McDermott 2004, 249-56; Weyland 2012, 56). Conformity and cohesiveness is good for rapid implementation, but not for identifying problems in grand reform plans.

Finally, extensive leeway in bureaucratic appointments has enduring effects on the quality of the civil service. All countries in Latin America have rules on the books regarding a meritocratic civil service (Grindle 2014). Yet, governing patterns affect the extent to which presidents tend to abide by such rules. In Argentina, where the civil service rules are often disregarded, President A will come in and appoint his own cronies; then President B will dismiss them and appoint her own loyalists. This “individual-level serial replacement” engenders high rates of turnover within the executive. For instance, a president who decides to overhaul an agency is able to appoint a minister of his or her own party and such a minister is often free to bring in his or her own team of bureaucratic outsiders (Zuñanic and Iacoviello 2010, 167-8). In this way, resistance within the agency to the reforms can be overcome by either dismissing existing employees or shifting them

into irrelevant positions,<sup>23</sup> facilitating lightning transformations of federal programs and agencies. Consequently, while exclusionary governing approaches might increase expertise in the short term, it is often at the expense of maintaining a neutral, meritocratically recruited civil service in the long term. In this way, exclusionary governing approaches tend to weaken the bureaucratic core overtime.

In all of these ways, then, exclusionary governing patterns that foster the use of tight-knit, cohesive teams to force rapid reforms result in reduced collective capabilities of the reformers and tighter bounds of rationality in both the short and long term.

In sum, political-organizational patterns of governing in Argentina contribute to the selection of reform plans that are tremendously complex because they attempt to get to the heart of various problems at once. Such radical changes are led by those with power—presidents and their political technocrats; but these tight-knit groups of technocratic outsiders often fall prey to groupthink and face tight cognitive constraints because of their inexperience in the public sector.

### **Inclusionary Governing Frustrates Powering, Facilitates Problem-solving**

#### ***Broad coalitions slow, dilute, and moderate reform proposals***

By contrast, coalitional presidentialism, by inducing Brazilian presidents to share executive power, shapes decision making and information processing by shifting the prerogative to transform the public administration from presidents and their tight-knit reform teams to a broader group of coalition allies. As a result of negotiation and compromise with numerous veto players (Tsebelis 1995), radical and comprehensive reforms are rarely executed as a coherent whole; instead, changes often advance slowly

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<sup>23</sup> Such an approach creates “parallel bureaucracies,” see Zuvanic and Iacoviello (2010, 167-168).

and haltingly.<sup>24</sup> Executive decision making is bogged down by the slow plodding required to get changes past coalitional allies representing a diverse set of interests.

Yet, due to the necessity of including coalitional partners to both win the presidency and to govern, individual governing coalitions are less likely to push policy far to one extreme.<sup>25</sup> Wide-ranging coalitions in Brazil mean that any party in the governing coalition has a high probability of inclusion in the next government. Parties such as the PMDB have been included in governments of both the PSDB and the PT. Further, until Lula, the PFL had always governed: during the military dictatorship and in the administrations of Presidents Sarney, Collor, Franco, and Cardoso. Everyone needed them. This dynamic lengthens the time horizons of parties and encourages them to build gradually. Even if a party is finally removed from the governing coalition, as the PFL eventually was under Lula, policy decisions do not change drastically because coalitions are comprised of such diverse interests; such a “big ship” is difficult to turn. Therefore, when the next governing coalition enters, there is not the same impulse to pull drastically back in the other direction. In this way, wide-ranging coalitions make sweeping reform that dramatically shifts the status quo rare.

Thus, broad governing coalitions affect the reform *process* by slowing the pace and scale of reforms and also affect *preferences*: The inclusion of broad governing coalitions means that the policy positions of the ruling coalition at  $t+1$  are likely not too far removed from the coalition that enacted the reforms, which results in greater continuity of preferences than in Argentina (Levitsky and Murillo 2014).

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<sup>24</sup> This argument resonates with Thelen and Mahoney’s emphasis on the importance of veto possibilities for either accelerating or hindering the pace of reform. In contexts of strong veto players and high levels of enforcement layering is more common (Mahoney and Thelen 2010, 19).

<sup>25</sup> Broad multiparty coalitions in Brazil typically comprise approximately 70 percent of seats in Congress. These wide-ranging coalitions, which typically include parties of both the left and the right, move the preferred location of the governing coalition toward a more centrist position, and thus, more moderate policies.

Broad coalitional governments also afford a much greater role to *insiders*—experts from within the state (e.g., technocrats and civil servants) in the policy-making process in a number of ways. First and foremost, coalitional presidentialism blocks sweeping, comprehensive change. This frustrates most attempts to gut bureaucratic agencies, providing greater stability for civil servants. Second, presidents, in order to achieve their policy objectives, often rely on neutral experts within the federal administration (Praça, Freitas and Hoepers 2011). Coalitional presidentialism means that Brazilian presidents are compelled to distribute positions in the cabinet and throughout the bureaucracy to allied parties, which means they are limited in the extent to which they may make unilateral replacements of ministry staff with hand-picked loyalists. This creates a governing dilemma: Broad, diverse coalitions mean that presidents turn over ministries and agencies to coalitional “allies” that may not be interested in advancing the policy/governance objectives in any meaningful way. In fact, their primary objective may be rent-seeking. As a partial antidote, Brazilian executives have often used experts within the state to serve as a counterweight to political appointments and to help achieve their governance objectives.<sup>26</sup> This relative stability extends their time horizons for effecting change and smaller scale changes phased in over time are often left in civil servants’ hands, as opposed to political leaders or high-level technocrats.<sup>27</sup>

Finally, the limits of attention of political actors bombarded by lots of issues and information open up possibilities for other actors with experience, longer time horizons,

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<sup>26</sup> Scholars have highlighted this strategy in Brazil where presidents often appoint neutral experts to the “number-two” positions of the ministries controlled by coalitional allies in order to avoid the worst excesses (Loureiro, Olivieri, and Martes 2010; Praça, Freitas and Hoepers 2011). Moreover, a striking number of civil servants are appointed to the discretionary positions in the public sector (Praça, Freitas and Hoepers 2011), and interviews with elite government administrators suggests that the presidential calculus of appointments has over time placed increasing weight on the importance of specialists within the state in order to advance the president’s governance objectives (Interviews Luis Santos and Graef).

<sup>27</sup> For an in-depth analysis of the trade-offs of different forms of politicization, in addition to their relationship with capacity and governance outcomes see Bersch, Praça, and Taylor (2014).

and expertise to fashion reforms that do not run up against such bounds. The absence of big comprehensive changes opens up space for smaller-scale reforms that build overtime.

***Coalitional presidentialism loosens cognitive constraints***

Coalitional presidentialism also increases the collective capabilities of reformers on two levels. First, it impels top-level decision makers to subject policy proposals to the scrutiny of a diverse set of interests and experts and to make changes. In contrast to policymakers in Argentina who are part of cohesive groups where problems are often overlooked as a result of groupthink (Schafer and Crichlow 2010; McDermott 2004), the numerous parties represented in the executive loosen the bounds of rationality by creating a deliberative environment that cross-checks inferences, even if it introduces political calculations to such decisions.

Second, and more importantly, because Brazilian presidents are limited in the extent to which they can replace ministry staff with hand-picked loyalists, presidents often rely to a greater extent on neutral experts within the federal administration to achieve their governance objectives, as the previous section highlighted.<sup>28</sup> Experts' institutional positions and extensive experience mean that these officials have at their disposal much better information and greater capacity for processing it than high-level political leaders, who are forced to rely to a greater extent on cognitive shortcuts to craft and implement complex reforms. Additionally, experts within the state benefit from learning over time. Therefore, in the Brazilian context, while individuals still apply

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<sup>28</sup> The appointments of experts arise not only because of the constraints of veto players, but also because the appointment of neutral experts advances the governance objectives of a president. Thus, while this argument does not deny the importance of veto players (see Chapter 2 for discussion of insurance arguments and veto player logic), it also recognizes the important positive governance function that such appointments play (for other studies that emphasize the importance of the governance logic see Nunes 2010; Brinks and Blass 2015).

inferential heuristics, their judgments tend to be closer to the mark because they rely on more solid information and have a greater capacity for processing it.

Thus, *who* reformers are and *how* they reach their positions have direct consequences for the dominant reform type. Short time horizons of outsiders (in contrast to the longer time horizons and expertise of insiders) mean that they face tighter cognitive constraints. This differential provides greater opportunities for technocratic insiders to advance problem-solving reforms because smaller-scale reforms often do not gain the attention of coalitional allies, outsiders only temporarily in the executive. Further, the iterative reform process allows civil servants to increase their expertise over time.

In sum, the presence of various veto players in the Brazilian context of coalitional presidentialism reduces the scale and speed of reform, thereby reducing complexity. That is, coalitional presidentialism in Brazil means that diverse cabinets slow reform initiatives; broad governing coalitions encourage more moderate reforms; and longer time horizons engender gradual change. Together, these factors reduce the incidence of powering reforms in Brazil; however, the absence of sweeping reforms, in addition to the presence of political actors with short time horizons and many demands on their attention, opens small spaces for civil servants with expertise and experience to sequentially advance incremental changes. Moreover, diverse perspectives enhance the quality of decision making by cross-checking policy designs and the greater role of technocrats from *within* the state loosens the bounds of rationality of policy decision makers. The emphasis on small changes does not mean that important changes do not occur, but rather that *time* is important in the reform process—transformations occur by sequencing changes over time that become *cumulatively transformative*. Instead of preventing much-needed change, the absence of drastic shifts creates possibilities for a more enduring and effective transformation of the state over time.



## CONCLUSION

This chapter has developed an explanation for effective and enduring public sector reform by demonstrating how established governing patterns influence reform strategy, i.e., the choice of powering or problem-solving. I argued that established patterns of governing, developed over the *longue durée*, account for the cross-national differences in the predominant reform strategies. Exclusionary governing patterns—where presidents appoint single-party cabinets (e.g., Argentina)—result in greater reliance on the powering strategy, whereas inclusionary governing patterns (e.g., Brazil)—where presidents share executive power with a coalition—result in greater reliance on the problem-solving strategy. In doing so, it demonstrated how the organization of executive power mediates the impact of cognitive limitations on political decision making, which is a collective process. It did so by highlighting how the broader political-organizational context shapes 1) the scale and speed of the reforms pursued and 2) the type of individuals involved.

The locus of policy decision making in Argentina is concentrated in small, cohesive groups. This facilitates rapid and radical reorientations of the public sector. In such contexts, power is concentrated at the apex of the state, which results in presidents and their political appointees relying heavily on informational shortcuts in designing and implementing institutional transformations. Bounds of rationality are especially tight for such decision makers: Election cycles are short and such high-level appointees usually come and go with the executive who appointed them. Accordingly, they rush to make reform decisions in order to make a difference before opposition has time to mount against the changes. Thus, they sacrifice careful planning, evaluation, and scrutiny for short-term outcomes, leading to ill-informed decisions. Where there are fewer constraints to hold back political leaders, they pursue their governance objectives by resorting to

sweeping overhauls (overreacting to problems in the policy process). Yet, after the big push, powering often fails to achieve consolidation, which creates the next crisis.

By contrast, the locus of policy decision making in Brazil is shifted to a broader set of actors. Coalitional presidentialism, which induces presidents to share executive power, means that negotiation and compromise with coalitional partners slow sweeping overhauls. Yet, such policy proposals benefit from scrutiny and discussion, since diverse perspectives lead to revisions and corrections. Such negotiations also often result in the downsizing of initial proposals. Consequently, dramatic overhauls and overreaction to problems are less common. In this context, experts from within the state are afforded a much greater role in the policy-making process; the relative stability extends their time horizons for effecting change and smaller-scale changes phased in over time are often left in their hands, as opposed to political leaders or high-level technocrats. Moreover, the technical acumen and access to information of technocrats and civil servants, in addition to the more limited scope of reform, means that these individuals are able to process information in a more balanced fashion. Thus, bounds of rationality loosen when sweeping change is broken into smaller pieces and experts with longer time horizons play a greater role in crafting change. As a result, we would expect fewer radical changes and more gradual transformations.

Because this chapter has explained why presidents tend to select one reform strategy over another, the following four chapters focus mainly on the effects of the reform choices they make. Chapter 4 investigates transportation reform in Argentina, which constitutes the most dramatic instance of powering of the reforms analyzed in this dissertation. Chapter 5 details the Argentine reforms in the health sector and shows that, while powering resulted in deleterious consequences in the instances where it was applied, in other areas of health powering attempts were halted, resulting in problem-

solving advances. Chapter 6 on Brazil transportation highlights the role of expectations regarding executive power sharing in halting powering in Brazil and the development of more successful problem-solving reforms. Finally, Chapter 7 on health in Brazil shows how problem-solving over a twenty-year period created a cumulative transformation of health in Brazil.

## **PART II: POLITICAL INSTITUTIONS, BOUNDED RATIONALITY, AND GOVERNANCE REFORMS IN LATIN AMERICA**

### **Chapter 4 Transportation in Argentina: Powering (Re-)Creates Crisis**

The return to democracy in Argentina has been followed by countless ambitious attempts to overhaul the state. In the 1990s, President Carlos Menem concentrated executive authority to push through a sweeping neoliberal transformation of the state—restructuring state owned electricity, petroleum and natural gas, and telephone monopolies; privatizing postal services, water, and sewerage; auctioning off the rights to operate airports, roads, rails, and ports for fees, creating more than 100 such concessions;<sup>29</sup> and reforming the civil service, health care, and pension systems. During the 1990s, Argentina became the poster child of executing politically challenging reform, with the World Bank, the IMF, the U.S. Treasury, and numerous other analysts heaping praise on the efforts of the Menem government.<sup>30</sup> A decade later, however, corruption and performance problems plagued many of the same institutions Menem transformed, prompting Presidents Néstor Kirchner (2003-7) and Cristina Fernández de Kirchner (2007-present) to use the same approach to push through another set of comprehensive overhauls, many of which reversed Menem’s changes. In both cases, however, the veneer

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<sup>29</sup> Concession agreements are considered a type of public-private partnerships and are negotiated contracts between a government and a company/operator that give the company the right to use all utility assets conferred, including the responsibility for operation and investment. The asset ownership remains under state ownership and assets revert to state authority at the end of the concession period. In a concession the company/operator typically obtains its revenues directly from the consumer. The difference with privatization is that concessions are not transferred to public ownership and they are contract-based not regulator-based. In both privatizations and concessions, however, the staff is transferred to the private sector.

<sup>30</sup> For instance, in October 1998 the managing director of the IMF, Michel Camdessus, had only positive words for Argentina: “In many respects the experience of Argentina in recent years has been exemplary, including in particular the adoption of the proper strategy at the beginning of the 1990s and the very courageous adaptation of it when the tequila crisis put the overall sub-continent at risk of major turmoil. ...Notable, too, are the efforts of Argentina since that time to continue its excellent compliance with the performance criteria under our arrangements” (Blustein 2005, 58).

of success quickly wore thin, revealing new performance problems. Thus, despite ideological differences, the same pattern—powering and its failure—has repeated itself during the center-right government of Menem and then the center-left Kirchner governments. What explains the same outcome from reforms of different ideological orientations? Why, despite initially impressive efforts to improve service delivery, are such plans abandoned? Why are the same institutions overhauled again and again, yet without any lasting success?

Applying arguments developed in Chapter 2, this chapter answers these questions by analyzing transportation reforms over time in Argentina beginning in 1989. The chapter begins with Menem’s overhaul of transportation in the 1990s, which illustrates two of the deleterious facets of powering. First, it highlights the insurmountable challenges of designing comprehensive reforms, which ultimately leads officials to rely on inferential mechanisms of bounded rationality instead of well thought-out calculations. In order to undercut the opposition, changes to the transportation sector—transferring state operation and maintenance of roads and rails to the private sector in the 1990s—were swift, deep-cutting, and completed during the “window of opportunity” provided by the economic crisis. The very same characteristics important for overcoming the opposition, however, made rapidly planning such extensive change in the midst of an economic crisis a Herculean task. Instead of proactively seeking out alternatives and calculating their advantages and disadvantages policymakers resorted to inferential shortcuts. They did so under pressure to act quickly during the “window of opportunity” provided by the economic crisis and to implement their complex plans before opposition could mount an attack against the changes. As a result of relying on cognitive shortcuts, unanticipated outcomes appeared almost immediately after the reforms were

implemented and grave performance problems continued to plague the transport sector long after changes had been implemented.

Second, Menem's transport reforms highlight powering's deleterious effects on institutional capacity. By bringing in outside experts and change teams and concentrating power in the hands of these high-level officials in the Ministries of Economics and Public Works, Menem successfully overcame resistance, uprooted the status quo, and established new transport agencies. While successful in demolishing existing agencies, reformers were less successful in creating new institutions crucial for the long-term success of privatized infrastructure, such as agencies responsible for monitoring and regulating transport. Such failures of reform consolidation had enduring effects. When Menem and his technocrats left office, few individuals remained in the federal administration who had concession expertise or experience. The lessons learned from a decade of reform were essentially lost. In the following years, under subsequent presidents, control over transport remained centralized in the hands of political appointees, who lacked the time, experience, and attention to ameliorate the intractable problems that afflicted the sector. As a result, policy problems were papered-over and ignored, and the transportation sector continued to deteriorate.

The chapter then shows how the failures of powering facilitated another wave of comprehensive change, failing to achieve the consolidation predicted by conventional historical institutionalism's path dependency. The situation in transport deteriorated until in 2012, a massive train collision in downtown Buenos Aires that killed 51 people and injured 700 laid bare the depth of the problems in transportation. This dramatic event prompted Cristina Fernández de Kirchner to embark upon a fresh wave of comprehensive changes, which reversed the transport policies of the 1990s and essentially recreated *Ferrocarriles Argentinos*, the state-run rail company that existed before Menem

demolished it. The penultimate section shows that while some technocrats attempt a more moderate problem-solving approach to problems in transportation and other sectors, these gradual efforts are thwarted by grander attempts at change.

Thus, this chapter demonstrates how powering has run its full course in terms of transportation in Argentina: The same institutions were overhauled again and again. When powering reform efforts predictably failed, changes were discarded as a “partial” solution that failed to strike at the root of the problem and the search for another comprehensive model began anew. In this way, powering creates its own unhealthy dynamic such that not only do the results fail to produce the expected results, but *also* the recurring dramatic changes make it very difficult for subsequent reformers to come in and begin a process of successful problem-solving. Powering (re-)creates crisis.

#### **MENEM OVERHAULS TRANSPORTATION**

Argentina once had one of the most impressive transportation systems in the world. In the early 20<sup>th</sup> century, the Argentine rail network was the most extensive in Latin America and the metro in Buenos Aires rivaled the modern subterranean systems in Europe and the United States. Furthermore, over the course of the 20<sup>th</sup> century Argentina built one of the most extensive highway systems in Latin America.

By the late 1980s, however, the quality of the rail and highway infrastructure had declined and the ever-increasing operation and maintenance costs had become a substantial drain on the Argentine national treasury (Gerchunoff and Coloma 1993, 276–277). In particular, the integrated national public enterprise responsible for railway services, *Ferrocarriles Argentinos* (FA) consumed an estimated US\$800 million to US\$1.4 billion annually in the late 1980s (Sharp 2005, 15). Increasing dependence on automobiles and the poor quality of the rail network meant that financial performance

would continue to deteriorate unless changes were made.<sup>31</sup> The highway system was also in need of improved management and substantial investment; in 1989, construction costs for the highway system's public sector were twice what is considered best practice and, despite the millions poured into improvements, only 36 percent of the national highways were in fit condition (Natale 1993).<sup>32</sup>

The hyperinflationary crisis of the late 1980s seemed to provide a “window of opportunity” for overhauling the transport sector.<sup>33</sup> Faced with exploding inflation and depleted state coffers upon assuming the presidency in 1989, President Carlos Menem, in a stunning about-face, departed from his statist campaign promises, and embarked upon a sweeping reform program that implemented strict free market policies and radically transformed the state.<sup>34</sup> Menem's neoliberal crusade reached far beyond addressing immediate causes of hyperinflation and linked numerous problems to the acute crisis, including the problems in the transportation sector.<sup>35</sup>

### **Comprehensive Change, Unintended Consequences**

The objective of the transportation reform was clear: reduce the deficit and improve quality by increasing access to investment finance. The concession model—privatization of infrastructure services through long-term management and investment contracts—provided a rapid means of achieving such goals. Private companies pay a fee,

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<sup>31</sup> By 1990, 54 percent of the total network track was in either bad or fair condition, and only 49 percent of a total fleet of 992 locomotives were available for service (Estache, Carbajo, and de Rus 1999, 7).

<sup>32</sup> This was in part because of lack of investment, and in part, because of increased truck traffic due to the deterioration of the rail system.

<sup>33</sup> On the importance of hyperinflation for explaining the willingness of several Latin American democracies to enact harsh neoliberal reforms see Weyland (2002).

<sup>34</sup> On stabilization and market reforms in Argentina in the 1990s see Manzetti 1999; Teichman 2001; and Weyland 2002.

<sup>35</sup> In particular, Domingo Cavallo argued that “As a political strategy ... all the reforms were linked to inflation and this link facilitated the support of public opinion and Congress. ... Once the reform takes place and results can be observed, the people support it.” Interview, Domingo Cavallo, Minister of Economy and Public Works (1991 – 1996) (Murillo 2009, 240).



or *canon*, for the right to use infrastructure for the life of the concession agreement, and assets revert to state authority at the end of the concession period. By auctioning off the right to charge tolls, the state expected to generate substantial revenue in the short-term and to improve quality in the long-term by shifting the responsibility for modernization and maintenance to private companies (*concessionaires*). After contract negotiation, such agreements can immediately transfer responsibility to private companies.

Instead of taking moderate steps to achieve these objectives or waiting until hyperinflation had passed, Menem and his team of reformers scheduled the first wave of transport concessions to occur just months after assuming office, during the height of the economic crisis. Acting quickly was indispensable, argued reform proponents, in order to gain credibility with foreign investors, raise cash to finance the fiscal debt, and prevent the organization of anti-privatization lobbies (Manzetti 1999, 99).

Given the profound uncertainty created by the economic crisis and time pressures, evenhandedly calculating advantages and disadvantages of concession design options posed a near impossible task, even for experts. In order to carefully detail such agreements and apply systematic reasoning, the Minister of Infrastructure, Roberto José Dromi, drew on the expertise of the World Bank and IMF in crafting the concession agreements. The establishment of concession contracts provides a one-shot opportunity to craft a deal that will be effective for the life of the agreement, anywhere from twelve to thirty years. The whole idea of a concession contract is meant to protect both the public and the concessionaire by specifying all the terms of the concession *in advance* (Carbajo and Estache 1996, 3). Argentina's concession contracts, and especially those of railways, were intended to be very specific about the way in which tariffs, quality, investment, exclusivity, etc., would evolve over time (Campos-Méndez, Estache, and Trujillo 2001, 23). Yet, forecasting such details for numerous contracts, simultaneously, under a

situation of exploding inflation, placed unrealistic expectations on experts' capabilities. Armando Canosa, Secretary of Transportation, argues that at the time no one, not IFI officials, not government officials, had a systematic way of estimating how much income concessionaires were expected to make, given the fluidity of the economic situation.<sup>36</sup> Faced with profound uncertainty and pressure to complete auctions within months, IFI experts used their "best assumptions" to overcome such challenges, and were thus forced to rely on inferential shortcuts rather than comprehensive planning and solid information.<sup>37</sup>

The transport sector was transformed at a lightning pace, starting with twelve simultaneous bidding contests for intercity highway systems. By 1990, the government had auctioned off about a third of the intercity highways for which private companies paid US\$890 million (Estache and Carbajo 1996, 2).<sup>38</sup> Five months after the first set of concessions were signed, the government initiated a second wave of concessions, for Buenos Aires access roads. Meanwhile, a similar concession process had commenced which broke up Ferrocarriles Argentinos' fully integrated and centralized network, dividing it into monopoly franchises that combine track and service operations for both freight services and metropolitan commuter rail. Between 1991 and 1993, five freight concessions, designed for a thirty-year duration, were completed; within the next two years, seven Buenos Aires commuter service lines were concessioned for twenty-year time periods. The rapid-fire concessions of railways and highways had completely transformed the state and the model of transport service provision in a few short years.

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<sup>36</sup> Author interview with Armando Norberto Canosa, Secretario de Transporte de la Nación (1996-1999), Ministerio de Economía y Obras y Servicios Públicos de la Nación, November 21, 2012.

<sup>37</sup> Author interview with Canosa.

<sup>38</sup> Concessionaires initially pay a *canon* to the state for the use of the road infrastructure during the life of the concession agreement. The road concessions initially appeared competitive (147 bids were submitted).

The challenges of comprehensive planning, however, resulted in numerous unforeseen consequences, the first of which appeared during the auction processes. In theory, companies would compete against each other in the bidding contest (Gerchunoff and Coloma 1993); yet, the main competitors, especially for the highways system, had agreed amongst themselves for which routes they would compete.<sup>39</sup> For the access roads, the maximum number of bidders was two and most of the concessions were made through auctions involving a single bidder; in other cases, the concessions were cancelled for lack of interested companies (Estache, Carbajo, and de Rus 1999, 18). In some instances, domestic groups failed to meet the financial and technical prerequisites imposed by the terms of the contracts, which meant that the government had to either decide to postpone or risk a long-term concession agreement with private sector partners who may be unable to maintain roads adequately (Manzetti 1999, 100).

Interviews with government contractors suggest that had concessions not been auctioned off simultaneously and had experts from the *Dirección Nacional de Vialidad* (DNV, the agency responsible for the planning, design, maintenance, and construction of the national highway system) been involved, some of the cartel activity could have been prevented.<sup>40</sup> Yet, in order to push through the changes rapidly and avoid resistance from public sector employees, Dromi had sidelined DNV experts in the concession design process. Given pressures to push the changes through along with the broader macroadjustment plan, the Menem government chose to go ahead with the concessions even in the absence of bidders who met technical prerequisites. Thus, instead of increasing competition and improving the ability of the state to maintain and modernize infrastructure, the unexpected outcomes of the auction process threatened both objectives.

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<sup>39</sup> Author interview with Horacio Fischberg, Government Contractor (1982-2005).

<sup>40</sup> Ibid; Author interview with anonymous former employee of a highway concessionaire.

Lightning transformations under conditions of profound uncertainty created by hyperinflation and macroeconomic adjustment meant that the problems in the reform design ran even deeper. The models used to forecast profits of the concessionaires had changed dramatically as a result of the macroeconomic adjustment plan. As a result, in 1991 concessionaires began charging tolls that violated the stipulations of the concession agreements. To make matters worse, they were charging \$2.50 per 100 km as opposed to the amount agreed to in the concession, \$1.50 (Gerchunoff and Coloma 1993, 280). The agreements stipulated that the most serious deficiencies in the pavement and signaling must be repaired *before* collecting tolls (Estache and Carbajo 1996). Yet, companies argued that the macroadjustment plan had adversely affected their ability to collect revenue—a situation not covered in concessions agreement; thus, in order to complete promised repairs, they imposed tolls and increased rates.

As a result, only five months after the contracts had been signed and in the midst of popular outrage over the toll hike, a renegotiation process began under Domingo Cavallo, the Minister of the Economy, who had inherited the mess from Dromi. In September 1992, after a year and a half of renegotiations for the initial set of auctions, the government and concessionaires signed new contracts (Decree 1,817 of 1992). The Menem administration was able to attain an agreement whereby the toll would be set at \$1.50, but at a steep cost to the government: the US\$890 million canon payment was eliminated and tax relief and subsidies were granted to the concession holders, at a cost to the treasury of about US\$1,755,000,000 for the duration of the concessions period (Gerchunoff and Coloma 1993, 280–1). Only three years later, renegotiation processes resumed for nearly all of the highway contracts and continued throughout the 1990s (Estache, Carbajo, and de Rus 1999, 16–17).

By contrast, railway concessions initially generated more optimistic evaluations, suggesting that the overhauls were successful in improving services while controlling costs (Manzetti 2003, 346). The title of a World Bank article from 1996 declared that railway concessions in Argentina were “Heading Down the Right Track” (Carbajo and Estache 1996, 1). Railway traffic increased by 180 million passenger trips a year (see Table 3 below), and the first years of privatization of the metropolitan commuter railways in Buenos Aires showed an improvement in the quality and quantity of services (FIEL, 1999; CEER, 2001). As Table 4 shows, the freight concessions also appeared to be successful: Freight tonnage increased from 10.2 million tons in 1992 to about 18.9 million tons in 1997 (Sharp 2005, 16).

Table 3: Argentina Commuter Railway Concessions

Line Segment	Concessionaire	Date Concessioned	Length of Line (km)	Passengers 1993-95 (% increase)
SUBTE (subway)	Metrovías S.A.	1994	44.1	28%
Urquiza	Metrovías S.A.	1994	25.6	36%
San Martín	Transporte Metropolitano S.A.	1994	55.4	64%
Belgrano Sur	Transporte Metropolitano S.A.	1994	58.4	69%
Mitre	Trenes de Buenos Aires (TBA)	1995	182.1	74%
Roca	Transporte Metropolitano S.A.	1995	252.4	83%
Belgrano Norte	Ferrovías S.A.	1994	51.9	408%
Sarmiento	Trenes de Buenos Aires (TBA)	1995	166.6	

Source: Comisión Nacional de Transporte Ferroviario

Table 4: Argentina Freight Railway Concessions

Line Segment	Concessionaire	Date Concessioned	Length of Line (km)	Freight volume 1990-95 (% increase)
Mitre	Nuevo Central Argentino	1992	4,520	40%
Urquiza	Ferrocarril Mesopotámico	1993	2,751	50%
San Martin	Buenos Aires al Pacífico	1993	5,493	92%
Rosario-Bahia Blanca	Ferroexpreso Pampeano	1991	5,163	130%
Roca	Ferrosur Roca	1993	4,791	160%

*Source:* Comisión Nacional de Transporte Ferroviario

Praise for the radical transformation was premature, however. By the late 1990s, experts agreed that the bidding process prompted concessionaires to make unrealistic projections and investment promises to help them win auctions (Carbajo and Estache 1996, 3).<sup>41</sup> Outcomes for freight concessions were especially disappointing—not only had revenues fallen far short of predictions, the concessionaires had arrears in canon payments of close to US\$15 million (Estache, Carbajo, and de Rus 1999, 13). In many cases, unanticipated issues, such as drops in international grain prices or the delayed privatization of the Bahia Blanca port, meant that freight concessionaires experienced steep losses (Estache, Carbajo, and de Rus 1999, 13).<sup>42</sup> Freight concessionaires averaged 70 percent of the projected traffic, and actual revenues were between 50 and 60 percent of expected levels.<sup>43</sup> Without the necessary revenue, the concessionaires were not able to fulfill their investment promises. The regulatory agency responsible for oversight of

<sup>41</sup> Author interview, Dr. Luisa Maria Hynes, Directora de Control de Obras Públicas, Tribunal de Cuentas de la Nación (1982-1991); Asesora de Gabinete, AGN (1994-1995), Consultant PNUD and UNDP (2006-2009), August 28, 2012.

<sup>42</sup> *Ferroexpreso Pampeano*, Rosario-Bahia Blanca concession, was most severely affected.

<sup>43</sup> Author interview with Eladio Sánchez, Secretariat of Transportation, Ministry of the Interior and Transportation, November 27, 2012.

freight concessions filed penalties, but given the financial situation of the concessionaires, it could not demand both investment and payment of penalties.<sup>44</sup> Thus, by 1998 the government was renegotiating all railway concessions, while spending US\$400 million per year in subsidies, with a commitment from the state to pay for US\$6 billion in investment over the following twenty years (Estache, Carbajo, and de Rus 1999, 10).

In conclusion, the experts tasked with designing transportation policy that would transform the sector fundamentally and all at once faced a near impossible task, not only because of the complexity of the reform, but also because of the rapidly evolving economic situation. Moreover, in order to avoid opposition from bureaucratic agencies and to bring in expertise, IFI experts and other technocrats were brought in to design and execute changes. These individuals lacked experience in the Argentine federal administration that might have allowed them, for example, to anticipate cartel behavior in the auction process.<sup>45</sup> For all of these reasons, decision-makers deviated significantly from the maxims of rational decision-making, relying instead on cognitive shortcuts that resulted in wildly different estimates from expert to expert regarding concessionaires' expected profits and operation costs. When the comprehensive concession plans failed, officials were pushed into renegotiation and crafting comprehensive changes again in the midst of a fluid environment and time pressure to achieve agreement.<sup>46</sup> Consequently, instead of creating a new and better model of transportation, the changes engendered new dysfunctionalities.

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<sup>44</sup> Author interview with Canosa.

<sup>45</sup> Author interview, Dr. Luisa Maria Hynes, Directora de Control de Obras Públicas, Tribunal de Cuentas de la Nación (1982-1991); Asesora de Gabinete, AGN (1994-1995), Consultant PNUD and UNDP (2006-2009), August 28, 2012.

<sup>46</sup> Author interview with Eladio Sánchez, Secretariat of Transportation, Ministry of the Interior and Transportation, November 27, 2012.

## **Institutional Capacity Destroyed**

How had Menem successfully accomplished the feat of pushing changes past what was thought to be intransigent opposition, especially by the unions? Certainly, packing the Supreme Court and arrogating more extensive decree authority provided a means to circumvent those who might challenge his decisions.<sup>47</sup> Indeed, between 1990 and 1994, Menem utilized decrees of necessity and urgency over 300 times (Manzetti 1999, 92). Yet, one of the most crucial tools for strengthening and concentrating the power of the president was the reform process itself—in particular, revamping the state apparatus. Deep and precipitous changes to the public sector not only served to weaken political rivals' access to patronage by uprooting public officials appointed by Menem's predecessors, but also mitigated bureaucratic antagonism towards the new policies. In addition, reform processes undercut union power. Privatization became a process whereby Menem could “emasculate” the Peronist union structure and consolidate his own power (Manzetti 1999, 91). For instance, concessions that transferred operation of railroads to the private sector resulted in the almost immediate destruction of Ferrocarriles Argentinos, which debilitated the once all-powerful railroad unions. In 1989 FA had 92,500 employees; by 1996 that number had been slashed to 17,000 (Carbajo and Estache 1996, 3). The first phase of reform—dismantling the institutions that had been previously responsible for transportation—strengthened the concentration of authority in the hands of the executive and undercut opposition and rivals.

While Menem had been successful in the destructive first phase of powering, preparations for the far more difficult task of reconstructing institutions responsible for regulation and oversight had been woefully insufficient (cf. Naím 1994). Regulatory

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<sup>47</sup> Two laws passed in 1989, the Law for Reform of the State and the Economic Emergency Law, provided the legal framework that allowed the president to bypass Congress and institute changes by presidential decree.



agencies, crucial for monitoring the compliance of private companies to concession contracts and enforcing such agreements, were not even set up before concession contracts were signed.<sup>48</sup> Indeed, Argentina in the 1980s had an agency responsible for the planning, design, maintenance, and construction of the national highway system, the *Dirección Nacional de Vialidad* (DNV), but because responsibility for highway construction and maintenance was transferred to the provinces and to concessionaires, the DNV was effectively dismantled. Over 1,300 DNV positions had been slashed by 1992 and cuts to staff continued in the following years.<sup>49</sup> According to reform plans, the DNV was to be reoriented to serve as the regulatory agency responsible for supervision of concessions, but efforts to reconstruct and strengthen the DNV as a regulatory body were almost non-existent.<sup>50</sup> Analysts, by the late 1990s and increasingly so in the early 2000s, noted that the DNV was neither independent, nor adequately organized and staffed to effectively supervise the concessionaires (Estache, Carbajo, and de Rus 1999).

Similar problems plagued railway institutions; from 1992 to 1996, there were at least four separate attempts to create different types of regulatory bodies (AGN 2004).<sup>51</sup> In 1996 the *Comisión Nacional de Regulación del Transporte* (CNRT) was created (Decree 660 of 1996). This decentralized regulatory agency, however, was not given the authority, capacity, or autonomy to modify contracts or collect accounting information from private firms, critical for monitoring and enforcing concession agreements

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<sup>48</sup> Author interview with Beatriz Hebe López, Head of Dirección Nacional de Vialidad (2001), November 14, 2012.

<sup>49</sup> The World Bank played also played an important role in the transformation of the DNV (World Bank 1993).

<sup>50</sup> Author interview with López.

<sup>51</sup> See also [http://www1.hcdn.gov.ar/dependencias/ari/Informes/informe\\_ferrocarriles.pdf](http://www1.hcdn.gov.ar/dependencias/ari/Informes/informe_ferrocarriles.pdf).

(Campos-Méndez, Estache, and Trujillo 2001).<sup>52</sup> Finally, after a number of different organizational arrangements, the CNRT was placed under the direct control of the Ministry of Economy and Public Works, further weakening the independence of the regulatory body.

The weakness of institutionalized capacity led to particularly narrow bounds of rationality for decision-makers, creating a downward spiral. The absence of independent and capable administrative agencies and regulatory bodies meant that the Ministry of Economy and Public Works, rather than the regulatory agencies, retained all responsibility for changes in concession contracts and for fare setting (Campos-Méndez, Estache, and Trujillo 2001, 6–7). High-level officials assumed extensive responsibility for oversight of rapidly evolving change in the transport sector. Such individuals, however, were bombarded with problems that divided their attention and, for almost all of these political technocrats, working in the federal administration and affecting such dramatic change was uncharted territory. Thus, as Armando Canosa, the Secretary of Transportation, recounts, “There was little time for careful evaluation. ... We were fighting numerous fires, but I believed that despite the challenge, eventually market forces would demonstrate the advantages of privatization and deregulation. ... We were doing something unprecedented in the world.”<sup>53</sup> Such concentrated decision authority meant, however, that judgements were not subjected to collective decision-making or organizational structures that enhance technical expertise. Instead they were made by individuals at the top without a strong capacity to process the torrent of new information about the reform process.

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<sup>52</sup> Author interview, Dr. Luisa Maria Hynes, Directora de Control de Obras Públicas, Tribunal de Cuentas de la Nación (1982-1991); Asesora de Gabinete, AGN (1994-1995), Consultant PNUD and UNDP (2006-2009), August 28, 2012.

<sup>53</sup> Author interview with Canosa.

The effects of such weak mechanisms for information-processing and meaningful oversight were evident. By the late 1990s, some concessionaires were distributing record profits, even though they had failed to pay the canon sum and were receiving subsidies from the state (Baer and Montes-Rojas 2008, 332). Without capable and independent regulatory agencies to put a stop to excessive demands for renegotiation, Menem's model of "regulation by contract" was distorted into a system of "regulation by renegotiation" (Gómez-Ibáñez 2003). During the late 1990s, 42 percent of infrastructure contracts in Argentina, in comparison to 28 percent for Latin America as a whole, were renegotiated within a two-year period, outside of the normal mechanisms established in the contract (Guasch, 2004). Moreover, because details of contract renegotiations and subsidies were poorly maintained and unavailable in a consolidated manner, neither the Menem administration nor journalists or watchdogs were able to draw inferences from solid information.<sup>54</sup> Given this opacity, it is not surprising that reports of shady deals between concessionaires and top-level government officials soon emerged.<sup>55</sup> In sum, the radical transformation of the transport sector in the 1990s was successful in the destruction of the status quo, but much less successful in creating strong institutions that would ensure the continued success of reforms.

#### **COALITIONAL GOVERNMENT, POWERING HALTED: THE ALIANZA (1999-2001)**

Government corruption became a defining issue of the 1999 Argentine election. The lack of transparency and ongoing renegotiation of contracts with transport concessionaires and in a number of other sectors cast a pall of corruption over Menem's overhaul of the state. In response to such growing concerns, presidential candidate

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<sup>54</sup> Daniel Santoro, personal communication, July 28, 2010.

<sup>55</sup> *Página12*, December 4, 1999.

Fernando de la Rúa, running on the *Alianza*<sup>56</sup> ticket, promised that if elected he would head a “Gobierno de Cristal,” by enhancing transparency and eliminating the corrupt practices of the previous administration.<sup>57</sup> The Alianza was an electoral coalition formed in order to defeat the PJ candidate; in it, the UCR joined with FREPASO (a party formed in the mid-1990s by eight deputies breaking away from the PJ, including Carlos “Chacho” Álvarez) and other small parties who opposed Menem’s neoliberal policies. Their anticorruption appeal resonated with the electorate: 26.3 percent of de la Rúa voters responded that they had selected the Alianza candidate based on his anticorruption agenda, 40.2 percent on his honesty, and 31.8 percent based on the ethics of UCR, the party of de la Rúa.<sup>58</sup> The Alianza was successful in electing de la Rúa, but fulfilling expectations to increase transparency and strengthen institutions would prove challenging given the political and economic conditions he faced—deep divisions in the fractious Alianza coalition, the Peronist majority in the Senate, and the loss of the province of Buenos Aires, in addition to an economic recession.

Although one of the central campaign promises was to fight corruption, there was little consensus about how to do so. FREPASO advocated the creation of an ad hoc bicameral committee in Congress to investigate past cases of corruption (i.e., during the Menem administration), while President de la Rúa preferred a multi-agency approach that would rely on traditional judicial and administrative agencies (Charosky 2002, 208-9; Guillan-Montero 2011, 434). The Alianza was able to come together to establish the Anticorruption Office (OA) within the Ministry of Justice, which was perhaps their most successful and significant anticorruption policy. Yet this effort was successful in large

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<sup>56</sup> *Alianza por el Trabajo, la Justicia y la Educación (Alianza)*

<sup>57</sup> *La Nación*, May 26, 1999.

<sup>58</sup> *Clarín*, October 25, 1999.

part because the creation of the new OA did not require the destruction of an existing agency, instead creating a new one charged with investigation and policy-making functions (Law 25.233 and Decree 102 of 1999). Powering efforts in other areas, however, were hamstrung by deep rifts in the governing coalition.

Attempts to enhance transparency in public spending illustrate such challenges. De la Rúa, following his transparency campaign promise, launched the “Cristal” program, an initiative to disseminate online, and in an easily understandable format, all information concerning the use of public funds in Argentina.<sup>59</sup> This was an effort to assuage increasing public concern over the impervious concession renegotiations. In the words of the Chief of Cabinet, Rodolfo Terragno, “No contract will be signed or pension paid without everyone being able to enter on the Internet webpage to see it.”<sup>60</sup> The project was ambitious in scope and promised to explain the redistribution of public funds between the national government and provinces; provide information on goals and results by gathering information on all national policies to evaluate their management and the manner in which public funds are assigned; and present information regarding accountability by consolidating information related to the control of corruption, both in government and the non-governmental sector (Radics 2001). The administration delegated the responsibility of auditing the site to Foro Transparencia, a body made up of 15 non-governmental organizations concerned with government transparency (Radics 2001). The de la Rúa administration announced the Cristal program in December 1999 and set a deadline of completing the website by February 2000. This was especially

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<sup>59</sup> This was to include all contracts signed by the state and all purchase orders and payments issued by the state; essentially, all budget information and how these funds are administered (*Página12*, November 6, 1999).

<sup>60</sup> *La Nación*, December 17, 1999.

ambitious because the de la Rúa team needed to obtain such information from other agencies and ministries.

Efforts to complete the website, however, were frustrated by constant organizational restructuring and infighting within the executive between UCR and FREPASO. Upon assuming office, de la Rúa replaced the majority of public servants in key posts with members of the UCR, using a mechanism of exception in the civil service law,<sup>61</sup> and issued a decree reorganizing the ministries and secretariats of government. This move transformed the *Secretaría de la Función Pública* (SFP), created in the first year of the Alfonsín government, into the *Subsecretaría de la Gestión Pública* (SSGP) under the *Secretaría de Coordinación General de la Jefatura de Gabinete*. This granted the new SSGP the functions of reforming the organization and management of the administration, in addition to responsibilities of achieving greater transparency and efficiency in the system of public contracts, which included the Cristal project (Decree 20/1999). The reshuffle, which placed partisan personnel in positions reserved for those selected based on merit, not only violated the spirit of established civil service rules,<sup>62</sup> but also the UCR's agreement with FREPASO to evenly distribute executive posts (Balán, 2011, 155). Consequently, FREPASO leadership demanded increased representation and participation in the Cristal efforts. In response, less than a month later de la Rúa issued the creation of the Secretariat for the Modernization of the State, under Vice President Álvarez (Decree 17/2000), which was also given responsibility for Cristal. Under this

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<sup>61</sup> The SINAPA civil service system allows for the designation by exception for a period of 180 days. After that time period, however, the appropriate competition must be performed (Coutinho 2007, 36). Since de la Rúa began using this loophole, executives had either ignored the competition requirement or continued to reappoint public employees every 180 days (such appointments are referred to as “designación transitoria en la planta permanente”). Author interview with Horacio Anguita, Director of Personnel Development and Organization of the General Secretariat, Buenos Aires, November 1, 2012.

<sup>62</sup> This violated the rules of the career civil service system implemented in Argentina in 1991, known as SINAPA (see Decree No. 993 of 1991).

new arrangement, the roles of the SSGP and the new Secretariat for Modernization were indistinguishable, except that the former responded to the UCR and the latter, FREPASO (cf. Volosin 2010, 153–157). Instead of creating an integrated team, the inclusion of both parties created a two-headed monster: Each party within their own secretariat reported to its own leadership without coordination.

Unsurprisingly, the ambitious website, constructed in the midst of constant organizational restructuring and coalitional infighting, was a failure. After an unsuccessful first launch in February 2000, the government re-launched the website months later. The administration claimed that all the promised information was available and attempted to draw attention to data, such as steady monthly increases in the average number of visitors to the site, and accolades, such as the site's finalist status in the Government category for the 2000 *mate.ar* award, a recognition of best internet sites in Argentina. However, the new site failed to provide all the information promised and had already lost the public's confidence. Meanwhile, organizational restructuring continued, hindering attempts to modify and improve the Cristal project over time (cf. Volosin 2010, 153–157).

Powering failed in this circumstance, not because of the outcome, as the prior cases highlighted, but because of output: Policies were not fully enacted or implemented in the first place. The Alianza, a coalitional government, hindered the ability of the de la Rúa administration to concentrate power and decisively push through reforms.

De la Rúa resorted to tactics that flew in the face of his own anticorruption agenda. In June 2000, *La Nación* published an article revealing that Peronist senators had received significant personal favors for passing a labor reform bill.<sup>63</sup> Shortly following

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<sup>63</sup> *La Nación*, June 25, 2000.

the incident, FREPASO vice-president Chacho Álvarez resigned to protest the government's bribery of the opposition.<sup>64</sup> The division between the governing alliance only deepened thereafter. De la Rúa's appointment of Domingo Cavallo, who had led the neoliberal crusade under Menem, to be Minister of the Economy only heightened the political crisis. In the ensuing months, the economic situation deteriorated, generating massive street protests and looting, to which the government responded in a heavy-handed manner. Finally, a weakened and isolated de la Rúa resigned. After five presidents in twelve days, the Legislative Assembly finally appointed Eduardo Duhalde as a provisional president to complete de la Rúa's term (Katz 2006: 415-418). In 2003, with the election of Néstor Kirchner, it seemed that political and economic crises were at last abating.

#### **CONTINUED DETERIORATION OF TRANSPORTATION REFORMS (2001-2012)**

The problems that plagued Menem's transportation reform in the late 1990s only intensified during the unprecedented crisis of 2001-2002. The economic models upon which calculations for concessions were based relied on success of the broader reform project, which assumed that with the right policies, long-term economic growth would ensue. However, the government could no longer keep its contractual investment obligations. At the same time, use of rails and roads dropped, reducing the concessionaires' revenue from tolls and rail tickets.

While passenger traffic recovered quickly after 2002, the inability of regulatory agencies to sanction concessionaires meant that private companies operating railways failed to make necessary investments or resume service (AGN 2004). Alarming reports in 2003 showed that 70 percent of railway cars had problems with their brake systems, but

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<sup>64</sup> *La Nación*, October 7, 2000.



the Auditoría General de la Nación (AGN) showed that in only one case was a concessionaire sanctioned (CNRT 2003; AGN 2004). In February 2003, Judge Angel Di Mateo stated that he had found the railway cars and stations in the Roca line “in a calamitous state,” and the passengers traveling “like cattle,” and ordered the concessionaire, Transporte Metropolitano S.A., to provide “decent and efficient service.” By late 2003, a total of 389 railway passengers in the Buenos Aires metropolitan area had been killed in accidents and many commuters lost limbs while riding the footboards or on top of packed trains after waiting hours upon hours for trains to arrive. That year, over 83 percent of Argentine respondents answered that privatizations were not beneficial for the country (Latinobarómetro 2003).

Under Néstor Kirchner, and in the first years under his wife and successor to the presidency, Cristina Fernández de Kirchner, problems continued to accumulate. Making the concession model functional would have required strengthening institutions and solving a number of problems that the initial set of comprehensive reforms had created, but the mechanisms set in motion by Menem’s unilateral imposition of reform continued to hinder improvements in the transport model and demonstrate the difficulty of making improvements and headway after powering. In particular, transportation under the Kirchners highlights two particular aspects of the problems with powering.

First, institutions weakened by Menem’s reforms facilitated the continued centralization of authority. In order to push through big-bang changes of the 1990s Menem concentrated power within tight-knit reform teams, but because the second stage of reform, reconstructing institutions and strengthening capacity (a lengthy process), was far from complete at the end of his term, authority was never fully devolved to regulatory and transport oversight agencies. The DNV was a shadow of its former self, and its roles and responsibilities indistinguishable from those of the *Órgano de Control de*

*Concesiones Viales* (OCCOVI), a new agency created in 2001 to regulate highway concessions. *Ferrocarriles Argentinos* no longer existed, and the regulatory agency, *Comisión Nacional de Regulación de Transporte* (CNRT) had never been given any real power; it had essentially 12 agents to monitor over 240 stations, 900 km of roads, and 2,000 locomotives and railcars (Pérez 2014, 120), not nearly enough to adequately enforce standards specified in concession contracts. An AGN report completed just before Néstor Kirchner assumed office corroborates the weakened nature of the regulatory agencies, stating that their failure to monitor and sanction concessionaires contributed to concessionaires' consistent failures to make promised investments (AGN 2004, 14-15).

As a result, when Menem and his political technocrats left office, few individuals remained in the federal administration with expertise or experience in concession contracting, a situation that continued during the de la Rúa administration as well. If there had been stronger regulatory institutions and a core cadre of experts left within the administration, perhaps they might have been able to regulate concessionaires and resolve some of the issues in the concession model through gradual improvements over time. Without such continuity, however, the lessons learned from a decade of reform were essentially lost.

This vacuum facilitated the continued concentration of authority. In 2003, Kirchner created a new Ministry of Planning, Investment, and Public Services that absorbed competencies and resources from other ministries and the presidency. Kirchner appointed a trusted advisor, Julio De Vido, an aide from Santa Cruz, as minister; De Vido's new bureaucratic empire spanned transportation, communications, mining, energy, sewer systems and public works, housing, water, roads and planning of public

investments (Decree 1283/2003).<sup>65</sup> Another long-time Santa Cruz connection, Ricardo Jaime, was appointed to the Transportation Secretariat within De Vido's ministry. In this and other areas, the failure of Menem's reforms was used to justify sustained centralization of authority in the hands of political appointees. Menem usurped control of regulatory agencies, such as the CNRT, by unilaterally appointing *interventors*, sidestepping legal requirements that require autonomous regulatory agencies to be run by a Board of Directors. Kirchner justified maintaining the intervention of CNRT and OCCOVI (Decree 1388/1996) because of the "failure of the management to meet its objectives for users, competitiveness of the market, and safe transport" (ACIJ 2008, 10–12). This undercut the regulatory agencies' autonomy, making them dependent on the De Vido-Jaime nexus, which retained *de facto* authority to sanction, renegotiate, and re-privatize concessionaires (Cipoletta Tomassian and Sánchez 2009, 56). Such concentration of authority extended well beyond transport; Kirchner also appointed *interventors* to regulatory agencies of public utilities (gas, electricity, communications, etc.), alleging "situations of exception" and lack of time to undergo the selection process in order to appoint these key positions (Scherlis 2010, 104).

The bounds of rationality were particularly tight for such high-level officials. Not only did they lack experience in the federal government prior to appointment, they were also bombarded with policy problems. Without a core cadre of individuals with expertise and experience, such problems were dealt with in a haphazard manner. For example, instead of seeking a sustainable means of financing the transport sector, the Kirchner administration papered-over the problem by relying on government subsidies, from off-the-books *fondos fiduciarios* that transferred public funds to private companies

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<sup>65</sup> Accumulation of control in the hands of the Ministry of Planning continued; the budget of the Ministry was increased by 40 percent in 2005 and continued to grow; in 2007 the budget increased by 76.2% over the budget passed by Congress (Carrió 2008, 7).

responsible for highways and railroads.<sup>66</sup> Despite the increase in funds to the transport sector, problems were largely ignored and violations of concession contracts overlooked. The case of ALL Central SA, a Brazilian company that held one of the most important freight concessions, is representative of this trend—the government failed to hold the company to account despite violations of the concession agreement and continued to provide substantial subsidies (AGN 2006; ACIJ 2007, 20). Similarly, there were no consequences when concessionaires, such as Metropolitano, failed again and again to make basic upgrades or ensure security on its lines, even though the company was receiving substantial subsidies.

Given the overwhelming number of problems in transportation, the attention of high-level transport officials focused on the most dramatic problems while neglecting others. For instance, in 2004, after a number of fatalities on the San Martín line, AGN released a scathing report regarding the precariousness of the transport situation and in particular the San Martín line held by Metropolitano. Instead of taking measures to monitor the company, the Kirchner administration terminated its San Martín concession with Transporte Metropolitano Gral San Martín S.A. (Decrees 798/2004 and 591/2007),<sup>67</sup> placing the re-nationalized concession in the hands of the government-created *Unidad de*

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<sup>66</sup> Fiduciary funds, trust funds originally created to allocate money for a specific purpose. During the crisis such funds were first used to compensate concessionaires for freezing of tariffs. In 2001 there were only eight such fiduciary funds; by 2007 there were over 16, and expenditures from such trusts had increased by 6,000 percent, from \$96.9 million to \$5,947,000,000 (Uña 2007, 4). Such funds are financed through the budget, revenues, and tariffs, as well as the profits from assets of privatized firms, and loans from international credit institutions (AGN 2004, 14-16). Most importantly, because such trusts are not governed by the same rules as other public expenditures, it is impossible to know how the money is used. Such funds are not included in the annual public budget, even though by 2005 fondo fiduciario's expenditures had surpassed the level of expenditures authorized by Congress (Rinaldi et al. 2005, 4). Accounting and control standards are absent and there are no external audit requirements (AGN 2004, 15; Lo Vuolo and Seppi 2006), and attempts by AGN to monitor these funds have been met with hostility. Legal requirements obligate the Chief of Cabinet to inform Congress on fiduciary funds (Law 25.827/04), but in practice this has not occurred (Rinaldi and Staffa 2006, 1).

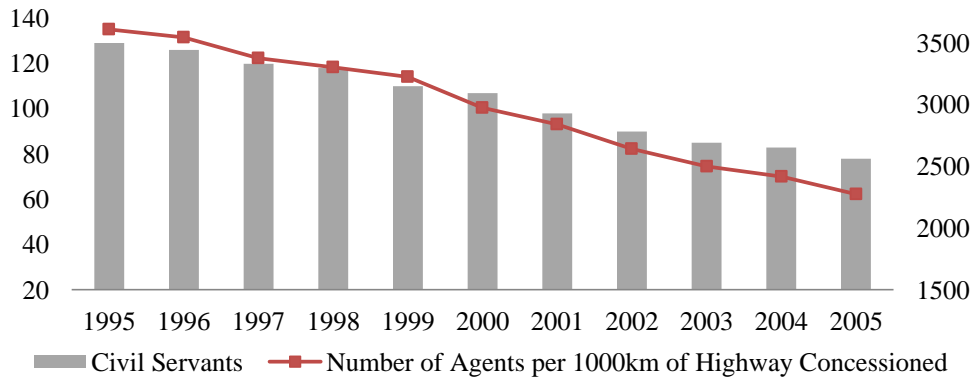
<sup>67</sup> For the endless legal battles that ensued, see *La Nación*, June 26, 2004.

*Gestión Operativa Ferroviaria de Emergencia* (UGOFE), a consortium of Argentine companies formed in January 2005 by Ferrovías, Metrovías, and Trenes de Buenos Aires, the remaining companies that operated the commuter rail services in Buenos Aires (Decree 789/04, Secretaría de Transporte Resolution 408/04). Metropolitano maintained control over two other concessions, Belgrano Norte and Roca. Yet, the government again failed to take steps to monitor the concessionaire, overlooking warning signs, until 2007, when hundreds of passengers attacked the facility of the Constitution Terminal and confronted police for hours after they had again been informed that service was suspended (Pérez and Rebón, 2012). After this dramatic incident, instead of taking steps to monitor the concessionaire, again the government placed operation of the rail under the control of the remaining concessionaires.

Second, transportation under Kirchner highlights how powering weakens the incentives to strengthen a predecessor's powering reforms. Why would Menem's successors want to make his reforms successful, especially after changes had been discredited because of poor performance? Why champion improvements of a "failed" reform? As problems mounted, Kirchner placed blame on his predecessor's reforms and the concessionaires. Instead of strengthening institutions important for transport, Kirchner allowed them to continue to flounder. As graph X shows, the DNV, responsible for highway concessionaires, steadily lost civil servants, crucial for monitoring compliance with contracts and applying sanctions. A comparison of the budget of CNRT, the regulatory agency for railways, between 2001 and 2007 reveals that it was the agency with the least growth in terms of budget (ACIJ 2008). Despite CNRT's bleak outlook,

experts argue that the personnel situation was even more precarious in OCCOVI and DNV.<sup>68</sup>

Figure 1: Evolution of DNV civil servants and number of agents per 1000 km of highway network concessioned



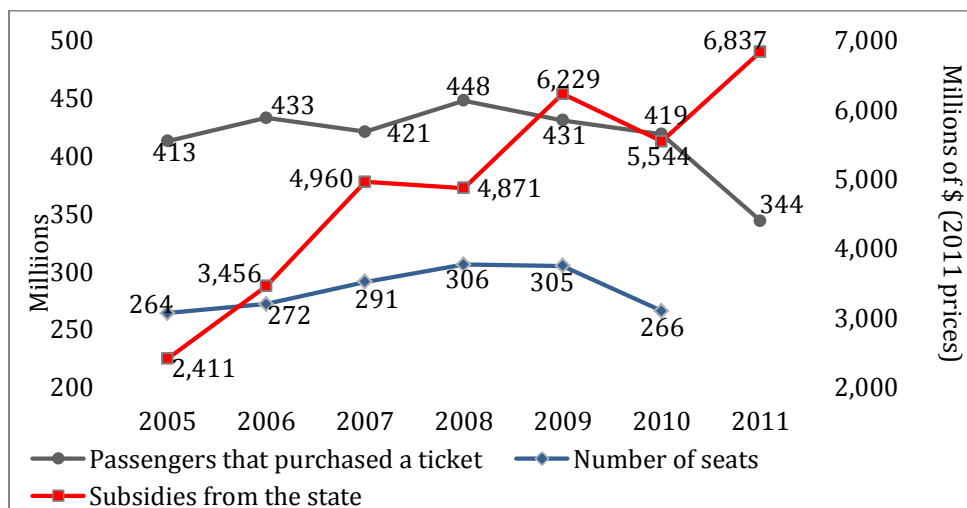
Source: Dirección Nacional de Vialidad

The continuation of Nestor Kirchner’s policies under the administration of his wife, Cristina Fernández de Kirchner, resulted in further increases in subsidies even as the system deteriorated. Between 2005 and 2011, state subsidies to the railways tripled, from \$2,411 million to \$6,837 million pesos (2011 pesos) (IDESA 2012). Figure 1 shows that despite this investment, the quality of services deteriorated; the number of seats were reduced from 2007 to 2010, and the number of passengers who actually paid for tickets declined because operators stopped collecting fares (IDESA 2012). *La Nación* estimated that the subsidy was ten times the basic one-peso ticket price, while only six in every 100 metropolitan rail passengers purchased a valid ticket.<sup>69</sup>

<sup>68</sup> Author interview with Eladio Sánchez, Secretariat of Transportation, Ministry of the Interior and Transportation, November 27, 2012.

<sup>69</sup> *La Nación*, October 5, 2013.

Figure 2 : Subsidies, available seats, and tickets purchased



Sources: IDESA and Comisión Nacional de Transporte Ferroviario

Given the feeble institutions, concentration of decision-making authority, and weak incentives to improve Menem’s transportation reforms; it is not surprising that allegations of corruption swirled around those at the helm of transportation agencies. De Vido, Jaime, and Claudio Uberti, the interventor of the highway regulatory agency OCCOVI, along with contractors, were implicated in numerous scandals that involved bribes, cartels, cost overruns in contracting, and work compensated but never completed (Guillan-Montero 2011; Volosin n.d.; Cabot and Olivera 2008). In particular, in November 2005 the minister of the economy, Roberto Lavagna, denounced the “cartelization” of highway contracts, after the World Bank had discovered that 63 percent of highway works were awarded to four companies, with ties to Santa Cruz, where they had obtained similar deals in the 1990s from De Vido, who was minister under then-Governor Néstor Kirchner (Manzetti 2014, 185; Cabot and Olivera 2008, 22-23).<sup>70</sup> Elisa

<sup>70</sup> The World Bank along with the Kirchner administration had funded a program called CREMA, designed to provide maintenance and modernization of the highway system. It was in this context that officials began

Carrió, in a criminal lawsuit against Kirchner and De Vido,<sup>71</sup> further detailed the cartel operation that resulted in a cascade of other money laundering investigations surrounding Santa Cruz entrepreneurs. These included the infamous Lázaro Báez, who earned public contracts worth US\$1 billion and allegedly set up an intricate money laundering scheme in which over 50 ghost firms were used to transfer money abroad.<sup>72</sup> In 2007 Claudio Uberti, a close associate of De Vido and responsible for concessions that controlled all tolls in the country, was dismissed after he was found with a group carrying non-declared bags containing US\$800,000 from the Venezuelan government, allegedly destined to finance Cristina Kirchner's electoral campaign (Cabot and Olivera 2008; Scherlis 2010, 156).<sup>73</sup> In 2009, Ricardo Jaime turned in his resignation after investigators accused him of accepting bribes from, among others, the Cirigliano Group, whose family company, Cometrans, controlled Trains of Buenos Aires (TBA), a company that received millions in state subsidies for railway concessions.<sup>74</sup> Jaime was also alleged to have illicitly collected millions for the Kirchner campaign by pressuring companies to contribute.<sup>75</sup> In sum, the weak institutions and centralization of control that resulted from Menem's reforms in many ways facilitated siphoning money out of the transport sector to be used for the Kirchners' political ends.<sup>76</sup>

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investigating problematic cost overruns. Later in 2006, the DNV found that such contracts had cost overruns that exceeded the budget anywhere between 29 to 290 percent (Manzetti 2014, 185).

<sup>71</sup> For the full text of Carrió's allegations see *Perfil*, November 27, 2008.

<sup>72</sup> On Báez, see *La Nación* Feb. 7, 2010; June 26, 2007; June 30, 2008; *Wall Street Journal*, July 29, 2014.

<sup>73</sup> Even after he was dismissed, Uberti allegedly served as a so-called "parallel ambassador" to Venezuela (*Perfil*, April 8, 2012).

<sup>74</sup> Prosecutor of Administrative Investigations, Manuel Garrido, led the effort that denounced the Secretary of Transportation (*Perfil*, February 24, 2009).

<sup>75</sup> *Clarín*, November 22, 2010. Jaime currently faces around 20 separate court cases of administrative fraud and overpricing of railway concession contracts.

<sup>76</sup> Guillermo Jorge and confidential interviews with legal counsel at the some of the largest governmental contractors suggest that corruption under the Kirchners does not follow the cartel model as it did under Menem, but rather the government selects which companies it will work with and provides extensive subsidies in return for kick-backs into political coffers. Author interview with Guillermo Jorge, Law Professor, San Andres University; IFI consultant on money laundering and corruption, August 22, 2012.



Throughout this period, ominous reports that provide overwhelming indications that catastrophe would strike unless corrective actions were taken were ignored.<sup>77</sup> The AGN released report after report that revealed the calamitous state of the railways and corruption in public works contracts. Several non-governmental organizations (NGOs), labor unions, and government agencies denounced the critical state of several services and the failures of the government to hold concessionaires to account (Baer and Montes-Rojas 2008, 331; ACIJ 2008). From 2007 to 2011, the number of railway accidents steadily increased. The average deaths in the Buenos Aires Metropolitan Area alone were 400 a year. In 2008 alone there were more than 3,200 accidents, resulting in 2,700 injuries (Pérez 2014, 126). Protests of poor quality services turned violent on numerous occasions.<sup>78</sup>

Then, on February 22, 2012, tragedy struck: A train on the busy Sarmiento line failed to stop at the Once station in downtown Buenos Aires and careened into the platform, killing 51 people and injuring 700. Modern safety technology would have prevented the train cars, run by concessionaire TBA, from slamming into each other after

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<sup>77</sup> Complaints, including those of the unions, about investment and maintenance seemed to fall on deaf ears (*La Nación*, February 23, 2012). The national commission of transport regulation (CNRT) submitted several official reports to Secretary of Transport Juan Pablo Schiavi in 2010 and 2011 in which they emphasized the precarious state of the rails. In particular, the report from March 21, 2011, states that Línea Sarmiento, operated by Trenes de Buenos Aires (TBA), is in a deplorable state, with “structural deficiencies [that] continue to increase the considerable maintenance deficit, generating a deterioration of the components and the superstructure of the railway.” The tracks’ “irreversible faults” mean that the trains should reduce their speed; the report also stated that “a pronounced maintenance deficit can be observed, with worrying faults from the security viewpoint, because of their gravity and recurrence.” The report continues: “The infrastructure delivered from the [TBA] concession presents significant deficits regarding the contractually established requirements ..., and both its routine maintenance such as human and material resources are insufficient to reverse a situation of steady decay.” The report was issued by the Manager of Transportation Safety of CNRT, Horacio Faggiani, and signed by the *interventor* of the organism, Antonio Sicaro (Nota CNRT 445/2011; *La Nación*, February 29, 2012). Yet, according to AGN, CNRT took no meaningful corrective actions, despite the fact that AGN issued a report in 2008 (and continued to issue such reports) that highlighted failures of the TBA: among other deficiencies, trains had missing handles on emergency brakes and ineffective handbrakes (*La Nación*, February 23, 2012).

<sup>78</sup> *Página12*, May 16, 2007.

a hard stop, but the carriages used on the Sarmiento line were more than 50 years old. Then, in June 2013, two passenger trains collided into each other, again on the Sarmiento line, killing 3 and injuring more than 100. Then, again, in October of the same year a train failed to stop and crashed into the buffers of the Once station, injuring 99 people. The government cast blame on TBA. But as a result of the Once crash and the subsequent collisions, the Fernández administration finally shifted its attention to the problems in transport, as the next section will demonstrate.

### **POWERING DÉJA VU: FERNÁNDEZ REVERSES MENEM'S REFORMS (2012-2015)**

Following the Once crisis, executive attention dramatically shifted to problems in transportation. However, instead of making medium or proportionate adjustments and improvements, such as monitoring concessionaires, enforcing concession contracts, or upgrading the most dilapidated train cars, the Fernández administration embarked upon a sweeping overhaul of the transport sector.

The new model rescinded concession contracts and centralized control of railway services in state-owned companies. While this constituted a new approach in contrast to privatization, the Fernández transformation essentially recreated the transport model as it was before Menem's reforms. Fernández transferred responsibility for operation and maintenance of transport from the private sector to the state, by centralizing control for railways in *Trenes Argentinos* and its freight sister-company, *Belgrano Cargas*. Thus, the transport model pushed through by the Fernández administration is strikingly similar to what existed before Menem took office.

The strategies used to reverse Menem's changes drew upon the same pattern of tactics—massive organizational restructuring, concentration of power in interventors, and the use of executive decrees (*Decretos de Necesidad y Urgencia*, DNU) in the face of

“crisis.” Following the Once tragedies, the administration of transportation, including control over massive subsidies, was moved from De Vido’s empire in the Ministry of Planning to the Ministry of Interior, which henceforth became the Ministry of Interior and Transportation (Decree 874). In March 2012, the minister of the newly created agency, Florencio Randazzo, “intervened” in TBA, taking over the company’s management of the metro and appointing a “caretaker” for the private company. Instead of delegating day-to-day operation to the ministry and its agencies, interviews suggest that the president communicated directly with the Minister of Interior and Transportation on matters regarding transportation.<sup>79</sup>

Concessions then fell like dominoes: The Fernández administration canceled one contract after the other. Randazzo announced in October 2013 that the Sarmiento line contract with TBA would be rescinded (Resolution 1083/13).<sup>80</sup> Operation of the Sarmiento line was placed in the hands of *Trenes Argentinos* (also known as *Sociedad Operadora Ferroviaria Sociedad del Estado*, SOFSE), a nascent state-run company that ran a few minor lines in the interior of the country, while another newly created agency, ADIF, would be responsible for investments to maintain and modernize the railway infrastructure (Resolution 1244).<sup>81</sup> During the same period of time, state-run *Trenes Argentinos* and ADIF similarly assumed responsibility for the San Martín, Belgrano Sur, and Roca lines, which had been run by the UGOFE consortium (which had included

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<sup>79</sup> Author interview with Maria Eugenia Coutinho, Directora General Programas y Acción de Gobierno at Presidencia de la Nación (November 5, 2012).

<sup>80</sup> This intermediary step was taken because if the government were to rescind the contract outright, and the courts did not find enough evidence that the crash was the result of negligence, the State would have to foot a multi-million dollar bill for breach of contract (*Latin American Weekly Report*, March 1, 2012).

<sup>81</sup> *Página 12*, October 26, 2013.

TBA); the Mitre line (which had also been run by TBA); and the Tren de la Costa line concession with Sociedad Comercial del Plata was rescinded.<sup>82</sup>

The transformation extended to freight as well.<sup>83</sup> In May 2013, the Fernández administration nationalized the Belgrano Cargas freight line, which once covered 14 provinces and connected Argentina to Bolivia, until it was concessioned in 1997. In 1998, the Belgrano Cargas had transported 3,287,515 tons per year; in 2006 when the agreement was revoked, the annual cargo was just over 500,000 tons.<sup>84</sup> The operation of the line was handed over to newly created state-owned, *Belgrano Cargas y Logística Sociedad Anónima* (hereafter, Belgrano Cargas), comprised of Trenes Argentinos, the General Port Administration (*Administración General de Puertos*, AGP), and ADIF (Decree 566/2013). Then, on June 4, 2013, the state revoked the contract with the Brazilian logistics company América Latina Logística (ALL), which ran the San Martín and General Urquiza freight lines. The Fernández administration struck a deal with China to help rebuild rail networks of Belgrano Cargas (making it easier to get soy to port and shipped to China) and to modernize the line's rail-car fleet.<sup>85</sup>

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<sup>82</sup> *La Nación*, June 5, 2013.

<sup>83</sup> During the same time, the Mayor of Buenos Aires, Mauricio Macri, finally announced he would take over responsibility for the Metro (*Subte*), which was desperately in need of upgrades, from the Fernández administration. Macri initially refused to take over the metro and the massive cost of needed repairs stating, "I felt that we Argentines owed ourselves a reflection. ... Unfortunately the metro can't escape reality. ... We cannot take responsibility for 10 years of no investment. ... I will neither lie nor become an accomplice in endangering users for lack of security and investment, [for these reasons] we decided to call a halt to the handover." Later, in an about-face, he announced he would indeed assume responsibility for the services (*Latin American Weekly Report*, March 1, 2012; *La Nación*, December 20, 2012; *Latin American Weekly Report*, July 4, 2013).

<sup>84</sup> The history of this concession is complicated. Initially, a union of railway workers, Unión Ferroviaria, and Laguan Paiva, an industrial cooperative, were granted the concession. The union, however, allegedly siphoned off subsidies that were meant for rail investment, and the government rescinded the contract. During Néstor Kirchner's presidency, "Shima," a Chinese company, and Franco Macri presented an investment plan. However, when the government demanded that Emepa and Grupo Roggio (the owners of major passenger rail operations in Buenos Aires) along with unions be part of the operator holding, the consortium withdrew (*La Nación*, May 23, 2014).

<sup>85</sup> *Financial Times*, July 14, 2010.

The recreation of Ferrocarriles Argentinos was completed after the government announced that it would take over operation of long-distance passenger rail services in July 2014,<sup>86</sup> and after the government rescinded contracts with the two remaining concessionaires, Grupo Roggio's Urquiza line and Emepa's Belgrano Norte line a year later (Resolution 171/2015). This move made the Ministry of Interior and Transportation responsible for operation and maintenance of Buenos Aires railways, inter-city, and freight services.

Rescinding contract after contract constituted a disproportionate response to the problems, however. The Fernández administration cited noncompliance with contractual agreements. In particular, with regard to ALL, the government argued that the Brazilian company had repeatedly failed to meet conditions set forth in the concession contract. These serious breaches, the government argued, resulted in over 30 percent of ALL's fleet being disabled. Yet, according to reports by AGN, such failures were not adequately sanctioned; in only *one* of the cases did CNRT effectively apply the appropriate penalty (AGN 2013).<sup>87</sup> The absence of capacity and autonomy to effectively monitor contracts with concessionaires calls into question the ability of the government to tackle the more formidable challenges of operating rail lines. But, instead of taking the more moderate approach and monitoring concessionaires and applying sanctions, policymakers overreacted to the problems, causing a major shift in transport policy.

The timing of this transport overhaul also suggests that political motivations played a crucial role. Hugo Moyano, a key ally of the Kirchners from 2003-2011 as leader of the CGT, the nation's largest trade union, drew the base of his support from the truck drivers' union. His sectoral interests clashed with those of freight operators; while

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<sup>86</sup> *Clarín*, July 11, 2014.

<sup>87</sup> *ElAuditor.Info*, May 29, 2013.

the deterioration of freight increased the power of the truck drivers' union, CGT, to shut down transport in Argentina, efficient and extended freight lines would attenuate the truck drivers' control over shipping. Moyano's alliance with the Fernández administration effectively ended with a series of truckers' strikes in 2012. Thus, it seems that the decision to invest in improvement of freight in 2013 was a way to weaken the power of the truckers' unions and their ability to halt transport in Argentina.

What is remarkable about the Fernández administration's takeover of transportation was the *absence* of resistance to such sweeping changes. One might argue that the rail system was in such a state of crisis that there was consensus that something dramatic needed to be done. Such an argument, however, masks the fact that numerous groups anticipated such a tragedy given the state of rail infrastructure. Concessionaires did not put up a fight because they had nothing to lose—they had already benefitted from the extravagant subsidies, and the cancelation of their concession agreements now meant that they could return the dilapidated tracks, train cars, and locomotives to the state, washing their hands of responsibility. The continued poor performance had discredited the privatization model and so citizens were in favor of dramatic reform after years of underinvestment and neglect. Finally, the civil service was not going to stand in the way of change, since under the Kirchners the civil service system constructed under Menem had also been transformed.<sup>88</sup> Finally, most agencies related to transport had been vitiated by Menem, then by the Kirchners. Thus, institutional weakness—the result of powering reforms that purged decision makers and also civil servants with experience—meant that the Fernández administration faced few barriers to change that again seemed necessary given the problems that had precipitated a “crisis.”

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<sup>88</sup> Guillermo Schweinheim, former Director of Training and Development, Tribunal de Cuentas de la Nación (1984-1992), Director of the Center of Studies of the Association of Personnel of the Audit Institutions (APOC), August 22, 2012.

## **PROBLEM-SOLVING TRAMPLED**

Powering's frequent and massive overhauls of the state trampled problem-solving processes. In the midst of the powering highlighted above, there were indeed a variety of attempts at gradual problem-solving reforms that made gains: Eduardo Salas, the director of the National Office of Public Employment, worked to maintain meritocratic standards for the civil service and bolstered training for public employees (Coutinho 2007, 5);<sup>89</sup> Oscar Luna in the National Office of Contracting enhanced government contracting transparency (Volosin 2010);<sup>90</sup> Nicolás Raigorodsky, as head of Transparency Policy in the Anticorruption Office, advanced standards for monitoring contracts (IADB 2006); and Guillermo Bellingi, the head of the National Office of Contracting, introduced legislation that ameliorated ambiguities in the legal framework for procurement.<sup>91</sup> These, and many other similar efforts, may have stalled or thwarted some of the most deleterious effects of powering. Ultimately, however, the dramatic changes in the service model in the 1990s—swinging from state to private provision of services—meant disrupted most of these efforts.

This meant that expertise was not built over time. By the late 1990s powering tactics—organizational restructuring, concentrating power, and dismissing civil servants—had left few individuals with the institutional knowledge crucial for anything other than concessions, interrupting experience and learning. Administrative capabilities for planning, purchasing, operations, and oversight, tasks required for anything other than

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<sup>89</sup> Author interviews with Hugo Dalbosco, Administrador Gubernamental, Ministry of Economy, Civil Service Secretariat, November 6, 2012; Graciela Silva, Coordinator for Management of Training and Quality, National Institute of Public Administration (INAP), November 5, 2010; Guillermo Schweinheim, former Director of Training and Development, Tribunal de Cuentas de la Nación (1984-1992), Director of the Center of Studies of the Association of Personnel of the Audit Institutions (APOC), August 22, 2012.

<sup>90</sup> Author interview with Guillermo Bellingi, Director of the National Office of Contracting (2010-2012), November 14, 2012.

<sup>91</sup> Author interviews with Vanesa del Boca, Anticorruption Office, September 12, 2012; Oscar Luna, Director of the National Office of Contracting (1996-2006), September 12, 2012.

concessions, were abandoned. Concessionaires, not government officials, became responsible for buying materials to lay track or purchase train cars, meaning procurement procedures for public works were largely unused for over a decade.

The same pattern repeated itself under the Kirchner and the first part of the Fernández de Kirchner administrations. Problem-solving attempts to improve the neglected procurement model of contracting and address the long-standing issues—lack of transparency, rigidity of rules, inefficient procedures, corruption, and collusion<sup>92</sup>—provide a poignant example. The director of the Office of National Contracting (ONC), Oscar Luna, a civil servant and engineer, led numerous incremental, moderate attempts to increase transparency in contracting by automating procedures and placing information online. Such efforts initially flew under the radar of political attention. In 2002 when President Duhalde and the country were still focused on the aftermath of the 2001 political and economic crises, contracting reform was far down on the agenda, but Luna took this moment of national preoccupation with larger crises as an opportunity to begin making incremental changes. Luna sought out assistance from the international financial community, and in 2002 acquired a technology solution from the Government of Australia, which automated contracting procedures and published them online. This solution met a number of desiderata: the system was essentially free; source code was provided to allow Argentina to adapt the system to their own requirements; and it was flexible, allowing for incremental changes to the project (Trotta 2008, 9).

The quiet gradual efforts of Luna's team seemed to hold promise; as Chapter 6 will highlight, the ONC team employed a similar approach to successful problem-solving efforts in Brazil. However, the intentionally low-key, piecemeal efforts were stymied by

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<sup>92</sup> Author interview with Nicolás Raigorodsky, Director of Transparency Policies, Anticorruption Office. (2002-2007), November 13, 2012.



the lack of a stable team: Luna's team was so often "reorganized" from above that he instead relied on consultants from IFIs or college interns as developers.<sup>93</sup> While such individuals were often quite skilled, their brief stints in the Argentine public administration meant that Luna's team had little meaningful continuity and his efforts at reform suffered as a result. The adaptation of the Australian model to the Argentine context should have been simple, quick, and cost-effective; however, consultants and interns often failed to write down their modifications to the original source code, which created insurmountable challenges when they left.<sup>94</sup>

Despite growing problems, in December 2005 the Secretary of Public Management, Juan Abal Medina, finally introduced the electronic system, *Sistema Electrónico de Contrataciones Públicas* (SECOP), and its internet platform, the site "ArgentinaCompra," in a presentation that included various public authorities. Only days later, Luna again lost the key technical members of his team to "organizational restructuring" (Volosin 2010, 172). SECOP was obsolete before it was even introduced, and became a project "*para inglés ver*" (for the English to see) a shiny façade that conceals a significantly different reality on the ground. In 2007 the ONC finally abandoned the idea of trying to resuscitate the system which had become a labyrinth of jumbled code, the result of the modifications of an endless stream of different interns and consultants.<sup>95</sup> Without the stability of a core team, Luna's problem-solving initiatives were not sustained. Luna, one of the few civil servants with detailed knowledge of

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<sup>93</sup> Author interview with Oscar Luna, Director of the National Office of Contracting (1996-2006), September 12, 2012.

<sup>94</sup> Author interview with Hernan Clerc; SECOPs team lead and contracting expert at the National Office of Contracting (2009-2012), July 16, 2010.

<sup>95</sup> Author interview with Bellingi.

procurement, the budget, and past attempts to increase transparency and accountability in contracting, resigned in 2006 out of frustration.<sup>96</sup>

The reasons for this failure, however, extend beyond this particular instance. After Luna left, Fernando Díaz and Guillermo Bellingi, the subsequent directors of the ONC, attempted to implement two different e-Government Procurement systems and failed. Indeed, experts argue that Argentina lags far behind most countries in Latin America in terms of transparency of government contracts.<sup>97</sup> Underlying the failures of problem-solving in this area and in many others are the countervailing effects of the powering approach. Each time, just as the initiative looked promising, employee turnover or organizational restructuring resulting from patronage appointments or factional disputes displaced the team that had just been constructed.<sup>98</sup> The trampling of reforms in these areas is particularly problematic now that the state has again assumed responsibility for the transport sector.

In order to cope with the lack of capable personnel, problem-solvers often rely on outsiders. Under Néstor Kirchner and Cristina Fernández de Kirchner, the number of agreements with universities has skyrocketed as have the off-the-books funds directed to such entities.<sup>99</sup> This pattern seems to follow a political logic; the federal administration's unprecedented connection to universities has been correlated to the rise of La Cámpora, the youth movement led by the son of the Kirchners, Máximo. Foreign consultants and interns serve as an important source of expertise.

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<sup>96</sup> Author interview with Luna.

<sup>97</sup> Author interview with Dr. Guillermo Rozenwurcel, Coordinador of the Inter-American Network on Government Procurement (RICG), August 22, 2012.

<sup>98</sup> Author interview with Bellingi.

<sup>99</sup> Author interviews with Guillermo Schweinheim, Director of the Center of Studies of the Association of Personnel of the Audit Institutions, August 22, 2012; Hugo Dalbosco, Administrador Gubernamental, Ministry of Economy, Civil Service Secretariat, November 6, 2012.

While such solutions resolve short-term capacity issues, they imply long-term costs for the public administration: Once such individuals leave, their knowledge goes with them, inhibiting the accumulation of expertise, and frustrating gradual attempts to increase transparency, reduce corruption, and strengthen institutions. This means that companies are able to take advantage of the lack of knowledge on the part of the public sector. Employees of big construction companies readily admit that they can count on their government counterparts *not* to understand the contractual details and technical requirements, which gives the private sector an upper hand.<sup>100</sup> The learning process starts from scratch with each administration or turnover of personnel, eroding institutional capacity over time.

## CONCLUSION

Faced with crisis situations in the early 1990s, President Menem instituted wholesale changes to wipe out corruption and improve basic service delivery at lightning speed before opposition could slow reforms. The challenges of designing and implementing such complex overhauls at break-neck speed in a new context were too great, however: The ideal-type models failed to account for changing conditions and unforeseen circumstances. Moreover, the very process of destroying the status quo and autocratically imposing changes weakened needed institutions. Thus, reforms deteriorated during subsequent administrations until the situation had reached crisis levels, prompting President Fernández de Kirchner to undertake a fresh set of radical reforms that reversed those of the 1990s.

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<sup>100</sup> Author interviews anonymous employees of companies with government contracts; Claudia Maskin, Regional Compliance Officer, Siemens, November 22, 2012.

Thus, this chapter has demonstrated how powering has run its full course in terms of transportation in Argentina: The same institutions were overhauled again and again. When powering efforts predictably failed, changes were discarded as a “partial” solution that failed to strike at the root of the problem and the search for another comprehensive model began anew.

This chapter also demonstrated how grander transformations that usher in “modernization” and “flexibility” have trampled efforts at problem-solving. The oscillation between privatization and re-nationalization meant that important efforts to gradually reform the transportation sectors were neglected. Bulldozing existing institutions in order to wipe out established corruption crucially hindered the consolidation of reforms and has had pernicious effects on bureaucratic stability over the long run, and as time revealed, corruption and inefficiency proliferated in the new institutions—which perversely led to new attempts at wholesale reform.

## **Chapter 5 Health in Argentina: Impeded Powering Fosters Problem-Solving**

The preceding chapter demonstrated the failure of the powering approach for transportation in Argentina and focused on two problems of powering: the challenges of comprehensive planning and the destructive effects on institutions. The swift and deep-cutting changes allowed Menem to undercut opposition, but because of the insurmountable challenges of rapidly planning such extensive change, reforms led to unintended consequences and new performance problems. Moreover, the weak institutions left in the wake of restructuring the transportation sector and dismantling the state apparatus left lasting repercussions that continued to hinder improvements in the sector long after the initial reforms. Service provision deteriorated until it reached crisis levels, prompting a fresh set of powering reforms.

The analysis of transportation reforms, however, generated a number of questions that are unanswerable with a single set of cases in one sector: What if reforms had been crafted and implemented under more typical circumstances instead of at the height of the hyperinflationary crisis? What effect did the depth and speed of reform have on the outcomes? Would powering have been more successful if reforms had been crafted by Argentine experts with greater experience than IFI teams and political technocrats? To what extent are the arguments advanced in Chapter 4 extendable to other policy areas?

This chapter answers these questions by analyzing health reforms in Argentina. Beginning in the 1990s, Argentine executives attempted to transform the health sector using the same powering approach applied to transportation. The within-country comparisons provide useful analytical leverage, first, for illustrating aspects of the problems and paradoxes of powering. Like reforms in transportation, failures at comprehensive planning for health transformations of the 1990s resulted in disappointing

outcomes. In addition, reforms in health, and in particular Néstor Kirchner's powering reform in the *Programa de Atención Médica Integral* (PAMI), which provides health services for pensioners, illustrate another aspect of the problems with powering—the credibility issue.

As explained in Chapter 2, the credibility issue arises when relevant actors doubt the staying power of change, which diminishes the probability of enduring, consolidated reforms. The powering thesis assumes that comprehensive changes generate benefits, and thus, a new set of beneficiaries, who will make changes viable in the long term by opposing attempts to weaken, abandon, or reverse reforms. The problem, as the case of PAMI under Néstor Kirchner will demonstrate, is that reforms do not automatically engender beneficiaries with the motivation and capacity to defend changes. In fact, the very process of powering makes such a situation unlikely. Deep-cutting reforms that usher in transparency or clean government entail concentrated costs for opponents and diffuse benefits. Thus, once the political will that sustained the change dries up, defenders of the new program (diffuse benefits) are weaker than the *prior* defenders of the status quo (concentrated benefits). Further, because institutions were dismantled and bureaucratic continuity disrupted, there are few internal defenders of changes once technocratic reform teams move on. Potential beneficiaries, then, have many reasons to question the endurance of radical change, and thus, as this chapter will show in the case of PAMI reforms under Cristina Fernández de Kirchner, are less likely to come out and support the changes.

The cases presented in this chapter also provide a means for assessing to what extent the speed and depth of reforms affect outcomes. Chapter IV drew a base-line for this analysis by detailing the effects of the draconian, almost-immediate transformation of transport. This chapter contrasts the reforms in the Ministry of Health. The changes to the

health sector did not cut as deeply, or go as far as they did in transport, but areas of comparatively greater stability were more successful at fostering gradual changes down the line. The area in which the *most* drastic changes were made, PAMI, ultimately resulted in the most disappointing outcomes over time. Thus, this chapter substantiates the negative correlation between reform speed/depth and success, and shows how delayed and stalled reforms gave rise to gradual, problem-solving efforts in some key areas.

This chapter first analyzes cases of health reform starting in 1995, highlighting the challenges of comprehensive planning. It then turns to reforms in PAMI under the Kirchners, which underscores the credibility problem. The third section explains why an attempt at powering in the Ministry of Health failed, underscoring the importance of sustained political will for executing radical reforms. This section, then, illustrates how relative continuity in some areas of the Ministry of Health fostered efforts at gradual improvements, while also highlighting how the legacy of the reforms of the 1990s has continued to have detrimental effects in other program areas. The penultimate section compares Argentina’s reforms in transportation, analyzed in Chapter 4, and in health, the subject of the present chapter, demonstrating that the more draconian the powering reforms—the swifter and deeper the change—the more corrosive the effects on institutions over time.

### **HEALTH REFORM IN THE 1990S**

The IADB described Argentina’s health sector reform as, “the greatest transformation of a health care system in Latin America in the 1990s” (IADB, 1998), and the World Bank lauded Argentina’s ability to implement all the “key elements of reform . . . in a very short period of time” (World Bank 1998, iii). Despite such accolades, the following analysis will show that changes fell far short of achieving their goals.

In the mid-1990s the Menem government turned its attention from macroeconomic stabilization and privatization to increasing competition within Argentina's ill-performing health care system.<sup>101</sup> Deepening deficits and a steady stream of corruption scandals fueled the perception that the health sector was in a state of crisis.<sup>102</sup> Among specialists, the problem that plagued the health care sector in Argentina was clear: health insurance funds, known as *obras sociales*, operated as monopolies, precluding competition.<sup>103</sup> In 1996, there were about 310 *obras sociales* in operation, which covered 18 million, about 55 percent of the population, and consisted of three different types of funds: national *obras sociales* (9 million), province-based *obras sociales* (5 million), and the Program of Integrated Medical Care (*Programa de Atención Médica Integral*, or PAMI), a special *obra* serving the elderly and disabled (4 million) (World Bank 1996, 13).<sup>104</sup> Trade unions administered most of the national and province-based *obras*, which meant that employees in the formal sector in Argentina had compulsory health insurance with an *obra social*, operated by their respective trade union. Such funds differed considerably in terms of size, benefits provided, and financial stability, and in the absence of effective state regulation, the system had become a complex labyrinth of contracting and subcontracting. Yet, because the system generated a significant revenue stream for many unions (Torres 2004; Murillo 2001), labor union opposition to change was expected to be fierce (Pribble 2010). Specialists argued, however, that the solution for improving care while eliminating deficits entailed taking

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<sup>101</sup> This was one of a number of "second stage" reforms, which placed greater emphasis on improving social conditions and strengthening institutions (Naím 1994).

<sup>102</sup> See, for instance, AGN report on corruption and the fiscal crisis in PAMI (1994). Moreover, two of PAMI's previous directors, Miguel Nazur and Matilde Menéndez, had been charged with corruption.

<sup>103</sup> Author interview Hernán Charosky, Chief Analyst (health sector), Anticorruption Office (2000-2005); Executive Director, Poder Ciudadano, Argentine Chapter of Transparency International (2010-2012), October 3, 2012.

<sup>104</sup> On the long history of *obras sociales* see McGuire (2010, 131-143) and Belmartino (2005).



on the unions and changing the regulations to increase competition among *obras sociales*,<sup>105</sup> on one hand, and between private insurance providers, on the other.<sup>106</sup>

The mid-1990s seemed a propitious opportunity to attempt such a feat. It was becoming obvious that if nothing was done, the large operating deficits and growing arrears of *obras sociales* and PAMI would endanger economic stability (World Bank 1996, 7). Moreover, Menem was a proven reform “champion,” as he had demonstrated to IFIs with his fiscal reforms and execution of a complex and politically challenging transformation of infrastructure; and thus, pushing ahead with the formidable task of overhauling health sector would take advantage of Menem and his team’s reform acumen. Furthermore, tackling the deteriorating health services held promise for addressing concerns among the electorate about the poor quality of healthcare. For all of these reasons, the powering approach—using political will to drive through a clear reform project in a moment of crisis—seemed promising.

Indeed, most viewed the crucial challenge as one of imposing changes against the opposition of potent unions and political forces that benefitted from the status quo, not one of reform design (cf. Pribble 2010).<sup>107</sup> Crafting complex reforms was left to World Bank experts. World Bank personnel along with the Menem government undertook a sectoral analysis in the second half of the 1990s which resulted in clear milestones for “revolutionary and irreversible changes in the mandatory health insurance system” (World Bank 1997; 1999). Together, the milestones focused on increasing competition by allowing beneficiaries of *obras sociales* and PAMI to select membership with other

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<sup>105</sup> PAMI was considered to be one of the *obras sociales*. So the idea was to increase competition between all obras, including the health insurance fund for pensioners.

<sup>106</sup> Author interview with Dr. Mariana Chudnovsky, Professor, Universidad de San Andrés, October 25, 2012.

<sup>107</sup> Author interview with José Priegue, Coordinator, International Finance Unit (2002-2007, 2009-Present), Ministry of Health, November 29, 2012.

health insurance providers, either another *obra social* or a private one, and to transfer their membership and financial contributions to it.<sup>108</sup> World Bank personnel brought extensive expertise to bear on developing and assisting with implementation of health reform after their efforts in the region in the early 1990s and earlier work in the Argentine health sector (World Bank 2002, 3). The Bank also provided financing for the ambitious mission, with loans totaling over US\$350 million (World Bank 2002, 4).<sup>109</sup>

In order to execute swiftly the new measures, the highest levels of government—the President and Ministers of Labor and Health, and perhaps most importantly the powerful Minister of the Economy, Cavallo—along with the World Bank adopted a tight alliance and a unified position on the reform strategy (World Bank 2002). To by-pass potential obstacles in Congress that would delay and dilute the plan, the Menem administration, with the support of the World Bank, approved initiatives as decrees (Montoya and Colina 1998).<sup>110</sup> In PAMI, Menem appointed an *interventor-normalizador*, Alejandro Bramer Markovic, to intervene in the institute in order to carry out changes with the World Bank team, and then to “normalize” management by handing control back over to an elected board, restoring its autonomy.<sup>111</sup> Markovic and the heads of the Ministry of Health and regulatory agencies brought in a new cadre of Argentine managers, lawyers, and technical specialists to build the capacity of the health sector in order to implement changes (World Bank 2002, 3). Finally, private firms were subcontracted to address the especially complex tasks of designing a new organizational

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<sup>108</sup> On reform plans see World Bank (1996; 1997).

<sup>109</sup> On the extensive role of the International Financial Institutions in the reform process of the 1990s see Teichman (2004). A separate loan of US\$25 million funded technical experts to assist in the execution of the changes (World Bank 2002, 4).

<sup>110</sup> Decrees 292 and 492 of 1995. See also MS 492/95 and MS 247/96.

<sup>111</sup> Markovic seemed an ideal choice; as executive director of the National Social Security Administration, he had uncovered many of the problems in PAMI, and he was hailed for his health credentials and his close personal connection to the president (*La Nación*, August 1, 1996).

structure for PAMI and carrying out financial analysis of individual *obras sociales*. Together, these efforts concentrated power in a reform team of outsiders, with little experience in the health agencies.

That the team was not beholden to the status quo was crucial for pushing changes past the strong resistance of the unions. By using a policy of “divide and rule” and providing fiscal rewards to *obras* that signed on early and performed well, the health team eroded union opposition (World Bank 2002, 3). Many unions took advantage of the changes as a means of attracting members from rivals, and because unions were engaged in more than one battle with the administration at once, reform teams could leverage reform threats in one area for concessions in another (Acuña and Tuozzo 2000).<sup>112</sup>

Many aspects of the project initially appeared quite successful. Competition was opened up among *obras sociales* and between *obras* and PAMI. By 1999, nearly 300,000 workers had switched funds (World Bank 1999, iii). For the first time, even the poorest funds offered a basic package of services (approximately \$40 per member per month).<sup>113</sup> Moreover, many of the *obras sociales* had been restructured to improve financial indicators, increase internal efficiency, and develop adequate systems to comply with new regulations (World Bank 1999, iii). The *Fondo Solidario de Redistribución* (FSR, solidarity redistribution fund), was redesigned so that if an *obra* was unable to meet such commitments, the *obra social* would receive resources from the fund. A unified regulatory agency, the *Superintendencia de Servicios de Salud* (SSS), was established. Finally, PAMI officials had restructured internal controls and regulation, cut staff,

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<sup>112</sup> Author interview with Dr. Mariana Chudnovsky, Professor, Universidad de San Andrés, October 25, 2012.

<sup>113</sup> In 1994 average revenue per beneficiary varied from US\$5 to US\$80 (Lloyd-Sherlock 2006, 357).

eliminated PAMI's debt, and restructured the contracting system (Lloyd Sherlock 2006, 360).

As was noted at the beginning of the section, the IADB described Argentina's health sector reform as the greatest transformation of the health care system in Latin America in the 1990s (IADB 1998; World Bank 1998, iii). A few years later, however, analysts declared: "overall, the reforms of the 1990s did almost nothing to improve the performance of the SHI [social health insurance] sector; indeed, in many ways they made matters worse" (Lloyd-Sherlock 2006, 359). Why did such an initially promising reform effort result in such disappointing outcomes?

### **Comprehensive Plans Generate New Performance Problems**

Crafting a coherent and perfectly calibrated plan in one shot is a monumental task, requiring extensive computing capacity to evaluate complex problems, to seek out alternative solutions, and to calculate advantages and disadvantages. Yet, if any country were to surmount these challenges, it should have been Argentina. The World Bank brought some of the world's top experts on health reform and poured millions into the sectoral analysis and design of the program. Thus, after key changes were implemented, many expected success.

Reform assumptions, however, did not hold in Argentina and resulted in unintended consequences. As a scholar of health reforms stated, "It was assumed that a 'rational and responsible' private insurance sector would seek to compete against the *obras sociales* [and] that new public management would revolutionize hospitals" (Lloyd-Sherlock 2005, 1899). Such expectations were not born out. Econometric models used to justify cutting contributions were based upon continued growth. This did not hold in 1998-1999 and it meant that PAMI had even larger deficits than it had prior to the

reforms; the situation only became increasingly dire during the 2001 economic crash. The reforms generated a number of other unforeseen consequences: Analysts did not anticipate that some *obras sociales* would go along with the changes, but that they would be the *obras* that were in the best position to gain members from rivals, and the appearance of “*Gerenciadoras de Salud*,” or health management agencies, was “not imagined at the time of initial design of the legal framework,” yet these agencies ended up running the plans for *obras* (World Bank 2002, 6).<sup>114</sup> The result was that well off migrated to private insurers (*pre-pagas*). While the initial objective of the health overhaul was to reduce inequality and fragmentation of the health system by increasing competition and transparency, the reforms exacerbated inequality and increased fragmentation (Pribble 2010).

By 2002, one of the key achievements in the 1990s reform—the limited allowance for movement between *obras*—became one of the most important problems. The growing number of affiliates, which included mostly high income earners, were changing funds but going to richer *obras* which had contracts with private insurers.<sup>115</sup> In May 2002, there were 21,000 transfers to richer *obras*, which forced 38 of the poorer funds into semi-bankruptcy (Maceira 2009). The crucial components of the reform that were meant to ameliorate the problems that plagued the Argentine health sector were the very same components that by 2003 generated new performance problems.

Many scholars of the 1990s health reform argue that the reform did not go far enough and that the real problem was the resistance of the labor unions to the changes

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<sup>114</sup> While the crucial role of the World Bank in the planning may have contributed to the adoption of faulty assumptions, the complexity of the changes attempted meant that even health experts who had spent years in the Ministry of Health did not foresee the appearance of *gerenciadoras*.

<sup>115</sup> Author interview Hernán Charosky, Chief Analyst, Anticorruption Office (2000-2005); Executive Director, Poder Ciudadano, Argentine Chapter of Transparency International (2010-2012), October 3, 2012.

(Pribble 2010; Niedzwiecki 2014). Indeed, union resistance posed serious challenges to implementation of the project plan. However, the main features of the intended reform *were* put in place—competition was opened up among the *obras sociales* and between PAMI and the *obras*, such changes were expected to propel other necessary steps. Given the faulty core assumptions highlighted above, it is questionable whether reforms would have had the intended effect *even if* all changes had been implemented. Moreover, some of the areas in which the most drastic changes occurred and the intended changes were put in place faced some of the greatest challenges in terms of reform consolidation.<sup>116</sup>

The *paradox of powering* can be seen especially in terms of personnel. For instance, PAMI Director Markovic, following the direction of the World Bank proposal, sought to institute professional management. Four days after his appointment as intervener in PAMI, he fired over 50 individuals who sat in many of the most important positions, justifying the measure by declaring that it would allow “qualified personnel” selected based on clean, transparent and public proceedings to change the profile of PAMI.<sup>117</sup> Other PAMI employees were offered very attractive voluntary retirement packages, cutting the PAMI workforce by 30 percent.<sup>118</sup> These eliminatory changes entailed steep costs: the PAMI employees that accepted the terms of retirement tended to be the ones with promising employment prospects outside of PAMI—in general, the *most* capable employees, precisely the employees who were least likely to be taking bribes or cutting lucrative self-enriching deals.<sup>119</sup> After reform teams and consultants left PAMI,

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<sup>116</sup> Author interview with Ana Paula Herrera Viana, Coordinator, Procurement Operations Unit, Ministry of Health (2002-present), November 2, 2012. For lasting repercussions, see section *Powering Halted, Gradual Advancements*.

<sup>117</sup> *Clarín*, August 4, 1996.

<sup>118</sup> *La Nación*, March 26, 1997.

<sup>119</sup> Author interview with Mercedes Iacoviello, former Administrador Gubernamental, public sector human resource management consultant IADB, November 23, 2012.

the institute had less agency capacity than it did at the start.<sup>120</sup> This, in addition to the failures of comprehensive planning, made sustaining reform efforts especially difficult.

The effects of the powering paradox were all the more damaging because the radical changes occurred under normal conditions and hence blame could not be attributed to circumstances outside of the government's control. By the late 1990s, the hyperinflation crisis had long passed. Had resistance to the plan been weakened by a serious crisis, perhaps the changes would not have been as deleterious for institutional development, but as it was, the appointment of interveners in PAMI, use of decree power, and the assorted ways in which Menem and his administration—often with the blessing of the World Bank and those in favor of the reform—sought to bend or break institutional constraints, meant that it was only too easy for the next administration to justify the same measures.

Health sector reform in the 1990s fell far short of advancing “revolutionary and irreversible changes.” Despite the extraordinary time, expertise, and resources poured into comprehensive planning, the core assumptions of the ambitious reform program turned out to be faulty. In planning for “big bang” change, modest efforts to improve the situation were overlooked, which meant that many initially minor issues were ignored until they became such acute problems that another radical reform was necessary. The obvious performance problems (e.g., by 2000 the arrears of PAMI alone were estimated to range from US\$1.8 billion to \$4 billion<sup>121</sup>) in precisely the agencies the comprehensive plan had sought to reform only contributed to the 2001 fiscal catastrophe in Argentina.

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<sup>120</sup> Author interview Hernán Charosky, Chief Analyst, Anticorruption Office (2000-2005); Executive Director, Poder Ciudadano, Argentine Chapter of Transparency International (2010-2012), October 3, 2012.

<sup>121</sup> Figures depend on interpretations of contractual obligations at the time (see below).

The next section turns to another powering reform in PAMI in the 2000s and highlights another aspect of the problems of powering: the credibility problem.

### **THE CREDIBILITY PROBLEM: INITIALLY IMPRESSIVE, YET UNSUSTAINABLE, PAMI REFORMS (2003-2007)**

When Néstor Kirchner assumed the presidency in 2003, corruption and fiscal crisis plagued PAMI. The Institute's previous directors had been charged with numerous counts of malfeasance, yet corruption schemes remained in place: the lion's share of PAMI's budget was going to approximately sixty-three politically connected contracting middlemen, who reaped billions of pesos annually in PAMI outlays but often failed to provide the elderly with services.<sup>122</sup> By 2000 PAMI's fiscal problems were exacerbated by the extraordinary economic crisis of 2001 that resulted in deficits at 75 percent of PAMI's previous annual budget.<sup>123</sup> In 2004, after a new spate of corruption scandals and an incriminating report by the National Audit Body (AGN), President Kirchner appointed an *interventor* to head PAMI, thereby sidestepping the legal procedures that demand a board with participation of the affiliate representatives.<sup>124</sup>

Kirchner threw his full support behind comprehensive PAMI reform. His choice of intervener indicated his commitment to transforming the agency: Graciela Ocaña, a representative from the Lower House of Congress, was well known for her unrelenting commitment to investigating money laundering and corruption. And Kirchner assured her, according to this author's interview with Ocaña, of his full backing to root out corruption in PAMI.<sup>125</sup>

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<sup>122</sup> Author interview with Santiago Nardelli, former Executive Coordinator of PAMI (2004-2007), October 17, 2012.

<sup>123</sup> Estimates vary widely (cf. Lloyd-Sherlock, 2006; *Wall Street Journal*, August 31, 2004).

<sup>124</sup> *La Nación*, June 22, 2003.

<sup>125</sup> Author interview with Graciela Ocaña, Director of PAMI (2004-2007), October 26, 2012.



Designing reforms to replace the dysfunctional institutional arrangements was a substantial task. Prior to her position at PAMI, Ocaña was an elected official with little experience working in the Argentine federal administration. Likewise, most of the tight-knit team Ocaña brought with her had little to no experience in PAMI or the federal bureaucracies. That is not to say that the team lacked expertise entirely; Anti-Corruption Office and AGN personnel were crucial for developing and implementing the reform strategy.<sup>126</sup> Yet, the reformers were political technocrats in the sense that their appointments were sustained by political will that supported Ocaña.

Instead of a gradual approach that built on their predecessors' efforts to improve the institute, the new strategy involved a fundamental restructuring of PAMI. Focused on disarming the corruption circles, Ocaña used her *interventor* power to rewrite PAMI's contracting laws, which would eliminate the intermediary system, take contracts out of the hands of the powerful sixty-three middlemen, and contract directly with clinics and doctors (cf. Charosky 2009). Within the first months, the Ocaña team began rapidly implementing the changes—rewriting contracting laws, rationalizing staffing, and developing training. Rather than sequencing reforms over time, the Ocaña team implemented the plan on a number of fronts rapidly and simultaneously. She appointed her team of close collaborators to key positions, and often working around the clock, this team assumed central control over personnel, contracting, and finances.<sup>127</sup>

Resistance came from all sides—the unions, the Ministry of Health, pharmaceutical companies, PAMI employees, and especially the insidious “Mafia of

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<sup>126</sup> Author interviews with Leandro Despouy, president of Auditoria General de la Nación (2002-present), November 19, 2012; Nicolas Raigorodsky, former Director of Transparency Policies, Anti-Corruption Office (2002-2007), November 13, 2012.

<sup>127</sup> Author interview with Santiago Nardelli, Executive Coordinator of PAMI (2004-2007), October 17, 2012.

Medicines” (Charosky 2009).<sup>128</sup> Implementing the new contracting system also involved the Herculean task of pushing reforms past the opposition of contracting intermediaries who had benefitted from skimming money off contracts. Despite resistance, President Kirchner’s support of Ocaña held firm. Moreover, because Ocaña had concentrated control over the Institute in her hand-picked team, there was little that the opposition within PAMI could do to halt the new policies.

Within three short years during Kirchner’s term, the Ocaña team radically reconfigured PAMI: They completely restructured the contracting system; created an auditing body that specialized in PAMI contracting and appointed a well-respected federal prosecutor, Carlos Stornelli, to lead the audit body; published contracting information online; reduced personnel by 10 percent;<sup>129</sup> set up training systems; and reduced deficits.<sup>130</sup> The changes were seemingly successful in achieving the initial two goals: the status quo had been destroyed and a new approach instituted. PAMI was no longer in the headlines for corruption scandals; instead Ocaña’s efforts were lauded for taking control of PAMI and pushing through much-needed reform. As the next section will show, however, the glowing evaluations and effects of these bold reforms were short-lived.

### **Episodic Political Will, Short-lived PAMI Reforms (2007-2014)**

In 2007, Cristina Fernández de Kirchner was elected president and appointed Luciano Di Cesare to replace Ocaña as PAMI *interventor*. One might have expected continuity between Néstor Kirchner and his wife; however, after a row with the agricultural sector, Fernández approval ratings plummeted and she began to shift power

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<sup>128</sup> Author interviews with Graciela Ocaña, former Director of PAMI (2004-2007), October 26, 2012; Nardelli.

<sup>129</sup> Reductions were result of retirements and dismissals for just cause. Author interview with Nardelli.

<sup>130</sup> Author interview with Leandro Despouy.

to a new group within the Peronist party, La C mpora, a student movement led by her son M ximo.<sup>131</sup>

This political shift revealed the fragility of Oca a's powering reform. Di Cesare, a close Kirchner ally, placed his own team members in all of the key positions Oca a's people had occupied and set about unraveling, or reversing entirely, many of her reforms. Whereas Oca a had purchased all PAMI ambulances to reduce corruption in ambulance service contracts, Di Cesare reprivatized the services. Whereas Oca a had reduced PAMI staff, Di Cesare filled PAMI ranks with new employees linked to La C mpora; from 2007 to 2012, PAMI expanded from 10,800 to 16,000 employees.<sup>132</sup> Whereas Oca a had sought to make the new audit body independent; Di Cesare replaced the well-respected Stornelli.<sup>133</sup> Finally, after Oca a had placed PAMI on sound fiscal footing, under Di Cesare PAMI's resources became an important campaign finance source.<sup>134</sup> Despite Oca a's efforts, by 2012 PAMI was again making headlines for corruption.<sup>135</sup>

Where were the new vested interests in PAMI that powering theorists assumed would defend Oca a's policies? Radical reforms had created new powerful opponents

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<sup>131</sup> Cristina Fern ndez de Kirchner's problems with the agricultural sector began in March 2008, shortly after assuming office in December 2007. In the midst of a commodity boom, the Fern ndez government changed agricultural export taxes from a fixed rate to a one that fluctuates based on the international price of commodities that effectively increased export taxes on soybeans by over 35 percent at the time of announcement (*Bloomberg*, March 9, 2009). Farmers and land owner launched an unprecedented mobilization that included highway blockades throughout the country and massive public demonstrations (Volosin 2013, 19). The conflict dragged on for months, but in April the government organized pro-government demonstrations that were attended by thousands of protestors, many of whom belonged to a youth organization supporting the Kirchners, La C mpora. After the death of N stor Kirchner the La C mpora movement became even more influential, with very young ministers replacing the close-knit advisors N stor had brought into the government from Santa Cruz.

<sup>132</sup> Author interview with Oca a.

<sup>133</sup> Author interview with Gast n Blanchetiere, Subsecretariate of Coordination, Ministry of Health (2007-2009); Manager of Legal Affairs, PAMI (2006-2007), October 17, 2012.

<sup>134</sup> *El D a*, December 3, 2012.

<sup>135</sup> In particular, in many areas reformed by Oca a such as ambulance services contracts and the provision of hearing-aids (*El Clar n*, December 2, 2012; Author interview with Ezequiel Nino, Codirector of the Civil Association for Equality and Justice, October 10, 2012.)

but left few reform defenders. During the Ocaña years, political will and the power of Ocaña’s political technocrats were enough to forestall reversal; when she and her team left, the will to stick to the new procedures left with them. Career administrators did not defend the reforms: while most nominally maintained their stability during the Ocaña and Di Cesare turnovers, the decision-making authority of career administrators was eclipsed by political technocrats, the so-called “parallel” bureaucracy, under both Ocaña and Di Cesare.<sup>136</sup> In other cases, they were offered “voluntary” severance packages, which the most capable—those with career prospects outside of the federal administration—often accepted. The remaining individuals within PAMI had little reason to believe that Ocaña’s changes would stick after she left, and therefore, no reason to come out and support them.<sup>137</sup> In all of these ways, then, powering eliminated potential defenders within PAMI.

The main beneficiaries of Ocaña’s policies were the pensioners who rely on PAMI for hearing-aids or ambulances, for example. Indeed, the reversal of reforms caught pensioners’ attention after the media revealed that newly privatized ambulance services called often failed to arrive.<sup>138</sup> But at that point it was too late—another reform had already swept away Ocaña’s changes. Thus, this example demonstrates the paradox of powering, and in particular, the credibility issue: eliminating existing arrangements casts doubt on whether new rules will have staying power or whether the next powering reform will sweep them away.

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<sup>136</sup> The parallel bureaucracy is the cadre of appointed professionals with flexible and fixed-term contracts that form areas which are differentiated and not complementary to the regular administrative apparatus (Martínez Nogueira 2002).

<sup>137</sup> Author interview with PAMI official, October 15, 2012.

<sup>138</sup> *El Clarín*, December 2, 2012.

Initial versions of the powering thesis would argue that powering—in this case, overstepping institutional rules, placing someone atop of PAMI to sweep out corruption and transform the institution—was only possible during crisis situations. Yet, the reliance on political will, instead of crisis, often occurs under normal conditions. This sets up a dynamic: the more typical the circumstances under which powering is used, the more likely it is that the reforms forced through are susceptible to being overturned during a subsequent administration. Menem carried out a sweeping reform of PAMI in the mid-1990s, and then Kirchner did the same. Kirchner did not “intervene” in PAMI because of crisis; *every* president has intervened in PAMI (Scherlis 2013, 70). Political constellations change, political will falters. Regardless of why such shifts occur, they reveal that powering reforms are not self-enforcing.

## **POWERING HALTED, GRADUAL ADVANCEMENTS IN THE MINISTRY OF HEALTH**

### **Political Support Wanes, Powering Fails**

This section demonstrates how Ocaña’s attempt to use the same powering approach failed in the Ministry of Health because of the absence of high-level political support. The section then illustrates the broader effects of her attempt on institutional capacity of the Ministry.

In 2007, Ocaña’s powering crusade shifted its focus from PAMI to the broader health sector when President Fernández de Kirchner appointed Ocaña to be Minister of Health.<sup>139</sup> Using the same approach and strategies used in PAMI, Ocaña began to drive changes through the Health Ministry, dismissing employees and replacing them with members of her team, which she brought with her from PAMI: Gastón Blanchetiere, former Manager of Legal Affairs at PAMI, was placed as head of national contracting,

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<sup>139</sup> Author interview with Ocaña.

Nicolás Raigorodosky, the former head of transparency policies who had assisted Ocaña in designing the PAMI reforms, was placed as head of international contracting, and so on.<sup>140</sup> In the words of Blanchetiere, “We refused to be incrementalists ... it was all or nothing. We would either work with complete political backing or we would leave.”<sup>141</sup> The team suspected that the *Superintendencia de Servicios de Salud* (Superintendence of Health Services, SSS), which is responsible for monitoring the over 300 obras sociales, and *Administración de Programas Especiales* (Administration of Special Programs, APE), which provides certain high-cost services and medicines (e.g., organ transplants HIV-AIDS medication)—were involved in siphoning funds out of the health sector.<sup>142</sup> In order to combat the corruption, the team sought to create a centralized database of health procurement information and to increase information regarding SSS and APE funds.<sup>143</sup>

Efforts to do so, however, were quickly stymied. The reform team had faced fierce opposition in the past—the pharmaceutical companies, unions, PAMI employees, medical associations. This was different. Instead of receiving firm and unyielding presidential support as they had under Néstor Kirchner, Cristina Fernández de Kirchner failed to back Ocaña as she took on the obras sociales and the unions that managed them.<sup>144</sup> Without strong support from the top, Ocaña’s powering strategy was

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<sup>140</sup> Author interview with Ana Paula Herrera Viana, Coordinator, Procurement Operations Unit, Ministry of Health (2002-present), November 2, 2012.

<sup>141</sup> Author interview with Gastón Blanchetiere, Subsecretariate of Coordination, Ministry of Health (2007-2009); Manager of Legal Affairs, PAMI (2006-2007), October 29, 2012.

<sup>142</sup> For instance, they suspected fraud in the SSS to the tune of 70 million and in the APE they uncovered a number of ghost companies where siphoning money to relatives of those who signed the contracts. Author interviews with Hernán Charosky, Chief Analyst, Anticorruption Office (2000-2005); Executive Director, Poder Ciudadano, Argentine Chapter of Transparency International (2010-2012), October 3, 2012; Nardelli.

<sup>143</sup> Author interview with Nicolás Raigorodosky, former Director of Transparency Policies, Anti-Corruption Office (2002-2007); Coordinador General, Unidad de Financiamiento Internacional de Salud (UFI-S), Ministry of Health (2007-2009), July 14, 2010.

<sup>144</sup> Author interview with Gastón Blanchetiere, Subsecretariate of Coordination, Ministry of Health (2007-2009); Manager of Legal Affairs, PAMI (2006-2007), October 29, 2012; Raigorodosky.

inoperable.<sup>145</sup> Two years after she had assumed the position, frustrated by the lack of political support, she resigned.

### **Absence of Powering, Opportunities for Problem-solving**

From the perspective of Ocaña, her team, and many health experts who wanted the president to take on the powerful unions, the lackluster support from Fernández was disappointing; yet, an analysis of some of the most successful programs in subsequent years shows how Ocaña's failure to upend the health sector allowed for gradual improvements in some areas to accumulate over time. Ministry of Health officials and civil servants, in addition to academics and health experts, suggest that despite Ocaña's best intentions, she had thrown out a number of good apples, employees with extensive expertise and experience, along with the bad apples, employees involved in corrupt schemes.<sup>146</sup> Both interviews with individuals at the national office of employment (INAP) and with civil servants corroborate the fact that Ocaña interfered to a much greater extent than her predecessor, Minister Ginés González García, with the civil servants' positions.<sup>147</sup>

However, after Ocaña's departure, her replacement, Juan Luis Manzur, reappointed a number of individuals with extensive experience that Ocaña had sacked, undoing some of the most deleterious effects of Ocaña's powering attempt.<sup>148</sup> This relative continuity of personnel has been crucial for the success of health programs, such as *Remediar* and *Plan Nacer*. For those living below the poverty line and the uninsured,

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<sup>145</sup> Author interview with Graciela Ocaña, Minister of Health (2007-2009), Director of PAMI (2004-2007), October 26, 2012.

<sup>146</sup> Author interviews with Paola Bergallo, Law Professor, Universidad de Palermo, Former consultant to the Ministry of Health, October 16, 2012; Herrera Viana; Preigue.

<sup>147</sup> In the words of one interviewee, "Ella [Ocaña] tocó mas la línea." Author interviews with anonymous employees of the Ministry of Health; Ana Paula Herrera Viana, Coordinator, Procurement Operations Unit, Ministry of Health (2002-present), November 2, 2012.

<sup>148</sup> *La Nación*, August 6, 2009.

Remediar provides free access to a group of essential prescription drugs (Tobar 2004, 15) and *Plan Nacer* provides insurance for maternal and child health care (Gertler, Giovagnoli, and Martínez 2014, 1). These social emergency programs, started in 2002 with World Bank financing, made use of existing systems and personnel and applied lessons learned from reform attempts in the 1990s in order to advance experimental and targeted programs that have expanded over time.<sup>149</sup> They are widely recognized as successful examples of health service provision and results-based financing programs (McGuire 2010, 143; Gertler, Giovagnoli, and Martínez 2014).<sup>150</sup>

Individuals such as José Priegue, head of the International Finance Unit at the Ministry of Health, played a central role in the continued development and expansion of these programs over time. Ocaña had sacked Priegue along with a number of other individuals crucial for the continued success of such programs. If she had been successful in her overhaul of the Ministry of Health, it is unlikely that *Plan Nacer* and Remediar would have continued to receive the same support and to expand. However, when she left, Manzur reappointed many of these individuals. Indeed, many attribute the achievements of these key programs to the relative continuity of personnel. For instance, the Center for Global Development, a Washington D.C.-based think tank, hosted an event in 2013 that featured the successes of *Plan Nacer*, at which time Keith Hansen, Vice President of Global Practices at the World Bank, noted that since 2002 the same core group of 20-30 individuals from the Ministry of Health, officials from the provinces, and the World Bank had been working together, and that the “sheer accumulated tacit knowledge developed through continuous improvements” was responsible for their

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<sup>149</sup> Author interview with Priegue.

<sup>150</sup> Author interviews with Dr. Mariana Chudnovsky, Professor, Universidad de San Andrés, October 25, 2012; Paula Ferro, Coordinator, Remediar and Programa Nacional de Salud Sexual y Procreación Responsable, Ministry of Health (2008-2012), November 16, 2012; Ezequiel Nino, Codirector of the Civil Association for Equality and Justice, October 10, 2012.



success.<sup>151</sup> This would not have been possible had powering been successful. Thus, some of the most important advances have been in areas that had *not* been subjected to powering reforms and that have benefited from continuity of personnel.

### **Enduring Effects of Powering**

While capacity has flourished in some areas, and in particular the areas in which there is international involvement, the deleterious effects of powering in 1990s are ever-present in other areas of the ministry of health. Menem's health reforms had dramatically reduced the workforce in the Ministry of Health in general, but bolstered capacity in particular areas that interacted with International Financial Institutions.<sup>152</sup> Disparities have only widened over time and are evident in the differences between the units responsible for contracting: the domestic contracting office has seven employees (three technicians, two secretaries, and one director, of whom, four are civil servants, three have university degrees, and none have specialized training); by contrast, the international department has well over 100 employees, many with specialized training and degrees from elite universities.<sup>153</sup> Interviews with Ministry of Health officials, pharmaceutical employees, and AGN auditors suggest that no detail is overlooked in the international office and standards of transparency are high;<sup>154</sup> for the domestic office, however, it is

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<sup>151</sup> Keynote address by Keith Hansen, World Bank at the Center for Global Development, September 18, 2013.

<sup>152</sup> Author interviews with Herrera Viana; Nicolás Raigorodsky, former Director of Transparency Policies, Anti-Corruption Office (2002-2007); Coordinador General, Unidad de Financiamiento Internacional de Salud (UFI-S), Ministry of Health (2007-2009), August 29, 2012.; Hernán Charosky, Chief Analyst, Anticorruption Office (2000-2005), Executive Director, Poder Ciudadano, Argentine Chapter of Transparency International (2010-2012), October 3, 2012.

<sup>153</sup> Author interviews with José Priegue, Coordinator, International Finance Unit (2002-2007, 2009-Present), Ministry of Health, November 29, 2012; Gastón Blanchetiere, Subsecretariate of Coordination, Ministry of Health (2007-2009); Manager of Legal Affairs, PAMI (2006-2007), October 17, 2012.

<sup>154</sup> For instance, see the Procurement Plan Execution System (SEPA Argentina), which provides access to data on all contracts for works, goods, and services that implement projects funded by the World Bank in Argentina: [http://www.iniciativasepa.org/bm/sitio/argentina/index\\_ing.htm](http://www.iniciativasepa.org/bm/sitio/argentina/index_ing.htm).

simply not possible to ensure that procurement rules are adequately followed given the office's limited training and the volume of contracts they process. The domestic office tends to rely on procurement "short-cuts," use of "revolving funds" (*fondos rotatorios*), and reliance on "emergency contracting" to by-pass procurement and accounting rules.<sup>155</sup> A number of agreements with the Pan American Health Organization and the World Health Organization provide means of procuring goods and services without going through the domestic contracting system.<sup>156</sup> Thus, two parallel systems have developed—one that relies on exceptional capacity and transparency, the other, opaque and without the resources to follow adequately contracting standards.

The changes in the 1990s had long-lasting effects on the structure of employment in the Ministry of Health in general. Interviewees highlight the instability of many positions in the Ministry of Health: numerous ministerial employees have multiple jobs to supplement their meager hours and income. Many units frequently experience complete turnover of personnel with shifts in political constellations. Interviewees argue that it does not necessarily matter whether you will be fired; it is about whether you *think* you will be. Such instability makes public employment unattractive and limits the perceived time-horizons of those in the public sector.<sup>157</sup> Greater continuity of public employees in

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<sup>155</sup> A revolving fund is a pot of money that is used to pay for goods and services after the fact, but it violates the important accounting standard of reserving money (budget check) for a purchase before the contract is signed. These funds are important to maintain for cases of true emergency. Therefore, the health sector in particular frequently uses revolving funds for important purchases. However, VERY often in Argentina these funds are abused by organizations that do not plan ahead and realize that, for example a security contract is running out and they extend the contract (without going through the appropriate channels).

Author interview with Ana Paula Herrera Viana, Coordinator, Procurement Operations Unit, Ministry of Health (2002-present), November 2, 2012.

<sup>156</sup> Author interview with Nicolás Raigorodsky, former Director of Transparency Policies, Anti-Corruption Office (2002-2007); Coordinador General, Unidad de Financiamiento Internacional de Salud (UFI-S), Ministry of Health (2007-2009), August 29, 2012.

<sup>157</sup> Author interview with Paola Bergallo, Law Professor, Universidad de Palermo, Former consultant to the Ministry of Health, October 16, 2012.

some areas and external linkages provided more favorable conditions for institutional development, but such processes are uneven and underscore the challenges to building capacity after it has been wiped out by powering.

In conclusion, this section analyzed Ocaña's failed powering attempt in the Ministry of Health, demonstrating how it threatened to disrupt two of the most successful programs, which were the result of problem-solving efforts. Finally, it briefly underscored the enduring deleterious effects of the reforms of the 1990s, highlighting the challenges of building capacity in the areas hit hardest by powering reforms.

#### **ANALYSIS OF COMPARATIVE CASES**

Based on an analysis of a number of powering reforms in Argentina over twenty-five years, one can conclude that radical overhauls of the state in both transportation and health resulted in disappointing outcomes. A dramatic restructuring of transportation produced unintended negative consequences and weak institutions that gave way to a period of significant decline, ultimately prompting a fresh powering attempt. In health, powering attempts also generated unexpected outcomes, and the deepest-cutting reform, PAMI under Kirchner, yielded initially promising, but ultimately disappointing, results as advancements were abandoned or reversed soon after reformers left PAMI. In a variety of ways, then, the cases illustrated the problems with powering and documented the failure of swift, comprehensive reforms.

What can be learned from the comparison between health and transportation? The overhaul of transportation in the 1990s was far more radical than that of the health sector, and its effects, far more deleterious for institutional development. There are two reasons for this inverse relationship between depth and speed, on one hand, and reform success, on the other.

First, swifter and deeper changes imply more challenges for reform designers. Consider transport reforms under Menem that were crafted to be swift, comprehensive, and implemented during the “window of opportunity” provided by the economic crisis. Each of the reform characteristics—speed, scope, and timing—made efforts at comprehensive planning nearly impossible. Time pressures left little opportunity for carefully evaluating advantages and disadvantages. The sheer complexity of crafting a radical overhaul made proactively seeking out alternatives and evenhandedly assessing costs and benefits an impossible task. Moreover, instituting changes in the midst of an economic crisis only heightened ambiguity and uncertainty for reform designers. For all these reasons, reform designers were forced to rely to a great extent on inferential short-cuts instead of solid information and careful calculations.

The designers of the health reforms also faced challenges to planning comprehensive changes, but reforms in the health sector were less radical. Implementation was swift, but not nearly as instantaneous as the transport reforms. Reformers claimed that the health system was in a state of crisis, but the level of crisis was nowhere near what it was earlier in the decade. So while health reformers were also forced to rely on cognitive short-cuts, which resulted in unintended consequences, the slower more limited reforms allowed experts to make estimates that were closer to the mark than the wild guesses used to design transportation reforms. It is unsurprising, then, that the problems in the health sector were far less dire than those in transport.

Case comparisons, especially PAMI under Néstor Kirchner, highlight the link between speed/depth and another factor important for comprehensive planning—the capabilities of the reformers. In almost every case of powering highlighted in the last two chapters, reform teams were made up of individuals appointed from outside—technocrats or those with the will or capacity to rapidly push through deep restructurings that, once

implemented, would undercut the status quo. Both Menem and Fernández relied on small, coherent teams to overhaul transportation. Such teams, as Chapter 2 suggested, lacked the type of contextual expertise important for understanding the effects of change in a new environment.<sup>158</sup> By contrast, interviews suggest that the greater diversity of individuals involved in the health sector changes under Menem slowed the process, but this ultimately resulted in a more deliberative method for crafting changes and later provided opportunities to craft more gradual changes. The importance of contextual experience in designing reforms is further underscored by Ocaña's PAMI reforms under Kirchner. While Ocaña's overhaul resulted in some unintended consequences, they were far less severe, far less dramatic than those in other sectors. This can be attributed in large part to the capabilities of the reformers; while Ocaña was an "outsider" to the bureaucracy, she brought with her to PAMI a group of AGN auditors, who had been responsible for monitoring the institute for a number of years.<sup>159</sup> Ocaña's reform plan had essentially been crafted over a much longer period of time by a cadre of experts who also had extensive experience with PAMI and with the federal administration. Acting with less tightly bounded rationality, such experts with years of experience in the federal administration and with PAMI crafted changes that were much more successful than the transportation overhauls, designed at breakneck speed by outsiders.

Second, the swifter and the deeper the reforms, the more damaging they tend to be for institutional capacity in the long run. During Menem's radical transformation of transport, government agencies and state-run companies were eliminated at a lightning pace as responsibility for roads and railways was transferred all at once to the private

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<sup>158</sup> Although not illustrated in the case examples, such tight-knit groups are also more prone to groupthink, which keeps dissenting views from being weighed and debated (Schafer and Crichtlow 2013).

<sup>159</sup> Author interview with Despouy.

sector. The transformation was so draconian, so complete that it left few individuals in the state to follow up the changes with the long struggle to correct problems in the radical new models or to strengthen the capacity and autonomy of new institutions. Once power was concentrated, it remained concentrated. This in turn limited the attention and experience of officials to craft solutions to the numerous and complex problems they faced. By contrast, the health changes were significant, but did not completely overhaul the Ministry of Health. Thus years later when attention shifted away from powering in health, there was a core of experts with lengthy experience that remained. The relative success of health programs, such as *Remediar* and *Plan Nacer*, was born out of the more stable conditions of the health sector. Greater continuity provided more favorable conditions for institutional learning. Indeed, the health reforms that cut most deeply, for instance in PAMI under Néstor Kirchner, ultimately resulted in the most disappointing outcomes over time. This is in large part because changes pushed through by a small group of reformers during the Kirchner administration had little support among other PAMI employees, and powering reforms had weakened the civil service structure over time. In this way, reform type significantly affects institutional capacity and bureaucratic quality, by further weakening the institutional controls and civil service protections that existed before the powering attempt.

In sum, the swifter and more profound the changes, the less successful they tend to be in the medium to long run. This is precisely the opposite of what the powering thesis would predict. Instead, powering suggests reforms must be rapid and comprehensive to undercut the opposition and are preferably pushed through in moments of crisis. The cases analyzed in the last two chapters provided evidence against the powering thesis and demonstrated that the most draconian changes ultimately resulted in the most disappointing outcomes.

## CONCLUSION

The analysis of the Argentine health sector reveals the same pattern as the previous chapter on transportation. Over and over again new governments in Argentina have argued that the state is so dysfunctional that dramatic sweeping reform is necessary. Reformers come in with their technocratic teams to institute a new approach, replacing previous reform teams that leave once political will to sustain their efforts dries up. This constant purging of decision makers and implementers often involves throwing the baby out with the bathwater—throwing out positive aspects of prior reforms and capable public servants who have institutional knowledge of previous attempts. Incremental reform is thwarted by grander transformations that usher in “modernization” and “flexibility.” The memory of what has been tried, what worked, and what failed, is lost with each new attempt. Years later, things are so bad that a dramatic reform becomes necessary once again. Over time such a vicious cycle erodes institutions and intensifies the need to do something radical to break the cycle.

The present chapter reinforces the conclusions presented in Chapter 4 on transportation—powering fails for two primary reasons. The first concerns the extraordinary challenges it creates for comprehensive planning. Even though extensive resources and expertise were poured into comprehensive plans for the health reform of the 1990s, getting the institutions right in one shot proved a task too complex for planners and resulted in unintended negative consequences. The crucial components of the reform that were meant to ameliorate the problems that plagued the Argentine health sector were the very same components that by 2003 generated new performance problems. Second, powering can fail because of the paradox of powering—eliminating the status quo hinders the probability of enduring, consolidated reforms. The powering thesis assumes that comprehensive changes generate benefits, and thus, a new set of beneficiaries, who

will make changes viable in the long term by opposing attempts to weaken, abandon, or reverse reforms. The problem, as the case of PAMI under Néstor Kirchner demonstrates, is that reforms do not automatically engender beneficiaries with the motivation and capacity to defend changes. In fact, the very process of powering makes such a situation unlikely. Relying on political will to impose draconian reforms breeds opposition, dismantles existing institutions, and disrupts bureaucratic continuity. Why, then, right after an entirely new policy framework is installed, would relevant actors believe it has staying power? The case of PAMI under the Kirchners demonstrated one aspect of the paradox, the credibility problem, by showing how wiping out existing arrangements cast doubt on whether new rules would have staying power or whether the next powering reform would sweep them away.

Nuances in the health cases provided analytic leverage for highlighting causal factors in my theory of reform. The failed attempt at powering in the Ministry of Health under Fernández de Kirchner demonstrated the importance of political will for sustaining dramatic, sweeping reform. Moreover, process tracing of that thwarted attempt also revealed how powering would have disrupted ultimately successful problem-solving; some of the most successful programs were borne out of areas of relative stability. Finally, the case of PAMI under Ocaña suggested that reform efforts designed by experts with long time horizons in the public sector resulted in fewer unintended consequences than those that relied on outsiders with little contextual experience in the Argentine federal administration.

Finally, the comparison between the health and transportation sectors showed that swifter and more profound changes were less successful in the medium to long run. The overhaul of transportation in the 1990s was far more radical than that of the health sector, and its effects, far more deleterious for institutional development. Not only do swifter,



deeper changes imply more challenges for reform designers but also they tend to be crafted by outsiders with less experience in the federal administration. Moreover, dramatic reform tends to tear more deeply into the institutional fabric—undoing what controls and constraints existed before the attempt. Once power is concentrated, as the transport reforms demonstrated, it often remains concentrated—tightening bounds of rationality down the line. For all of these reasons, the most radical overhauls resulted in the most disappointing outcomes.

The conclusions drawn from the comparison of health and transportation in Argentina also raised unanswered questions, however. Would similar reform attempts in a different context have been more successful? Would less ambitious attempts at change have resulted in more promising outcomes? What if transport reforms, for instance, had been slowed or sequenced over time? Under what conditions does a core of experts with longer time horizons develop? The following chapters focus on transportation and health in Brazil and analyze these questions.

## **Chapter 6 Transportation in Brazil: Powering Curtailed**

The return to democracy in Brazil has been followed by ambitious attempts to overhaul the state, which were, in many ways, similar to reform efforts in Argentina. The results of such attempts, however, differed significantly. Whereas Argentina was able to push through powering overhauls one after another, Brazil proved to be a sluggish reformer. Most radical transformations of the state were halted, and while some powering reforms did advance, they did so much more slowly than in Argentina or were completely transformed by incremental changes sequenced over time. Nevertheless, in the medium to long run, Brazil's more gradual, problem-solving approach to reform has been more successful. What explains Brazil's surprising success in so many areas and persistent challenges in others? Why has Brazil consistently been slow to adopt and implement reform? Yet, what accounts for the eventual advances in state building?

This chapter answers these questions by demonstrating how political-organizational context affects the adoption of the powering approach that was highlighted in Chapters 4 and 5. In Argentina, executives concentrated power in small, loyal, and coherent teams of technocrats in order to bring about sweeping changes. Coalitional presidentialism in Brazil, by inducing presidents to share executive power, has shaped decision making and information processing. Specifically, the prerogative to transform the public sector has been taken away from presidents and their tight-knit reform teams and placed instead in the hands of a broader group of coalition allies, subjecting reforms to the scrutiny of a diverse set of interests and experts. This has slowed the process considerably, but the ensuing negotiation, compromise, and revisions have induced top-level decision makers to vet their proposals and make changes. As a result, radical and comprehensive reforms have rarely been executed as a coherent whole; instead, they are

often implemented piece by piece, which has allowed for a learning process to develop. The presence of coalitional allies has also resulted in presidents relying to a much greater extent on existing experts within the federal administration because Brazilian presidents are limited in the extent to which they are able to make unilateral replacements of ministry staff with hand-picked loyalists. Experts' institutional positions and extensive experience mean that these officials have had at their disposal much better information and greater capacity for processing it than high-level political leaders, who, as we saw in the case of Argentina, are forced to rely to a greater extent on cognitive shortcuts to craft and implement complex reforms. Therefore, in the Brazilian context, while individuals were still boundedly rational, their judgments were much closer to the mark because they relied on more solid information and had a greater capacity for processing it. For all of these reasons, reforms in Brazil have been less radical and proceeded more gradually, but with greater success.

To substantiate and assess arguments developed in Part I, this chapter examines reforms in the transportation sector. It begins by demonstrating the failure of powering in Brazil on two levels. First, the example of President Fernando Collor's impeachment following his attempt to impose swift, dramatic reforms—similar to Menem's powering reforms in Argentina—shows how coalitional presidentialism reduces the extent to which powering is applied in Brazil. Second, the chapter illustrates how the rare cases of powering that do occur in Brazil generate unintended consequences, just as they did in Argentina. The next section documents how, during the Fernando Henrique Cardoso presidency, reform efforts were subjected to compromise, revision, and negotiation, and thus more limited changes advanced more slowly, but with greater success than those pushed through in Argentina. The following sections show that during the presidencies of Lula da Silva and Dilma Rousseff, in the absence of dramatic overhauls, the transport

sector has undergone a slow but marked problem-solving transformation, illustrating how experts within the state have played a crucial role in advancing individually small, but cumulatively substantial changes. At the same time, the analysis of transport in Brazil underscores the deleterious and enduring effects of previous powering reforms; restoring capacity in agencies overhauled by Collor has been an arduous and slow process.

### **COALITIONAL PRESIDENTIALISM IMPEDES FULL-SCALE POWERING IN TRANSPORT**

The development of Brazilian transport infrastructure during the 20<sup>th</sup> century followed similar trends to those in Argentina, but with a greater focus on the expansion of the highway network. Early railroads, financed by private and, to a large extent, foreign investment, were far less well developed than Argentina's by the time the network was fully nationalized in 1957 (Summerhill 1998).<sup>160</sup> After nationalization, the rate of expansion slowed under the state-owned Federal Railroad Corporation (*Rede Ferroviária Federal*, RFFSA), as Brazilian executives began to prioritize the development of the paved highway network, which from 1945 to the 1980s expanded rapidly under the National Department of Roads and Highways (*Departamento Nacional de Estradas de Rodagem*, DNER). During this period, DNER, which was granted administrative and fiscal autonomy with the creation of the National Road Fund (*Fundo Rodoviário Nacional*, FRN), and the Transport Planning Agency (*Grupo Executivo de Integração da Política de Transporte*, GEIPOT) developed high levels of capacity and autonomy (World Bank 2003).

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<sup>160</sup> The states in Brazil were largely responsible for the development of the rail system through concessions, and in São Paulo by coffee-growers who financed their own railroads that resulted in integration at the regional rather than national level. By 1929, the government owned 67 percent of the Brazilian railway companies and was responsible for administering 41 percent of the national network, but in 1957 Law 3,115 consolidated nationalization and created the Federal Railway Company (RFFSA) (De Castro 1999, 4). A second railway enterprise was created in 1971 when five private rail companies were nationalized by the state of São Paulo to become FEPASA.

During the 1980s, however, infrastructure investments dramatically declined for both the rail and highway systems as growth slowed and public spending contracted. Public investments in transport reached 3.3 percent of GNP in 1975 only to drop far below one percent in the 1980s (World Bank 1996, 7). As a result, the quality of the transport network deteriorated significantly.

### **Collor's Attempt to Unilaterally Impose Change Halted**

As in Argentina, the hyperinflationary crisis of the late 1980s provided a “window of opportunity” for an overhaul of the transport sector and President Fernando Collor seemed a promising reform champion. Like Menem, Collor drew on populist rhetoric and was a political outsider who attacked established political elites as corrupt. Unencumbered by the need to pay off political cronies, he appealed to popular frustration with the political class, promising a “sweeping housecleaning” (Weyland 1993; 1997-8).

Upon assuming office in 1990, Collor, in response to the spiraling inflation and economic crisis, embarked on a drastic adjustment plan and a fundamental restructuring of the state—implementing austerity packages, reorganizing the state to cut payroll, and privatizing public enterprises and services (PR 1990, 20). In the transportation sector, this meant that the state could no longer afford the substantial public investment in infrastructure necessary to repair dilapidated rails and roads, or the salaries of the numerous employees of the transport sector. As a solution, Collor turned to privatization of transportation infrastructure through concessions.

His powering approach was similar to that of Menem in Argentina. Relying on executive decrees, Collor concentrated power in the presidency by rapidly overhauling the state apparatus in order to shift control to his small team of loyalists, in large part led by his campaign treasurer, Paulo César Farias (Abrúcio and Loureiro 1998). For instance,

a number of ministries and agencies were combined to create the Ministry of Infrastructure (Exposição de Motivos MP 150/1990), and nominations for many posts, such as head of the *Secretaria Nacional de Transportes* and DNER, were left to Farias (Gomide 2011, 87). Just as Collor had promised in his campaign, he refused to comply with the bureaucratic nominations of other political parties (Weyland 1997-8, 76).

The most dramatic changes in transportation occurred in DNER, the once autonomous highway agency that had transformed Brazil in the 1960s and 1970s. The Collor administration reasoned that if the majority of the highway network was to be either auctioned off in concessions or transferred to states and municipalities, then a large agency that planned and managed procurement contracts, in addition to directly executing construction projects, was no longer necessary (Ribeiro 1990). Thus, the agency was dismantled in short order. Its functions were transferred from Rio de Janeiro to Brasília in 90 days; the number of employees was slashed from 19,000 to 8,000 by 1991, a 58 percent reduction in one year; the planning unit within the agency was eliminated; and over 86 percent of planning staff were cut (MT 1994).<sup>161</sup>

The Collor administration had been successful in pushing sweeping overhauls past opposition, but the reforms that were to follow—concession auctions and transferring the highway network to the states—were halted as Collor’s powering approach ran up against serious political challenges. Congress had initially supported Collor’s draconian initiatives during his election honeymoon, which led to the implementation of a neoliberal adjustment program and the initiation of privatization. Yet, Collor’s failure to craft a coalitional government, sharing power in the executive

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<sup>161</sup> As Cavalcanti highlights, the effects on the institution were profound. “Retirement and dismissal of personnel resulted in intense consequences for the technical-organizational world within DNER because, it resulted in a great loss of the accumulated institutional memory, experience, and technical competence that left with the individuals that left the agency (1995, 86-7).

among allies in rough proportion to their seats in Congress, in addition to his unilateral imposition of drastic reforms, soon generated widespread disgust among the political class. Instead of seeking to negotiate and compromise on adjustments to his reform program, Collor remained intransigent (Weyland 1997-8). Thus, when evidence of corruption emerged, political leaders were only too willing to capitalize on the scandal. Farias, Collor's former campaign manager and political operative, was found to have solicited millions of dollars in bribes in return for government contracts. One scandal led to another,<sup>162</sup> resulting in massive protests against Collor, and ultimately his impeachment in 1992.

The lessons of Collor's halted powering attempt and subsequent impeachment are two-fold. First, political-organizational context shapes the extent to which the powering approach can be applied. Collor, like Menem in Argentina, sought to impose powering reforms. Like Collor, Menem had also been implicated in shady dealings and corruption (Verbitsky 1991), but this was not enough to bring Menem down. Whereas Argentine executives are able to concentrate power by filling positions in the executive with loyalists, which facilitates powering, Brazilian executives are expected to share executive authority with political allies, making the powering approach far more difficult. Collor ignored this fact, to his detriment. Thus, as Chapter 3 highlighted and as the following sections will demonstrate, while the powering approach is applied occasionally in Brazil, coalitional presidentialism makes it a rare occurrence.

The second lesson, which was highlighted in the previous chapters, is that the destructive phase of powering often hinders reconstruction. The deep-cutting changes

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<sup>162</sup> One of the many scandals that surfaced involved the *Secretário de Transporte*, Marcelo Ribeiro, who at the behest of P.C. Farias, proposed a program for repairing highways using "*dispensa de licitação*," using non-competitive bidding procedures. Required kick-backs and bribes for receiving contracts had exceeded "acceptable" levels for entrepreneurs (*Veja* June 1992).

that Collor instituted generated such opposition that many of the reforms, which focused on constructing institutions were not even attempted during his administration. As the next sections will show, DNER was destroyed, but because regulatory institutions were never created and privatization and decentralization never occurred, DNER's ability to oversee highway maintenance and construction was still needed. The destruction of DNER, the result of powering, would have deleterious and enduring effects on the transport sector.

### ***Impeachment and Corruption Scandals: Powering and Law 8666***

The political vacuum caused by Collor's impeachment, in conjunction with another major contract corruption scandal in Congress, opened up space for another powering attempt, which culminated in the enactment of sweeping new procurement legislation. While Law 8666, analyzed below was not a powering reform in the same sense as powering in Argentina—the changes were led by Congress, not the executive, and did not require revamping agencies or ministries; the legislation fell closer to the powering side of the reform spectrum than most procurement reforms before or since. It is also crucial back ground for understanding subsequent advances and challenges in government contracting in Brazil.

On the same day as the impeachment proceedings against Collor, investigations began regarding the receipt of bribes by the Joint Congressional Budgetary Committee (*Comissão Mista de Orçamento*) for writing amendments that directed public works contracts to a cartel of construction companies (Speck 2001, 47). Investigations revealed that various members of the Budgetary Committee systematically defrauded the treasury in preparing the budget (Praça 2011). While there is a long history in Brazil of large construction companies (*empreiteiras*) financing political campaigns through off-the-



books accounts (*caixa dois*) (Campos 2012), the scale of this scandal revealed just how interconnected politicians and the *empreiteiras* had become and the extent to which corruption and cartels dominated Brazilian contracting.<sup>163</sup>

As an antidote, the Congress passed Law 8666 of 1993, an overhaul of contracting legislation, which established demanding procedures meant to reduce discretion of contracting officials and make bidding and award procedures impervious to corruption. The law, designed by anti-corruption leader Claudio Abramo Weber and a group of experts with extensive expertise in public works contracts, provided an unparalleled opportunity, according to Weber, to craft legislation from scratch that would make corrupt practices of the past impossible.<sup>164</sup> Initially, it appeared that the reformers had been successful. The media as well as Transparency International and other academics heaped praise on the law, arguing that it resulted in a more efficient system, lowered barriers of entry, increased social control, and reduced opportunities for corruption (cf. Volosin 2010, 86–88; Gonçalves da Silva 1997).

Soon, however, it appeared that Law 8666 created new dysfunctionalities. The new law had been, in large part, supported by small- to medium-size construction companies and their trade associations,<sup>165</sup> which saw the Budgetary Committee scandal as an opportunity to push for procurement reform that would allow them to participate in

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<sup>163</sup> By 1993 the Brazilian market for public works contracts had become extremely concentrated. A small group of powerful construction companies, known as the “seven sisters” won the majority of the contracts (cf. Volosin 2010, 81). According to Eduardo Capobianco, former Vice President of the *Câmara Brasileira da Indústria da Construção* (CBIC), and Claudio Weber Abramo, Executive Director of *Transparência Brasil*, 70 percent of the billing of the largest 150 construction companies went to 7 firms, the seven sisters. Author interview with Claudio Weber Abramo, Executive Director of *Transparência Brasil*, Former consultant, Sindicato da Indústria da Construção Civil do Estado de São Paulo, March 12, 2012. On the history of the power of construction companies in Brazil see Campos (2012).

<sup>164</sup> Author interview with Abramo Weber.

<sup>165</sup> *Câmara Brasileira da Indústria da Construção* (CBIC) and the *Sindicato da Indústria da Construção Civil do Estado de São Paulo* (SindusCon-SP).

the government construction market.<sup>166</sup> The new procurement rules tilted the legal framework in favor of construction companies,<sup>167</sup> entrenching a new set of corrupt practices and leaving the risk involved in such projects almost entirely with the government (Rosilho 2013a, 131–132).<sup>168</sup>

Perhaps even more problematic, the law introduced unintended consequences for purchasing simple goods and services. Weber notes that he and the other architects of Law 8666 were focused on public works contracts, and thus had not fully considered the implications for other types of procurement. Law 8666 soon proved time-consuming and costly for simple goods and services; purchasing items such as staplers often took well over six months.<sup>169</sup> “Emergency” procedures that allowed officials to purchase goods and services directly were used excessively to bypass the competitive process, thus opening the door to corruption and contracts that privileged cronies. These bypasses accounted for well over 50 percent of government procurement (World Bank 2004). Legal scholars have argued that the legislation rested on the idea that norms, if precise, detailed, objective, and well-intentioned, would be able to generate, almost automatically, good contracts (Rosilho 2013a, 129), but this idea did not bear out in practice. The World

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<sup>166</sup> According to Abramo Weber, advisor to SindusCon-SP at the time, the union argued for reducing discretion of public officials in order to increase competitiveness in the procurement system and led the process to convince construction entrepreneurs that the reform would benefit them by allowing them to participate in more lucrative contracts directly with the government rather than subcontracting to the seven sisters. Once a consensus was reached in terms of the construction sector, they began working with a group of legislators willing to support the reform and to obtain the necessary votes in Congress and crafting a media campaign that leveraged the effect the corruption scandals had on public opinion to pass Law 8666 of 1993. Author interviews with Abramo Weber; Aldino Graef, Assessor especial da Subchefia de Análise e Acompanhamento de Políticas Governamentais da Casa Civil da Presidência da República; Especialista em Políticas Públicas e Gestão Governamental (1993-present), December 5, 2011.

<sup>167</sup> Author interview with Marcelo Correia, Director of Highways and Railroads, Secretariat of the Growth Acceleration Program, Ministry of Planning, Budget and Management (2007-present), December 9, 2011.

<sup>168</sup> Author interview with Rodolpho Tourinho Neto, President of the Sindicato Nacional da Indústria da Construção Pesada, former Senator, former Minister of Mines and Energy (1999-2001), April 18, 2012.

<sup>169</sup> Author interview with Ciro Campos Christo Fernandes, Advisor and Gestor Governamental, Ministério do Planejamento, Orçamento e Gestão, August 6, 2009.

Bank's Procurement Assessment Report of Brazil showed how Law 8666's excessive regulation and focus on procedure contributed to protracted disputes that generally ended up in the courts (World Bank 2004).

How had the construction sector, which had just been implicated in two major contracting corruption scandals, been able to push through such a sweeping overhaul to the procurement framework? Experts, including both supporters and opponents of Law 8666, argue that under normal circumstances the bill would not have passed.<sup>170</sup> An alternative bill, presented by Senator Pedro Simon, advanced legislation that balanced the risk for the government and private sector and that, before the corruption scandals, seemed more likely to pass.<sup>171</sup> Yet, 1993 was a turbulent moment in Brazilian history, an exceptional time of instability, and the weak institutional presence of the executive in the process meant that the group in Congress linked to the small and mid-size enterprises had much greater latitude than usual (Fernandes 2010, 132–133). The results, argue experts in the public sector, were catastrophic: Excessively bureaucratic rules focused more on detailed processes than results (Motta 2010, 155), and in the end, placed the risk with the government, to the benefit of construction contractors.<sup>172</sup>

In sum, the watershed moments opened up space for a group of construction companies to impose their preferred legislation. While this reform cannot be neatly classified as a powering reform (changes were led by a group of lobbyists in Congress, not the executive, and did not require revamping agencies or ministries), it fell closer to

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<sup>170</sup> Author interviews with Fernandes; Abramo; André Janjácómo Rosilho, Attorney and Specialist in Government Contracting, Sundfeld Advogados, November 17, 2011.

<sup>171</sup> Author interview with Rosilho.

<sup>172</sup> Author interviews with Tourinho; Correia; Alexandre Motta, Diretor Geral, Escola de Administração Fazendária; Former Subsecretário de Planejamento, Orçamento e Administração at Ministério da Fazenda, November 28, 2011.

the powering side of the reform spectrum than most procurement reforms before or since and demonstrates the challenges of crafting and evaluating such complex changes.

### **THE EFFECTS OF NEGOTIATION ON COMPREHENSIVE REFORMS (1995-2002)**

President Cardoso assumed the presidency in 1995 riding a wave of support generated from his success as Finance Minister, under interim President Franco, in stabilizing the economy. He sought to use this political capital to advance significant state reforms. Whereas Menem by this time had already successfully privatized many sectors and advanced administrative reform in Argentina, Brazil was seen by the World Bank and other experts as the reform laggard. Brazil under Cardoso did go on to make significant progress in privatizing public enterprises and public services, but in these areas, as was demonstrated above, reform was often slowed, diluted, or halted entirely, resulting in more of an evolutionary, but sustainable process than similar reforms pushed through whole-cloth in Argentina. This section, first, demonstrates how a powering attempt by Cardoso's Minister of State Reform (which included legislation to overhaul Law 8666) was enfeebled by the process of negotiation with the diverse set of actors within the president's coalition. The second section examines efforts to transform the transportation sector and explains how the slower, more modest problem-solving changes ultimately were more effective because they benefitted from learning and drew on experiences over a longer period of time. It then highlights the deleterious consequences that arose when the powering approach was used, emphasizing the considerable challenges of rebuilding institutions.

### **Bresser-Pereira's Failed Reversal of Law 8666**

If successful powering reform were to happen under any Brazilian president it should have happened under President Cardoso. In 1995 Cardoso enjoyed a clear

mandate and support in Congress, in which 75 percent of seats were held by his party and his coalitional partners (Power 1998, 52). He had just shepherded Brazil through an economic crisis and knew the importance of additional reforms for keeping the country on sound fiscal footing. Therefore, Cardoso was supportive initially when his minister of the newly created Ministry of Administration and State Reform (MARE), Luiz Carlos Bresser-Pereira, a co-founder of Cardoso's political party (PSDB) and his campaign fundraising coordinator, proposed sweeping administrative reform (Gaetani 2003).

Bresser-Pereira's plan, known as the "Plano Diretor" (Plan for the Reform of the State Apparatus), embodied a powering approach. The plan proposed an overhaul of the traditional hierarchical Brazilian state, drawing on British models and Osborne's New Public Management, which emphasized the need to "reinvent government" and harness the "entrepreneurial spirit" to transform the public sector. Bresser-Pereira brought a group of alumni from the São Paulo branch of the Getúlio Vargas Foundation (FGV), where he had been a professor, to fill the appointment positions in the new MARE.<sup>173</sup> With this tight-knit team, he set about pushing through change before resistance could mount by simultaneously attempting to pass a constitutional amendment aimed at removing legal obstacles to the reorganization of public administration; developing and passing legislation through Congress; and implementing the plan by executive or administrative action in other areas.

His bold plans soon ran into resistance, however. Bresser-Pereira's broader agenda did succeed in the sense that in 1998 a constitutional amendment was passed that made civil servant dismissal more flexible, among other changes (Constitutional

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<sup>173</sup> The historical base of the Brazilian public administration community was the Rio de Janeiro branch of FGV, not São Paulo, which was oriented toward business administration and local government. See (Gaetani 2003, p. 341). In order to fill the civil servant positions within the new ministry Bresser-Pereira invited a group of elite civil servants, known as *gestores*, hoping they would become reform "champions" (n.b, *gestores* become important in the next episode of *pregão* reform).

Amendment 19 of 1998). After this, Bresser-Pereira declared victory. However, most of the amendment was never regulated and little, according to many experts, actually changed (Vaz 2007). For instance, one of the key components in the broader reform design was corrective legislation to address the problems in Law 8666,<sup>174</sup> but when the final version of the draft bill reached Congress in 1997, it was a shadow of the original. Key lawmakers indicated that the bill had little chance of passing and the reform project died quietly (Fernandes 2010, 165). Upon Cardoso's reelection in 1998, Bresser-Pereira was moved from the Ministry of Administration and State Reform and the ministry was unceremoniously disbanded.

This failed powering attempt illustrates how political-organizational context favors or disadvantages powering approaches. In the context of Brazilian coalitional presidentialism, Bresser-Pereira's initiative was doomed to fail because there was no way to develop broad political support in the short time frame allotted.

Cardoso initially supported the Plan, however, when resistance to the changes mounted, he was willing to support Bresser-Pereira only insofar as his coalition would back the reforms. As such, he could not impose reform intransigently without sacrificing numerous other objectives and key political allies. When Bresser-Pereira started to face resistance, Cardoso could have imposed the reform, but chose not to. Cardoso had learned from Collor's attempt at powering, which resulted in his impeachment, that governing alone and forcing reforms through would be severely punished; therefore, he chose consultation, negotiation, transaction, and compromise (Weyland 1993).

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<sup>174</sup> As the previous sections highlighted, Law 8666 that was pushed through in the upheaval following Collor's impeachment and the Budget Scandal, resulted in delays, prolonged court cases, and the use of emergency contracting for up to 60 percent of government contracts which opened the door to endemic corruption and collusion (Almeida 2006).

## **Transportation Concessions Advance Gradually**

Cardoso's efforts to revitalize the transport sector with private funding did advance, but they did so slowly and unevenly, resembling problem-solving to a greater extent than powering.<sup>175</sup> By the time Brazil resumed concessions, the hyperinflationary crisis had abated. This, on one hand, reduced considerably the uncertainty in planning long-term concessions. Whereas Menem had pushed through change at the height of the hyperinflationary crisis, making comprehensive planning a near-impossible task, the delay of reforms during the Collor and Franco administrations allowed for the macroeconomic situation to stabilize. On the other hand, the absence of an "exceptional" crisis meant less latitude for forcing radical change.<sup>176</sup> If Cardoso was going to impose dramatic reforms it would require extensive use of his political capital and his commitment to press changes past the resistance.

Instead, Cardoso's problem-solving approach to addressing problems in transport—in particular, the inability of the state to finance necessary investments in infrastructure and the challenges Law 8666 created for finishing projects on time—built on the reform efforts and blueprints of his predecessors and the lessons learned from such previous attempts (Cardoso 1994). Leading jurists, for instance, had been working on a draft of a Concession Law for years,<sup>177</sup> which was passed in 1995 under Cardoso (Law 8987). Plans for the highway concessions drew on DNER's earlier experiences with toll roads and the institutional framework set up under previous presidents.<sup>178</sup> Moreover,

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<sup>175</sup> For an analysis of the broader set of privatization reforms see Manzetti (1999).

<sup>176</sup> On the importance of hyperinflationary crisis for acceptance of dramatic reforms see Weyland (2002).

<sup>177</sup> Author interview with Fernandes.

<sup>178</sup> In the 1970s DNER had experimented with the use of tolls for five sections of highway and in the 1980s there were a number of attempts to concession railways. Collor's National Privatization Program with Decree 473 of 1992 had created a framework for concessioning railways and roads, and Collor reorganized ministries taking DNER's centralized control of roadways and concentrating policymaking within the new Infrastructure Ministry (Gomide 2011, 87). In 1993, Ministry of Transport (Decree 10/1993), created the

earlier attempts to transform the transportation sector not only in Brazil, but also other countries, provided an important set of lessons for both Brazilian experts and IFIs.<sup>179</sup>

By contrast to Menem, who concentrated reform design and implementation in his team of loyalists, a wide array of actors were involved in the Brazilian reform process. Members of the National Privatization Council (*Conselho Nacional de Desestatização*, CND) included not only key ministers from the President's party, the PSDB, but also his coalitional allies. Advancing reform plans amidst so many patronage- and pork-hungry political actors, however, created many challenges that Cardoso.

One of the ways he addressed these obstacles was by conferring authority to design and implement reforms to insiders (i.e., technical experts within the state), Cardoso was able to insulate many of the technical decisions from political influence.<sup>180</sup> CND was responsible for setting policy guidelines, but it was BNDES, the powerful developmental bank, that retained responsibility for carrying out much of the reform process (World Bank 1996; Manzetti 1999, 187). Brazilian technocrats had been working on these reform plans on and off for years, and this extensive expertise and experience meant that their bounds of rationality were looser than, for example, Argentine reformers, who tended to be close allies of Menem and outsiders to the federal administration.<sup>181</sup>

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Program of Federal Highway Concessions (Programa de Concessões de Rodovias Federais, PROCROFE), which aimed to delegate to the private sector the modernization, maintenance, and operation of highways in exchange for toll collection (Gomide, 2011, 91).

<sup>179</sup> For instance, by the time Brazil finally reached the point of conceding railways, experts had learned from prior experience, for example, the importance of addressing the concerns of the tens of thousands of employees that would be adversely affected by proposed reform programs. Thus, Brazilian officials approved a program that financed severance payments for retrenched employees, provided incentives for early retirement and voluntary separation, offered involuntary separation grants for the remaining redundant staff, and retrained employees and provided job search and outplacement assistance (Bank World 2003, 3). The program was financed in part by a loan from the World Bank.

<sup>180</sup> Author interview with Martus Tavares, former Minister of Planning (1999-2002), May 28, 2012.

<sup>181</sup> Of course, Cardoso could have also concentrated power in a team of technocrats from his own party or from outside the bureaucracy, but this would have been seen by coalitional allies as an attempt to wrest control of the process from them. Technical experts from within the state provided a more neutral option.



This technical and administrative capacity meant that they had more information at their disposal and a greater capacity to process it. BNDES in particular played an important role in reforms under Collor and Franco, allowing it to benefit from the iterative process of learning from the privatization effort. Moreover, the Ministry of Transport officials had experimented with tolls in the past and, thus, had concrete data on how much revenue tolls could be expected to generate and a very clear sense of potential challenges, both technical and political.<sup>182</sup> Thus, dealing with coalitional partners induced Cardoso to confer a greater degree of authority to technocratic insiders, whose expertise and experience resulted in a greater capacity to design complex reforms. By giving up control over the process to experts, in addition to other forms of transaction (patronage and pork), Cardoso was able to gradually advance his reform agenda.

The most far-reaching changes occurred in the railway sector. Between 1996 and 1999 seven railway concessions were held that granted the operation and maintenance of lines to concessionaires for 30 years.<sup>183</sup> In December 1999 the federal government began the dissolution and liquidation of RFFSA, but the process would take another eight years to complete (Gomide 2011, 84). Meanwhile, the first stage of highway privatizations occurred between 1995 and 1997 when five sections of federal roads were offered to concessionaires for 20 to 25 years.<sup>184</sup> These concessions transferred 1,493.2 km of federal roads to the private sector, representing only 2 percent of the federal highway system (cf. OECD 2008, 178). A second stage of concessions was to auction off an additional 7,093

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<sup>182</sup> Author interview with Tourinho.

<sup>183</sup> This included not only the six lines of RFFSA, but also São Paulo's state-owned rail company, FEPASA, known as the Malha Paulista, which was transferred to the federal Government in 1997 as part of the financial agreement between the federal government and the state of São Paulo (Decreto 2.502/1998). The iron-ore company, *Companhia Vale do Rio Doce*, owned two additional freight lines, Estrada de Ferro Vitória-Minas e Estrada de Ferro Carajás, which were auctioned off as a part of the Vale privatization process.

<sup>184</sup> Extensive privatization of highways has occurred at the state level as well (cf. Pinherio 2011, 270).

km in 2000, but became mired in endless delays.<sup>185</sup> In the end, highway concessions only affected a small portion of the network and, while some railway concessions were completed, an agency known as VALEC would continue maintaining the remaining rail lines, and the liquidation of RFFSA dragged on until 2007. Thus, while Cardoso was able to advance his agenda, especially in the railway subsector, the broader reform agenda advanced in an uneven and halting way.

Unexpected economic downturns, in particular the devaluation of the real, which accelerated in 1999, had negative repercussions that resulted in serious problems for concessions, but these were short-lived. There were details that should have been included in the initial contracts, such as captive shipper stipulations and requirements for providing accounting data, but these were resolved with amendments instead of full-scale renegotiation (World Bank 2003, 3).

Such minor problems stand in contrast to the major issues in Argentina. Whereas Argentina charged high canons that concessionaires later were unable to pay, Brazil's canon rates were much lower and charged up front (Estashe 2001, 224). While Argentina transferred a substantial amount of debt to concessionaires that they ultimately could not repay, Brazil transferred much less of the debt, but in the long run its predictions were more realistic and sustainable (De Castro 1999). As a result, Brazil's labor productivity in transportation increased, performance substantially improved, RFFSA's debts were rescheduled or settled through revenues from the sale of concessions and non-rail assets, and the cost of freight transport was reduced from US\$2.9 in 1996 to US\$2.0 in 2000 (World Bank 2003, 3).

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<sup>185</sup> The next sections will address some of these delays, which occurred because of regulatory negotiations in congress, court cases, questioning by audit authorities (TCU), and opposition from the small and medium construction companies (OECD 2008, 181).

What accounts for these successes? Although experts with experience and expertise in the public sector were crucial for the technical design, as the previous sections and other analyses have highlighted (Manzetti 1999; Estashe 2001; Sharp 2005; World Bank 2003, 10), the numerous veto players involved in other aspects of the reform had additional effects that contributed to reform success.

First, the many demands of different veto players had a propitious by-product: reforms were divided into smaller steps and slowed, simplifying the task environment. Instead of crafting plans to transform the entire transport sector all at once as Menem had done in Argentina, the process in Brazil began before Collor and advanced haltingly during his tenure, slowed under Franco, significantly advanced under Cardoso, and would go on to gain momentum only after Cardoso's tenure. These stop-and-start efforts provided time to evaluate plans and meant that the reforms attempted were often smaller in scale, allowing officials to implement changes, assess them, and apply lessons learned to the next set of reforms (BNDES 1999). Efforts to resolve smaller-scale problems drew on decision makers' existing knowledge and experiences, not abstract planning that sought to get the entire reform perfectly calibrated in one shot.

Second, scrutiny by a diverse set of actors—coalitional allies appointed to bureaucratic agencies, the courts, the audit agency (TCU), Congress, bureaucratic actors, IFIs, etc.—also ensured a higher degree of transparency, subjected the reform plans to a wide range of perspectives, and forged political support crucial for sustaining change. Indeed, in contrast to other Latin American countries, Brazil's privatization process was remarkably transparent (Lora 2007). Although the price for gaining political support often involved weakening or slowing reform or doling out patronage or pork, this approach of relying on compromise or transaction as opposed to imposition meant that the reform process was also less vulnerable to reversals (Weyland 2002, 228).

The transportation reforms, while slower and more gradual than reforms in Argentina, still exhibited some characteristics of powering,<sup>186</sup> and thus, did not escape the problems that such an approach entails. In particular, pressure to reform meant that concessions occurred before the difficult task of rebuilding regulatory institutions was complete (Gomide 2011). Therefore, concessionaires did not know exactly what rules would be in force after privatization. The concession contracts designed by BNDES sought to address these challenges by including regulatory clauses in the contracts (Pinheiro 2011, 268),<sup>187</sup> as did some preliminary regulatory guidelines that were established by executive decree.<sup>188</sup> Yet, it took five years to create a regulatory agency for transportation (ANTT) (ANT, PL-1615 of 1999).

The failure to pass and implement regulatory legislation before commencing with privatization highlights the challenges of building regulatory agencies, but also the challenges of *rebuilding* agencies after powering reforms. In particular, the law that established ANTT eliminated DNER and GEIPOT, the former “islands of excellence” that had been nearly demolished under Collor (Barat 2007). Under Cardoso, DNER had been politicized and after a spate of corruption scandals was finally eliminated entirely in 2001. DNER was to be replaced by a new agency responsible for federal infrastructure (waterways, railways and highways), the National Department of Transport Infrastructure (DNIT). In effect, the legislation only changed the name of the agency and further

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<sup>186</sup> For a clear-cut case of problem-solving see Chapter 7 on health reform in Brazil. This case fall on the spectrum between powering and problem-solving and is designed to show how political organizational context shapes reform strategy.

<sup>187</sup> For instance, BNDES sought used a model proposed by Demsetz (1968) and others that presented an alternative to economic regulation. Thus, regulation was limited to inspection of investment and operation activities and annual tariff adjustments—that is, regulation was mostly technical in nature and was included in regulatory clauses of contracts (Pinheiro 2011, 268).

<sup>188</sup> Regulation of railway transportation was established by Decree 1,832 of March 1996 (RTF), created the Federal Railway Transport Commission (Cofer) under the Ministry of Transportation (De Castro 1999, 11) (Gomide 2011, 85).

reduced its personnel.<sup>189</sup> Whereas DNER had 19,000 public servants in 1990, the new DNIT was born with just 1,300 in 2002. GEIPOT was dismantled, but the *Conselho Nacional de Integração de Política de Transportes Terrestres* (CONIT) remained on paper until 2009.

In conclusion, this section has demonstrated how coalitional presidentialism in Brazil and the need to compromise and negotiate with a diverse set of political actors has tended to impede powering in Brazil. Collor's attempt to impose reform was rejected by the Brazilian political class and ultimately resulted in his impeachment. Cardoso, having learned from this failure, built on his predecessors' reforms and used negotiation and compromise to achieve his reform objectives. Consequently, reforms advanced gradually, but were more successful than those in Argentina.

These sections also illustrate the fate of institutions weakened or destroyed by powering attempts. DNER was irreversibly weakened by Collor's powering reform. Then Cardoso, in order to achieve his objectives, politicized the already feeble institution, until the situation was so egregious that Congress "abolished" the agency, essentially renaming it DNIT. Thus, while many institutions were strengthened during Cardoso's tenure, his reforms often came at a steep cost, namely patronage and pork.

#### **THE PREDOMINANCE OF PROBLEM-SOLVING**

The election of Luiz Inácio Lula da Silva (known as "Lula") marked a crucial turning point for Cardoso's reforms. When Lula assumed office, he inherited a number of serious problems with regard to transportation. After two decades of freezes on investments, the infrastructure network had deteriorated significantly; in 2003 almost 50 percent of paved roads were considered in "terrible" condition and only about 20 percent

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<sup>189</sup> VALEC S.A. remained responsible for railway construction.

were in good condition (DNIT 2014). Improvements involved either auctioning more roads off to the private sector through concessions or relying on the newly created DNIT to follow the complex and laborious requirements of Law 8666 to contract the work out to the private sector.

This section shows how the demands of coalitional presidentialism precluded powering, but gave rise to problem-solving reforms that gradually strengthened transport institutions under both Lula da Silva and his successor Dilma Rousseff. The demands placed on Lula and Rousseff by coalitional partners meant that neither governing alone nor sweeping overhauls of institutions were viable options. Instead, to achieve their goals, the PT governments of Lula and Rousseff have been induced to share executive appointments with coalitional allies and to work with the institutions they had inherited, which placed a greater premium on addressing the problems that made institutions weak in the first place.

The following sections highlight thwarted powering and also problem-solving in transport. It is important to note, however, that because of the destruction of transport agencies in the 1990s, there were few individuals with experience left in the transport agencies. Consequently, the process of problem-solving has advanced very slowly. For a more clear-cut case of problem-solving see Chapter 7 on Brazilian Health. The following sections outline the process of strengthening institutions through sequentially advancing small, novel, partial, or indirect changes in the transport sector of Brazil, but also underscore persistent difficulties.

### **Transport Sector: Success Despite Limitations**

While Lula had, in the past, criticized Cardoso for privatizations, there was no serious attempt to reverse the changes made by his predecessor. Lula had moderated his

leftist politics considerably to win the election (Hunter 2010). Yet, even if Lula had wanted to reverse transport privatizations, he would have faced a number of obstacles. First, the more incremental and modest reforms in Brazil were not plagued by the same type of performance problems as the hastily enacted changes in Argentina. Second, concessions in Brazil only accounted for a very small portion of the transport sector. Third, many actors and political parties in Lula's government had a role in Cardoso's reforms. In a number of ways, then, the more limited reform process under Cardoso made it difficult to roll back the changes.

Moreover, Lula's Workers' Party lacked the majority necessary for pushing sweeping change through Congress. By contrast to Cardoso, who crafted a broad coalition by compensating allies with executive positions and pork, Lula was initially constrained by the PT's distinctive commitment to party discipline and expectations that the vast majority of available positions in the executive would be allocated to PT members (Hunter 2010, 159-167). Concentration of power in the hands of the PT might have bred a preference for a powering approach, but would have deprived the party of sufficient votes in Congress to pass legislation. Thus, instead of seeking to overhaul institutions, the Lula administration worked with the institutions that they had inherited.

One of the chief problems for investing public funds in infrastructure was Lula's electoral commitment, outlined in his *Carta ao Povo Brasileiro*, to maintain a primary budget surplus of 4.25 percent of GDP, tightly constraining his ability to make sorely needed investments in infrastructure in his first years in office. Highway concessions would have provided private funds for maintenance and expansion; however, because

Lula had criticized Cardoso’s privatizations, immediately resorting to a massive concession initiative would have been an about-face on his campaign promises.<sup>190</sup>

It was in this context that an idea, namely joint public and private investment in large infrastructure projects, or Public-Private Partnerships (PPP), was proposed to the Lula administration (see Figure 1 for the differences between PPPs, Procurement, and Concessions) (Sundfeld 2007). The idea of PPPs had circulated for years during the Cardoso administration as a way to bypass Law 8666 and reduce government spending. The Lula administration quickly learned that the 8666 procurement procedures resulted in endless delays and were nearly impossible to follow to the letter. In 2003—Lula’s first year in office—the TCU recommended that Congress suspend over 60 percent of planned disbursements due to contracting irregularities (Correia 2011).<sup>191</sup> This, in addition to the need to reduce the burden on government coffers, contributed to the Lula administration’s support of PPP legislation.

Figure 3: Types of Infrastructure Contracts

	Private		Public	
	←		→	
	<b>Concessions</b>	<b>Public-Private Partnerships (PPPs)</b>	<b>Procurement</b>	<b>Direct Execution</b>
<b>Funding</b>	Private sector funding in exchange for right to charge tolls	Mixture of government and private funds	Government funds	Government funds
<b>Execution</b>	Private sector	Private sector	Private sector contracted execute projects	Executed by government employees
<b>Example</b>	Concession Law 1995	PPP Law 2004	Law 8666 of 1993, Pregão, RDC	Army Core of Engineers

<sup>190</sup> Even if this were an option, there were other challenges: The second wave of concessions had been stalled by TCU audits, many of the choicest sections of road had already been auctioned off, and tolls were not a viable source of funding for many roads in need of repair (Portugal and Prado 2007).



Congress passed the Public-Private Partnership Law (PPP, No. 11079) in 2004, but the new model that seemed to hold so much promise also generated substantial criticism.<sup>192</sup> Moreover, as economic conditions improved, the government was in a better position to invest in infrastructure. Therefore, the Lula administration allowed the new rules to remain in disuse.

Meanwhile, substantial under-spending in the first years of the Lula administration resulted in further deterioration of the transport network. As a result, the Ministry of Finance proposed what became known as the Pilot Investment Project (*Projeto Piloto de Investimento*, PPI), aimed at directing resources not subject to the budget freeze toward high-priority investments.<sup>193</sup> The idea was born in large part from experiences of stop-and-start investment in infrastructure in the 1990s, wherein new projects were often prioritized over maintenance, only to be halted the subsequent year by budget freezes.<sup>194</sup> The Lula administration negotiated an updated agreement with the IMF in February 2005 that facilitated PPI expenditures, equivalent to about US\$1 billion a year over three years (2005-2007) (Casa Civil 2005).

The new program meant there were funds to invest in transport infrastructure, but spending the funds successfully would be another matter. Despite careful monitoring by a broad executive committee comprising officials and technical experts, the program was falling far short of its goal of recuperating 20,069 km of roads by the end of 2006 (MPOG 2006).<sup>195</sup>

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<sup>192</sup> PPPs generated criticism from a number of different angles—from those who wanted to continue with the concession model, from the segments of the private sector wanted to have a Fund that guaranteed payments established before they committed to the new model, and from civil servants wary of the new model (CNI 2005). Author interview with Tourinho.

<sup>193</sup> One of the cornerstones of the project was the rehabilitation of part of the Federal Road network under the Federal Road Maintenance and Rehabilitation Program (World Bank 2013).

<sup>194</sup> Author interview with Carlos Alvares da Silva Campos Neto, Coordenador de Infraestrutura Econômica, IPEA, April 24, 2012.

<sup>195</sup> In the end, only 7,340 km were finished by 2007 (DNIT 2007).

Two bottlenecks impeded the recuperation effort—the new highway agency, DNIT, and Law 8666. DNIT was born weak, with few professionals and inadequate experience after the recurring budget freezes, while Law 8666 resulted in extensive delays and numerous points at which the contractors could challenge contracts in court.

As a way to circumvent Law 8666 and the ineffective DNIT, the Lula administration attempted to concentrate power in order to break through the log-jams, launching in 2006 an emergency intervention known as PETSE (DNIT Portaria 1806) to repair stretches of road deemed unsafe. The “emergency” aspect was important; it was used as a justification for using *dispensa de licitação*, emergency contracting procedures that do not require competitive bids governed by Law 8666. In other cases, funds were applied using existing contracts. Controversy swirled around the project, not only because of the suspicious bidding procedures, but also because the funds, over R\$400 million, were released via executive decree and during an election year (Executive Decree 276 of 2006). After an outcry, the Casa Civil made a formal request that the TCU supervise the contracting processes (Correia 2011, 202). This attempt to use power to address the problems in transport was curtailed.

The TCU audits of DNIT’s projects in Lula’s first term marked the beginning of an antagonistic relationship between the audit court and the executive.<sup>196</sup> The audit agency had amassed increasing power to audit and halt public works projects incrementally after a series of scandals related to public works in the 1990s.<sup>197</sup> Since 1997, the budget laws have stipulated that the TCU send an annual recommendation to Congress of public works projects that ought to be halted (*paralizados*) due to grave

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<sup>196</sup> Author interview with Graef.

<sup>197</sup> Author interviews with Cláudio Cruz, Auditor Analista de Controle Externo, Tribunal de Contas da União (1995-present), May 8, 2012; Henrique Ziller, Auditor Federal de Controle Externo, Tribunal de Contas da União (2001-2014), Founder and President, Instituto de Fiscalização e Controle (2004-present), October 31, 2011.

irregularities. The number of halted projects jumped from 38 in 2004 to 56 in 2006 (TCU 2007). Regarding PETSE in particular, the TCU found that for 44.6 percent of the stretches of highway audited by TCU there was no legitimate “emergency” (Acórdãos 686 of 2006 and 1973 of 2006).

***Army Execution of Public Works: An experiment in bypassing DNIT and Law 8666***

After the failed attempt to circumvent institutional constraints, the Lula administration began a problem-solving experiment—using an existing source of transport expertise in the public sector, the Brazilian Army engineers. Historically, the military has maintained 12 Engineering Battalions in the Department of Engineering and Construction (*Departamento de Engenharia e Construção*, DEC), responsible for executing small infrastructure projects for the army, which before 2005 accounted for approximately 3 percent of federal investments in infrastructure.<sup>198</sup> DEC in the 1980s and 1990s—in stark contrast to DNER/DNIT’s meager investments and dwindling number of engineers—enjoyed relatively stable budgets and maintained a well-trained core of engineers, educated by the Military Engineering Institute (*Instituto Militar de Engenharia*) and stationed throughout Brazil.<sup>199</sup> Essentially, DEC was one of the only areas of the federal government that had retained its engineering capacity to design complex projects throughout almost twenty years of underinvestment in infrastructure.

DNIT’s cooperation agreements with DEC made the Army Corps of Engineers responsible for both the design and execution of projects,<sup>200</sup> providing a way around not only Law 8666,<sup>201</sup> but also the limited capacity of DNIT. The first projects were minor

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<sup>198</sup> *Valor Econômico*, July 12, 2012

<sup>199</sup> Author interview with Campos Neto.

<sup>200</sup> Interministerial Order DM/MT 230 of 2003 and Interministerial Order 408 of 2005.

<sup>201</sup> See Figure 3 above for differences between infrastructure contracts and agreements.

and in remote locations, often of little commercial interest to the private sector because of logistical difficulties involved in such operations, but the idea gained more supporters as the Army Corps proved it was able to complete projects ahead of schedule and without cost overruns.<sup>202</sup> As following sections will show, the administration gave the army a more extensive role in the ensuing years.

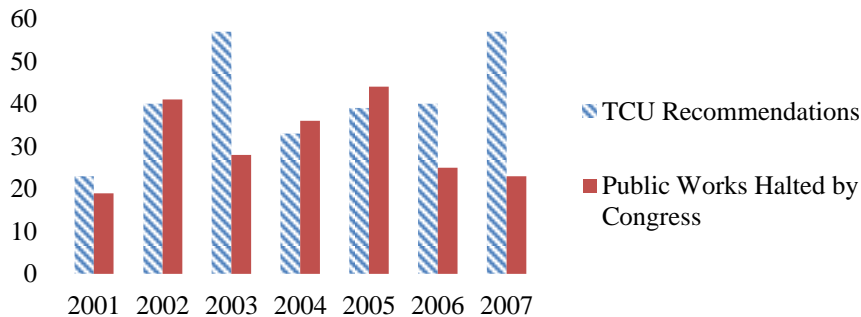
### ***Consequences of Exclusion, then Inclusion, of Coalitional Allies***

Congress's role in paralyzing the administration's infrastructure projects was even more problematic than that of the TCU during Lula's first term, underscoring the extent to which political parties that perceived they were undercompensated in terms of executive posts and pork would retaliate against the president's initiatives. In 2004 and 2005 Congress froze *more* projects than the TCU had recommended. Figure 4 shows the budget funds (LOA, Lei Orçamentária Anual) halted in comparison with the TCU's recommendation. Congress halted nearly 45 percent of public works funds in 2005.

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<sup>202</sup> *Folha de São Paulo*, November 6, 2005.

Figure 4: TCU recommendations and public works projects halted by Congress



Source: TCU and LOAs

Figure 4 reveals the consequences of PT's overrepresentation in executive positions—from 2003 to 2005 the number of projects halted by Congress steadily increases; however, 2005-6 marks a turning point.<sup>203</sup> In 2005 Lula broadened his cabinet to include the PMDB, in large part because of the weakness of his own party after the Mensalão scandal. Congressional opposition softened considerably thereafter; in 2006 and 2007 the budget funds halted by Congress dropped well below the TCU's recommendations. Thus, while Lula's latitude to bend institutional constraints (in this case, the use of "emergency contracts") was attenuated considerably by audit institutions, it was the inclusionary expectations of the Brazilian political class that provided the biggest obstacle to his reform agenda. Broadening the coalition ameliorated some of the executive-legislative conflicts, but the inclusion of allied parties in the executive further reduced the executive's control over transport ministries and agencies controlled by coalitional allies.

<sup>203</sup> D'Araujo and Lameirão (2009) estimate that the PT occupied 60 percent of ministerial positions in Lula's first term, even though it held only 20 percent of seats in Congress. See also Hunter (2010, 163-4).

## **PAC: Big Problems, Incremental Solutions**

In January 2007, the Lula administration launched the Growth Acceleration Program (PAC), a multi-sector infrastructure development project focused on medium- to long-term strategic planning and increased spending on infrastructure (highways, railways, energy, air transportation, telecommunications, housing, water and sanitation), in order to accelerate development and spur economic growth (Rousseff 2007). Over R\$28.6 billion was allocated to investments in the highway system alone, which was to be complemented by private investment from the second phase of highway concessions that was to reach R\$4.4 billion (PAC 2009).<sup>204</sup>

PAC represented a major initiative and one of two signature programs of the Lula government;<sup>205</sup> yet, PAC was very different from the sweeping powering reforms imposed in Argentina and those begun under Collor. Instead of overhauling ministries and agencies, PAC sought to work with existing agencies. Instead of concentrating power in a tight-knit group of likeminded individuals close to the president and making them responsible for advancing changes, the PAC executive committee was made up of a wide-ranging group that would work with the many ministries and agencies involved in the effort.<sup>206</sup> Instead of forcing an untested model, PAC built on the experiences and lessons learned from the PPI and from longstanding efforts to address infrastructure

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<sup>204</sup> Brazil for the last two decades had lagged far behind the developed, and much of the developing, world in terms of infrastructure spending, in large part because of recurring fiscal crises. Dilapidated roads and ports resulted in bottlenecks and dragged down the economy. During harvest season, for instance, traffic jams of trucks waiting to get to ports stretched miles. Inadequate infrastructure steeply increased the *custo Brasil*, as the tremendous cost of doing business in Brazil is known.

<sup>205</sup> *Bolsa Familia*, a conditional cash transfer program, is the other signature program.

<sup>206</sup> The Executive Committee was comprised of individuals from the Casa Civil and Ministries of Planning and Finance, led by Undersecretary of Monitoring of the Casa Civil, Miriam Belchior (Decree 6,046 of 2007). The ministries and agencies involved ranged from Agricultural Development; Cities; Communication; Culture; Education; Health; Mines and Energy; National Integration; Planning, Budget, and Management; Sports; Tourism; and Transportation. In the case of Transport alone, the ministries and agencies included the Ministry of Transportation, DNIT, VALEC, ANTT, and the agencies involved in environmental licensing (i.e., IBAMA, FUNEI, IPHAN).

logjams. Instead of transforming the infrastructure model to rely entirely on the private sector or the public sector, PAC included provisions for both approaches. Thus, PAC, instead of replacing the existing model of infrastructure, focused on working within inherited policy frameworks and institutions, which would mean a problem-solving approach to resolve problems one by one.

In responding to concerns about the lack of coordination, PAC addressed some of the challenges of coalitional presidentialism. Building on the PPI model, instead of allowing the PR, the allied party with the most appointments to the Ministry of Transport and DNIT, to use investment funds for pork, the PAC sought to ensure that infrastructure spending was in line with the president's objectives.<sup>207</sup> Dilma Rousseff, Lula's close advisor who would go on to become president, was appointed Chief of Staff in June 2005. During this time she and her team elaborated sophisticated "situation rooms" to monitor PPI spending.<sup>208</sup> The PAC effort expanded this monitoring role and was again led by the increasingly powerful Rousseff (Lameirão 2011), in collaboration with the Ministries of Finance and Planning.

PAC made funds available, but in doing so revealed new problems such as DNIT's inability to translate funds into completed projects. By 2009, reports showed that most projects in DNIT were stalled or halted in the contracting process.<sup>209</sup> Even DNIT's Director acknowledged the agency's lack of expertise and experience.<sup>210</sup> Instead of having a pipeline of viable infrastructure projects, engineering blueprints used in bidding processes were of very low quality, many of them dating back to DNER. This resulted in

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<sup>207</sup> Author interview with Correia.

<sup>208</sup> Author interview with Miriam Barbuda Fernandes Chaves, Diretora de Programa da Secretaria-Executiva do Ministério do Planejamento, Orçamento e Gestão (2007-present), November 8, 2011.

<sup>209</sup> *Estado de São Paulo*, July 1, 2009.

<sup>210</sup> *Estado de São Paulo*, July 5, 2009.

cost overruns, contract modifications, and delays; without a clear engineering plan—especially for complex projects—it was impossible to estimate how much a project should cost and how long it should take.<sup>211</sup> In 2010 alone, 79 percent of active PAC contracts were modified, with the additional costs averaging 32 percent of the original contracts (Correia 2011, 220). DNIT fell far short of having sufficient staff to design projects, conduct bidding procedures, obtain environmental licenses<sup>212</sup> and monitor private sector construction.<sup>213</sup>

The appointment of Paulo Sérgio Passos, an experienced civil servant and former Executive Secretary of the Ministry of Transportation, as interim Minister of Transport in April 2006 (while Minister Nascimento ran for office) provided an opportunity to advance a problem-solving reform agenda. While the position was temporary, Passos now had an opportunity to advance a number of proposals that addressed implementation problems in the PPI, just as the PAC proposal was being developed.

Interviews suggest that Passos used the focus on PAC to quietly advance a number of changes that technical experts had been waiting to promote since the early 1990s.<sup>214</sup> In order to address the lack of capacity of DNIT, Passos increased the number of civil servants in the transport sector, created a new career, Infrastructure Analyst (Edital ESAF 2007), and restructured salaries to make the transport sector more

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<sup>211</sup> Instead of using more detailed “executive” projects, DNIT relied on what are known as “basic projects” in Brazil. Such designs often lack essential details necessary for contractors to execute projects successfully and for DNIT employees to hold them accountable.

<sup>212</sup> Expensive environmental studies are required at various stages of development of large construction projects, often delaying near-completed projects. *Estado de São Paulo*, July 1, 2009.

<sup>213</sup> Author interviews with anonymous DNIT employee, May 25, 2012; Aldino Graef, Assessor especial da Subchefia de Análise e Acompanhamento de Políticas Governamentais da Casa Civil da Presidência da República; Especialista em Políticas Públicas e Gestão Governamental (1993-present), December 5, 2011.

<sup>214</sup> Author interviews with Tourinho and DNIT employee.



competitive.<sup>215</sup> To address the absence of a planning body—the result of the destruction of GEIPOT—Passos initiated discussions with transportation experts and the Army’s transport planning body about creating a foundation or a public company<sup>216</sup> that would specialize in research and strategic planning and provide a forum for federal, state, and municipal coordination (Correia 2011, 211). In 2007, the body Passos advocated for, the *Plano Nacional de Logística de Transportes* (PNLT), was created to provide long-term strategic plans (MT 2007).<sup>217</sup>

During this time, Passos also sought to remove another major obstacle for the transport sector: Law 8666. Passos and other reformers used the focus on PAC to their advantage; streamlining of procurement procedures was included in PAC’s objectives (PAC 2010) and even gained the support of Dilma Rousseff. While the legislation passed the House (PL 7709/2007 – Câmara), it stalled in the Senate (renamed PLC no 32/2007), largely because of opposition from private construction contractors and political leaders who benefitted from exploiting the legislation’s loopholes.<sup>218</sup> Passos’s first attempt to change Law 8666 had failed and after Lula’s reelection, in 2006<sup>219</sup> the Ministry of Transport position was given back to Nascimento of the PR. But as the subsequent

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<sup>215</sup> One of the biggest problems for the transport sector is *evasão*, when those who pass *concursos* created specifically for an agency, in this case DNIT, are pouched by other federal ministries and agencies that provide higher salaries, less work, and more prestigious roles (e.g., TCU, CGU, etc).

<sup>216</sup> In addition to a planning body called PRODEST, under the Sarney administration.

<sup>217</sup> While this was an achievement, the planning body still lacked the capacity to fill the void left by GEIPOT.

<sup>218</sup> Interviews suggest that despite public support from large *empresiteiras* (CNI 2008) and many others, substantial resistance remained (Author interview with Beatriz Nunes, Confederação Nacional da Indústria, December 12, 2011). Some in the public administration opposed the bill because a rapid shift away from Law 8666 would reduce the ability of the TCU to carefully audit such funds. Many of the small and medium sized businesses worried that a change in Law 8666 would push them out of the market entirely and back into subcontracting for the construction giants, the role they had filled prior to 1993. Finally, a shift implied uncertainty for the large *empresiteiras* who had learned how to reap massive profits from the Law. (Author interviews with anonymous private contractors, October 8, 2011).

<sup>219</sup> PLC 32 was the most notable attempt to change Law 8666 during Lula’s presidency, but there were two other attempts by the same group of reformers leading up to this effort. Author interview with Beatriz Nunes, Confederação Nacional da Indústria, December 12, 2011.

sections will show, as a civil servant with longer time horizons, Passos would have more opportunities to attempt change.

### ***Trying to Bypass Obstacles: The Army and Concessions***

The continued delays in DNIT and the inability of the Lula administration to both retain PR support and overhaul the agency prompted PAC coordinators to seek way to circumvent DNIT and Law 8666. They did so by relying on two initially unlikely options—the Army and privatization.

The Army Engineering Corps' (DEC) role in PAC grew substantially as it demonstrated that it could rapidly execute public works projects for much less money. Numerous projects that had been halted due to procurement irregularities, environmental licensing problems, or auditors were delegated to a division of DEC led by General Jorge Fraxe. By 2010 the Army had become the largest contractor in the country, with 11,000 soldiers and other employees working on about 80 different projects, and was responsible for 16 percent of DNIT's budget.<sup>220</sup> Experts estimate that the projects executed by DEC cost 20 percent less than those contracted out by DNIT.<sup>221</sup>

The Lula administration also began to rely increasingly on concessions. After years of discussions and delays, highway concessions resumed. Toward the end of 2006 the government released the official invitation to bid,<sup>222</sup> and finally, in October 2007, auctions took place that transferred 2,600 km of roads to private sector management. The high level of scrutiny these processes received ahead of time meant that while the implementation was painstakingly slow, the results were far more successful in the long run.

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<sup>220</sup> *Isto É Dinheiro*, August 2, 2010.

<sup>221</sup> *O Globo*, July 16, 2006; *Estado de São Paulo* July 16, 2012.

<sup>222</sup> *Folha de São Paulo*, November 8, 2006.

## TECHNOCRATS AT THE HELM OF TRANSPORT

Dilma Rousseff, often referred to as the Mother of PAC, went on to win the 2010 election. She then launched PAC II, which continued and expanded the project, more than doubling the budget for transportation, with projected investments totaling over US\$100 billion (Biedermann and Galal 2013, 3). After Rousseff's election, Nascimento was again appointed as Minister of Transportation and Pagot remained in DNIT. But the contrast between the marked reduction in spending during Passos's interim ministry and the run-away spending on cost overruns and contract amendments under Nascimento caught the attention of the PAC Secretariat. In 2011, scandal enveloped the sector as media reports revealed corruption and mismanagement of transportation contracts by PR appointees.<sup>223</sup> As a result, Nascimento resigned, and Rousseff sacked 27 of the top-level PR managers in the Ministry of Transport, DNIT, and VALEC.<sup>224</sup> The allegations of corruption and Rousseff's tough stance on those implicated spread to other ministries in what became known as Rousseff's *faxina*, or housecleaning.<sup>225</sup>

Instead of filling the transport ministries and agencies with representatives from an allied party, Rousseff appointed long-time technocrats from within the executive to the top positions. The appointment of career technocrats reflected the importance of the transport sector not only to PAC, but also to the upcoming Soccer World Cup in 2014 and Olympics in 2016. Sérgio Passos was appointed Minister of Transport, his third time

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<sup>223</sup> Reports revealed that PR operative Valdemar Costa Neto in conjunction with Anor (National Highway Construction Assoc.) ran an intricate scheme to divide highway construction contracts among contractors, who would pay a 5 percent fee to the PR operative to "win" contracts (*Veja*, July 2, 2011). The allegations of illicit enrichment spiraled after the *Veja* report; confirming reports that PR's main campaign contributors all had construction contracts with the transport sector (cf. *O Globo* July 6, 2011; July 11, 2011).

<sup>224</sup> *Estado de São Paulo*, September 25, 2011

<sup>225</sup> Four ministers were replaced in a few short months. Interviews suggest that Rousseff had long known about the corruption in transportation. Many recognized that the PR's domination of transportation—a lucrative position within the executive—was the price the PT paid for the PR's support in Congress. Author interviews with Chaves; anonymous MPOG employees.

in the position.<sup>226</sup> General Fraxe was appointed to DNIT, with a transportation auditor from the CGU as his second in command.

The astonishing scandals laid bare numerous problems that internal reformers, such as Passos and General Fraxe, had long sought to address and provided increased latitude for advancing change. In particular, an internal report exposed the alarming lack of capacity in DNIT (DNIT 2011). In 1987 DNER was responsible for 51,000 km and had 19,000 civil servants; by 2011, although DNIT was managing an annual portfolio of investments on the order of R\$15 billion, it had just over 2,600 employees, less than the Highway Department of the State of São Paulo.<sup>227</sup> The problems were particularly acute in some areas; the agency had only 9 accountants (the 3 in Brasília alone were responsible for 597 delayed processes); and although the agency had 800 engineers, they estimated they needed 3,000 to design, evaluate, and supervise PAC projects.<sup>228</sup> The report concluded that the biggest problem was not corruption per se but the waste created by the low capacity of the agency (DNIT 2011; cf. Motta 2011).

In response, the Rousseff administration authorized a competitive exam for 1,200 DNIT civil servants (Edital ESAF 2012). In the meantime, to increase engineering capacity and experience with contracting, General Fraxe appointed Colonel André Kuhn, an engineer from the Military Institute of Engineering, with a master's degree in procurement and project management, to the DNIT projects unit. In 2012, Minister Passos mandated important posts within DNIT be reserved for career civil servants of the

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<sup>226</sup> Passos was previously Minister of Transport in 2006 and 2010 when Nascimento was running for office.

<sup>227</sup> By 2016 a third of employees were scheduled to retire. *Estado de São Paulo*, February 18, 2012. Despite recent concursos for positions in DNIT (300 positions were opened in 2009), those who pass the exams often opt for higher paying positions in the CGU, MPF, and TCU, or in the private sector (DNIT 2011, 11).

agency.<sup>229</sup> Passos' efforts to recreate a planning body similar to GEIPOT, which he proposed back in 2007, also came to fruition during this time, with the creation of the *Empresa de Planejamento e Logística* (EPL) in August 2012. In this way, actors within the state took advantage of the light cast on problems by scandals to advance their reform agendas.

Such efforts were complemented by incremental efforts throughout PAC I and II. Although the first years of PAC were marked by confrontations with the TCU, with Lula casting blame on the TCU for delays,<sup>230</sup> auditors soon realized there was no way for DNIT to improve without assistance.<sup>231</sup> DNIT began to adopt a new methodology based on TCU recommendations, including requiring detailed engineering blueprints before the contracting process was initiated and using standardized bidding documents (Instrução Normativa 04/2007).<sup>232</sup> In these and in many other ways, DNIT absorbed the guidance of the audit body, and by 2009, experts had recognized the increasing professionalization of DNIT.<sup>233</sup> As DNIT began to rebuild its capacity after years of underspending in infrastructure,<sup>234</sup> its transformation was reflected in the restoration of the highway network (see Figure 5). In 2003, nearly 50 percent of the network was in bad or terrible condition, by 2011 over 60 percent was classified as in good condition.

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<sup>229</sup> *Grandes Construções*, May 8, 2012.

<sup>230</sup> *Folha de São Paulo*, October 23, 2010.

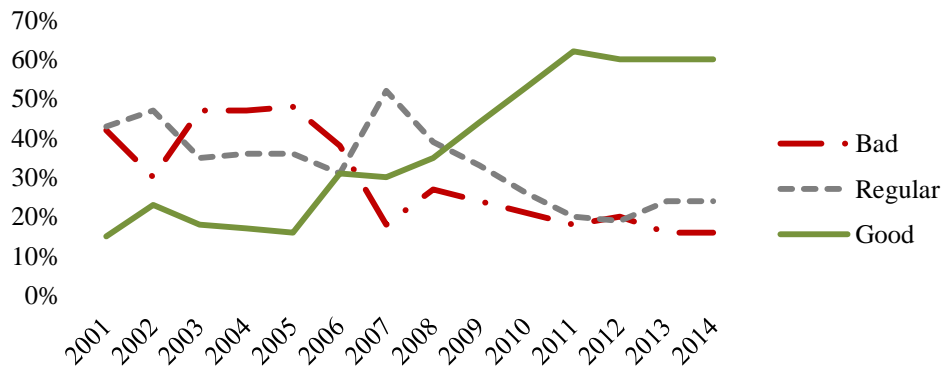
<sup>231</sup> Author interview with André Pachioni Baeta, Diretor da Secretaria de Obras do TCU, May 25, 2011.

<sup>232</sup> *Revista Construção e Mercado*, October 2009.

<sup>233</sup> Author interview with Bittencourt.

<sup>234</sup> Author interview with Baeta.

Figure 5: Quality of paved federal roads



Source: Confederação Nacional do Transporte (CNT) 2014

### *Chipping Away at Law 8666*

Consensus had been building among experts such as Passos, Fraxe, and the PAC Secretariat that something must be done about Law 8666. But after the failure of the 2007 bill and subsequent attempts at change,<sup>235</sup> the reformers took a new, somewhat unorthodox approach. In 2011, an executive decree had been issued to establish a Secretariat of Civil Aviation. This decree had nothing to do with contracting, but when the measure was about to be approved by Congress, Deputy José Guimarães (PT-CE) proposed an amendment, referred to as the Differential Contracting Regime (RDC), that created the option to apply the auction logic of concessions to public works projects. By 2011, the positive evaluations of concessions and another alternative to Law 8666, known as *pregão*, had been attracting interest in other areas of the federal administration.<sup>236</sup>

<sup>235</sup> For an analysis of all attempts to pass RDC see Rezende (2011, 7–8).

<sup>236</sup> *Pregão*, however, was limited only to goods and services, that is, the law specifically forbade the application of the alternative procedures to construction contracts or public works projects (see Chapter Seven).

The amendment was limited in a number of important ways. Among other restrictions, it could be applied *only* to World Cup and Olympics projects and *only* when “convenient” (Rosilho 2013). In this way, proponents of overturning Law 8666 sought to incrementally introduce changes to procurement legislation for public works contracts and to avoid the full-blown attention of political actors that a law devoted entirely to procurement reform would entail. Modifications to the amendment that provided for even greater oversight from audit agencies ensured the auditors’ support for the new procedures.<sup>237</sup>

As the new approach showed promise for reducing delays and cost overruns,<sup>238</sup> RDC was soon extended. In July 2012 Congress made RDC applicable to PAC (Law 12688 of July 2012),<sup>239</sup> and in October 2012, RDC was authorized for public school construction. This expansion has continued and the approach can now be applied in almost all areas of the federal administration. RDC is not a panacea for all of Brazil’s transport infrastructure issues, but the expectation among many is that as the new approach is more widely applied and refined, its results will make repeal of Law 8666 a mere formality (Rosilho 2013b, 8).<sup>240</sup> Such a possibility was unthinkable in 2000. Yet, the problem-solving changes spearheaded by a reform coalition of civil servants and other public administrators with experience in using Law 8666 slowly transformed rigid procedures and eroded resistance to change.

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<sup>237</sup> *Valor Econômico*, June 27, 2012; November 5, 2012; and November 20, 2012.

<sup>238</sup> The federal government estimates that RDC reduces by 50 percent the amount of time required for procurement (PAC 2014, 29). For other benefits see *Folha de São Paulo*, January 29, 2014.

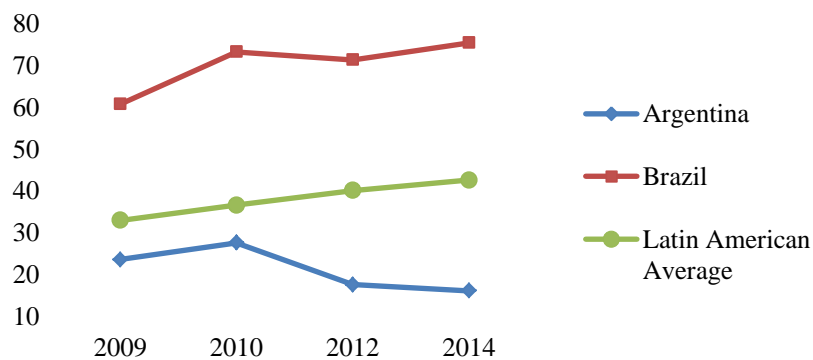
<sup>239</sup> The government highlighted the fact that the new procedures offered a 15 percent discount in relation to the reference price for six Infraero contracts and reduced contracting time from 250 day to 80 (*Valor Econômico*, April 26, 2012).

<sup>240</sup> Even President Dilma Rousseff confirmed that she would like to see RDC substitute Law 8666 (*Estado de São Paulo*, June 28, 2011; Brazilian Senate 2014).

### Concessions and PPPs: Slow adoption, sustainable models

By the end of Rousseff's first term in 2014, Brazil's problem-solving efforts over time had developed one of the strongest institutional and regulatory frameworks for private investment of infrastructure in Latin America. Figure 6 shows the evolution of Brazil's composite score on the *Economist's* Infrascope Index, which measures a country's ability to mobilize private investment through concessions and PPPs. This index includes scores on regulatory and institutional framework, project experience and success, investment climate, and financial facilities. By 2014 Brazil ranked second only to Chile in Latin America (Economist 2014).

Figure 6: Institutional Framework for Private Investment in Infrastructure

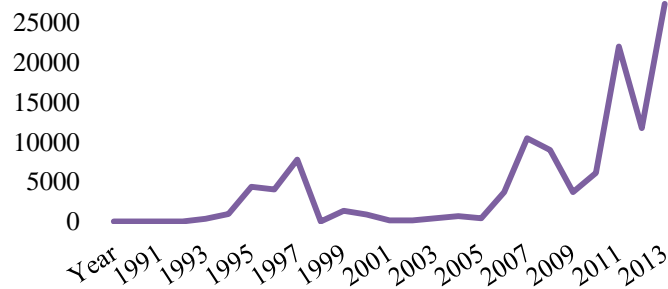


Source: *Infrascope (Economist 2014)*

Moreover, after nearly two decades of delays and, by many accounts, under-utilization of private investment during PAC, concessions and PPPs slowly but surely accounted for more and more of the transport sector during Rousseff's administration (see Figure 7). Today, Brazil's privatized road network is second only to China (World Bank 2013, 25).



Figure 7: Total Investment in Transport Concessions and PPPs (US\$ million)



Source: PPIAF-World Bank.

What accounts for this success? Similar to other patterns of reform presented in this chapter, the attempt to transform the transport sector resulted in seemingly endless delays and negotiations of major reforms. The slower pace and scale of radical changes, however, opened up space for problem-solving. For instance, the constant revisions from BNDES, the TCU and CGU, the judiciary, and Congress, forced the government to take a careful and limited approach and contributed to a good deal of institutional learning (Correia 2011, 283). Moreover, because many actors were involved in reforms, changes were less prone to reversals, and the relatively successful concessions meant that dramatic reforms were not necessary. Thus, when the government was constrained by DNIT and Law 8666, they considered concessions and PPPs a viable option.

The experience of Brazil stands in sharp contrast to Argentina. Whereas reforms in Argentina were rapidly pushed through, only to result in disappointing outcomes and a backlash, Brazil's halting reform process provided opportunities to learn from mistakes, to adjust the approach, and to build up the institutions necessary for a new model. Thus, as Argentina was abandoning the concession model, Brazil's use of concessions and PPPs was just gaining steam and procurement contracting procedures had improved dramatically as well.<sup>241</sup>

<sup>241</sup> *Valor Econômico* March 26, 2012.

This is not to say that the long task of building institutions is complete. Indeed, problems regarding private investment in infrastructure remain. Much remains to be done to strengthen regulatory agencies, especially those at the state level (Correa et al. 2006). And regulatory agencies have not been immune from political pressure of presidents appealing to their base (Amann et al. 2014).<sup>242</sup> Yet, problem-solving modifications sequenced over time have provided a way to make progress in reconstructing institutions.

## CONCLUSION

The preceding analysis demonstrated how political-organizational factors affect reform type. Expectations that Brazilian presidents will distribute bureaucratic positions meant that President Collor's attempt to impose reform intransigently would not be tolerated by the Brazilian political class and resulted in his impeachment. President Cardoso learned from Collor's failure that governing alone was not an option and, thus, returned to the inclusionary governing pattern. As a result, however, attempts at powering reforms were diluted, slowed, or halted entirely due to negotiation, compromise, and transaction with coalitional allies until they looked more like partial reforms. In his first term, President Lula da Silva sought to placate the PT's demand for executive positions by limiting the number of appointments allocated to allied parties; but as a result, Congress halted some of his signature policies, such as infrastructure projects. Consequently, Lula included a broader coalition in the executive in his second term.<sup>243</sup> In

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<sup>242</sup> On occasion, Presidents Lula and Rousseff have changed the regulatory model for new highway concessions, selecting winning bidders on the basis of those able to offer the lowest tolls rather than on the basis of track record or capacity to deliver (*O Globo*, 8 December 2013) (Amann et al. 2014, 23).

<sup>243</sup> Dilma—in large part because she reduced patronage in agencies such as transport and developed strong mechanisms to limit pork and monitor budget amendments by coalitional allies (such mechanisms are addressed in greater detail in the next chapter)—has faced increasing resistance from her coalitional partners in achieving her policy goals. This highlights the ever-present tension between advancing policy objectives and compensating coalitional allies.

all of these cases, the obstacles to concentrating power in small loyal teams close to the president tended to impede powering attempts from going forward.

Where powering did occur, it left negative and enduring repercussions. The transport planning agency (GEIPOT) and the highway agency (DNER) were nearly destroyed during Collor's powering attempt. This resulted in their politicization under Cardoso, and ultimately Congress's decision to abolish the agencies. Nearly all of the problems in the transport sector in Brazil today are in some way related to the weak capacity and autonomy of transportation agencies. Recent protests have erupted in Brazil over the quality of urban transport. Earlier in the 20<sup>th</sup> century GEIPOT planned and coordinated urban transport development with states and municipalities. Without a planning and coordination agency or even a forum for discussion, municipalities have been left to hash out the complex engineering designs, jurisdictional debates, and investment issues on their own. Despite efforts to rebuild GEIPOT and DNER, under their new names EPL and DNIT, reconstructing experience, expertise, and political autonomy is a long, arduous process.

The deleterious effects of the initial powering efforts were slowly ameliorated by problem-solving. The incremental stop-and-start process meant that complex problems divided into smaller steps. Instead of relying on comprehensive planning to get reforms right in one shot, policymakers were able to make a change, evaluate, adjust, and implement an improved approach. This was of crucial importance for designing concession contracts. The delays allowed policymakers to learn from experiences of earlier privatizations. It also meant that reforms were scrutinized by a diverse set of individuals, instead of likeminded reform teams prone to group think. This enhanced the transparency of the process and also meant that reforms were thoroughly assessed before implementation.

Second, the challenges of advancing changes in a context of coalitional presidentialism opened up space for technocrats. Because Brazilian executives needed to appoint coalitional allies to key ministries and agencies within the executive to ensure their support in Congress, they often conferred greater authority to technical experts. Under Cardoso, BNDES provided an antidote to coalitional allies' attempts to use privatization to their advantage. Lula turned to the Army in order to enhance capacity and to limit all-out thievery in DNIT. Finally, Rousseff turned over the top positions in transportation to a long-time civil servant and a general in order to reduce the politicization of these areas and to achieve her policy objectives. By contrast, Argentine executives have tended to rely on individuals who are both partisan loyalists to the executive and in some cases also technical experts. Brazilian presidents induced to distribute executive appointments among coalitional allies often use more neutral technical experts as a counterweight. Such technical experts and civil servants tend to have greater expertise and experience and thus wider bounds of rationality than their political counterparts. For all of these reasons, smaller-scale reforms phased in over time by experts within the state tend to be more effective.

Third, problem-solving tends to be more enduring. Imposition of overhauls breeds opposition, but modifications phased in gradually do not have the same effect. In Argentina, privatization was rapid and deep-cutting, transforming the entire model of service provision for infrastructure, but a decade later, reforms were reversed completely. By contrast, in Brazil concessions advanced slowly, accounting for a small percent of the network. Lula, who had long argued against privatization, could have overturned the model, but there was little reason to—concessions were working quite well. The absence of powering reforms in Brazil meant that a number of different models for addressing transportation needs were used simultaneously, assessed in their effects, and gradually

improved: Concessions started slowly and only accelerated under leftist presidents; PPPs were introduced and only applied years later, after experimenting and testing the model; DNIT and Law 8666 were slowly transformed and improved over time; and the Army was given a significant role in advancing infrastructure and rebuilding DNIT.

In the absence of dramatic overhauls, since Collor the transport sector has undergone a slow but marked transformation. Changes accumulated over time, and failed reforms resulted in new rounds of modifications. In this way, institutions in the transport sector in Brazil exhibited considerable dynamism. Much of the effort has necessarily been focused on recreating the capabilities of GEIPOT and DNER. While this has been a very slow process and there is still much more to be done,<sup>244</sup> problem-solving has provided an ongoing way to transform weak institutional environments and make improvements in state building.

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<sup>244</sup> The 1980s constituted a drought in terms of spending on infrastructure and the 1990s was not much better. The PAC program, starting in 2007 made an important contribution to infrastructure spending, but Brazil still remains far behind in this regard. In 2013 just 1.5 percent of Brazil's GDP went into infrastructure from both public and private sources (McKinsey Global Institute 2013), with a global average of 3.8 percent. The Economist estimated that to catch up, Brazil would have to triple its annual infrastructure spending for the next 20 years (Sep 28th 2013). Thus, Brazil has improved not only in terms of strengthening institutions, but also in terms of investing more in infrastructure.

## Chapter 7 Health in Brazil: Problem-Solving Success

The preceding chapter on transportation explained why most reforms in Brazil unfolded in increments and less precipitously but with greater success than those in Argentina. The analysis demonstrated that the development of entrenched patterns of executive power-sharing (coalitional presidentialism) shapes who is involved in the reform process and which type of reform will likely be selected. While President Collor's application of powering in transportation policy demonstrated that such an approach can be tried in Brazil, it was an anomaly: under normal conditions, the chapter showed how the multiplicity of veto players in the Brazilian context of coalitional presidentialism resulted in discussion, negotiation broke up grand plans for change, slowed the process, and afforded a greater role to insider experts. This resulted in judgments that were much closer to the mark because they relied on more solid information and had a greater capacity for processing. For all of these reasons, transportation reforms in Brazil illustrate the negative repercussions of powering, but showed that ensuing problem-solving gradually ameliorated the negative and enduring consequences of dramatic overhauls and achieved greater success than the powering approach in Argentina.

Health reforms in Brazil have proceeded even more gradually and with particularly high success. In the 1980s, health indicators in backward areas of Brazil fell far behind health indicators in other countries at a similar level of development (McGuire 2010). Health care coverage reached only a limited proportion of the population and was highly centralized, not extending to many areas in vast Brazil. Since the return of democracy, Brazil's healthcare system has been thoroughly reconfigured. It has undergone both universalization and municipalization. Remarkably, this radical transformation has *not* been accompanied by disjointed shifts, "Big Bangs," or critical

junctures. Indeed, the 1988 Constitution enshrined new health rights, but such changes built on a series of gradual changes that had been slowly transforming health in Brazil and began long before the democratic transition (Weyland 1996; Falletti 2010; cf. Kaufman and Nelson 2004). Such problem-solving changes by actors within the state continued and gradually transformed general principles of the 1988 Constitution into reality. This often occurred under the radar of political actors, but such quiet alterations accumulated over time into an irreversible sea-change (cf. Falletti 2010). Thus, while reforms in health were more gradual and developed more slowly than the reforms analyzed in other chapters on Brazil and Argentina, they have been more successful at achieving their goals and they have been *cumulatively transformative*.

To account for these slower changes and even higher achievement of goals, this chapter emphasizes continuity in the absence of powering, which extended the time-horizons of actors within the state for affecting change. A group of health professionals faced problems in the existing policy process and were able to reorient, inch-by-inch, existing policy. They built consensus in favor of transforming a system based on expensive, curative treatments into one based on preventative care. This process was marked by trial and error and learning from past mistakes. These smaller-scale changes, phased in over time, did not require the same tremendously complex comprehensive planning necessary for reforms in Argentina. Thus, reforms in the Brazilian health sector were less likely to run up against cognitive constraints. And when they did, when reform strategies failed or the changes themselves failed to produce expected outcomes, health officials were able to learn and correct their approach or the reforms. Moreover, reformers in health tended to back away from frontal, revolutionary changes that would incense opponents, and which carry substantial risk of reversal. Instead, the piecemeal approach had lower costs and better prospects for success.

The slow unfolding of this multifaceted process that spanned over twenty-five years and various levels of government consists of innumerable important problem-solving reforms. After providing a brief overview of such changes, I focus on one area in particular: transparency in government contracting. The Ministry of Health has the largest budget of all Brazilian ministries and spends far more in terms of procurement than any other sector, even though much of the contracting for health occurs at the state and municipal levels.<sup>245</sup> Moreover, the Ministry of Health, in the past, has been particularly vulnerable to corruption and pharmaceutical cartels. Thus, procurement is an important area for understanding the performance of the health sector.

After outlining the basic features of the gradual revolution in health this chapter moves to the analysis of procurement. The analysis of contracting intersects with many of the reform efforts highlighted in the previous chapter on transportation in Brazil and also demonstrates how gradual changes in one area of the federal administration expand to others and set in motion additional changes that accumulate over time, enhancing transparency and accountability. In addition, reform in health procurement illustrates two important advantages of problem-solving—its ability to engender learning and to safeguard bureaucratic autonomy. Next, the chapter highlights persistent challenges in health; while the changes over the last twenty years have been impressive and substantial, the challenges should not be understated—there is much to be done to improve health and transparency in Brazil. The section also highlights ongoing efforts to improve health care provision. The penultimate section compares health and transportation reforms in Brazil and draws broad comparisons with Argentina. A final section concludes.

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<sup>245</sup> Data from Siga Brazil and ComprasNet (2011).



## **GRADUAL BUT POWERFUL TRANSFORMATION OF HEALTH CARE IN BRAZIL**

### ***The 1988 Constitution: One step in a long reform process***

Prior to 1988, health care was centralized in the federal government, which contracted most services from the private sector. Coverage extended only to formal sector workers and tended to privilege curative treatment over preventative care, which left much of the population without access to basic health services. Health indicators reflected the miserable conditions for those without health care; in 1990, Brazil recorded the eighth highest infant mortality rate among 105 developing countries, controlling for GDP per capita (McGuire 2010, 151).

In this context, then, the 1988 Constitution would seem a watershed moment, a “big bang” for health in Brazil (cf. Kaufman and Nelson 2004). The document produced over almost two years by a constituent assembly, enshrined the right to health care for all citizens, created provisions of decentralization, and formally established the Brazilian Unified Health System (*Sistema Único de Saúde*, SUS).

Nevertheless, the 1988 Constitution was far from a powering reform. As scholars such as Tulia Falleti have emphasized, the seemingly radical changes were the culmination of a gradual reform process by actors that had “infiltrated” the state long before (2010). In particular, reform efforts that led up to the 1988 Constitution were largely led by a group of progressive health professionals, formed during the military dictatorship (1964-1985), known as the *Movimento Sanitário* (public health movement). The movement criticized the health care available to the rural and urban poor, considered health a universal human right, and objected to the excessive reliance of the health care system on curative as opposed to preventative medicine (Arretche 2005, 167; Weyland 1995, 1702). Beginning in the 1970s, many *sanitaristas* became civil servants or filled appointed positions in the bureaucracy, first at the state and local levels, then in the

federal government (Weyland 1995; 1996);<sup>246</sup> thus, “infiltrating” the state (Falleti 2010; Escorel 1999, 183, 189).

Using administrative rules and regulations the sanitarias continued the process of extension of legal entitlements and the provision of medical services to rural regions (Weyland 1995, 1703). While one might expect strong resistance from numerous vested interests, such change did not arouse significant opposition. Modifications and adjustments were gradual and continued a process of extension that had been under way for decades (Malloy 1979).

By the time the constituent assembly was convened the sanitarias had well-established networks and expertise after years of learning from trial and error. In a context of multiple veto players, this put them in a position to exercise strong influence, so that the codification and institutionalization of the practices they had perfected over the years of military rule were politically feasible. This is not to say that the constituent assembly debates over the fate of health care in Brazil were without political conflicts. Medical business’s opposition to many of the changes in the end resulted in removing provisions that would result in the gradual statization of health care (Weyland 1996, 168).

Nonetheless, the 1988 Constitution was an achievement for the sanitarias and included sweeping principles—the universal right to health care, in addition to the decentralization and unification of the public health system. While this was an important advance, many of these general principles were left vague in order to avoid additional conflict (Weyland 1996, 169). Moreover, authors highlight that the changes in the Constitution regarding the health sector “brought to light change that had been

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<sup>246</sup> The Sanitarian Movement was not really an interest group: it never acquired a mass base and exercised its influence more like an issue network within the state than as a pressure group operating mainly in civil society (McGuire 2010, 177).

percolating beneath the surface and been nurtured at the local level for more than a decade” (Falleti 2010, 58).

Thus, the 1988 Constitution was an important step, but only one step in the long process of transforming the health sector. Such changes did not imply an immediate overhaul and had no teeth without sustained support in the implementation process. That is, without enabling legislation and sustained, far-reaching institutional changes, the extension of health rights would mean little in practice. Such rights needed to be operationalized. Thus, there was every possibility that little would, in fact, change.

***From Failure to Progress: The Evolution of SUS (1990-2010)***

Indeed, at first it seemed that little would change in the provision of health care. By 1995 results were disappointing. Although there were attempts to push through sweeping changes that would create a unified and decentralized health care system, these were undermined by the diverse veto players, which included not only the welter of political parties, but also the private sector, institutions of horizontal accountability, states and municipalities, and the bureaucracies at all of these levels. Some states had received federal transfers that were to assist with their assumption of a greater role in the provision of health services, but such transfers were often used for other purposes. By the mid-1990s, actual change seemed negligible and scholars noted that “the movement achieved few improvements” (Weyland 1996; 1995, 1699). Brazil was also deemed a laggard reformer by the IFIs. In the 1990s, like Argentina, most countries adopted neoliberal health reforms. By strengthening the public system, Brazil moved in the opposite direction. Later in the 1990s, Brazil did negotiate a policy-based loan from the Inter-American Development Bank (IADB) and World Bank, but in the end, Brazil was given a rare “unsatisfactory” rating for its performance (Weyland 2006, 152-4).

Nonetheless, twenty years later, evaluations of health care report very different findings. The Brazilian Unified Health System (SUS) has been completely reoriented: access is free, coverage is universal, delivery is decentralized, and services are integrated. The private sector continues to exist and play a complementary role to SUS, but the capacity of the public system has expanded significantly. The number of health care facilities grew from 22,000 to 75,000 in 2009 (IBGE 2010; Gragnolati, Lindelow, and Couttolenc 2003, 2). Much of the expansion reflects the growing emphasis on primary care; the Family Health Strategy (ESF), which was based on pilot programs in Ceará and other states in the 1980s, played a central role in this expansion. Family health teams increased from 4,000 to more than 31,600 and are present in over 90 percent of Brazil's 5,565 municipalities, providing coverage especially to families in the lowest-income quintiles (Ministry of Health DAB 2011, Macinko 2011; Ministry of Health DATASUS data). This strategy, and the gradual reallocation of resources to primary care, has reduced the hospital-centric nature of the system and increased preventative care. In doing so, SUS has also reduced disparities across regions (Couttolenc 2011). Thus, since 1988 the transformation of health has made significant progress towards the initial objectives of the sanitarias.

Such developments have yielded clear results. From 1960 to 1990 infant mortality decline was much slower than GDP per capita growth predicted. This trend was reversed, however, from 1990 to 2005. During that time Brazil's infant mortality rate dropped very rapidly, despite slow economic growth. By 2005, infant mortality had fallen to the level predicted by Brazil's GDP per capita (McGuire 2010, 149). Recent World Bank reports confirm these findings. In terms of coverage of health interventions with a clearly defined target group, such as immunizations, antenatal care, and hospital deliveries, "Brazil is a

stellar performer, with nearly universal coverage and limited geographic disparities” (World Bank 2013, 6).

Another approach to assessing the contribution of the health system is to evaluate trends in avoidable mortality (i.e., deaths that could have been avoided with timely and effective health care). A number of studies of avoidable (or amenable) mortality in Brazil suggest that SUS has played an important role in improving outcomes; mortality from avoidable causes declined significantly, while mortality from other causes remained stable (World Bank 2013, 8-9; Malta et al. 2010; Abreu, Cesar, and Franca 2007; 2009).<sup>247</sup> Table 5 shows the change in health outcomes in Brazil along with comparable countries. Life expectancy has increased by 15.5 percent and infant mortality decreased by 71.3 percent. These advances far outpaced improvement in Latin America and other middle-income countries, and are very close to the best performing countries. In sum, a sea change has occurred in Brazilian health.

Thus, despite initially disappointing advances in health reform, Brazil went on to transform the health system, which yielded impressive results in a number of areas. Indeed, challenges remain, but before addressing persistent difficulties, the next section addresses factors that contributed to the reorientation of the health system.

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<sup>247</sup> In some cases mortality has increased. Socioeconomic changes in Brazil mean that first-world health problems such as noncommunicable diseases like heart disease and diabetes, are increasingly causes or contributors to mortality.

Table 5: Change in Health Outcomes in Brazil and Comparable Countries, 1985-2009 (percentage change)

Country or group of countries	Life expectancy	Infant mortality
Brazil	15.5	-71.3
Latin America and the Caribbean	7.1	-33.2
Middle-income countries	6.1	-28.5
China and India	11.1	-60.5
Best performers in group <sup>a</sup>	16.5	-76.3

Sources: IBGE 2004; Ministry of Health data (Ministry of Health, SVS 2011); World Bank 2011; World Bank 2013, 82.

<sup>a</sup> Best performers are Peru in life expectancy and Turkey in infant mortality.

### ***Factors Contributing to Advances***

Why were reforms successful? How did reformers achieve complex transformations such as universalization and decentralization given all of the vested interests in the existing system? Given that the changes spanned decades, what sustained the reforms? How was it possible to develop a unified system given the lack of political will? Two characteristics of the reform process were crucial: First, the scale and speed of reform, and second, the collective characteristics of the reformers. I'll address each of these factors in turn.

Small-scale changes advanced over time, meaning that there was no need to comprehensively plan the whole reform at once. While many actors within the state were guided by broad goals such as basic health care for all, they did not propose a specific model and they did not attempt to make comprehensive changes in one shot. Instead their reform tactics were flexible and they adapted their approach along the way. The core ideal espoused by sanitarias and other groups was shifting the emphasis of health care from curative to preventative care. The specific means to this end evolved over time.

For instance, initially sanitarias expected that municipalization—that is, bringing care closer to patients—would result in greater levels of accountability and better care. Yet, as reformers realized that rent-seeking political leaders at the local level were a threat to their hopes regarding quality care and as more sanitarias entered the federal government, they began to favor making funding at the municipal level conditional on fulfilling requirements. As they observed consequences of greater autonomy at the local level, reform groups initially opposed to centralized rules that reduced municipalities' discretion began to support the ability of the Ministry of Health to influence local policy (Barros 2001; Carvalho 2001). Similarly, as reformers discovered that smaller municipalities did not have the personnel or resources to effectively manage hospitals, sanitarias began to advocate a shift to greater regional coordination.<sup>248</sup> The inability of experts, such as many of the well-educated sanitarias, to foresee such problems in their initial reform objectives, illustrates that even specialists are cognitively constrained.

Yet, sequencing of adjustments made learning possible. Trial and error is a much more forgiving approach than shooting what one hopes is a magic bullet. It was precisely the more experimental approach that gave rise to one of Brazil's widely admired initiatives, *Programa Saúde da Família* (Family Health Program, PSF). This program was designed to deliver basic health services to the poor in all parts of the country and served as a gateway for the health care system. From 1994 onward, the program expanded with a series of successive reforms, which increased funding for basic

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<sup>248</sup> Author interview with Dr. Luciana Mendes, health coordinator, Institute of Applied Economic Research, January 26, 2012.

preventative care (Weyland 2006, 175; Hunter and Borges Sugiyama 2009). Such reform successes often cascaded from one area of health policy to another.<sup>249</sup>

Second, the characteristics of reformers were also crucial for shaping success of Brazil's health reform. The sanitaria movement was made up of many academics and a variety of other individuals, many of whom possessed high levels of education. Certainly, this was important for their efforts. Yet, in interviews with sanitarias many of them recounted the importance of experience—their previous positions in local, state, and federal government. Successes and failures over time provided the fodder for not only their contribution to the Constitution of 1988, but also for a wide variety of other piecemeal changes.<sup>250</sup>

Reform strategies were shaped by not only individual experience, but also by the collective interaction of the reformers. The sanitarias did not have a monolithic approach or a singular set of objectives. They had a few core principles, but there was substantial divergence on even basic ideals. Most wished to see a shift from curative to preventative care, but what that meant and what level of government should provide it varied dramatically.<sup>251</sup> While the different objectives and experiences of reformers often further slowed and complicated reform efforts, it also meant that sanitarias were induced to explain and defend their proposals to those who disagreed, which contributed to cross-checking reforms and refinements.

Moreover, the diversity in the health sector seemed to grow over time. New groups developed. For instance in early 1990s the Primary Care Movement, a loose

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<sup>249</sup> Author interview with Mendes.

<sup>250</sup> Author interviews with Dr. Jovita José Rosa, Diretora da Secretaria Executiva do Movimento de Combate a Corrupcao Eleitoral (played a central role in negotiating ficha limpa law), auditor for Ministry of Health DENASUS, President for the National Union of Health Auditors (UNASUS), January 16, 2012; Sanitaria and high-level Ministry of Health official, December 5, 2011.

<sup>251</sup> Author interview with Sanitaria and high-level Ministry of Health official, December 5, 2011.



alliance made up of a large contingent of nurses, emerged.<sup>252</sup> The Sanitarista Movement itself began to further splinter and no longer held unified objectives (Arretche 2004, 185).<sup>253</sup> Such groups were also prompted to subject their proposals to the scrutiny of an even more diverse set of actors. For example, the Minister of Health under Cardoso, José Serra, was an economist by training. Reform proposals, then, were cross-checked and vetted by a diverse group of individuals, and, thus, were less prone to “groupthink.” In all of these ways, the bounds of rationality were looser for reformers with expertise and experience and who were induced to negotiate and compromise.

By including a wide array of approaches in the reform process, concessions were often made to opponents, but this also had salutary effects on the reform process in the long run. Instead of foisting responsibility for health services onto municipalities, local governments were provided a range of options for assuming responsibility for changes. It took over a decade, but by 2001 all Brazilian municipalities had qualified for the federal health care decentralization program, although they had the autonomy to reject the increased responsibility (Arretche 2004, 179). Along the way numerous changes were made to ensure that reforms were palatable to points of resistance. For instance, increases in the amount of revenue states, municipalities, and federal government are obliged to spend have been gradually phased in (Piola and Biasoto 2001). Such strategies often diluted or slowed change, but it also meant that they were politically feasible and less subject to reversal later on. By seeking allies, developing networks, and building reform coalitions, change could be advanced down the road when resistance subsided. Longer

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<sup>252</sup> This group played an important role in persuading the Ministry of Health in 1991 to scale up to the national level the Health Agents Program in Ceará, which had been developed in 1987 (Tendler; McGuire 2010, 162; Weyland 2006, 174-5, 207-209). As a result the national Community Health Agents Program (PACS) was created and later became a part of the Family Health Program (PSF).

<sup>253</sup> Author interview with Sanitarista and high-level Ministry of Health official, December 5, 2011; Dr. Roberto Nogueira, IPEA health expert, January 10, 2012.

time horizons meant that failure to immediately reform generated learning and new tactics to advance change down the line.

In sum, these two factors—smaller-scale change sequenced over time and characteristics of the decision makers—allowed reformers to experiment, learn, adjust, and ultimately perfect reforms over time. Moreover, by advancing modifications inch by inch and negotiating the more substantial changes, reformers made improvements more sustainable. This section provided a broad overview of the transformation of the Brazilian health sector, which was the product of hundreds of different reforms in a variety of areas and at different levels of government. The next section analyzes the unfolding changes in one area of the health sector: public procurement.

#### **A SLOW BUT SUSTAINED EXPANSION OF TRANSPARENCY IN PROCUREMENT**

Despite the incremental advance of health reforms in the 1990s, powerful political and economic interests remained entrenched in the health sector and in public procurement in particular. Although spending on health services was slowly decentralized, the Ministry of Health remained responsible for much of the spending on pharmaceuticals for SUS. As was the case in Argentina, it was well known among many experts that pharmaceutical cartel behavior was the norm and was responsible for siphoning millions off public health coffers.<sup>254</sup>

Moreover, although there are strong civil service protections in Brazil, they do not extend to procurement officials.<sup>255</sup> The pay is low, the work undesirable (Motta 2010). Thus, those responsible for maintaining integrity in the government contract bidding

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<sup>254</sup> Author interview with Dr. Jovita José Rosa, Diretora da Secretaria Executiva do Movimento de Combate a Corrupcao Eleitoral (Movement responsible for ficha limpa law), auditor for Ministry of Health DENASUS, President for the National Union of Health Auditors (UNASUS), January 16, 2012.

<sup>255</sup> There are no careers or specific tenure protections for the approximately 20,000 procurement employees (Motta 2010).

processes were often appointed based on a political logic and strategically positioned in the health contracting unit to divert health resources.<sup>256</sup> Those that were meritocratically selected often lacked training or the autonomy to hold contractors accountable.<sup>257</sup>

Such problems were only exacerbated by the procurement Law 8666 passed in 1993.<sup>258</sup> The law proved tremendously time-consuming and costly for simple goods and services. Purchasing basic pharmaceutical products often took well over six months and could stretch on for years, which was common when the process ended up in court. Given the bottleneck in obtaining medications, surgical supplies, or hospital beds, for example, “emergency” procedures were used excessively in bypassing these delays. Instead of requiring competitive bids, emergency procedures allow government officials to buy from the supplier of their choosing and with no limit on price. In cases of true emergency this is justified. However, officials estimate that emergency contracts in some agencies were used for well over 70 percent of contracts in 1997,<sup>259</sup> opening the door to corruption and contracts that privileged cronies and, in particular, the strong pharmaceutical lobby.

As Chapter 7 demonstrated, when President Fernando Henrique Cardoso and his Minister of State Reform Bresser-Pereira attempted to push through comprehensive corrective legislation between 1995 and 1998, it was precisely the corrupt interests which defended Law 8666 and prevented passage. Yet, another set of reforms did go on to

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<sup>256</sup> Author interview with Dr. Rosa.

<sup>257</sup> In contrast to the meritocratic recruitment and job security enjoyed by many Brazilian public employees, there are no careers or specific tenure protections for the approximately 20,000 procurement employees. In (cf. Motta 2010). Author interview with Francisco Gaetani, former Deputy Executive Secretary at the Ministry of Planning (2003-2011), February 24, 2012. The situation is not much better at the policy-making level: Supervisory procurement positions in federal ministries are filled by the lowest-ranking non-clerical political appointees. And while supervisory appointees and the staff of the small contracting policy and technology department (DLSG) enjoy higher salaries, none of the positions are specifically reserved for civil servants (Motta 2010, 144-148).

<sup>258</sup> As Chapter 6 discussed, the rigid procurement rules tilted the legal framework in favor of construction companies that bid on public works contracts.

<sup>259</sup> Author interview with Marcos Ozorio de Almeida, World Bank Consultant and SERPRO, August 7, 2009.

transform procurement and transparency not only for the health sector, but also for the rest of the Brazilian government.

The following case demonstrates how a seemingly small change led to the gradual introduction of a new system, *pregão*, which set in motion other changes that accumulated over time, enhancing transparency and accountability in government contracting and health in particular. As the analysis below will explain, *pregão* is a simple online reverse auction; in an auction, the highest bidder wins, but in the “reverse” auction the lowest bidder wins the contract.

### **Pregão: Crafted Under the Radar**

In contrast to highly political attempts at change, the problem-solving *pregão* reforms that went on to transform transparency and procurement in the health sector were developed by a small team of technical professionals in the little-known Department of Logistics and General Services (DLSG) within the Ministry of Planning, Budget, and Management. In 1999, at the beginning of the second Cardoso administration, executives decided against the powering approach that had failed to reform procurement in the first administration; the political appointees who were supporters of comprehensive change left the administration. Instead, Elisabeth Braga, a low-profile career civil servant from the Ministry of Finance, was appointed to lead the contracting policy and technology department and a few of the technical members from the prior team were appointed to join her in the DLSG (Fernandes 2010, 176). It was, according to these team members, precisely the absence of political interest in reforming procurement and their technical acumen that allowed them to remain in positions related to procurement policy.<sup>260</sup> Indeed,

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<sup>260</sup> Author interview with Carlos Moreira, former Director of DLSG (2004-2010), January 23, 2012. None of the positions in DLSG are specifically reserved for civil servants (Motta 2010, 144-148). Thus, the effective protections which guarantee meritocratic recruitment for much of the Brazilian federal administration do not extend to the *pregão* case.

these professionals had learned from past reforms and their experience in other ministries that sweeping change was neither desirable nor feasible; most knew firsthand how the well-intended 1993 reform resulted in furthering corrupt practices. Therefore, they did not have a clear reform program in mind but sought simply to improve the existing situation and resolve some of the problems created by Law 8666.

The problem-solving solution for procurement reform did not emerge from an extensive, systematic evaluation of all possible alternatives, but from an existing alternative familiar to the team: the *pregão* contracting experiment in the newly created National Telecommunications Agency (ANATEL)—itself an example of a successful problem-solving reform (cf. Monteiro 2005). In 1997, an exception to Law 8666 was created for ANATEL that resulted in the use of the *pregão* online reverse auction, which increased efficiency and transparency in contracting while reducing costs. Braga’s team began exploring possibilities for piloting *pregão* in other areas of the Brazilian federal administration, with the hope that such a change would provide a way around Law 8666.<sup>261</sup>

Interviews with key decision makers suggested they intentionally employed a number of tactics to keep the *pregão* reform incremental and to remain under the radar of political actors and construction companies.<sup>262</sup> Braga’s team began drafting a *medida provisória* (provisional measure), an executive decree with legislative force which would extend applicability of the ANATEL law to other areas and agencies, but that was strategically limited in three important ways. First, the change was not mandatory. *Pregão* would be one of many modalities that contracting officers could use to procure goods and

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<sup>261</sup> Author interview with Elisabeth Braga, former Director of DLSG (2000-2004), May 18, 2012.

<sup>262</sup> Author interviews with Braga; Vera Monteiro, legal consultant for *pregão* legislation from Sundfeld Law Office, November 27, 2011.

services. Therefore, despite the adoption of *pregão*, opaque areas of the Brazilian federal administration could continue reaping their ill-gotten gains from the use of emergency contracts and other loopholes. Second, public works were excluded from the measure. In Brazil, large construction firms (*empreiteiras*) that benefit from public works projects are known for their contributions to political campaigns through off-the-books accounts (*caixa dois*). According to Vera Monteiro, one of the drafters of the law, the exclusion of public works was crucial for the measure's survival against the powerful construction company representatives in the legislature who would halt any public-works-related change to Law 8666.<sup>263</sup> Finally, while the provisional measure would initially have the force of law, it would later require the Legislature's approval.<sup>264</sup> In these ways, the team started small, hoping that with time, perceptions regarding the reform would change in their favor.

Timing was also crucial. Braga and her team presented the *pregão* modification to Minister of Planning Martus Tavares, who in turn presented it to President Cardoso just as the high-profile Fiscal Responsibility Bill (FRL) was put on his desk.<sup>265</sup> Would-be opponents of *pregão* were focused on the FRL, the culmination of incremental changes aimed at stemming the financial drain caused by state governments' spending and at stabilizing the Brazilian economy (Schneider 2007). This important bill overshadowed the *pregão* proposal, which seemed, by contrast, a harmless technical modification. Both the FRL and the provisional measure were passed on May 4, 2000 (Medida Provisória n. 2.026 of May 4, 2000). One might wonder: Could high-level decision makers, such as the minister, really not have understood the important *pregão* change? In an interview, I

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<sup>263</sup> Author interview with Monteiro.

<sup>264</sup> For an explanation of provisional measures see Pereira, Power, and Rennó (2008, 14).

<sup>265</sup> Author Interview with Braga.

asked Minister Tavares about the *pregão* policy, expecting that he, known for his technical acumen, would recall its passage.<sup>266</sup> Tavares was familiar with the results of *pregão*, but had little recollection of the details of its approval; his efforts at the time were focused on the FRL.

In sum, the *pregão* initiative was developed by technocrats in response to the day-to-day problems created by Law 8666. Learning from past failure was essential to their strategy, which at every turn was incremental and designed to remain outside the attention of potential opposition. One might argue that this seemingly small change was simply not an important reform, but, as the next section demonstrates, the new procedure proved both effective and enduring. Once begun, *pregão*'s dissemination was difficult to halt; with increased information, the new form of bidding spread and revealed the need for additional reforms.

### **An Incremental and Sustained Sequence of Reform**

By 2002, when the provisional measure was brought before the legislature for approval as a permanent law (Monteiro 2010, 36–49), the advantages of *pregão* were undeniable. Numerous federal agencies had adopted the optional procedure in order to speed up the contracting process. Procurement processes for simple goods and services that once dragged on for months could be completed in fewer than 15 working days (Almeida 2006, 507). These agencies also demonstrated that *pregão* reduced costs considerably—the Inter-American Development Bank estimates a reduction of up to 24 percent in product acquisition costs (IADB 2009, 20)—and provided other benefits, including increased transparency, a reduction in emergency contracts by approximately 20 percent (Almeida 2006, 507–9), increased competition, and the elimination of

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<sup>266</sup> Author interview with Martus Tavares, former Minister of Planning (1999-2002), May 28, 2012.

intermediaries and geographic limitations on participation by making the process available nationwide via the Web (Joia 2002). Years earlier any permanent change to Law 8666 would have seemed impossible; however, as the new method became entrenched, proven results made the reform difficult to reverse and, as the next sections show, the reform process was sustained over time despite presidential turnover.

As use of *pregão* spread during President Lula da Silva's first term, pressure increased to use the new approach. And as information accumulated, public servants discovered additional areas that could benefit from such reforms. In 2004, the use of *pregão* resulted in the break-up of the "Vampire Mafia," a group of pharmaceutical companies, lobbyists, and Ministry of Health employees who had been manipulating bidding processes since the early 1990s. Auditing officials had long suspected a corruption ring in the Ministry of Health; therefore, after encountering irregularities in a bidding process for hemoderivatives, blood products (hence the "Vampire" Mafia) used to treat hemophilia, AIDS, and cancer, the external oversight agency (TCU) mandated a new, *pregão* bidding process for hemoderivatives.<sup>267</sup> The online bidding process, wherein all participants are anonymous and compete for the lowest bid, challenged the existing arrangement; prices dropped by 42 percent.<sup>268</sup> The *pregão* system facilitated the entry of other bidders, pushed companies to compete, and reduced opportunities for public officials to rig the process. After the initial *pregão* bids, the Federal Police and the public prosecutors of the *Ministério Público* began an investigation that in 2004 resulted in "Operation Vampire;" 17 people were arrested, of whom six were government officials,

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<sup>267</sup> Author interviews with Dr. Jovita José Rosa, Auditor for Ministry of Health DENASUS, President for the National Union of Health Auditors (UNASUS), January 16, 2012; Senior TCU official, January 20, 2012.

<sup>268</sup> *Folha de São Paulo*, May 20, 2004.



including high-ranking Ministry of Health employees. Officials estimated that the Vampire Mafia drained US\$40 million from public coffers from 1997 to 2004.<sup>269</sup>

This episode triggered two important spillover effects. First, Brazilian states—which were also affected by the Vampire Mafia—began adopting *pregão* for hemoderivatives (and later for other goods and services). The states and municipalities had access to federal online *pregão* systems as early as 2002, yet only after the shocking price reductions did they begin to use them.<sup>270</sup>

Second, the adoption of *pregão* revealed the need for additional reforms. The Vampire episode uncovered a major loophole used to direct contracts to cronies: Pharmaceutical products were often listed by brand, not generic, name (e.g., “Aspirin” instead of “acetylsalicylic acid”), which effectively reduced the number of potential suppliers, facilitating collusion among remaining bidders. Shortly after Operation Vampire, the Ministry of Planning discovered that this problem resulted from improper coding in the Catalog of Materials (CATMAT). The group responsible for coding medications had no expertise in medical terminology; therefore, they did not know that they should code for “acetylsalicylic acid” when given a request for “Aspirin.” In 2004, CATMAT coding of medical products was transferred to a team in the Ministry of Health (CGU 2005). Many experts claim that, in the end, this was one of the most important advancements in eradicating corruption.<sup>271</sup>

In sum, as the use of *pregão* increased information regarding malfeasance and compliance, it revealed the need for the extension of *pregão* and for additional changes,

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<sup>269</sup> *Folha de São Paulo*, May 20, 2004.

<sup>270</sup> Author interview with Adriana Pacheco Aures, consultant, Ministry of Health and Institution for Applied Economic Research, January 25, 2012.

<sup>271</sup> Author interviews with Mariana Ramos, Ministry of Health, March 23, 2012; Adriana Pacheco Aures, consultant, Ministry of Health and Institution for Applied Economic Research, January 25, 2012; Servo.

triggering a cascade of reforms. If the powerful drug companies had been aware of *pregão* and its potential, they perhaps would have opposed the modification from the beginning. However, at the time of the initial reform, it was impossible to forecast the sequence of events that would result in Operation Vampire, demonstrating a key reason why the *pregão* reform was successful: It caught potential opponents unaware.

Meanwhile, as use of *pregão* in other ministries and agencies advanced, producing impressive results, public servants within the Ministry of Planning and the TCU watched for the right moment to make *pregão* mandatory.<sup>272</sup> Pressure to use the new method increased over time as contracting officials and middle-level managers realized *pregão* offered autonomy from outside influences by increasing transparency in the process. Yet, not all applied—or perhaps were allowed to apply—the new approach. Predictably, agencies with the highest levels of corruption were the last to adopt the method. Eventually, non-adopters appeared corrupt (cf. Hyde 2011). This was no surprise to the TCU, and it became clear that some areas of the government refused to use the new method precisely because it would clean up contracting offices that had established relationships of kickbacks, bribes, and campaign contributions. Thus, by the time another contracting scandal hit in 2005 in the Brazilian Post Office (the initial stages of the *Mensalão* Scandal, a corruption scandal that involved the highest levels of President Lula da Silva’s administration), the Ministry of Planning and the TCU had a law regulating *pregão* already drafted.<sup>273</sup> President Lula da Silva signed it, making *pregão* the preferred method of contracting, not only for the federal government but for states and municipalities using funds from voluntary federal transfers (Decree No. 5504 of August 5, 2005).

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<sup>272</sup> Author interview with senior TCU official, January 20, 2012.

<sup>273</sup> *Ibid.*

As Chapter 6 showed, the reform efforts in procurement continued to expand, finally reaching public works contracts that also have far-reaching implications for health. (e.g., hospital construction falls under public works.) In 2011, under President Dilma Rousseff, a new law, the Differential Contracting Regime (RDC), created the option to apply some of the concepts of *pregão* to public works projects, but related *only* to the World Cup and Olympics and *only* when “convenient” (Rosilho 2013a). Yet, RDC has already been extended to public works projects for health (SUS) in addition to a number of other areas. All of this would have been unthinkable in 2000, but the quiet, gradual changes spearheaded by civil servants have slowly transformed the rigid procedures and eroded resistance to change.

### **Experiential Learning, Sophisticated Experts, New and Complex Reforms**

As the *pregão* team learned from prior experiences what was feasible and how to sequence changes, their tactics became more sophisticated and they took on new and complex areas. One of the areas that reformers in both the Ministries of Planning and Health sought to conquer with their quest for transparency was federal transfers to states and municipalities.<sup>274</sup> A considerable amount of federal funds transferred through agreements to states and municipalities or to private, non-profit, non-governmental organizations through transfer of contracts never reached their intended recipient or purpose (TCU 2014). Such opaque transfers, often initiated via budget amendments linked to a specific congressperson (*emendas parlamentares*), were increasingly used as a loophole to divert funds as transparency increased at the federal level.<sup>275</sup>

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<sup>274</sup> Interview with Moreira. In Portuguese, such transfers are known as *convênios e contratos de repasse*.

<sup>275</sup> There are nearly 40,000 municipal partnerships. While the amount of money transferred is often small the sheer quantity of transfers means that a significant amount of public funds are diverted (AGN 2010). Author interview with a senior TCU official.

In 2003, the same team that developed *pregão* and extended transparency to procurement in general, now under the leadership of one of its long-time members, Henrique Moreira, began a project that sought to slowly bring federal transfers under the same transparency regime as other areas of the federal government. After discussions with the TCU, Moreira and his team began developing what came to be known as SICONV, a system that would track federal transfers from their originators in Congress to their final recipients. The development of the new system simply extended the model used for *pregão* to a new, more complex area.

The team had weaved together a coalition of government officials who supported the effort and they initially drew little attention. But as their work became more widely known, resistance emerged. According to Moreira, the experience was like the Battle of the Alamo; they maintained the support of a few key Ministry of Planning officials, but they sustained attacks from all sides, including deputies and senators, the Ministry of Planning, and the other line ministries.<sup>276</sup>

The siege subsided, however, as another corruption scandal broke as a result of a Federal Police investigation, code-named Operation Bloodsucker (or “leech,” *sanguessuga*), which uncovered fraudulent purchase of ambulances using federal transfers. The investigation that followed found that congressional aides had been bribed to write individual budget amendments financing the purchase of ambulances with Health Ministry funds, and then bidding processes were rigged at the local level. A Congressional Investigation (CPI) recommended that seventy-two members of Congress be expelled (*cassação*) (Praça 2011).

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<sup>276</sup> Author interview with Moreira.

Thereafter the TCU officials, who had been in touch with Moreira's team all along, issued a ruling mandating that the Ministry of Planning within 180 days present a technical study for the implementation of an information technology system that would allow online monitoring of all agreements and other legal instruments used to transfer federal funds to other agencies/organizations, federal agencies, and the private sector (Acórdão 2066/2006). Essentially, the TCU mandated that the Ministry of Planning develop the system that Moreira had told them 3 years earlier was necessary to track such expenditures.

Following the ruling, the reach of SICONV continued to expand (TC 012.075/2014-0), and is now obligatory for most federal transfers.<sup>277</sup> Especially in the area of health, it has reduced the opacity of the tremendous amount of funds that flow from the federal governments to the states,<sup>278</sup> and has become a rich source of data for the audit bodies, journalists, and citizens.<sup>279</sup>

### **The Virtuous Circle of Problem-solving**

Advancing modest changes and allowing career administrators to spearhead them increases the likelihood of making progress in institution building in a number of ways. First, problem-solving reforms tend to de-emphasize political struggles; for instance, in the case of *pregão*, decision makers intentionally avoided reforming public works contracts head-on. Instead, they emphasize technical expertise (cf. Dargent 2011). Second, if the problem-solving process is successful, then the need for wholesale reform is less dire, reducing the impulse to start over from scratch. For example, during the turnover between Presidents Cardoso and Lula da Silva, there was no attempt at

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<sup>277</sup> *O Globo*, November 12, 2011.

<sup>278</sup> Author interviews with Ramos; Orlando.

<sup>279</sup> Author interview with Toledo; Author interview with Roberto Maltchik, *O Globo* (top reporter on corruption scandals for *Globo*), October 10, 2011.

comprehensive procurement reform; *pregão* reforms slowly ameliorated the situation. This also had implications for personnel decisions: During the turnover, Alexandre Motta replaced Braga, but the rest of the skilled technical team remained in place at Motta's request.<sup>280</sup> The same situation applied when Henrique Moreira assumed the role. The Braga team's efforts were intentionally non-political; they did not clearly serve one political side or another and they were effective. Thus, there was little incentive to attempt a completely new reform strategy or replace the team. This made learning possible. The team learned from prior reforms what was feasible and how to sequence changes, transforming existing employees into reform experts. With increased knowledge of the game, experts became more sophisticated, eventually taking on new and complex areas such as federal transfers to states and municipalities. In this way, problem-solving also allowed bureaucratic autonomy and capacity to build over time.

By providing opportunities for learning over time, improvements in one area often reveal underlying problems in another (e.g., use of *pregão* revealed needed reforms in CATMAT). Such problem-solving changes are important for identifying areas of improvement and preserving autonomy. Brazil has strong civil service norms, yet improvements in the CATMAT coders' capacity happened only after *pregão* exposed the problem. And incremental problem-solving changes have, over the long run, enhanced the autonomy of procurement staff and increased efforts to provide them with training: Motta long argued that *pregão* was not the solution to all procurement problems and now, as the Director of the School of the Ministry of Finance, he spearheads training in this area.<sup>281</sup>

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<sup>280</sup> Interview with Alexandre Motta, former Director of DLSG (2003-2004), December 22, 2011.

<sup>281</sup> Author interview with Motta.

The problem-solving strategy has also contributed to preserving bureaucratic autonomy in a broader sense. Brazil has strong civil service norms today (Echebarría and Cortázar 2007). Nonetheless, twenty-five years ago this was not ensured. Members of the elite team of governmental administrators, who have been in the state since the return of democracy, recount in interviews that the impressive level of meritocratic recruitment and adherence to civil service guarantees in Brazil was not a given. Such advances, were constructed and won slowly, the result of a long problem-solving process.<sup>282</sup> Sanitaristas have also worked to improve the quality of health professionals and to reduce the amount of staff on short-term contracts,<sup>283</sup> just as the Transparency Movement has sought to improve competitive exams to select only the highest quality candidates who have a zeal for safeguarding state resources from corruption.<sup>284</sup>

Indeed, Argentina at the dawn of democracy also developed an elite corps of civil servants,<sup>285</sup> in addition to guarantees of meritocratic recruitment.<sup>286</sup> Yet, radical restructuring halted many of these programs and disrupted the slow process of building up civil service norms and guarantees. Complete overhauls of programs tend to interrupt small but cumulatively substantial transformations.

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<sup>282</sup> Author interview with Aldino Graef, Assessor especial da Subchefia de Análise e Acompanhamento de Políticas Governamentais da Casa Civil da Presidência da República; Especialista em Políticas Públicas e Gestão Governamental (1993-present), December 5, 2011; Dr. Luiz Alberto dos Santos, Subchefe de Análise e Acompanhamento de Políticas Governamentais da Casa Civil da Presidência da República and EPPGG, December 8, 2011.

<sup>283</sup> Author interviews with Mendes; Pacheco Aurea.

<sup>284</sup> Author interviews with Gaetani; Dr. Rommel Carvalho, Data Scientist, CGU, April 19, 2012; André Luiz Furtado Pacheco, Auditor, Secretaria de Fiscalização de Tecnologia da Informação (Sefti), TCU, Brasilia, August 6, 2009.

<sup>285</sup> Known as the *Administradores Gubernamentales* (governmental administrators). Author interview with Hugo Dalbosco, Ministry of Economy, Civil Service Secretariat, Argentina, November 6, 2012.

<sup>286</sup> Author interviews with Guillermo Schweinheim, Director of Training and Development, Tribunal de Cuentas de la Nación, Argentina (1984-1992), August 22, 2012.

## PERSISTENT PROBLEMS

This is not to say that problem-solving is perfect. Certainly, *pregão* is not a panacea for contracting corruption.<sup>287</sup> While there have been major advances in transparency, progress at the state and municipal levels is very uneven, especially in a country of continental size with high levels of inequality.<sup>288</sup> Moreover, much remains to be done to improve the Brazilian health system. Basic health care has improved, but a shortage of doctors for extending basic health care to remote areas remains a challenge. Citizens have access to public hospitals, but the quality of care varies tremendously (e.g., many municipalities are too small to operate hospitals effectively and to provide necessary funds to ensure quality care).<sup>289</sup> Brazil has successfully decentralized and brought care closer to citizens, but the coordination across autonomous levels of government has blurred defined roles and responsibilities. Finally, civil servant protections are strong for many health workers, but state and local governments have increasingly augmented the health care workforce with short-term contracted employees, which often results in problems with continuity and quality.<sup>290</sup> Indeed, many obstacles remain to providing quality health care for all.

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<sup>287</sup> Author interview with Dr. Florencia Ferrer, President, e-Stratégia Pública, November 20, 2011.

<sup>288</sup> A Brazilian NGO, *Contas Abertas*, conducted a comprehensive assessment of financial transparency at various levels of government. While the federal and many state governments ranked quite high, others ranked very poorly, providing only data at the most aggregate level. Author interviews with Gil Castello Branco; Eduardo Cunha (no relation to the current President of the Chamber of Deputies of Brazil of the same name), Senior executive and leader of Accenture's Global Service Strategy and Operations group in Latin America and formerly responsible for supply chain management in Brazil, July 18, 2009; Author interview with Roberta Clemente, Assessor Técnico. Assembleia Legislativa do Estado de Sao Paulo, September 24, 2011.

<sup>289</sup> In states, such as Amazonas, interviewees suggest that pharmaceutical cartels still have a strong hold on the market for certain products. Interview with Ferrer.

<sup>290</sup> Author interviews with Gaetani; Adriana Pacheco Aurea, consultant, Ministry of Health and Institution for Applied Economic Research, January 25, 2012. ]



## OPPORTUNITIES FOR CHANGE

Nonetheless, problem-solving provides a way forward, solving seemingly intractable problems bit by bit. For example, the extension of transparency continues. In an interview with the lead Senate Budget Consultant in 2012, Orlando Neto, the ambitions of the transparency movement were outlined clearly. Neto developed the web platform, Siga Brasil, where users can access the full budget down to specific amendments and line items, in addition to information on public revenues and expenditures shortly after execution (including pregão and federal transfer data)—another example of successful problem-solving. In the interview, Neto drew a detailed map of financial data in Brazil on a giant white board to show exactly what his team has gained access to and areas they are working to bring into their database universe. State enterprises (e.g., Petrobras) and BNDES, for instance, remained out of their control.<sup>291</sup> Access to federal transfers had expanded information on states and municipalities, as had legislation that phased in requirements for municipalities of increasingly smaller sizes to make data accessible. Yet, the team had gained access to most of the information over time by working with states, municipalities, and a vast network of individuals within the federal government who share the goal of expanding transparency. Such networks developed over time and have been crucial to the quiet efforts of the elite team of budget consultants.<sup>292</sup>

Regarding health, experimentation continues, especially at the state and regional levels. To address the shortage of medical professionals, the government has piloted

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<sup>291</sup> Given the recent corruption scandals around Petrobras, this is likely to change.

<sup>292</sup> They are among the highest paid civil servants in the country. After each competitive exam to enter the civil service, the lead consultant, who wins his position through an election of the other consultants (Orlando Neto has been in this position for over 15 years), selects the candidates he would like on his team. Since it is one of the most coveted positions, the team usually gets who they would like, the pick of the litter.

programs that allow foreign doctors to serve in remote areas.<sup>293</sup> Moreover, members from the National Health Council (CNS) have started to discuss the development of small pilot programs to train physician assistants and nurse practitioners to extend services to these areas.<sup>294</sup> In recent years, the Ministry of Health has initiated dialogue with the judiciary regarding the effects of their rulings on public policy, in addition to improving the systems and procedures for incorporating new technologies (Gragnotati 2013, 4).<sup>295</sup> The debate over judicial decisions regarding health is also present in Congress (Piola et al. 2012, 152-158). Moreover, experiments with more effective and efficient ways to deliver health care have proliferated throughout the country.<sup>296</sup> For example, in Bahia, public-private partnerships have been used to develop and manage hospitals, and in São Paulo, the state has turned to private non-profit management groups (i.e., Social Organizations in Health, OSS) to administer hospitals.<sup>297</sup> While it is too soon to judge such efforts, such experimentation seems promising, precisely because it engenders a learning process.

Faced with persistent challenges, many auditors and health officials have developed innovative ways to reach outside of their roles in the state to mobilize the public. For instance, auditors from a variety of different state entities have banded together to create NGOs that seek to engage citizens in combating corruption. One of the most high-profile results of their efforts was the passage of the “clean sheet” (*ficha limpa*) law (Law no. 135 of 2010), which was proposed by a popular initiative that

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<sup>293</sup> These are only for positions that no Brazilian doctors have expressed interest in.

<sup>294</sup> Author interview with Rosa.

<sup>295</sup> Author interview with Mariana Ramo.

<sup>296</sup> Brazil has also made significant strides in recent years in clarifying the roles and relationships across levels of government with ongoing efforts to modify the framework for contracting between federal government and health regions and institutional mechanisms for coordinating between municipalities, states, and federal government (Gragnotati 2013, 11).

<sup>297</sup> Author interview with Dr. Luciana Mendes, health coordinator, Institute of Applied Economic Research, January 26, 2012.

included over 1.3 million signatures in September 2009.<sup>298</sup> This law specified that candidates with “dirty” court records (i.e., convicted by a second-level court) would be ineligible to run for office. Other initiatives seek to educate citizens, especially in poor areas, on how to detect, respond to, and report fraud. The *Instituto de Fiscalização e Controle* (Institute of Auditing and Monitoring), for instance, conducts “Caravans” that travel to poorer municipalities to educate citizens on the basics of corruption in health, to facilitate meetings between citizens and mayors and health officials, to conduct “civic audits,” and to develop municipal health councils.<sup>299</sup> Indeed, studies have shown that each additional year of health council experience reduces corruption incidence levels by 2.1 percent (Avelino, Barberia, Biderman 2013, 694). In other cases auditors have moved into politics, running for office themselves.<sup>300</sup> Thus, in a variety of ways, such individuals with greater levels of expertise and experience have sought to make connections with citizens to increase their power, while seeking to attenuate the cognitive constraints of those unfamiliar to the complex world of diversion of funds through health.

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<sup>298</sup> This effort was largely led by Articulação Brasileira Contra a Corrupção e a Impunidade (Abracci). Author interview with Rosa. Only four laws have been passed in such a way in Brazil. *O Globo*, May 20, 2010.

<sup>299</sup> Author interviews with Henrique Ziller, Auditor Federal de Controle Externo, Tribunal de Contas da União (2001-2014), Founder and President, Instituto de Fiscalização e Controle (2004-present), October 31, 2011; Rosa. Auditors have also sought to use their positions by serving as “guides” for citizens at participatory governing events. Through a process of dialogue, auditors explain the importance of advancing some measures over others to citizen delegates. Indeed, the proposed legislation from such participatory conferences looks strikingly similar to auditors’ own proposals for reform. This author was an invited observer at the CONSOCIAL 2012, a national participatory conference. The legislation from the conference was to be sent on to the Congress.

<sup>300</sup> Author interview with Henrique Ziller, Auditor Federal de Controle Externo, Tribunal de Contas da União (2001-2014), Founder and President, Instituto de Fiscalização e Controle (2004-present), October 31, 2011.

Author interview with Dr. Jovita José Rosa, Diretora da Secretaria Executiva do Movimento de Combate a Corrupção Eleitoral (played a central role in negotiating *ficha limpa* law), auditor for Ministry of Health DENASUS, President for the National Union of Health Auditors (UNASUS), January 16, 2012.

In sum, while problem-solving is no magic bullet, it provides developing countries with weak institutional environments an ongoing way to make improvements in state building.

#### **ANALYSIS OF COMPARATIVE CASES**

Brazil has changed dramatically since the early 1990s when its democratic institutions were labeled “feckless” (Mainwaring 1995). Nevertheless, it is hard to pin such change on particular turning points. Instead a multitude of seemingly insignificant shifts, modifications, and adjustments have occurred, often under the radar, but have added up to significant transformations. To observers of any single point in time, Brazil’s policy process might have seemed relatively stable and unchanging. Yet, for those who visited Brazil in the 1990s, a trip to the country a decade or more later often elicits an exclamation such as, “*Something* has changed here.”

Based on the analysis of reforms in Brazil over twenty-five years, one can conclude that gradual change has, over time, yielded a remarkable transformation. Powering in transportation was followed by a long process of problem-solving, which, while very slow, has made progress in rebuilding capabilities in this crucial sector for Brazil. In health, the absence of dramatic overhauls and the steady series of problem-solving changes has created a sea change in Brazil—a country that had health indicators in many areas that resembled Africa is now held up as an example of successful basic health provision.

Cutting across both areas are impressive advances in transparency and auditing in Brazil. Whereas the constant powering in Argentina disrupted similar efforts, transparency has flourished in Brazil. Why? The chapters on Argentina demonstrated how the centralization of control in tight-knit reform teams facilitated powering that

disrupted efforts to increase transparency, monitoring, and oversight. By contrast, in Brazil the president hands over many ministries and agencies to coalitional “allies,” but allies often have rent-seeking in mind more so than advancing the executive’s governance objectives. Thus, there is a governance logic for enhancing transparency and controls. But it is not quite that simple. Very often, the executive’s party is just as interested in rent-seeking. As a result, presidents do not plunge headlong into transparency and audit reforms, but rather are pushed into them. In many of the instances outlined in the previous chapters on Brazil, the emergence of corruption scandals provided technocrats within the state who wished to advance their objectives the opportunity to do so. In sum, the multiplicity of actors in the Brazilian policy process contributes to greater opportunities for civil servants and technocrats to advance their own objectives.

What can be learned from the comparison between Brazilian reforms in health and transportation? The comparison between these two areas reveals, first, that even though political-organizational patterns make powering rare, an executive still retains agency. Collor pushed through powering measures. Despite the current weakness of President Rousseff, political-organizational context does not preclude the rise of a president who would be willing and able to push through dramatic change. Thus, the Brazilian case demonstrated the development of strong patterns of executive power sharing, but my study does not guarantee their endurance.

Second, the comparison underscores the deleterious and *enduring* consequences of powering. Collor’s destruction of transportation agencies left a lasting print on Brazil. The years of neglect—the result of firing capable professionals in the transport sector (e.g., engineers, auditors, and accountants)—have been corrected very slowly. Rebuilding institutions and capacity takes time. Great progress has been made, but Brazil has had to

play catch-up in transportation investment and institution building because of large-scale blunders decades ago.

By contrast, health was never subject to the same type of powering. Although it has also had to play catch-up—Brazil did not make the same type of progress in the early and mid-twentieth century that Argentina had—it has done so quickly, especially given its GDP and levels of income inequality. In the area of health, although advances have been uneven and have depended to a great degree on politics at other levels (parts of Brazil still have vestiges of authoritarian enclaves) the slow building of institutions over time has contributed to significant advances in health care for Brazilians.

## CONCLUSION

This chapter explained how gradual changes sequenced over time by actors within the state have thoroughly transformed the Brazilian health system and improved transparency in particular. This sea change in Brazil was not the result of a political leader taking advantage of a window of opportunity, but rather small, novel, partial, and indirect changes were sequenced over time, often quietly and under the radar of political and social forces. Nor was the reorientation of health the product of a clear, comprehensive model; instead many of the objectives arose from actors within the state addressing problems with the existing policy approaches. Indeed, broad principles, such as shifting the system from an emphasis on curative to preventative care, guided changes, but the specific means toward those broad objectives evolved.

Proponents of reform at many turns wished for more extensive changes and for a quicker process.<sup>301</sup> Yet, the multiplicity of actors involved often diluted, delayed, or halted changes. This, then, slowed the process and prompted health reformers to consider

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<sup>301</sup> Author interviews with Nogueira, Rosa, and Mendes.

a wider variety of alternatives, but resulted in corrections and revisions. Such an approach contributed to an ongoing learning process.

As my theory suggests, such efforts to resolve smaller problems drew on decision makers' existing knowledge and experiences, not abstract planning that requires greater time, information, and intellectual capacity than such actors could possibly have. Thus, dividing complex problems into smaller steps and learning over time resulted in more effective changes in the long term.

The preceding analysis further substantiated these claims by focusing on transparency reforms in government contracting. It demonstrated how a seemingly small change led to the gradual introduction of a new system, which set in motion other changes that accumulated over time, enhancing transparency and accountability in government spending. Not only did such an approach benefit from learning over time, but the gradual nature of the reforms meant that they were less prone to reversals. Reform coalitions were crafted slowly along the way. As benefits became clear, reform coalitions were built, bit by bit, until they were strong enough to take on opposition that would have thwarted the whole effort if it had been presented as a whole.

This chapter also revealed an important insight regarding "expertise." In the early 1990s, Brazil defied institutions such as the World Bank by moving in the direction of universal health care. Twenty years later, however, the very same international institutions heaped praise on Brazil for its advances in health care. By addressing problems in the policy process, experts within the state made gradual advances over time. Experiential learning was crucial for the gains made in health. Experiments in some municipalities generated new insights, then changes were made and tested again. This process engendered learning, which in the end, turned out to be much more effective than

taking the World Bank experts' advice. In sum, while expertise is important, the findings of this chapter emphasize the importance of *experiential learning*.

Finally, the chapter highlighted an important factor underlying this analysis—the quality of the bureaucracy. It showed that not only were parts of the Ministry of Health dominated by clientelistic structures but also that the vast majority of contract officials in Brazil do not enjoy civil service protections and they often have very low levels of bureaucratic autonomy and capacity.

Nevertheless, civil service structure is subject to change. This chapter demonstrated how reform type significantly affects bureaucratic quality. As Chapters 4 and 5 on Argentina have demonstrated, powering does not ameliorate governance maladies but exacerbates them in the long term; and worse, it may further weaken what civil service protections do exist. By contrast, problem-solving has a salutary impact by building bureaucratic capacity over time. While the existing structure of the civil service matters (cf. Bersch, Praça, Taylor 2014), this chapter demonstrated how change and improvements are possible in areas of weak civil service protection and how one reform type, problem-solving, can strengthen civil service norms.



## **Chapter 8: Theoretical Implications and Comparative Perspectives**

### **CENTRAL FINDINGS**

This dissertation presents an in-depth comparative analysis of two competing approaches to public administration reform. I demonstrate that, contrary to conventional wisdom, incremental changes sequenced over time (“problem-solving” reforms) are more effective in reducing corruption, increasing transparency, and enhancing accountability than swift, ambitious overhauls pushed through by political leaders (“powering”). Drawing on cognitive-psychological insights about decision making, I show that gradual, sustained changes are more promising because they allow for modifications and corrections along the way and do not depend on finding *the* right solution beforehand, a very difficult task in 21<sup>st</sup>-century policy making.

In addition, I examine the influence of political-organizational context on policymakers’ decisions to either embark on sweeping transformations or proceed more gradually. I argue that executive power concentrated in single-party cabinets facilitates large-scale change, while executive power sharing frustrates “big bang” reform attempts. In contexts of coalitional presidentialism, however, relative stability (due to the absence of repeated, dramatic overhauls) and the diversity of actors involved in policy making open up opportunities for technocrats from within the state to advance modifications and corrections piece-by-piece that often accumulate into thorough transformations. Paradoxically, the dissertation argues, political-organizational contexts that hinder grand reform attempts may facilitate greater long-term success.

My main contribution is a theory of state building that explains why some reform strategies result in sustainable improvements and describes the political conditions under which policymakers tend to adopt such successful strategies. As discussed in Chapter Two, incremental changes sequenced over time in response to failings in previous policy

(i.e., “problem-solving” reforms) provide two crucial advantages over the powering approach.

First, continual adjustments and modifications led by actors within the state engender an incremental learning process that allows reform tactics to evolve along the way. Instead of taking on comprehensive reform, problem-solving tackles smaller problems one by one and is often led by technocrats from within the state (*insiders*) who possess expertise *and* experience. The bounds of rationality are looser for experienced technocrats working on smaller problems than they are for political leaders and outsiders attempting to craft perfectly calibrated overhauls in one shot. As the empirical chapters demonstrated, such change often brought results slowly and haltingly, but in the medium to long term, these changes accumulated and led to impressive transformations.

Second, small changes sequenced over time make reform more sustainable and help preserve bureaucratic capacity and autonomy, especially in weak institutional environments. Whereas imposition of radical change breeds resistance, problem-solving relies on tactics that avoid conflict or imposition. Such tactics often proceed under the radar. Thus, support for change is built or won as reforms produce benefits, and reformers move on to the next step with a new set of beneficiaries. In doing so, the technocrats who lead modest reforms without strong political backing are likely to remain at their posts when political constellations shift, safeguarding their positions and creating opportunities to extend their reforms.

The process-tracing analysis of reforms over time in Argentina and Brazil in the areas of health and transport detailed the failures of powering and the merits of the problem-solving approach. Instances of powering were in some cases seemingly successful at achieving their goals in the short term, but were plagued by performance problems, backlashes, and credibility issues. As a result, these reforms were subject to

reversals in the long term. The deepest, most draconian overhauls of the state resulted in deleterious and *enduring* problems; such overhauls were problematic not only for one or two administrative terms, but in some cases sparked cycles of institutional deterioration, with one set of radical overhauls begetting another. By contrast, while problem-solving advanced in a frustratingly slow fashion, these cautious, gradual changes accumulated into thorough transformations that tended to be more sustainable. The changes benefitted from the scrutiny of a variety of diverse actors and experts within the state with longer time horizons than their political counterparts. These insiders played an important role in sustaining the reform process. Thus, in both Brazil and Argentina, attempts to achieve short-term policy goals by rapidly revamping the state resulted in long-term problems; whereas problem-solving initially advanced slowly, but resulted in impressive transformations over time.

This study analyzed both approaches to reform in Brazil and Argentina. Indeed, problem-solving was more effective and sustainable in the long run in both countries. Yet, the chapters also demonstrated that the powering approach was adopted far more frequently in Argentina.

As discussed at length in Chapter Three, the extent to which policymakers select one reform approach or another is shaped in large part by political-organizational context. Powering is more prevalent in some countries, while change occurs more gradually in others. My theory explains this variation: Entrenched patterns of executive powering-sharing influence the characteristics of the reforms and the reformers, which in turn affect the decision to embark on a sweeping transformation or proceed with modest and gradual change. Executive power concentrated in single-party cabinets facilitates powering; the ability to appoint loyal experts to key positions in the line ministries and agencies means that unified reform teams can impose profound and sweeping changes rapidly. By

contrast, coalitional presidentialism, by inducing presidents to share executive power, frustrates “big bang” change. The absence of repeated overhauls provides opportunities for technical experts within the government to make smaller changes that ultimately add up to larger reforms. In sum, shared executive power tends to lead to problem-solving, while executive power concentrated in single-party cabinets facilitates powering.

My analysis of reform in Argentina and Brazil provides empirical support for this theory. In Argentina, presidents since the 1990s (and long before) have largely governed in an exclusionary fashion, appointing single-party cabinets which have facilitated the powering approach. In many of the cases analyzed, reform teams comprised of like-minded loyalists and experts were tasked with the near-impossible feat of crafting comprehensive change in one shot. In order to cope with uncertainty, ambiguity, overabundant information, and time-pressure, policymakers—many of whom were newcomers to the federal administration—were forced to rely to a great extent on inferential shortcuts. In order to execute change before resistance mounted, reforms were implemented at a lightning pace. In all of the cases analyzed, the powering approach ultimately resulted in either poor performance or reversals after the will to sustain the dramatic reforms dried up with the next change in administration.

By contrast, coalitional presidentialism in Brazil induced presidents to share the executive with allies. The diverse actors involved in this policy-making process slowed, halted, or diluted most attempts at radical change, limiting the scale and speed of reform. For the limited changes that did advance, however, a broader-based consensus was forged and plans were subjected to the scrutiny of a diverse set of interests and experts. Moreover, smaller scale changes opened up greater space for experts within the state to use their longer time horizons and technical acumen to craft continuous improvements that contribute to impressive transformations over time. While policymakers in contexts

of executive power sharing still apply inferential heuristics, their assumptions tend to be closer to the mark because the approach narrows the scope of their problem solving, and makes use of technocrats from within the state (insiders), who are often less bounded than political actors and political technocrats (outsiders). Additionally, the sequencing of reform contributes to learning over time. In this context, experts can advance change without inciting opposition and remain in a position to defend and quietly extend their reforms. Finally, if the problem-solving process is successful, then there is no need for wholesale reforms. For all of these reasons, reforms in the countries with established executive power-sharing practices are less radical and proceed more gradually, but with greater success.

The lessons of this study extend beyond contracting in health and transport to a broader set of governance reforms in Argentina and Brazil. In Argentina, reforms have ricocheted between extremes, where presidents of different ideological orientations have used the same powering approach to push through sweeping overhauls. After President Menem's privatization and transformation of the state in the 1990s, Presidents Kirchner and Fernández de Kirchner have renationalized not only railroads and highway concessions, but also private pensions, the postal service, the main water utility company, the national airlines, and the oil company. The Kirchners have also sought to restructure the civil service and a number of state agencies, most notably the national statistics agency and tax agency (Scherlis 2013). Recurring overhauls have disrupted smaller efforts to advance corrective changes and in the process have weakened mechanisms of horizontal accountability.

By contrast, radical change has been quite rare in Brazil. Indeed, there were some attempts at dramatic restructuring under Collor in the early 1990s and Brazil did go on to privatize a number of state-owned companies under Cardoso in the late 1990s, yet such

changes were not pushed through in one fell swoop, but rather proceeded haltingly and were the subject of negotiation and compromise. Transformations such as the Fiscal Responsibility Law, passed in 2000, or the development of the highly successful conditional cash transfer program, *Bolsa Família*, may seem like cases of successful powering. Yet, the Fiscal Responsibility Law was the culmination of incremental changes aimed at stemming the financial drain caused by state governments' spending and at stabilizing the Brazilian economy (Schneider 2007). It also stipulated a number of additional steps that were set to be phased in over time. Thus, the adoption and implementation of the Fiscal Responsibility Law was stretched out for over a decade and resembled problem-solving far more than powering.<sup>302</sup> Similarly, *Bolsa Família* started as an experimental social program under Cardoso after earlier, local-level experiments. It was then expanded under Presidents Lula da Silva and Dilma Rousseff. This effort was not managed primarily by political appointees, but rather by technocrats from within the state. In sum, change in Brazil has built on predecessors' efforts and has rarely occurred in disjointed policy overhauls.

Instead, reform has often advanced almost imperceptibly, transforming the institutional framework in a number of areas. Slowly and quietly individuals within the Brazilian state have built and made accessible to the public one of the most complete and centralized information systems in Latin America. Information on budget, procurement, civil servants, and federal transfers allows for unprecedented levels of transparency (OGP 2011).<sup>303</sup> Such advances have fostered far greater oversight of the federal government than had ever been possible, as have gradual changes that have enhanced the capacity and

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<sup>302</sup> Author interview with Martus Tavares, former Minister of Planning (1999-2002), May 28, 2012.

<sup>303</sup> Author interview with Orlando Neto, Director of Senate Budget Consultants, May 9, 2012.

authority of audit institutions (Praça and Taylor 2014; Power and Taylor 2011).<sup>304</sup> Likewise, the strengthening and professionalization of the civil service has also progressed largely under the radar. With the exception of the 1988 Constitution, most changes in the civil service have occurred in practice without any input from Congress or legal changes (Praça, Freitas, and Hoepers 2011).<sup>305</sup> In sum, changes accreting at the margin have resulted in a sea change in Brazil over time.

The divergent results from these different state reform strategies in Argentina and Brazil are also reflected in a number of different measures. Over the last decades, Argentina's score on governance indicators (e.g., the World Bank's Control of Corruption, Government Effectiveness, and Regulatory Quality) has dropped significantly while Brazil's score has for the most part slowly and steadily climbed.<sup>306</sup> Assessments of the overall quality of public policies since the 1980s find low levels of public policy stability in Argentina, as well as low levels of enforcement and implementation, whereas Brazil received high rankings for policy stability, enforcement and implementation (Stein et al. 2008, 134).

This dissertation has shown that in Brazil improvements in transparency, resource monitoring, and audits for the direct federal administration have advanced considerably. These advances, however, have been uneven. States and municipalities, which were not analyzed in this study, remain responsible for many public services. While there are a

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<sup>304</sup> Author interviews with André Pachioni Baeta, Diretor da Secretaria de Obras do TCU, May 25, 2011; Fernando Moutinho Ramalho Bittencourt, Consultor de Orçamento do Senado (2007-present), TCU Auditor (1995-2006), May 11, 2011.

<sup>305</sup> Interviews with Aldino Graef, Assessor especial da Subchefia de Análise e Acompanhamento de Políticas Governamentais da Casa Civil da Presidência da República; Especialista em Políticas Públicas e Gestão Governamental (1993-present), December 5, 2011; Luiz Alberto dos Santos, Subchefe de Análise e Acompanhamento de Políticas Governamentais da Casa Civil da Presidência da República, December 8, 2011.

<sup>306</sup> See for instance the World Bank's Governance Indicators, World Economic Forum, and the Economist's Infrascopes.

number of efforts to extend mechanisms of transparency and accountability developed at the federal level to the subnational level, this remains a work in progress.<sup>307</sup> Massive protests in June 2013 that sparked over hikes in bus fares and the poor quality of public services, most of which are subnational responsibilities, underscore just how far Brazil needs to go in this regard.

It is also possible that efforts at the federal level to improve transparency and accountability in directly administered programs may have pushed rent-seeking into other areas—state or municipal spending, loans from the Brazilian Development Bank (BNDES), or state-owned companies—that do not fall under such tight controls.<sup>308</sup> Indeed, the recent Petrobras scandal, which uncovered massive corruption schemes in the state-owned oil company's contracts, has revealed the extent to which illicit enrichment and backroom deals still factor into politics and business in Brazil. Corruption has most certainly not been eradicated in all areas. At the same time, Brazil is no longer the country where corruption is simple and so commonplace that no one is afraid of being caught. Instead, it has become quite sophisticated, especially at the federal level, involving Swiss bank accounts and artwork. As the corruption scandal has played out, it has provided momentum for reforms proposals that have circulated in Brasília for years and that would extend controls that apply to the rest of the federal administration to the oil giant.<sup>309</sup> State building is a long process; in countries such as the United States and Sweden, making the transition from spoils systems to a professionalized civil service

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<sup>307</sup> Interview with Carlos Moreira, former Director, Secretaria de Logística e Tecnologia (2004-2010), January 23, 2012.

<sup>308</sup> For instance, this author's Freedom of Information requests to obtain civil servant data from BNDES in 2013 were denied because the bank does not fall under the direct administration.

<sup>309</sup> Author interviews with André Pachioni Baeta, Diretor da Secretaria de Obras do TCU, May 25, 2011; Orlando Neto, Director of Senate Budget Consultants, May 9, 2012.



took decades (Skowronek 1982; Teorell and Rothstein 2013; Grindle 2012). Brazil has taken great strides forward, even if it has a long way to go.

### **GOVERNANCE REFORM IN LATIN AMERICA**

To what extent do this dissertation's findings, which are based on governance reform in Argentina and Brazil, apply more broadly? Can my theory shed light on the effectiveness and sustainability of governance reform in Latin America? Have other Latin American countries pursued reforms that are characteristic of the powering and problem-solving approaches? Which approach has been more successful in producing effective and enduring changes?

This section examines state reform efforts and their performance in Chile and Venezuela. These countries have consistently relied on one reform type over the other; state reform in Chile since democratization has largely been characterized by gradual change, whereas powering has been applied more frequently in Venezuela since President Hugo Chávez's tenure. Both of these Latin American countries also have been the subjects of a rich array of policy research. Thus, the selection of Chile and Venezuela allows for a clear illustration of and plausibility probe for my theory.

The examination of reform in these secondary cases provides additional support for the arguments advanced in this dissertation that gradualist policies have outperformed radical overhauls. While this analysis does not address all the background differences between these countries, there are some important similarities: Venezuela is subject to booms and busts based on oil, just as Chile experiences with copper. And as Chile experienced long-term growth, Venezuela from 2003-2008 had relatively high levels of growth. In spite of these similar economic conditions, their different approaches to reform have produced contrasting results. The most successful of all of the cases

analyzed in this dissertation is Chile; on a wide range of indicators Chile ranks ahead of other Latin American countries. While Venezuela boasted considerable progress towards its economic and social goals in the short term, these achievements were weakly institutionalized and have proven short-lived.

Powering has been used under Chávez in Venezuela to a far greater extent than any of the other cases examined in this dissertation. Upon assuming office, he convened a Constituent Assembly that superseded the existing Congress in order to create a new constitution that dramatically expanded the power of the executive branch (Haggard and Kaufman 2008, 275-6). Chávez also eviscerated the Supreme Court by expanding it and packing it with supporters. The bureaucracy was a target as well. When Chávez assumed office, high public sector salaries meant that some of the most qualified professionals in the country worked for the state (González 2002). “Pockets of efficiency” included the oil company PDVSA, the central bank, the electric power producer Edelca, and the Metro de Caracas. In his first years in office, however, Chávez eliminated PDVSA’s financial and operational autonomy, reversed many of the structural reforms that had sought to enhance the capacity and autonomy of federal agencies (Monaldi et al. 2008, 410-411), fired employees who opposed him, and enervated institutions of accountability (Corrales and Penfold 2011). In this way, he used the very process of reform to weaken resistance to his changes and to concentrate power at the apex of the state.

Unencumbered by resistance or opposition that might otherwise dilute or delay reform objectives, Chávez sought to institute a completely new model of social service provision. In 2003, he launched the *Misiones Bolivarianas*, a series of social programs with a variety of goals aimed at eliminating illiteracy, reducing poverty, and providing basic health care services to low-income Venezuelans (Hawkins, Rosas, and Johnson 2011). Instead of working with established programs or institutions, Chávez created new

ones from scratch by presidential decree. It was far quicker to rely on loyal partisans to directly create and execute programs than to attempt to reorient the complex bureaucratic machinery of the state. Thus, authority over missions was given to entities, such as appointed advisory boards and presidential commissions, parallel to the line ministries (Hawkins 2010; Handlin 2011). Off-budget revenues from the state-owned petroleum company funded the missions and provided additional latitude for presidential prerogatives, allowing the administration to circumvent legislative oversight. In order to bypass opposition by the medical community, the health missions relied on Cuban doctors to staff health clinics. In all of these ways, Chávez used the reform process to sideline resistance that might thwart the lightning advances.

The missions soon boasted striking results on a number of fronts. For instance, in 2005 Chávez announced that illiteracy had been eliminated by the education missions and that health missions had indeed extended coverage to the marginalized (República Bolivariana de Venezuela 2011). But the veneer of success soon wore thin. Reports began to show that educational progress had been grossly overstated; the missions had only a minimal impact on literacy (Ortega and Rodríguez 2008, 7). Reports emerged of Cuban doctors fleeing the country and health missions abandoned and occupied by squatters.<sup>310</sup> In 2008, Chávez himself declared a “health emergency” and relaunched the health missions. Studies suggested that missions were often used for political purposes and the initiative extended around election time (Hawkins 2010, 203-205, 226; Ortega and Rodríguez 2008, 27). Perhaps worse yet, the public system, which remained the primary health service for the majority of Venezuelans and provided maternity services,

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<sup>310</sup> *The Economist*, June 18, 2009.

surgeries, and a host of other basic health services, languished as funds were diverted to the missions (D'Elia and Quiroz 2010, 8; Kraul 2008).<sup>311</sup>

The dramatic reform strategy was also applied in a number of other areas. State intervention increased dramatically under Chávez; he expropriated or nationalized approximately 1,200 companies, ranging from steelworks to a maker of cleaning products.<sup>312</sup> His administration also launched an ambitious overhaul of the country's dilapidated infrastructure and a massive extension of the rail network. In order to execute these lofty plans, he seized control over roads, airports, rails, and ports from state governments, placing them in the ambit of the national government. Such pursuits were financed not only by the windfall gains of the oil boom, but also by issuing debt, which Venezuela racked up at greater pace than any other emerging economy in 2007-2011.<sup>313</sup>

To what extent has the powering approach generated enduring improvements? Over time, the deleterious effects of Chávez's transformation of the state were laid bare, especially after Chávez's death in 2013 and the drop in oil prices. Unemployment rose and inflation skyrocketed. In 2013 inflation reached 40.6 percent and was even higher in 2014, with some sources putting it at close to 70 percent (World Bank 2014).<sup>314</sup> The IMF projects annual inflation of 98.8 percent in 2015 and expects the country's GDP to contract by 7 percent in 2015. In the last decade Venezuela has systematically been ranked among the last places, in both the region and the world, on indicators of institutional and policy quality by institutions such as the Inter-American Development Bank (2008), the World Bank (2013), Transparency International (2012), and the World Economic Forum (2014).

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<sup>311</sup> This section has been informed by Pribble (2013, 158-168).

<sup>312</sup> *The Economist*, February 14, 2015.

<sup>313</sup> *The Economist*, July 2, 2014.

<sup>314</sup> *The Economist*, April 15, 2015.

As the analysis of social policy above highlighted, the missions generated quick successes in boosting popular well-being, according to official statistics, which may well be questionable. Yet, the circumvention of established institutions in the short term, which facilitated such gains, endangered the durability of the changes in the long term. Lack of institutionalization meant that without Chávez's political will and the windfall oil rents to sustain the effort, there was little left to hold the missions together. Over a decade later, more than half of the primary-care health missions have been abandoned and the Cuban doctors have since left (PROVEA 2013, 184).

Moreover, the public health care system is collapsing after years of neglect. During Chávez's tenure health ministers changed frequently (Corrales 2009). Likewise, President Nicolás Maduro, who assumed the office after Chávez's death, appointed 13 different health ministers in his first two years in office (Watson 2015). Without competent health officials in the state, increasingly pressing problems went unnoticed or were ignored. The government underreacted until a true crisis emerged. In recent years, the number of doctors has declined precipitously, as both Cuban and Venezuelan doctors have fled the country. Vital medical supplies—bandages, heart valves, penicillin—are in short supply; in many cases patients are advised to show up at hospitals with their own gloves, medicine, or orthopedic screws. Bribes for treatment are increasingly common. Malaria, eradicated from much of Venezuela by the 1960s, is again spiking, and a rare disease from Africa, chikungunya, is sweeping the country. Health officials have been unable to track or provide basic statistical information about its spread.<sup>315</sup>

Initially, scholars showed that Venezuela had made some gains in health, albeit at a much slower rate than improvements in the rest of Latin America (cf. Pribble 2013,

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<sup>315</sup> This section was informed by Wade (2015) and *The Economist* (April 15, 2015).

163-164), but since 2013 the deterioration in statistics such as infant mortality suggests that any progress has since been undone (Wade 2014; Watson 2015). In 2014, Venezuela's official statistics office (INE) reported that in one year the number of Venezuelans below the poverty line went from one in four to one in three (INE 2014; cf. Nagel 2014). Poverty is likely much higher than official estimates.

The powering approach also failed to produce lasting progress in other areas. The first section of the rail project was completed at lightning pace just before the 2006 election. But because of the haste to finish the project on time it was forced to operate without a central control system, obliging drivers to call each other on mobile phones to avoid collisions. The grand overhaul of transportation did create some new roads and rails, but the overall record of reform is dismal. The College of Venezuelan Engineers (CIV) puts the percent of roads in urgent need of maintenance at 60-70 percent and bridges at 80-90 percent (EIU 2014). Collapsing bridges and tunnels have become increasingly common, as have commuter train collisions.<sup>316</sup> A new term—the “mega-hole”—has developed for pot holes that swallow up entire vehicles. It is no wonder. During the Chávez years there were eleven different ministers of transportation and the name of the infrastructure ministry changed five times. Ministries and agencies were gutted in Chávez's attempt to concentrate power. This meant that there were few professionals left to plan, design, and supervise complex engineering projects. Meanwhile, basic maintenance and safety standards were neglected.

My theory of reform can account for the failure of reforms in Venezuela. Chávez's use of rapid overhauls of the state allowed him to concentrate power in the executive in order to swiftly implement his desired policies whole cloth. In doing so, he

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<sup>316</sup> *The Economist*, April 15, 2015.

greatly restricted diverse views and the role of technocrats with experience who commanded the information and experience to assess changes. Thus, decision makers were prone to rely to a great extent on cognitive heuristics, resulting in ill-informed decisions and unintended consequences. This was especially the case in transportation. The lack of qualified and experienced engineers produced faulty plans, and therefore, delays. Finally, the massive transformations were abandoned when bridges and tunnels, which had not been maintained for years, started collapsing. In some cases, the consequences of Chávez's approach, such as the neglect of the public hospital system, were not immediately apparent. Yet when grave problems did appear, the Chávez administration underreacted and problems festered. Without individuals with the time, expertise, and information to, for instance, track malaria, such basic tasks fell off the government radar.

The case of Venezuela also illustrates the paradox of powering. The very process of radically transforming established arrangements crucially hindered the consolidation of the new reforms and long-term bureaucratic stability. Imposing reform breeds resistance. During the Chávez years, his political will and oil money sustained many of his pursuits. Now that Chávez is gone and oil prices have dropped, there is little left to prop up many of his weakly institutionalized changes against opponents keen on reversing his reforms.

In sum, the unfolding of Chávez's state reforms in Venezuela largely corroborates my theory. Radical overhauls made it possible to push changes past the opposition, but the complexity of designing such overhauls meant that serious errors were made, ultimately undermining Chávez's objectives of eradicating poverty and providing health care to all. Moreover, by intransigently imposing change, Chávez polarized the country and made his changes vulnerable to reversals. The case of Venezuela highlights just how

far powering can go in dismantling existing institutions, dividing a nation, and generating a true crisis.

By contrast, the approach to state reform in Chile has been characterized largely by gradual changes phased in over time,<sup>317</sup> even though the 1980 constitution granted Chilean presidents substantial unilateral powers. Since 1990, governments based on broad coalitions and constrained by multiple veto points—including (until 2005) appointed senators that kept the government from attaining a majority in the Senate—have restrained presidential exercise of this power. Instead, presidents have sought to improve upon the institutions they inherited and to work with coalitional allies and the opposition to negotiate changes. Resolving disagreements among the welter of different voices in the policy process often involved concessions that limited grand plans and inevitably slowed reform. With a few exceptions,<sup>318</sup> this conciliatory process has meant that powering is indeed rare. As a result of the smaller-scale changes, however, Chilean experts from within the state have assumed a much greater role, resulting in what has been characterized as a technocratic style of policy making (Boeninger 1997; Fuentes 1999).<sup>319</sup> For all of these reasons, patterns of change in Chile fall closer to the problem-solving side of the reform spectrum.

Changes in social policy have advanced gradually and built on existing institutions and sought to improve, rather than restructure, the institutional architecture inherited from the Pinochet years. This is remarkable, especially considering the

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<sup>317</sup> This analysis does not include non-democratic periods. Thus, this section does not analyze the reforms under Pinochet.

<sup>318</sup> The 2005 constitutional changes eliminated the last authoritarian vestiges in the 1980 Constitution by allowing the president to fire the armed forces' commanders and eliminating appointed senators. This was indeed a major change, but even this important reform happened 15 years after the military regime ended and was a negotiated reform.

<sup>319</sup> Some explicitly argue that technocrats constitute a buffer zone between the president and the political parties, serving as mediators between contending social and political forces (Silva 2009, 222-3, 234).



transition to democracy and the center-left shift in ideological orientation of the government in 1990. In the late 1980s, the rise of the center-left Concertación government created expectations that dramatic changes would be quickly achieved; however, reform advanced at a pace that was frustratingly slow for many. Chilean presidents did increase spending to address the underinvestment in health in previous years, but otherwise many of the changes were unremarkable and the result of seemingly quotidian processes (Barrientos 2000, 105-111). In the early 2000s, President Ricardo Lagos proposed an initially bold plan, elaborated largely by policy experts within the state in response to policy problems, that introduced basic health care for a specific set of illnesses (Universal Access to Guaranteed Rights, AUGE) (Ewig 2008). However, in the laborious process of negotiation with multiple veto points that ensued over the next four years, many of the most ambitious changes were eliminated, such as the establishment of the solidarity fund (Espinosa, Tokman, and Rodríguez 2005). Moreover, instead of being implemented all at once, coverage for AUGE illnesses was to be phased in gradually over time (Pribble 2013, 48). Negotiation and compromise thus resulted in downsizing of initial plans and contributed to their staggered implementation. Like Weyland, Madrid, and Hunter (2010) argue, this process set reforms on a much more solid foundation than those in Venezuela or Argentina. The same is true of alterations to the pension system in 2009, which expanded guarantees to poor individuals not previously included. These changes have been limited by compromise with the opposition and are small in comparison to the fundamental overhauls executed by Chávez in Venezuela, but have accumulated over time.

The approach to transportation policy has also exemplified the characteristics of problem-solving rather than the swift overhauls of powering. In the 1990s the center-left Concertación coalition quietly began a public works concession program for highways. In

order to avoid delays and negotiation with a variety of ministers and political officials, post-authoritarian governments purposefully downplayed political dimensions of infrastructure development (Silva 2011, 41-42). For instance, reformers also used existing institutions as much as possible to keep changes below the radar of Congress.<sup>320</sup> The program began slowly and in an experimental fashion, with the first highways auctioned off in 1993. But thereafter, the pace of concession increased in a steady but sustained fashion (PPIAF-World Bank 2014). In other areas, Chilean presidents have maintained a good deal of state intervention. For instance, the state railway company, Empresa Ferrocarril del Estado (EFE), has remained in control of railways. While freight lines were concessioned, the EFE remains responsible for passenger services and infrastructure maintenance. This is a much more limited approach than the privatization in Brazil and especially Argentina (Sharp 2005; Estache 1999).

One exception to the gradual approach was a radical attempt to revamp Santiago bus transport (the Trans-Santiago). On paper, the idea of completely replacing the informal bus system with a comprehensively planned system that relied on large modern buses, which was inspired by TransMilenio in Bogotá, seemed like a good idea. It would reduce noise, congestion, and exhaust fumes. But the ambitious plan resulted in a nightmare for commuters and initial transportation chaos.<sup>321</sup> It was only after a long series of gradual changes, adjustments, and additional funding that the system became workable.

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<sup>320</sup> As former Minister of Public Works (MOP), Carlos Hurtado, explained, “We never really worried too much about making institutional changes to accommodate the concessions system within the existing structure of the MOP. We tried to use the existing structure. If we had proposed something else in addition to the actual concessions law, such as changing the institutional structure of the MOP, we would have been stumped right then and there. Imagine putting the concessions law and a MOP reorganization law before Congress ... that’s as far as we would have gone.” Interview with Hurtado 2005, quoted in Silva (2009, 45).

<sup>321</sup> *The Economist*, February 7, 2008.

Reforms aimed at strengthening institutions and modernizing the state have not been an explicit priority of the government, yet efforts of technocrats and civil servants to advance adjustments and modifications where possible have resulted in impressive transformations in the civil service and transparency systems over time. Changes in both areas began in the 1990s by implementing measures that did not require legislation (Volosin 2010). Based on these measures a number of proposals were developed and administrative officials worked to put their policy changes on the agenda (Echebarría and Cortázar 2007, 128-9; Armijo 2002). After President Lagos's center-left coalition was implicated in a bribery scandal in 2003, many of these efforts gained momentum. Soon thereafter, Congress passed one of the proposed reforms, the High-Level Public Management System (Alta Dirección Pública), which stipulated that 735 management positions in the government previously filled on a discretionary basis must now be filled through a merit-based selection process (Stein et al. 2006, 124). Similarly, a number of measures to enhance transparency in procurement were passed during this time (Garretón 2005; Volosin 2010). Instead of being introduced and implemented in one fell swoop, the idea of the system was introduced in the mid-1990s, tested in the late 1990s, gained momentum after the corruption scandals in the early 2000s, and were then phased in over time (Garretón 2005; Volosin 2010). This allowed the measures to gain political support along the way and technocrats to learn from their reform experiences. Moreover, because changes were less visible and their use sustained by actors within the state, they were protected from political fatigue, entering onto the legislative agenda only when the process was quite mature (Echebarría and Cortázar 2007, 128-9).

Gradual but sustained reforms in these and other areas have yielded striking and transformative results in the long run. Chile outranks the rest of Latin America on a host of other indicators, such as the Economist's Infrascopes Index, Heritage Foundation's

Index of Economic Freedom, and the World Bank's Governance Indicators. Chile's health indicators, such as infant mortality and lifetime expectancy, are higher than what its economic development would predict (CEPAL 2014, Aninat et al. 2008). Poverty has also dropped steadily; in 1990 38.6 percent of Chileans fell below the poverty line, but by 2013 the percentage had fallen to 7.8 (CEPAL 2014). Steady improvements in infrastructure have also had impressive results: The quality of roads in Chile ranks 31 out of 144 countries, just next to the United Kingdom (World Economic Forum 2014; Aninat et al. 2008, 163). Finally, the problem-solving approach has also been quite successful in strengthening the public administration. The Chilean bureaucracy ranks only second to Brazil in Latin America on indicators such as functional capacity and merit (Zuwanic and Iacoviello 2010). Advances in transparency and efficiency, such as Chile's information technology system for procurement, have been used as models throughout the region (Volosin 2010). In sum, incremental sequences of change led largely by actors within the state have been associated with remarkable and sustainable transformations in many areas.

In conclusion, the analysis of state reform in Chile offers further corroboration of my central argument, that incremental changes sequenced over time are more effective and enduring than rapid overhauls. The simplification of complex problems into smaller steps, in addition to the capacity of the decision makers, resulted in reformers achieving their objectives slowly but steadily. Whereas radical changes adopted all at once are perhaps the most difficult type of reforms to plan and execute, small adjustments and modifications in the Chilean case allowed for careful analysis of costs and benefits, evaluation, and changes made in the next round of alterations. This reduced the demands on cognitive capabilities. Decision makers not only benefited from an iterative process of reform and simpler task environment, but technocrats' greater access to information,

longer time horizons, and expertise meant that their bounds of rationality were looser in the first place.<sup>322</sup> Instead of underreacting to problems, and then overreacting when a crisis emerged, policymakers possessed greater capabilities for addressing policy issues in a more proportionate fashion.

This approach also resulted in more enduring reforms, especially compared to powering in Venezuela and Argentina. Instead of seeking to break the existing status quo, the more gradual reforms in Chile relied on tactics to avoid conflict. Proposals were frequently subjected to the scrutiny, negotiation, and compromise of the opposition and coalitional partners. This often meant they achieved far less than presidents may have wished, but what they did accomplish was less likely to be overturned. For instance, the center-right coalition from 2010-2014 essentially maintained the changes they had inherited. After all, the president's party had a part in making such changes. While incremental and slow, this process makes change more durable and sustainable in the long run.

The case of state reform in Chile also corroborates my macro-structural argument: Executive power-sharing accounts for the adoption of the problem-solving approach. Since democratization Chile has been governed by coalitions. The binomial electoral system in Chile, with two members elected per district, has contributed to the formation of two relatively stable, broad-based electoral coalitions. But the strong expectations that presidents will govern in an inclusionary manner have also been shaped by a variety of other factors (Siavelis 2006), such as elite political learning (Boeninger 1989; Weyland

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<sup>322</sup> On the importance of technocrats for reforms in Chile, see Boeninger (2008) and Silva (2009, 222-3, 234).

1997).<sup>323</sup> As was the case in Brazil, patterns of power sharing frustrated powering attempts, but resulted in more gradual reforms.

In conclusion, the reform approaches in Chile and Venezuela have largely had the expected effects. The powering approach in Venezuela, despite its ability to achieve quick results in the short term, has weakened institutions over time and undermined the initial goals overall. In the process, it has increased polarization and eviscerated mechanisms of horizontal accountability. By contrast, the slow process of reform in Chile has yielded impressive, sustainable results over time.

### **BROADER THEORETICAL IMPLICATIONS**

It has been well established that political rationality is distinctly bounded (e.g., Baumgartner, Jones, and Wilkerson 2011; Simon 1990; Weyland 2009) and that the extent to which cognitive constraints bind depends on the computational capabilities of the actor (Simon and Simon 1962). Grand Masters in chess outperform duffers, just as a well-trained engineer will be more successful than a construction worker at designing a bridge. Indeed, bounds of rationality are not uniform.

My argument highlighted a second factor that is vitally important for shaping the bounds of rationality, namely, the complexity of the task at hand (Bendor 2010, 3; Bendor 2003, 435; Simon 1990, 7). Policymaking tasks in the 21<sup>st</sup> century vary tremendously, from minor adjustments (e.g., increasing the number of Medicare recipients) to radical overhauls that aim to get to the root of numerous problems simultaneously. Thus, it is not only computational capabilities that shape whether

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<sup>323</sup> Weyland argues that both the left and the right had learned during and after the military regime, and understood the consequences of failure in this environment (1997). Boeninger recognized this and, in a memo circulated among high-level members of the Concertación alliance, wrote: “The fear of a military regression, and the understanding of the risk of such an event occurring, will be directly determined by the level of conflict that exists between political parties” (Boeninger 1989, 1; quoted in Siavelis 2006, 37).

policymakers are cognitively constrained, but the match between their abilities and the complexity of the problem they attempt to solve. Simon explains that “the structure of task environments and the computation capabilities of the actor” have joint effects and are like a “scissors [with] two blades” (Bendor 2003, 435; Simon 1990, 7).

This point is often missed by social scientists (Bendor 2010, 3). Yet, theories of bounded rationality, as Bendor highlights, have cutting power—especially relative to rational choice—only when both of the scissors’ blades operate (Bendor 2003, 435). Both blades operate in my framework: Problem-solving means both 1) more experienced and competent decision makers and 2) more manageable tasks by dividing complex reforms into pieces. By contrast, powering means 1) less experienced decision makers and 2) terrifically complex task environments. Thus, we might expect cognitive limitations to *always* bind in the case of powering, whereas bounds of rationality loosen for experienced decision makers that simply modify an existing policy or experiment with a new approach.

Moreover, problem-solving results in an additional advantage: both blades of the scissors cutting together result in learning. In the sequential process of solving smaller problems, reformers learn which changes are effective and which are not, increasing their ability to recognize solutions to a given problem (Simon 1990; 1996). This enhances decision makers’ cognitive resources. By contrast, powering requires getting reforms right in one shot. As President Collor of Brazil once famously said, “I have only one bullet to kill the tiger of inflation.” Therefore, powering requires an optimal solution, whereas problem-solving works even with decision makers who seek not the best option, but an acceptable option, allowing them to learn and correct later (Simon 1956).

The cognitive resources of decision makers are often conceptualized in terms of expertise, i.e., the education and sophistication of actors. As regards Latin American

policy making, foreign-educated technocrats might come to mind. Indeed, education-derived knowledge is important. Yet, very often such high-profile experts have been brought in to implement grand “one size fits all” solutions, leaving office with the political leader who appointed them.

My theory and the empirical cases, however, emphasized another component of expertise—*experience*, which allows capabilities to build over time, including knowledge of problems caused by previous policies. Bureaucrats have often been given a bad name: They drag their feet, they would prefer to go home early, and they are resistant to change. This is true in some cases. Often it is not, however. Indeed, in countless interview-hours with civil servants in Brazil and in Argentina, I heard story after story of their efforts to resist political leaders’ sweeping overhauls of the public sector because the changes either did not address the problems at hand or would not be sustainable. Deep contextual understanding is especially crucial for designing administrative reform. This knowledge is developed by learning over time. Furthermore, longer time horizons free such technocrats and civil servants from the need to advance their preferred changes all at once. Thus, my application of bounded rationality to reform decision making highlighted not only the importance of considering the complexity of the problem at hand, but also the importance of expertise developed by experiential learning over time.

By applying these insights to my analysis of state reform and integrating them with macro-factors, this study also makes a contribution to the literature on historical institutionalism. The classical version of historical institutionalism is well suited to explain continuity, but not change. According to this paradigm, critical junctures, or rare moments of uncertainty when the rules of the game are in flux, are followed by long stretches of continuity.



This historical institutional model does not, however, characterize the empirical reality of reforms analyzed in this study. Instead of a “big bang” followed by continuity, radical change in Argentina has been recurring. Over the course of the 20th century, the country’s trains have been nationalized, then privatized, then nationalized, and on it goes. The same has been true in a number of different areas, with some agencies experiencing complete overhauls during each executive term. Scholars such as Steven Levitsky and Victoria Murillo, focusing on overarching institutional changes such as constitutional replacement, argue that radical and recurring change, or serial replacement, is quite common in Latin America (2014). The change pendulum swing backs and forth, but more quickly than most models of change would suggest, as if the clock of change were sped up. But where are the long stretches of continuity? Such patterns of frequent and radical change do not follow the patterns postulated by historical institutionalists or by punctuated equilibrium theorists (Thelen and Mahoney 2010; Jones and Baumgartner 2005; 2012; cf. Levitsky and Murillo 2014).

Changes in Brazil represent another pattern that fails to conform to the historical institutionalist models. Incremental changes in Brazil were seldom triggered by a critical juncture, yet often went on to be transformative and lasting. Transformations have rarely been kicked off by a disjointed shift, and the metaphor of a pendulum swing rarely seems to apply to what occurs in Brazil. At the same time, policy making cannot be accurately characterized as stable and unchanging. Brazil *has* changed substantially since the early 1990s (cf. Mainwaring 1995). Nevertheless, it is hard to pin such change on particular turning points. In sum, neither radical and recurrent nor transformative incremental change is explained by existing paradigms.

My theory addresses this lacuna and contributes to efforts at theory construction within historical institutionalism by drawing on the work of scholars who focus on

microfoundations of change (e.g., Baumgartner, Jones, and Wilkerson 2011; Simon 1990; Weyland 2009) while embedding such insights in organizational context (cf. Weyland 2014). Why do we see patterns of radical recurring change in some countries and incremental transformations in others? Under what conditions might we expect more proportionate changes? What explains variation in collective information processing?

According to my theory, patterns of executive power sharing play a critical role.<sup>324</sup> Where power is concentrated in single-party cabinets, presidents and their political appointees rely heavily on informational shortcuts in designing and implementing institutional transformations. Bounds of rationality are especially tight for such decision makers: election cycles are short and such high-level appointees usually come and go with the executive who appointed them. Accordingly, they rush to make reform decisions in order to make a difference before opposition has time to mount against the changes. Thus, they sacrifice careful planning, evaluation, and scrutiny for short-term outcomes, leading to ill-informed decisions. These leaders often lack time, information, and expertise to resolve problems with a proportionate solution. Moreover, hand-selected teams of like-minded individuals—instead of fostering debate and deliberation to cross-check inferences, bringing to bear on problems from prior reform experiences—are prone to the problems of “groupthink,” suffering from more severe distortions in judgment, with rash inferences reinforcing each other (Janis 1982; Schafer and Crichlow 2010; McDermott 2004, 249-56; Weyland 2012, 56). Conformity and cohesiveness is good for rapid implementation, but not for identifying problems in grand reform plans. Moreover, challenges of designing radical restructurings all-at-once predispose reforms to new problems. Yet the rapid turnover and high level of career

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<sup>324</sup> For another example of how organizational developments mediate the bounds of rationality, see Weyland (2012) or Chapter 3 for a brief summary.

uncertainty of politically appointed reform teams means that there are often few experts left to address problems after the initial powering. Thus in the interim between dramatic reforms, decision makers underreact. Problems build until they cannot be ignored, triggering another round of powering.

By contrast, coalitional presidentialism, which induces presidents to share executive power, means that negotiation and compromise with coalitional partners slow sweeping overhauls. Yet, such policy proposals benefit from scrutiny and discussion; diverse perspectives lead to revisions and corrections. Such negotiations also often result in the downsizing of initial proposals. Consequently, dramatic overhauls are less common. In this context, experts from within the state are afforded a much greater role in the policy-making process; the relative stability extends their time-horizons for effecting change and smaller scale changes phased in over time are often left in their hands, as opposed to political leaders or high-level technocrats. Moreover, the technical acumen and access to information of technocrats and civil servants, in addition to the more limited scope of reform, means that these individuals are able to process information in a more balanced fashion. Thus, bounds of rationality loosen when sweeping change is broken into smaller pieces, and experts with longer time horizons play a greater role in crafting change. In such a context, information is processed in a more proportionate manner. As a result, we would expect fewer radical changes and more gradual transformations.

This study, then, has demonstrated how established governing patterns mediate the bounds of rationality and can explain patterns of policy change. Patterns of executive power sharing and expectations regarding coalitional formation—concepts of classical historical institutionalism—play a crucial role in this theory because they shape who is involved in the reform process and the type of reform that will likely be selected.

The importance of history in the study of politics has long been underscored by scholars of historical institutionalism; this study's integration of this approach with bounded rationality provides microfoundations that explain why history is so important. Overhauling institutions and dismissing large swaths of the public sector have long-lasting effects because they shape collective cognitive capabilities. Expertise developed via experiential learning is not easily recreated. Nearly 25 years after powering reforms in Brazil wiped out almost all the engineers, accountants, and auditors in the transport sector, the country is still struggling to rebuild capacity in those areas. Cognitive capabilities are built over time and enhanced by experience and memory; when they are lost, no amount of political will can recreate them quickly. By developing this line of reasoning, my study draws theoretical connections between historical institutionalism and bounded rationality, in addition to explaining new types of institutional change.

Additionally, the findings of this dissertation have important implications for the study of state reform. Policy studies often focus on specific episodes, such as the passage, implementation, or initial effects of an important policy. Problem-solving in any of these isolated instances appears quite unimpressive: a small adjustment here, a modification there. This research, however, shows that we only understand the impact of reform type fully if we look at a whole sequence of modifications. An observer of only the first stretch of the race between the tortoise and the hare would declare the hare the champion. Likewise, victory should not be declared before reforms have withstood three or more administrative cycles. Such turnover is essential for assessing powering, permitting researchers to observe grand changes that fail to take root and subsequent administrations that overhaul the same institutions again. A significant time frame is also important for evaluating problem-solving because it allows researchers to demonstrate continuity and to see how small improvements accumulate into more impressive transformations. In

sum, employing longer time horizons, as this and other studies demonstrate (Jacobs 2011; Patashnik 2008), reveals previously obscured factors crucial for understanding successful governance reforms.

Finally, this study has important implications for policymakers and practitioners. My argument suggested that established governing patterns limit the extent to which the option to power or problem-solve exists in a given country. However, sometimes there is indeed a choice between relying on political leaders to support complete institutional restructuring, on the one hand, and sequencing modest changes over time, on the other. Decision makers would be wise to opt for the latter and to work with the institutions they inherit. The massive protests in Brazil that erupted in 2013 in response to corruption and the poor quality of public services, for instance, might seem an opportunity to harness popular support and political will to press for grand, sweeping change. The findings of this study, however, suggest that this would be a mistake. Progress in institution building in Brazil has occurred gradually and haltingly, but its advancements have been significant. There is reason to believe that progress will continue. Public interest in corruption and the quality of service delivery indeed plays an important role in continuing such advancements; however, the lessons of this study suggest that the most ambitious reforms aimed at increasing transparency and enhancing accountability, paradoxically, can weaken institutions over time.

## Glossary

ACIJ - *Asociación Civil por la Igualdad y la Justicia*, Civil Association for Equality and Justice (NGO, Argentina)

ADIF - *Administración de Infraestructuras Ferroviarias*, Railway Infrastructure Administration (Argentina)

AGN - *Auditoría General de la Nación*, General Auditor of the Nation (Argentina)

AGP - *Administración General de Puertos*, General Administration of Ports (Argentina)

ALL Central SA, *América Latina Logística Central SA*, Latin America Central Logistics SA (Brazil)

ANATEL - *Agência Nacional de Telecomunicações*, National Telecommunications Agency (Brazil)

ANTT - *Agência Nacional de Transportes Terrestres*, National Land Transportation (Regulatory) Agency (Brazil)

APOC - *Asociación del Personal de los Organismos de Control*, Association of Personnel of the Audit Institutions (Argentina)

BNDES - *Banco Nacional do Desenvolvimento*, National Development Bank (Brazil)

CATMAT - *Catálogo de Materiales*, Catalog of Materials (Brazil)

CBIC - *Câmara Brasileira da Indústria da Construção*, Brazilian Board for Industrial Construction

CEPAL - *Comisión Económica para América Latina y el Caribe*, Economic Commission for Latin America and the Caribbean (United Nations)

CGU - *Controladoria-Geral da União*, Comptroller General of the Union (Brazil)

CND - *Conselho Nacional de Desestatização*, National Privatization Council (Brazil)

CNRT - *Comisión Nacional de Regulación de Transporte*, National Commission on the Regulation of Transportation (Argentina)

CNS - *Confederação Nacional de Saúde*, National Health Confederation (Brazil)

CONIT - *Conselho Nacional de Integração de Política de Transportes Terrestres*, National Council for Integration of Land Transport Policy (Brazil)

CPI - *Comissão Parlamentar de Inquérito*, Parliamentary Commission of Inquiry (Brazil)

DEC - *Departamento de Engenharia e Construção*, Department of Engineering and Construction (Brazil)

DENASUS - *Departamento Nacional de Auditoria do Sistema Único de Saúde*, National Department of Auditing of the Unified (National) Health System (Brazil)

DLSG - *Departamento de Logística e Serviços Gerais*, Department of Logistics and General Services (Brazil)

DNER - *Departamento Nacional de Estradas de Rodagem*, National Department of Roads and Highways (Brazil)

DNIT - *Departamento Nacional de Infraestrutura de Transportes*, National Department of Transportation Infrastructure (Brazil)

DNU - *Decretos de Necesidad y Urgencia*, Decrees of Necessity and Urgency

DNV - *Dirección Nacional de Vialidad*, National Agency for Highways (Argentina)

EPL - *Empresa de Planejamento e Logística*, Corporate Planning and Logistics

ESF - *Estratégia Saúde da Família*, Family Health Strategy (Brazil)  
 FA - *Ferrocarriles Argentinos*, Argentine state-owned rail company  
 FEPASA - *Ferrovía Paulista*, Brazilian state-owned rail company  
 FGV - *Fundação Getúlio Vargas*, Getúlio Vargas Foundation (Brazil)  
 FREPASO - *Frente País Solidario*, Political party (Argentina)  
 FRN - *Fundo Rodoviário Nacional*, National Highway Fund  
 FSR - *Fundo Solidario de Redistribución*, Solidarity Redistribution Fund  
 GEIPOT - *Grupo Ejecutivo de Integración da Política de Transporte*, Executive Group for Integration of Transportation Policy (Brazil)  
 IADB - *Inter-American Development Bank*  
 IBGE - *Instituto Brasileiro de Geografia e Estatística*, Brazilian Institute of Geography and Statistics (Brazil)  
 IDESA - *Instituto para el Desarrollo Social Argentino*, Institute for Argentine Social Development  
 IFI - International Financial Institution  
 IMF - International Monetary Fund  
 INAP - *Instituto Nacional de la Administración Pública*, National Institute of Public Administration (Argentina)  
 IPEA - *Instituto de Pesquisa Econômica Aplicada*, Institute of Applied Economic Research (Brazil)  
 LOA - *Lei Orçamentária Annual*, Annual Budget Law (Brazil)  
 LRF - *Lei de Responsabilidade Fiscal*, Fiscal Responsibility Law (Brazil)  
 MARE - *Ministério da Administração e Reforma do Estado*, Ministry of Administration and State Reform (Brazil)  
 MS - *Movimento Sanitário*, Public Health Movement (Brazil)  
 OA - *Oficina Anticorrupción*, Anticorruption Office (Argentina)  
 OCCOVI - *Órgano de Control de Concesiones Viales*, Agency for the Control of Highway Concessions (Argentina)  
 ONC - *Oficina Nacional de Contrataciones*, Office of National Contracting (Argentina)  
 PAC - *Programa de Aceleração do Crescimento*, Growth Acceleration Program (Brazil)  
 PAMI - *Programa de Atención Médica Integral*, Integrated Health Care Program (Argentina)  
 PDS - *Partido Social Democrata*, Democratic Social Party (Brazil)  
 PDT - *Partido Democrático Trabalhista*, Democratic Labor Party (Brazil)  
 PFL - *Partido da Frente Liberal*, Liberal Front Party (Brazil)  
 PJ - *Partido Justicialista*, Justicialist Party (Argentina)  
 PMDB - *Partido do Movimento Democrático Brasileiro*, Brazilian Democratic Movement Party  
 PNLT - *Plano Nacional de Logística de Transportes*, National Plan of Transportation Logistics  
 PNUD - *United Nations Development Program*  
 PP - *Partido Progressista*, Progressive Party (Brazil)  
 PPB - *Partido Progressista Brasileiro*, Brazilian Progressive Party

PPI - *Projeto Piloto de Investimento*, Pilot Project of Investment (Brazil)  
 PPP - Public-Private Partnerships  
 PPS - *Partido Popular Socialista*, Socialist People's Party (Brazil)  
 PR - *Partido da República*, Party of the Republic (Brazil)  
 PRN - *Partido de Reconstrução Nacional*, National Reconstruction Party (Brazil)  
 PSB - *Partido Socialista Brasileiro*, Brazilian Socialist Party  
 PSDB - *Partido Social Democracia Brasileira*, Brazilian Social Democracy Party  
 PSF - *Programa Saúde da Família*, Family Health Program (Brazil)  
 PT - *Partido dos Trabalhadores*, Worker's Party (Brazil)  
 PTB - *Partido Trabalhista Brasileiro*, Brazilian Labor Party  
 RDC - *Regime Diferenciado de Contratações*, Differential Contracting Regime (Brazil)  
 RFFSA - *Rede Ferroviária Federal*, Federal Railroad Corporation (Brazil)  
 SECOP - *Sistema Electrónico de Contrataciones Públicas*, Electronic System of Public Procurement (Argentina)  
 SEPA - *Sistema de Ejecución de Planes de Adquisiciones*, Procurement Plan Execution System (Argentina),  
 SERPRO - *Serviço Federal de Processamento de Dados*, Federal Data Processing Service (Brazil)  
 SFP - *Secretaría de la Función Pública*, Ministry of Public Administration (Argentina)  
 SHI - *Seguro Social de Salud*, Social Health Insurance (Argentina)  
 SICONV - *Sistema de Gestão de Convênios e Contratos de Repasse*, Management System for Federal Transfers and Agreements (Brazil)  
 SINAPA - *Sistema Nacional de la Profesión Administrativa*, National System of the Administrative Profession (Argentina)  
 SindusCon-SP - *Sindicato da Indústria da Construção Civil do Estado de São Paulo*, Civil Construction Industry Syndicate of the State of São Paulo (Brazil)  
 SOFSE - *Operadora Ferroviaria Sociedad del Estado*, Railway Operating Society of the State (Argentina)  
 SSGP - *Subsecretaría de la Gestión Pública*, Undersecretary of Public Management (Argentina)  
 SSS - *Superintendencia de Servicios de Salud*, Superintendent of Health Services (Argentina)  
 SUS - *Sistema Único de Saúde*, Brazilian Unified Health System  
 SVS - *Secretaria de Vigilancia em Saúde*, Ministry of Health (Argentina)  
 TBA - Trains of Buenos Aires (Argentina)  
 TCU - *Tribunal de Contas da União*, Court of Audit of the Union (Brazil)  
 UCR - *Unión Cívica Radical*, Radical Civic Union (Argentina)  
 UFI-S - *Unidad de Financiamiento Internacional de Salud*, International Health Financing Unit (Argentina)  
 UGOFE - *Unidad de Gestión Operativa Ferroviaria de Emergencia*, Railway Operation Emergency Management Unit (Argentina)  
 UNASUS - *Universidade Aberta do Sistema Único de Saúde*, Open University of the Unified (National) Health System (Brazil)



VALEC - *Engenharia, Construções e Ferrovias SA*, VALEC-Engineering, Construction and Railroads (Brazil state-owned rail company)

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