I

Introduction

The Varied Advances in Quality of Governance

The piecemealing, remedial incrementalist . . . may not look like a heroic figure. He is nevertheless a shrewd, resourceful problem-solver who is wrestling bravely with a universe that he is wise enough to know is too big for him.

Lindblom (1968, 27)

Me and my team, we try to fight everywhere a fight exists. We don’t believe that piece-by-piece is possible to change the institution . . . When you go piece-by-piece people are not able to see where you go.

It is like the intensive care unit . . . If the lungs and heart are failing and you take care of only the heart, you will lose the patient. I don’t have time to go piece by piece.

Dr. Carlos Regazzoni, Argentina

This book is about public sector reforms in developing democracies, what makes them successful, and the political conditions that foster success.

As seen in Latin America in the 1980s, Eastern Europe in the 1990s, and in this decade’s Arab Spring, popular mobilization for democracy often raises hopes that elected leaders will attack the corruption, cronyism, inefficiency, and red tape that cripple states’ abilities to deliver promised goods and services to their citizens. Indeed, in the last 30 years, politicians in developing democracies have made countless attempts to transform how, and how well, the state works. The advent of elections seemed to promise that leaders accountable to the people would sweep out corruption along with the privileged autocrats and their cronies who enriched themselves at the expense of the public interest. The results of democratic leaders’ efforts to reform the state, however, varied
considerably. On one hand, many countries have increased transparency, ensured greater accountability, and strengthened institutions. Yet democracies often disappoint: Even when dictators and autocrats lie dead or languish in exile, even when democratically elected leaders implement reforms, corruption often persists. Security remains precarious while the quality of roads, health care, and education is left wanting. Why do governance reforms in developing democracies so often fail? Why have some countries been able to make progress in reform and state building while others have remained mired in corruption and plagued by weak institutions?

Elected leaders, policymakers, and scholars have long argued that reforming dysfunctional institutions requires radical, non-incremental, or “big bang” change during windows of opportunity (e.g., Åslund 1994; Durand and Thorp 1998; Rothstein 2011b, 117). I call this strategy the powering approach, drawing on Hugh Heclo’s (1974) classic term. It is no surprise that politicians seek to garner popular support by calling for forceful overhauls to sweep out corruption and enhance accountability. After all, election cycles are short, and voters elect representatives to make political institutions responsive to popular demands. A piecemeal approach is often criticized for being slow to address crises, incoherent in approach, and vulnerable to entrenched opposition.

Theories of institutional change likewise privilege the powering approach. Institutions, according to dominant paradigms, resist change. Under normal conditions, beneficiaries of the status quo block reform attempts, and “self-reinforcing” equilibria or “increasing returns” keep institutions on defined trajectories. Thus proponents argue that change requires a big push. If reforms are carried out more gradually, opposition forces will coalesce and block them; if reforms are partial or incremental, they will fail to undercut vested interests. Political entrepreneurs or reform champions, capable of harnessing political will to push change past opposition during windows of opportunity, are considered crucial for replacing dysfunctional institutional arrangements with policies that engender more salutary incentive structures. As stasis returns, such reform becomes durable and self-enforcing. Thus, according to a prominent strain of the literature, the problem is not about designing policy changes but rather pushing change past resistance. For these reasons, many scholars agree that powering is the best way to tackle reforms.

Since the third wave of democratization, Latin American leaders have applied the powering approach again and again, from Jeffrey Sachs’ shock therapy in hyperinflationary 1980s Bolivia to the World Bank’s support...
for privatization and decentralization in the 1990s. During this time, exceptional twin moments of democratization and economic crisis gave rise to sweeping transformations of Latin American states as they adopted prescriptions for radical political and economic change. In the following twenty years, diverse institutions across varied domains (ranging from social and economic policy to civil service) were created, revitalized, or restructured. Even when these exceptional moments passed, many Latin American political leaders continued to pursue institutional overhauls. Such organizational processes as budgeting, information systems, coordination mechanisms, control, and oversight were overhauled and modernized; police and security agencies were reconfigured; and new ministries were conceived to fight corruption while enhancing transparency and openness.

Yet the results call into question the powering view. Beginning in the late 1980s, political leaders who pursued the powering approach by swiftly implementing comprehensive institutional overhauls were initially commended. International financial institutions praised Argentina’s rapid and extensive privatization efforts. Brazil’s transformation of state-owned Petrobras was lauded for changes to contracting rules that would provide greater flexibility for the oil giant to operate more like a private company. Experts extolled Chile’s radical pension reform and Colombia’s comprehensive health plan as models to emulate. Each of these reforms had their critics, to be sure, but the use of, and praise for, the powering approach emerged not only from advocates of neoliberal policies but also from domestic actors supporting a variety of policies along the ideological spectrum.

Such assessments have proved premature. As Niccolò Machiavelli recognized in *The Prince* (1532), “It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage, than a new system. For the initiator has the enmity of all who would profit by the preservation of the old institution and merely lukewarm defenders in those who gain by the new ones.” Powering reforms did not produce the desired effect in many cases. The privatization in Argentina in the 1990s gave way to renationalization in the following decades; the sweeping changes to Petrobras’s contracting rules contributed to the largest corruption scandal in Brazil’s history; Chile’s pension reform, once an international model, is now unsustainable and will likely require further reform. Over time, such institutional transformations have been counterproductive – plagued by performance problems, subject to backlash and credibility issues, even reversed entirely.
Indeed, the most ambitious overhauls of the state in many Latin American countries have resulted in serious, long-lasting problems. Overhauls have in some cases sparked cycles of institutional deterioration, with one set of thoroughgoing changes begetting another, in pendular fashion.

Despite the failure of ambitious powering reforms, Latin American countries have made substantial advances in many policy areas. Over the last few decades, social policies have lifted millions out of poverty, and substantial gains have been made in key areas of public health service provision. Institutions of accountability in many countries are now capable of shedding light on the highest levels of political corruption. Paradoxically, many countries labeled reform laggards – those unable to muster the political will to push through difficult but necessary changes, or where large-scale changes were watered down, stalled, or halted completely – have gone on to achieve sustained growth, improved security, sounder infrastructure, and enhanced accountability.

These seemingly paradoxical outcomes lead 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 book answers the broader question: When and how do states in Latin American democracies transform corrupt, weak institutions into durable, accountable, transparent institutions?

This study answers these questions by examining governance reform in Brazil and Argentina. Starting in the late 1980s, executives and public officials in both countries pursued similar sets of reforms to improve the public sector and the provision of public goods and services. While both countries applied the powering approach in some cases, Argentina did so far more frequently. Tracing reforms over time in two policy areas – health and transport infrastructure – captures the interplay between reform choice and the broader forces that condition such choices. In particular, I focus on efforts to enhance accountability, increase transparency, and reduce corruption in government contracting, an area crucial for government performance.

The symmetry of this research design – looking at the same sectors of both countries over time – avoids common pitfalls of focusing narrowly on a particular policy area or a particular moment in time, which can distort or miss the broader picture. I maintain a broad focus on government contracting and service provision in the two different policy areas of health and transportation. The scope of analysis presented in the following chapters zooms out to capture high-level dramatic changes but, especially in times of comparatively more stasis, zooms in to show how more
modest changes were quietly sequenced over time, resulting in greater transformations. Based on extensive field research and a wealth of personal interviews with reform decision-makers, my book reconstructs the considerations, constraints, and decision-making calculus of reform leaders. In this way, it elucidates how and why decision-makers pursued one reform strategy over another; why reforms succeeded in advancing and achieving their goals; and what made changes durable or led to their reversal over time.

The application of cognitive-psychological insights of decision-making to the study of institutional change turns conventional thinking about reform on its head. The rational choice and historical institutionalist paradigms would both predict powering reforms to be more effective than incremental approaches. When cognitive limitations are added to the analysis, however, the advantage of the powering approach becomes a disadvantage. Rapid, far-reaching changes led by politically appointed technocrats increase not only decision-makers’ propensity for making mistakes but also the backlash to change. The dominant literature takes for granted the ability of political leaders to achieve their goals, underplaying the difficulties of crafting complex solutions and besting the enduring resistance that radical reforms encounter. Yet in Latin America and elsewhere, intentional and targeted incremental changes have resulted in cumulatively significant transformations. As this book demonstrates, the choice of approach to reform has important implications for the extent to which mistakes are made and enemies created.

Approaching change piece by piece and enhancing the role of state insiders – even though insider-driven change is often seen as slow, unsystematic, disorganized, and self-serving – increases the success and durability of reform and can lead to gradual transformations. Continual adjustments and modifications are improved by learning, and an incremental approach makes reform more durable and helps preserve bureaucratic autonomy, especially in weak institutional environments. This argument complements recent work on development, state capacity, social policy, and institutional reform in rejecting big-bang, one-size-fits-all approaches (Tendler 1997; Huber and Stephens 2012, 257; Abers and Keck 2013; Andrews 2013; Levy 2014; Andrews, Pritchett, and Woolcock 2017) but is unique in providing an explanation with theoretical micro-foundations for the success or failure of reform. In doing so, my argument builds on classic insights – Hirschman’s (1973) “revolutions by stealth,” Lindblom’s (1959) “muddling through,” and Heclo’s (1974) account of technocrats “puzzling” through problems in developing
The Varied Advances in Quality of Governance

modern welfare states – and integrates them into a dynamic framework for assessing the effectiveness and durability of policy change.

Instances of powering in Brazil and Argentina were plagued by performance problems, backlashes, and credibility issues and are subject to reversals in the long term. The deepest, most ambitious overhauls of the state, such as transportation reforms in the early 1990s, eviscerated institutions and produced enduring challenges. Targeted problem solving advanced in a frustratingly slow process, yet these cautious, gradual changes ultimately resulted in thorough transformations that tended to be more sustainable.

Even so, the powering approach was adopted far more frequently in Argentina than in Brazil. This raises a second important question: Why do countries continue to employ powering if it does not prove effective? More generally, why do some states tend to choose root-and-branch changes while others adopt gradual approaches? In answering this second set of questions, the effects of macro factors on policymakers’ decisions are explored. Scholars employing a macro lens argue that the choices about reform strategies made by politicians and public officials are constrained by institutional or structural factors. This broad literature on development, state capacity, and rule of law, which emphasizes a variety of factors such as war, colonialism, geography, or more specific institutional characteristics, has made important contributions to understanding democracy and governance (e.g., Grzymala-Busse 2007; Spiller and Tommasi 2007; Acemoglu and Robinson 2012; Melo and Pereira 2013; Mungiu-Pippidi 2015; Soifer 2015). Such work is rarely integrated with literature on policy, public administration, or development interventions. This study integrates structure and agency to show how entrenched patterns of executive power sharing influence the characteristics of reforms and reformers.

THE MORAL OF THE STORY: THE TURTOISE BEATS THE HARE

What types of reform processes result in effective and enduring improvements? 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, 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, a 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 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. Experienced technocrats working on smaller problems are less subject to errors in decision-making than political leaders and outsiders attempting to craft perfectly calibrated overhauls in one shot. Thus decision-makers are far more likely to reach their objectives because the targeted, problem-solving approach reduces problem complexity and enhances the role of decision-makers with greater capacity. Although such changes often advance slowly and haltingly, they can accumulate over the medium to long term and result in thorough transformations.

By contrast, powering implies selecting or designing a wholesale reform that aims to get to the root of numerous problems simultaneously. Such an extraordinarily difficult task pushes cognitive capabilities to their limits, making systematic information processing and balanced, logical calculations nearly impossible. The bounds of rationality are especially tight when sweeping reforms are undertaken by technocratic outsiders with shorter time horizons who lack the type of contextual expertise important for understanding the effects of change in a new environment.

Although insider technocrats may be more likely to pursue a gradual approach owing to their experience and distance from political power, successful reform does not require their participation. Political leaders and outsider technocrats often – but not always – take a swift, comprehensive approach because time is limited and the bounds of rationality are especially tight; yet they too can adopt a problem-solving approach. Reform strategy, not reformers themselves, emerges as the crucial variable in calculations of long-term success.

Second, small changes sequenced over time make reform more sustainable and help preserve bureaucratic autonomy, especially in weak institutional environments. Powering breaks down institutions before attempting to build them up, whereas modest, gradual change addresses problems in the existing institutional framework. And while 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 and supporters without raising the objections of a new, anti-reform constituency. In this way, changes are woven into existing rules and practices, strengthening institutions. Moreover, insider technocrats who lead modest reforms are likely to remain at their posts when political constellations shift, safeguarding their positions and creating opportunities to extend their reforms.

My argument explains variation in the quality of governance within national states, as well as cross-nationally and longitudinally. In some countries, health agencies are islands of bureaucratic excellence while infrastructure agencies are mired in corruption; in other states, the reverse is true. As the following chapters will show, such differences are largely shaped by reform strategies. In both Brazil and Argentina, the process-tracing analysis shows how attempts to achieve short-term policy goals by rapidly revamping institutions resulted in long-term problems. Although the problem-solving approach initially advanced slowly, it resulted in impressive change over time. In short, the tortoise beat the hare.

Why do countries continue to adopt powering if it does not prove effective? As the following chapters illustrate, the powering approach was adopted far more frequently in Argentina than in Brazil. Again and again in Argentina, success in the first stage of powering, wiping out the status quo, ultimately jeopardized the second stage of institutional reconstruction and consolidation. Furthermore, as time revealed, corruption and inefficiency proliferated in the new institutions, leading perversely to new attempts at wholesale reform. By contrast, while Brazil has adopted fewer powering reforms, problem solving has gradually, often almost imperceptibly, advanced, transforming the institutional framework in many areas. What explains the recurring choice to institute wholesale change in some countries while others so frequently opt for incremental reform?

To answer this second set of questions, the book examines the influence of political-organizational context on policymakers’ decisions to embark on sweeping transformations or to proceed more gradually. I argue that entrenched patterns of executive power sharing, rooted in the long history

---

1 As Chapter 8 addresses in further detail, such unevenness also helps shed light on the paradoxical nature of corruption and accountability in Brazil. While the enduring effects of powering facilitated the proliferation of corruption in certain areas, problem-solving efforts to rein in corruption developed in other areas, contributing to the unprecedented Lava Jato investigations beginning in 2014.
of how power is organized and exercised, account for the cross-national differences in dominant reform strategies; i.e., the choice of powering versus problem solving. Who reformers are and how they reach their positions have direct consequences for the choice of reform strategy. Inclusionary governance patterns (presidents sharing executive power with coalitions) result in greater reliance on problem solving, whereas exclusionary governance patterns (the ruling party dominates the executive, appointing single-party cabinets) result in greater reliance on the powering strategy. This argument builds on components of Lijphart’s (2012) classic distinction between consensus and majoritarian democracies by offering a precise causal mechanism linking different forms of democracy to better results (see also Mainwaring 2001, 170).

Paradoxically, political-organizational contexts that hinder grand reform attempts may facilitate greater long-term success. This argument challenges conventional wisdom. Scholars have often highlighted the importance of decisive, efficient decision-making, emphasizing the problems of gridlock for democratic stability (Mainwaring 1993; Stepan and Skach 1993). Presidentialism and fragmented government have been thought to be the worst combination for instituting reform. My argument suggesting instead that such inclusionary governing institutions may facilitate a more effective and enduring approach to certain public-sector reform efforts.

Historically, Argentina’s executive power has been concentrated in single-party cabinets, which has facilitated large-scale change. In Brazil, however, established patterns of inclusionary multiparty presidentialism have frustrated big-bang reform attempts. The absence of repeated overhauls has provided opportunities for technical experts within the Brazilian government to advance individually small but often cumulatively significant changes. In summary, the experiences of Argentina and Brazil illustrate how shared executive power tends to lead to targeted problem solving, whereas concentrated executive power facilitates powering.

The organization of executive power mediates the impact of cognitive limitations on political decision-making by shaping (1) the scale and speed of the reforms pursued, and (2) the type of individuals involved. Consequently, arguments that establish micro-foundations for reform success are situated in a broader political-institutional context, providing an integrated explanation for the development and success of public sector change.
The Varied Advances in Quality of Governance

THEORETICAL CONTRIBUTIONS

With its novel application of cognitive-psychological insights about decision-making to governance reform, this study provides a dynamic framework for assessing the effectiveness and durability of policy change. In doing so, its argument contributes to research on the foundations of decision-making.

All humans make mistakes in decision-making. This has been thoroughly established by Kahneman (2011) and others in well-documented experimental studies of cognitive shortcuts. After hearing of high-profile plane crashes, for example, we tend to overestimate the likelihood of such an unusual event. Indeed, some scholars have applied such findings to particular attributes of political rationality (Weyland 2006; 2014), and many rational choice scholars now recognize the importance of uncertainty and cognitive limitations. Nevertheless, the integration of bounded rationality into the study of politics seems to have stalled. Scholars know that cognitive limitations are at play, but how to apply this knowledge to political problems? Mappings of human systematic errors are complex. Which of the many diverse heuristics that may be applied in any given situation matter? How can one know which failure of judgment could befall political actors operating in the complex political world? Applying the insights of cognitive psychology only enhances the ambiguity and complexity of the task faced by many researchers.

Seizing on the initial insight of Herbert Simon about when and how cognitive limitations matter, my argument provides a framework for making bounded rationality tractable for a range of political questions. The extent to which decision-makers err and fall short of full rationality depends vitally on two factors: the capability of the decision-makers and the complexity of the task at hand (Newell and Simon 1972; Simon 1990). My study leverages these insights by illustrating how reform approach influences both factors. Designing and implementing profound and systematic change implied by powering is a terrifically complex task, which tends to be carried out by elected officials and their political technocrats. Such individuals are often “outsiders” to the public sector, which means they have shorter time horizons and often lack experience within the institutions they seek to reform. Problem solving, on the other hand, reduces the complexity of problems by breaking each into smaller pieces; this approach tends to be adopted by individuals with extensive experience in the public sector, drawing on networks of support within the government to enhance their capabilities. Consequently, the problem-