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WHAT DOES POLITICAL ECONOMY TELL US ABOUT ECONOMIC DEVELOPMENT—AND VICE VERSA?*

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■ **Abstract** This essay reviews how three pillars of political economy—collective action, institutions, and political market imperfections—help us answer the following question: Why do some countries develop and not others? Each advances our understanding of who wins and who loses in government decision making, generally, but only a subset of this literature helps us answer the question. The study of political market imperfections strongly suggests that the lack of credibility of pre-electoral political promises and incomplete voter information are especially robust in explaining development outcomes. From the institutional literature, the most powerful explanation of contrasting development outcomes links political checks and balances to the credibility of government commitments.

INTRODUCTION

The problem of underdevelopment is in substantial measure one of government failure, and therefore political failure, in developing countries. A vast literature has illuminated the roles of interest groups, institutions, and political market imperfections in shaping the actions of government. However, there has been no systematic effort to establish how the political economy literature answers the question, "Why are some countries economically developed and others not?" This essay addresses this question.

Two government failures are the focus of this essay. One is the adoption of policies that unnecessarily leave most people in society worse off.[1] The other is

*The findings, interpretations, and conclusions expressed in this paper are entirely those of the author and do not necessarily represent the views of the World Bank, its Executive Directors, or the countries they represent.

[1]"Unnecessarily" in the sense that Pareto-superior policies, which would have made some better off without making others worse off, could in principle have been adopted.

the inability to make credible promises to refrain from opportunistic behavior.[2] The first, policy inefficiency, has been examined using each of the three pillars of political economy analysis—collective action, institutions, and political market imperfections.

The theory of collective action rests on the hypothesis that organized groups of voters exert more pressure on politicians than do unorganized groups. This theory explains systematic policy failure in developing countries if special interests in poor countries are particularly well organized and antagonistic to broader development objectives. The second pillar focuses on the institutions that structure how politicians gain and retain power and determine who can propose or must approve policy change. Institutional differences account for differential development if the formal institutions of poor countries yield greater inefficiencies in policy making than formal institutions in rich countries. Finally, policy distortions may be driven by imperfections in political markets. These include the lack of voter information, the lack of credibility of pre-electoral political promises, the "all or nothing" nature of many political choices (such as the need to choose a single candidate to represent voter interests on multiple dimensions), and the polarization of the electorate across politically relevant dimensions. If these imperfections are more pronounced in less developed countries, they can explain differential development outcomes.

The second government failure—the inability to make credible commitments—handcuffs governments in numerous ways, from monetary policy to their ability to encourage investment. This literature tends to focus on the relative size and power of economic interests in a country; formal institutions, particularly the extent of political checks and balances and the voting franchise; and political market imperfections, particularly the inability of politicians to make credible pre-electoral promises. Researchers in this area, more than in any other, attempt to explain divergent experiences of economic development and argue explicitly that governments in poor countries are less able to make credible commitments.

This review sidesteps discussion of the determinants of policy efficiency in autocracies, simply because the literature on the political economy of democracies is far more advanced. However, the entire debate surrounding the sources of government credibility implicitly contrasts autocratic forms of government, which have no elections and no political checks and balances, with governments that exhibit these institutional features. Similarly, following the literature, the discussion

[2]The two failures are linked, since government credibility influences policy choice. Governments that know their promises regarding the future are not credible have less incentive to undertake policies that only bear fruit if citizens believe government promises regarding the future. A third significant category of government performance relates to redistribution and inequality. These enter the analysis below as a puzzle, because of the absence of massive redistribution in highly unequal countries where the poor majority can and do vote; and as an explanation, because a significant literature attributes the failure of some countries to develop precisely to initial conditions of significant inequality in society.

below relies heavily on cross-country statistical comparisons to make the case that particular political economy features do or do not promote development; but in arguing that electoral systems or interest group characteristics drive political behavior in particular ways, relatively more evidence is drawn from research in Latin America, where scholars have been especially active in linking formal institutions and political decision making. Finally, although the discussion here has implications for the political economy of reform, that large and important literature is not directly considered.

The conclusion of the essay is straightforward to foreshadow. All the strands of political economy analysis have dramatically improved our ability to understand the determinants of government decision making. Only a subset of the literature, however, so far offers a convincing explanation for development. Within the literature on institutions, analyses of checks and balances among political decision makers provide the most robust explanation. Analyses of imperfections in political markets, particularly information and pre-electoral credibility, offer another useful perspective on development. Other analytical levers from the political economy literature provide less help in understanding why some countries are developed and others are not.

VARIATIONS IN GOVERNMENT PERFORMANCE AND ECONOMIC DEVELOPMENT

Countries exhibit enormous variation with respect to both their policy choices and their credibility. With respect to policy efficiency, taking into account per capita income, average secondary school enrollment in 154 countries in 1995 varied more than 100 percentage points from the minimum to the maximum.[3] Enrollments in the top 25% of countries were more than 34% higher than in the bottom 25%. One commonly used measure of credibility is an indicator of the rule of law. On a six-point scale, again controlling for per capita income, the lowest-scoring 25% of countries scored more than one point below the best-performing quartile. Similarly, on a six-point scale, the most corrupt quartile of countries was more than 1.5 points more corrupt than the least corrupt quartile.[4] Taking policy and credibility failures together, it is not surprising that from 1975 to 2000, income per capita in the fastest-growing quartile of countries grew more than two percentage

[3]That is, first ask: What is the policy we expect given the country's income? Then subtract the actual policy from the predicted policy. This difference or residual gives the policy of a country holding constant the effects of income. A positive residual means that actual policy is better than what one might have expected on the basis of income; a negative difference means that actual policy is worse.

[4]Income, growth, and school-enrollment data are from the *World Development Indicators* (World Bank 2003). Rule-of-law and corruption data are from Political Risk Services' *International Country Risk Guide* (unpublished data).

points per year faster than in the slowest-growing quartile—a difference that, by the year 2000, meant that the incomes per capita in the slower-growing quartile were more than 60% lower than they otherwise would have been.

One could argue that these discrepancies, even controlling for income, are outside government control. Many factors enter into school enrollments that are unrelated to government policy; this is even more true with respect to growth. However, again controlling for income per capita, the top quartile of countries spent more than seven percentage points more on education, as a fraction of total government spending, than did the lowest-spending quartile (World Bank 2003). It may not be surprising, therefore, that if one simply correlates growth across countries and asks how poor countries are doing relative to rich countries, one finds that divergence between the two groups is increasing (Pritchett 1997). These differences are a core puzzle of the social sciences.

Collective Action: Economic Interests and the Shaping of Government Policy

Why are some economic interests better able to impose their preferences on government policy than others? Olson (1965) answered this question by arguing that those economic interests least able to overcome collective action problems in order to project their demands on politicians are most likely to bear the costs of political decision making. The influence of a group depends not only on the economic gain or loss that a group might incur from government action but also on the group's size and organizational ability. Hardin (1982) further elaborates on this theme to analyze the informational and other barriers to collective action.

The notion that economic interests affect policy has been a mainstay of research into policy change in the United States. McGuire & Ohsfeldt (1986) find that slaveholding voters at state-level constitutional assemblies resisted constitutional provisions that gave greater authority to the national government and, thereby, to the majority nonslaveholding northern states. Romer & Weingast (1991) show that congressional votes concerning the U.S. savings and loan crisis were significantly determined by whether legislators' voting districts—the key institutional variable—were dominated by solvent or insolvent thrift institutions. In his analysis of congressional action regarding various international financial crises, Broz (2002) finds that legislators from districts with many low-skilled workers were most likely to oppose international financial bailouts (e.g., loans to Mexico to stave off its default). His research suggests that emergency responses to international crisis that appear driven by executive-branch decision making are in fact not at all insulated from the usual factors of legislative politics. Kroszner & Strahan (1999) address the puzzle of a change in a regulatory status quo that had persisted for decades: the prohibition against branch banking. Small banks had long opposed laws that allowed large banks to set up branches. Kroszner & Strahan link the sudden softening of this opposition to a technological innovation, namely the introduction of automated teller machines.

Bates (1981) pioneered the application of collective action theory to policy outcomes in developing countries. He links agricultural policies in some African countries—a mix of harsh price controls on agricultural outputs administered by monopsony marketing boards and generous direct and indirect subsidies on imported agricultural inputs —precisely to the differential influence of interest groups on politicians. In contrast to the work in American politics, he focuses on the characteristics of the interest groups themselves. He argues that these policies can be traced directly to the loose organization of the mass of small farmers who use few of the imported inputs; to the successful collective action of relatively few large farmers to receive input subsidies that offset the price controls; and to the need to subsidize food purchases of urban residents because of the relative ease with which they can be mobilized politically in opposition to the government. This and other contributions, in both developed and developing countries, leave little doubt that organized interest groups have significant advantages in the making of policy.

Research based on the theory of collective action has seldom asked why some countries consistently pursue more welfare-enhancing policies than others. Three possibilities nevertheless emerge from Olson's work.

One is crisis. Olson (1982), in *Rise and Decline of Nations*, argues that World War II upset the entire structure of interest groups in affected countries. With their organizational capacity in tatters and their links to authority severed, entrenched special interests were no longer able to exercise a "sclerotic" effect on economic policy making and growth. This book excited significant response, admiring of the power of its parsimonious theory and sometimes skeptical about the historical evidence marshaled in support of the theory. However, there seems to be little scope for using crisis to explain the difference between developing and developed countries. Developing countries are among the most upheaval-prone in the world, but within these societies it is actually the best-organized interest groups that seem to be most resilient. For example, despite the departure of the Suharto regime, the transition to democracy, and severe economic crisis, the former cronies of the old regime—special interests *par excellence*—continue to hold sway over privatization, deregulation, and anticorruption efforts in Indonesia (*Oxford Analytica Daily Brief* 2003).

Second, the sheer number of interest groups might affect their overall impact. Multiple interest groups, competing for state attention, might offset each others' influence. Experience suggests otherwise, however. In conditions where interest groups are strong generally, governments tend to respond to interest group competition by arranging logrolls that give competing interest groups what they want at the expense of unorganized interests. Omnibus legislation emanating from the U.S. Congress frequently provides examples of this. Bates (1981) concludes that in the African countries he examines, all special interests (large farmers, urban residents) were satisfied at the expense of unorganized interests (small farmers).

Finally, it might be that countries differ in the prevalence of well-organized groups with interests antagonistic to development. This is implicit in the work of

Frieden (1991). He explores the role of economic interests in the quite different responses of five Latin American countries to similar crises. Two hypotheses frame the argument. The greater the internal cohesion of a particular economic sector, the stronger is its influence on government response to crisis; and the more a sector stands to gain or lose from policy change, the more it will invest in exerting influence. The first hypothesis is familiar. The second rests on the notion that sectors with assets that cannot be easily transferred to other uses—sectors with more specific assets—have the most to gain from influencing policy.[5] Bates (1983) similarly argues that the nature of production (in his case, cocoa in Ghana and cereal grains in Kenya) systematically influences producer incentives to act collectively or collusively.

Firms that derive large rents from natural resources or from government-established barriers to entry, or that are capital-intensive, with capital equipment useful only in the production of particular goods, have stronger interests in mobilizing. An important aspect of asset specificity is pre-existing government privileges for a sector. If there are high rents to production in a particular sector because of government privileges, and those privileges are not transferable to other sectors, then the assets of firms in the privileged sector are highly specific. However, Frieden explicitly abstains from explaining why more such privileges exist in some countries than in others.

The work of Bates and Frieden carefully charts the role of interest groups in policy failures of developing countries. Their arguments are not meant to identify why the influence of interest groups is more pernicious in some countries than in others. However, their conclusion—that the characteristics of the economic activities in which interest groups are engaged are a significant determinant of interest group activity—is reflected in subsequent research that examines the relationship between the nature of economic interests in a society and economic development. Engerman & Sokoloff (2002) and Acemoglu et al. (2002) observe first that economies differ systematically in the extent to which economic rents can be concentrated in a few hands. Some economies, such as those in many Spanish colonies in Latin America, relied on capital-intensive mineral extraction or plantation-style agriculture. Rents in other areas, such as many North American British colonies, could be extracted only through the efforts of large numbers of colonists as they worked in small agricultural plots or small manufacturing endeavors.

Engerman & Sokoloff (2002) painstakingly demonstrate that Latin American and Caribbean countries based on plantation agriculture or mineral extraction

[5]Williamson (1985) first described the problem of asset specificity as the potential that a firm could be held up by a trading partner because the firm's assets were useful only in producing goods to sell to that trading partner. Frieden's notion is somewhat different. Assets are specific when firms cannot use their assets outside the sector that government might regulate, independent of how many trading partners the firm has.

generated a wide range of policy inefficiencies. Their argument, and that of Acemoglu et al. (2002), is that the early comparative economic advantage of these countries lay in economic activities that naturally concentrated wealth in a few hands. Political power followed economic power, and the politically powerful had no incentive to permit an even economic nor political playing field for citizens. They imposed high barriers to entry into manufacturing and finance, underprovided education, and limited the electoral franchise to a small slice of the citizenry. In the United States, in contrast, particularly the northern states, the nature of economic activity created a greater demand for skilled labor, and the situation was precisely the reverse. Acemoglu et al. (2002) look at similar facts but emphasize the second important government failure: the inability to make credible promises to citizens. This is discussed in greater detail in later sections.

Despite different emphases, the essential point in both Engerman & Sokoloff (2002) and Acemoglu et al. (2002) is that the initial allocation of rents discourages institutional developments that are conducive to growth and development.[6] Institutions, then, rather than collective action theory, are the key link in their argument from economic interests to economic development. Although these researchers point to institutions such as the franchise and restraints on the executive, their work paints with a broad institutional brush. This naturally leads one to ask which institutions matter for development. The next section of this essay reviews some of the rich literature linking political and electoral institutions to political incentives to pursue efficient policies.

The Institutional Links from Economic Interests to Economic Policies

The interest group literature is persuasive that policy inefficiencies tend to emerge because politicians weight interest group objectives more heavily than those of the average citizen of a country. Substantial progress has been made in understanding the circumstances under which political competitors are more likely to appeal to citizens broadly or to special interests narrowly. One branch of this research has focused on the analysis of formal electoral and political institutions (e.g., parliamentary versus presidential forms of government).[7] To the extent that formal institutions in developing countries differ from those in developed countries, and can explain systematic policy failures in developing countries

[6]Similarly, Rueschmeyer et al. (1992) argue that the success of British colonies was generally (though not universally) due to the lack of control of local elites over the colonial state. Why this lack of control prevailed is precisely what Engerman & Sokoloff and Acemoglu et al. attempt to explain.

[7]The labels of "political" for those institutions that govern political decision making of officials already in government, and of "electoral" for those institutions that govern how officials get to office, are used purely for expository convenience.

relative to developed countries, they also can account for divergent development experiences.[8]

To determine whether electoral and political institutions penalize politicians for satisfying special interests at the expense of the national interest, one must first establish what kinds of policies are generally associated with special or national interests.[9] Most of the work comparing the policy effects of formal institutions focuses on budget policies. Under this rubric, the usual assumption in the literature is that narrowly targeted spending, with no positive spillovers to the wider population, favors special interests. Public-good spending and redistributional spending that benefits large segments of the population do not. Other metrics for assessing whether politicians pursue the public interest are potentially preferable, but since they are difficult to measure and test, the literature focuses on budgets.

For example, Cox & McCubbins (2001) argue that institutions influence the tradeoff between policies targeted at narrow or broad constituencies, depending on whether institutions give candidates incentives to develop personal constituencies or give parties incentives to splinter. Persson & Tabellini (2000) distinguish electoral institutions in a slightly different way; they ask whether electoral institutions give politicians incentives to provide narrow or public goods, but also ask whether they moderate or exacerbate politician incentives to engage in rent seeking. Milesi-Ferretti et al. (2002) analyze a third permutation: the incentives of government to provide group-specific or geographically targeted benefits.

ELECTORAL INSTITUTIONS Cox (1997) highlights three electoral institutions that influence policy tradeoffs between nationally and narrowly targeted policies. How many votes can voters cast? How large are district magnitudes? More votes and larger magnitudes increase incentives for parties to splinter. Can voters express a preference for individual candidates? If so, candidates have strong incentives to seek personal constituencies, even at the expense of their party and its orientation

[8]There are many other institutional debates in the political economy literature. For example, one of the core debates in American politics concerns the driving forces of congressional organization: whether it is redistributive (matching committee membership to legislator demand for committee policies), as in Shepsle & Weingast (1987); informational (using committee influence to provide an incentive to legislators to become experts in areas of great uncertainty), as in Krehbiel (1991); or partisan (parties, rather than committees, are the vehicle through which legislators solve collective action problems), as in Cox & McCubbins (1993). This debate, usefully summarized by Shepsle & Weingast (1994), uses policy outcomes to establish which underlying motivations drive congressional organization rather than using congressional organization to explain changes in policy. It therefore does not have direct implications for the institutions-and-development debate.

[9]Shleifer et al. (2003) argue for the primacy of institutions in economic development. However, their analysis concerns the difficulties societies have as they weave between disorder and dictatorship. They abstract from the specific incentives of political decision makers to adopt the laws and economic policies that are their focus in explaining development outcomes.

toward a broader constituency. Cross-country data confirm substantial variation with respect to some of these electoral institutions and sharp differences between developing and developed countries. The more than 90 countries that held competitive elections in 2000 were evenly split in their reliance on proportional representation (PR) versus plurality electoral rules. However, among the poorer half of these countries (those with purchasing power parity–adjusted per capita incomes of less than $6900), two thirds used plurality systems. District magnitude varies similarly: The average district magnitude is 16 in poorer countries with PR systems, but is 24 in richer countries.[10]

Persson & Tabellini (2000) compare a majoritarian system (single-member districts, party control over nominations, and a stylized parliamentary form of government) with a proportional system (single district, closed list, and party control over nominations).[11] The winner-take-all rules in majoritarian systems forces competing political parties to focus exclusively on the swing (indifferent) voting constituency, leading them to promise fewer public goods (which benefit all constituencies) and more targeted goods (targeted exclusively at the swing constituency). Proportional systems extract a greater political cost from parties that attempt this strategy, though, because PR systems permit votes in the nonswing constituencies to influence control of the legislature.

Milesi-Ferretti et al. (2002) compare the same two voting rules, also assuming a stylized parliamentary form of government. They ask how a shift from more to less proportional electoral rules influences government incentives to target spending on homogeneous but geographically dispersed groups or on heterogeneous but geographically concentrated groups. Voters have no exogenous ideological predilections but have different preferences over geographically and nongeographically targeted goods. Following the logic of the "citizen candidate" model of Besley & Coate (2001), voters (not parties) choose candidates, and their selection depends on which candidate's preferences are more likely to yield spending outcomes that best match voter preferences. Consistent with Persson & Tabellini (2000), Milesi-Ferretti et al. (2002) predict more geographically targeted spending in majoritarian systems and more group-targeted spending in more proportional systems. Unlike Persson & Tabellini (2000), they predict an ambiguous relationship between electoral rules and total government spending.

Other electoral differences also matter. Contributors to Mainwaring & Shugart (1997), looking at Latin American presidencies, observe that in Brazil and

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[10]Competitive elections are those featuring multiple competing candidates or parties, more than one party contesting, and no candidate or party winning more than 75% of the vote. All the information in this paragraph is from Beck et al. (2001).

[11]Persson, Tabellini and coauthors (e.g., Persson & Tabellini 2000) have launched the most comprehensive effort in the literature to model and test the effects of different political and electoral institutions on public policy, particularly public spending. This review draws many examples from their work, in many cases to contrast their assumptions about institutional rules with the actual rules scholars have analyzed in the comparative politics literature.

Argentina, candidates are chosen by directly elected state governors rather than by national political leaders. In Argentina, this leads to greater internal fragmentation of parties and weaker incentives to focus on the national interest than one might otherwise predict on the basis of its closed-list PR system. It also exacerbates party fragmentation in Brazil, whose open-list PR system, low party thresholds, and historically lax rules governing party alliances already promote the pursuit of narrow over broad interests. Colombia prohibits parties from denying the use of their party label to any list of candidates. Within one electoral district, therefore, competing lists can bear the same party label, again yielding greater fragmentation than would otherwise be the case, and therefore greater political incentives to focus on narrow rather than national interests.

The ratio of voters to legislators across electoral districts also affects the ability of some voters to impose costs on others. The upper legislative chambers of the Dominican Republic and the United States assign sparsely populated regions the same representation as heavily populated regions. California, with approximately 33 million people, has the same number of senators (two) as each of the 24 smallest states, which together have approximately 36 million residents. The Distrito Nacional of the Dominican Republic has 28% of the electorate and one senator; the 16 smallest provinces each have one senator, as well, but together they have only 23% of the electorate. In India, the largest constituency of the lower house, the Lok Sabha, has 25,000,000 voters, whereas the smallest has only 50,000. In Canada's lower house, on the other hand, most electoral districts have 90,000–100,000 voters; the smallest has 27,000 and the largest 115,000, only four times larger. Voters in districts where this ratio is low have greater influence on legislation, all else equal, than voters where it is large.[12] Lee (1997) shows that in the United States, small states receive a disproportionately large share of almost all nondiscretionary redistributive transfers, independent of need—even though the small-state bias is strong only in the Senate.

Based on these analyses, one can conclude that electoral rules matter for policy but almost surely do not explain why some countries develop and others do not. High vote thresholds provide an incentive for parties to coalesce and to prefer policies in the national interest relatively more. However, they are also an effective tool to prevent political upstarts from challenging existing parties that fail to perform, reducing the sanctions on existing parties that engage in more rent seeking. In addition, countries tend to exhibit clusters of electoral institutions with offsetting effects. For example, low district magnitudes reduce party fragmentation, but they also encourage candidates to develop personal constituencies.

[12]See Samuels & Snyder (2001) for a comprehensive analysis of malapportionment. They show, for example, that Argentine and Brazilian malapportionment is much worse than the Dominican Republic's. Some authors also consider the sheer number of legislators. Bradbury & Crain (2001), for example, find that government spending rises with the number of legislators but that bicameralism dampens this effect.

POLITICAL INSTITUTIONS Political institutions determine which politicians can set the agenda; which can veto proposed changes in law or regulation; and which can force other politicians to leave office or to seek reelection. The stronger are the veto and agenda-setting powers of political decision makers with broader and more national constituencies, and the less vulnerable such politicians are to expulsion by the other decision makers, the more policy will reflect national rather than narrow interests.

These institutions vary substantially across countries. The relative authority of the executive and legislative branches over the budget differs from country to country (see Hallerberg & von Hagen 1999). In Chile and many other Latin American countries, only the president can propose the national budget and the legislature has tightly restricted amendment powers. In the United States, in contrast, only the House of Representatives can originate a spending bill and the president has no powers of amendment. The authority that each branch of government wields directly over the tenure of the other also varies. In some countries (e.g., Russia), presidents can call new elections for the legislature. In others (e.g., Italy), the legislature can bring down the government without having to go through new elections; in still other countries, legislators who want to replace a cabinet must bear the risk of new legislative elections, with significant consequences for legislative cohesion (Huber 1996, Diermeier & Fedderson 1998).

Presidential and parliamentary systems incorporate different bundles of institutional arrangements governing the assignment of veto and agenda-setting power and the control of the executive and legislature over each other's electoral destinies. A far greater fraction of poorer democracies is presidential.[13] The large literature distinguishing parliamentary and presidential systems therefore provides a convenient way to evaluate the policy and development impact of these bundles.[14]

Persson et al. (2000) ask how the change from a presidential to a parliamentary form of government affects public good provision that benefits all citizens, narrowly targeted policy making that benefits small groups of citizens, and rent seeking that benefits policy makers themselves. They assume that both systems employ majoritarian electoral rules (single-member districts) and that parties enjoy complete control over candidate selection and policy stances. Parliamentary

[13]The more than 90 countries exhibiting competitive elections in 2000 were evenly split between the two systems; almost 75% of the poorer countries in this group were presidential.

[14]There is a lively debate about whether presidential systems are less stable or more susceptible to gridlock, which is not the focus of the argument here. For contributions to this debate, see Linz & Valenzuela (1994), who argue against presidentialism, and Shugart & Mainwaring (1997), who suggest that the vast differences in the electoral rules and level of party discipline among presidential systems make sharp conclusions about the effects of presidentialism on stability, gridlock, and capricious decision making more difficult. Cheibub & Limongi (2002) argue as well that political instability need not be correlated with political system. They find that a core assumption—that majority control of both executive and legislature makes parliamentary systems more stable—frequently fails to hold; 22% of parliamentary regimes they examine have minority governments.

systems endow cabinet members with exclusive, all-or-nothing proposal power over their portfolios, where one portfolio relates to spending and the other to taxation. Each cabinet member is entitled to veto the proposals of all other cabinet members. Veto, however, leads to the collapse of the cabinet and the potential loss of this veto power by all cabinet members. Mutual veto power allows the cabinet members to make credible agreements with each other.

In presidential systems, Persson et al. (2000) assume that all proposal power rests with the legislature (the executive can make no amendments but can only disapprove or approve the final package), and proposal power within the legislature is dispersed, as in the cabinet.[15] However, the committee in charge of tax proposals cannot veto the proposals of the spending (appropriations) committee, and vice versa. The two committees therefore have no capacity to make credible agreements with each other. Proposals are rejected only if a majority of the legislature votes them down.

The difference in credibility drives the different outcomes in the two systems. Because the tax committee in the presidential system cannot veto the spending committee's proposed allocation of spending, it knows that it will have to accept a lower spending allocation to its own constituents than it would otherwise be able to extract. As a consequence, the tax committee sets taxes very low. This drives rent seeking and targeted transfers to specific voters down to zero, but it also severely reduces public good provision. In parliamentary systems, though, the institutional set-up guarantees the tax minister that he will get a large allocation, so he proposes a high tax rate. Public-good provision, targeted transfers to specific groups of voters, and rent seeking are all high.

The analysis of Persson et al. (2000) is the most rigorous in linking characteristics of presidential and parliamentary systems to policy outcomes. However, they make assumptions and emphasize institutional characteristics that other analysts do not. It is therefore important to ask whether their conclusions are sensitive to changes in these assumptions or are driven by institutional characteristics to which they give less emphasis. For example, Shugart & Carey (1992) abstract from the separation-of-powers argument and argue that the key distinction between presidential and parliamentary systems is that voters can cast a separate vote for the "national" policy maker in presidential systems, whereas parliamentary systems compel them to bundle their votes for the national policy maker and the legislator. Voters are therefore more likely to oblige legislators in parliamentary systems to pursue a broader focus in policy making, giving less prominence to particularistic issues. Persson et al. (2000) incorporate this difference in their institutional set-up, in fact, but their analysis suggests that it is not the institutional difference that drives policy differences between the two regime types.

Persson et al. (2000) assume presidents can only veto spending bills and show that this veto power has no effect at all on final outcomes. Shugart & Haggard

[15]They also analyze a variant in which the president can propose the size, but not the allocation, of the budget, yielding the same results.

(2001) look at 23 presidential systems and find seven in which presidents enjoy exclusive proposal power over spending legislation and in which legislatures confront severe constraints on amending presidential proposals. The policy differences predicted by Persson et al. (2000) are likely to change under presidential agenda control, though they do not analyze this case. Assuming presidents cannot make credible promises to legislatures, legislators do not believe presidential promises that spending will be directed to their areas of concern; they therefore refuse to approve high taxes. This is the same prediction made by Persson et al. (2000). However, whereas the agenda-setting spending committee prefers targeted benefits to its narrow constituency, and therefore low public-good spending, the president's preferences are national, so that presidential agenda control should lead to more public-good spending and less targeted spending than Persson et al. (2000) predict.

Persson et al. (2000) also assume that legislative committees in presidential systems cannot make credible agreements with each other. However, legislative leadership (Cox & McCubbins 1993) or a rules committee (Huber 1992) have been found to enforce intercommittee agreements.[16] Huber (1992) argues that closed rules in France and the United States—the ability to ensure that bills out of committee are discussed by the plenary with no amendments permitted—are used to preserve the credibility of bargains between parties. If the president does not enjoy agenda control, but the legislature has solved the interlegislator credibility problem, the core prediction of low spending in presidential systems no longer obtains. Spending outcomes should instead resemble those in parliamentary systems with respect to levels and allocation across public and private goods. Indeed, analysts of Latin American presidential systems point to the significant use of "pork" as the vehicle with which presidents drive through their legislative agendas (Shugart & Haggard 2001).

Parliamentary systems are also heterogeneous on dimensions that affect policy predictions. For example, there is substantial variation across parliamentary systems in the rules governing the vote of confidence, which play a crucial role in policy outcomes in the parliamentary system hypothesized by Persson et al. (2000). If a vote against the government's bill means the government falls, then, as Diermeier & Fedderson (1998) argue, the ruling coalition can more aggressively target its own constituencies at the expense of those outside the coalition. The premise in such models, however, is that any member of the ruling coalition can make an issue a confidence vote and be sure that the government will adhere to its results.

Empirically, however, of the 18 OECD parliamentary democracies with the vote of confidence that Huber (1996) considers, in only six is it written into the constitution. Elsewhere it is based on convention or standing orders of parliament,

[16]Krehbiel (1996) argues that the legislative leadership in the U.S. House of Representatives has relatively weak influence over policy making, though his case concerns possible conflicts between the median voter of the House and the median committee voter rather than conflicts between committees.

so there are few formal legal obstacles to ignoring it. Moreover, in every country with a vote-of-confidence procedure, it is the prime minister who must propose that a vote on a bill be a confidence vote (Huber 1996). This centralizes proposal and veto power in the hands of the prime minister rather than of individual ministers with line portfolios. The line ministers cannot make all-or-nothing offers that benefit their narrow constituencies, as in the model of Persson et al. (2000). The prime minister presumably has broader interests at heart, and would prefer less targeted public spending, as in presidential systems, rather than more.

The heterogeneity of presidential and parliamentary systems over important institutional dimensions (such as the agenda control of presidents, the ability of legislators and presidents to make credible commitments, and the binding nature of the vote of confidence) clouds the conclusion that presidential systems pursue different policies that are worse for development. The mere fact that developing countries are more likely to have presidential forms of government is unlikely to be a key factor to explain slow development.

ASSESSING EMPIRICAL EVIDENCE OF POLICY EFFECTS OF ELECTORAL AND POLITICAL INSTITUTIONS A growing literature finds that presidential systems spend much less than parliamentary systems (Persson et al. 2000). This is a robust finding. The likely explanation, emerging from the foregoing discussion, is that presidents cannot make credible commitments to legislators about how money will be spent, so legislators are reluctant to approve high taxes.[17] There is less empirical support for the hypothesis that regime choice influences the allocation of government spending. Keefer (2003a) finds no evidence of a systematic effect of regime type on several dimensions of government performance, including gross secondary school enrollment and public investment. Persson & Tabellini (1999) themselves do not find strong evidence that broad-based spending is proportionately less and targeted spending proportionately more in presidential than in parliamentary systems.

What explains the inconsistent findings that presidential systems spend less, as predicted, but not differently, as also predicted? One possibility is variations in electoral institutions within presidential systems. Scholars who have studied presidential countries have documented a strong predilection for pork (targeted spending), which the earlier theories predict should be greater in parliamentary systems. This work blames pork on electoral rules and weak party discipline. Ames (1995) attributes overwhelming concern for pork (constituency-specific projects) among Brazilian legislators to the open-list legislative system in place there but finds as well that high district magnitudes attenuate this effect, as one might expect (since in large districts it is more difficult for single legislators to take credit for projects). The role of governors in Argentine politics obliges politicians to target state-level rather than national-level priorities (Jones et al. 2000).

[17]This argument is more plausible than the alternative—that legislators in presidential systems cannot make credible commitments to each other—since legislators in fact appear to be perfectly able to make such agreements.

Cross-country tests of the effects of electoral rules on spending allocation are more ambiguous, however. Persson & Tabellini (1999) find that low district magnitudes drive political competitors to satisfy smaller constituencies. As a consequence, broad public goods (defined as expenditures on transportation, education, and public order and safety) are lower in countries with low district magnitudes. Using similar measures of electoral institutions, Keefer (2003a) finds little effect on spending allocation, however, either of district magnitude or of electoral rule. Moreover, Milesi-Ferretti et al. (2002), using sophisticated measures of proportionality, find strong evidence that more proportional systems in the OECD [with district magnitudes of 20 in 2000, on average, according to the *Database of Political Institutions* (Beck et al. 2001)] generate *higher* transfers to nongeographic groups than plurality systems (with average district magnitudes of five). However, they do not find that geographically targeted spending is lower in more proportional systems, nor are they able to replicate their results for the Latin American sample.

Assessments of the effects of electoral rules on rent seeking are similarly mixed. Persson et al. (2003) marshal substantial evidence that majoritarian electoral rules deter corruption. They use the *Particularism* database (Seddon Wallack et al. 2003) for their institutional measures. Keefer (2003a), using institutional data from the *Database of Political Institutions* (Beck et al. 2001) and different controls, finds contrary results. The empirical results mirror the inconsistencies in the theoretical arguments linking electoral rules to corruption. Majoritarian systems increase corruption if political promises prior to elections are not credible; they reduce it if promises are credible, or if voters use elections to judge candidate competency (that is, plurality voting rules increase voters' ability to influence individual candidates' careers, hence the term "career concerns models").

There is little doubt that electoral institutions influence government behavior. However, the evidence is not clear on the direction of the effect. Nor does the evidence support the claim that electoral institutions explain why politicians in developing countries are systematically more prone to the pursuit of policies that benefit narrow and private interests.

Economic Interests, Institutions, and the Credibility of Government Commitments

Together, the arguments so far reviewed demonstrate that the structure of interest groups and institutions establishes who gets what in a society, but they do not offer robust explanations for differences in levels of economic development. However, a significant literature argues that economic interests and institutions affect growth not simply because they influence policy but because they enable policy makers to make credible policy commitments.

The most important of these commitments is to refrain from expropriation, direct or indirect—a problem placed at the center of the study of development by North (1981). Ample evidence justifies the weight given to this issue. For example, a puzzle emerges in Bates' work on Africa: Why did governments set expropriatory tax rates so high that farmers actually stopped producing? McMillan (2001) argues that the governments studied by Bates could not promise *not* to expropriate—their horizons were too short and their incentives to engage in opportunistic behavior too great for farmers to believe that low tax rates, if imposed, would have persisted into the future. As a consequence, governments could not reap gains from reducing tax rates.

Further evidence on the point comes from year 2000 values of a widely used measure of the security of property rights from Political Risk Services, the "rule of law." It was nearly one standard deviation lower in countries below the median country's per capita income than in those above it. Keefer & Knack (1997) find that poor countries with insecure property rights not only fail to "catch up" to rich countries but fall further behind—they "diverge." This evidence is not simply an indictment of redistributive government. In fact, the correlation between the Political Risk Services rule-of-law measure and the size of government (where size of government is an indicator of the extent to which government taxes citizen assets) is significantly negative (–0.35 in 1997).

Nor should these results be taken to reflect the development impact of the predictability or stability of government decision making, rather than its credibility. As Tsebelis (1995) argues, policy stability should be high when the set of policies that politicians prefer to the status quo is small, but low otherwise. The work of Tsebelis and others precisely examines the stability effects of different institutional arrangements. Credibility, though, refers to how reliance on politician promises today creates an incentive for politicians to change policy opportunistically tomorrow. For example, U.S. tax policy is not particularly predictable or stable—it changes regularly and often substantially. However, it is credible: Entrepreneurs know that if they invest according to the dictates of the tax code today, the mere fact of their reliance will not trigger an opportunistic change in the tax code tomorrow.[18]

The predictability-versus-credibility distinction links to a classic dichotomy articulated by Cox & McCubbins (2001), who distinguish institutions according to whether they lead governments to be indecisive or irresolute. The credibility (resoluteness) of institutions can conflict with their decisiveness in the face of crisis, creating ambiguity about the net effect of such institutions on development outcomes. Shugart & Mainwaring (1997) argue, for example, that Latin American governments exhibit a tendency toward gridlock. Keefer & Knack (2002b) look at

[18]Keefer & Stasavage (2003) present another example that makes this point. On a single policy dimension, under majority rule and with all voters perfectly informed, policy is always stable at the median voter's most preferred outcome. This stable policy outcome, however, need not be credible. The median voter could prefer a law that protects foreign investment and then, once investment enters, could prefer a law in the next period that expropriates that investment. If policy were credible, foreign investors would respond vigorously to the first-period decision not to expropriate and invest heavily. Because it is not, their investment response to the decision is muted or nonexistent.

the effect of political checks and balances, the institutional characteristic most often associated with credibility and gridlock, on country credit ratings. If decisiveness matters most to lenders, because they want to be sure countries will repay loans even in times of crisis, then checks and balances should have a negative impact on credit ratings. If resoluteness matters most, because lenders also want to be sure countries honor their loan commitments, checks and balances should matter positively. In fact, checks and balances significantly increase credit ratings.

How governments achieve credibility remains an unsettled question. Considerable attention has, however, been dedicated to the role of political checks and balances, which make it difficult for any one political actor to act unilaterally toward citizens, and to the universal franchise and competitive elections. It happens that these two institutional arrangements together encompass the most usual definitions of democracy.

North & Weingast (1989) argue that interest rates charged to the English Crown following the Glorious Revolution declined because of the enhanced power of the Parliament to prevent the British monarch from reneging on sovereign obligations.[19] Henisz (2000) develops an indicator of the number of veto players, weighted according to the heterogeneity of their policy preferences, and finds that it predicts measures of property rights insecurity and that it is significantly related to economic growth. This indicator matches closely the fragmentation of political parties in a country. A different measure of checks and balances, from the *Database of Political Institutions*, is also a robust predictor of economic growth, operating on growth through its effect on the security of property rights (Keefer 2003b).

A central argument in the literature on monetary economics is that noncredible governments, unable to commit to a promise not to implement a surprise expansion of the money supply, are less likely to hold down inflation. Keefer & Stasavage (2003) demonstrate that checks and balances provide that credibility, constraining opportunistic behavior in the setting of monetary policy. Keefer & Knack (2002a) show that checks and balances are key to controlling credibility-related distortions in another policy area, public investment. These arguments and those of North & Weingast make clear that credible commitment is not necessarily neutral with respect to the quality of economic policy. Without credible commitment, sound monetary policy and adequate public investment are more difficult to achieve.

Acemoglu and colleagues (Acemoglu & Robinson 2001, Acemoglu et al. 2002) reprise the question raised by Bates' work: Why do politicians allow inefficient policies to persist when they would have more resources at their disposal if they

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[19]Sussman & Yafeh (2002) dispute these conclusions, however; they argue that neither movements in interest rates nor the evolution of the volume of British government debt can be traced to the effects of the Glorious Revolution. Stasavage (2003) revisits the Glorious Revolution and concludes that Parliament constrained opportunistic behavior only by chance and gradually, when the minority of parliamentary members who favored honoring sovereign obligations were able to make a deal involving religious freedom with those who were less favorable.

eliminated them? Their answer focuses on the implications of elections and the franchise. Expansion of the franchise gives the nonelite majority the opportunity not only to guarantee its own property rights but also to expropriate the elite. Where initial inequality in the distribution of assets is high, and where the threat of rebellion is low, the elite has more to lose from expanding the franchise and refrains from doing so. Where the economic well-being of the elite depends to a great extent on investment by the nonelite rather than on the exploitation of mineral resources or plantation agriculture, the elite prefers to expand the franchise. In doing so, the elite makes credible its promise not to expropriate nonelites, thereby securing property rights and promoting economic growth.

Several puzzles suggest room for further research into the role of checks and balances and the universal franchise in allowing credible commitments by government. First, the security of property rights varies significantly across countries that exhibit political checks and balances. In half of all countries that exhibited either checks and balances or competitive elections in the 1990s, the rule-of-law measure was the same as or worse than in the median country that lacked one or the other.[20] Second, most measures of democracy do not exhibit a robust relationship to growth, and yet most democracy measures focus on the extent to which countries have competitive elections, a universal franchise, and, in many cases, restraints on the discretion of the executive (checks and balances).

Przeworski et al. (2000) make this point emphatically with their election-based objective measure of democracy. Keefer (2003b) demonstrates that checks and balances, but not another objective measure of competitive elections (from the *Database on Political Institutions*) nor subjective measures of democracy (from *Freedom House* and *Polity IV*), are significantly associated with growth. Mulligan et al. (2003) argue that the only systematic policy difference between democracies and nondemocracies is the expenditures of the latter to suppress political competition.

Third, despite adverse economic endowments, Latin American countries eventually did develop the institutions, especially the universal franchise, that researchers claim protect the property rights of nonelites. Nevertheless, despite the correction of these institutional distortions in the twentieth century, sustained growth did not emerge.[21]

Fourth, theoretical models in the literature contemplate two straightforward institutional alternatives (limited versus universal franchise, for example). There

[20]The rule-of-law measure is from Political Risk Services' *International Country Risk Guide* (unpublished data); the measures of checks and balances and competitive elections are from Beck et al. (2001).

[21]Acemoglu & Robinson (2002) do argue that in highly unequal countries, where democracy leads to redistribution, there is a strong incentive for the rich to restore autocratic government; democracy does not stabilize. However, although Latin America is highly unequal and democracy has been unstable, in only one country, Chile, was the suppression of an elected government clearly related to (if not fully explained by) the strong redistributionist tendencies of the government.

are, however, a variety of ways in which an elite can bring the nonelite into power without jeopardizing the elite's control of its own assets. For example, allowing a popular vote for one legislative chamber but not another, the system that prevailed in the United States in the nineteenth century, gave the average citizen some ability to block special interests' efforts to accrue excessive privileges, while giving elites a way to veto efforts to redistribute their wealth. (The fact that these legislative institutions did not necessarily work in this way is the subject of subsequent sections of the essay.) Similarly, the military government in Chile enshrined an electoral system and a legacy of military senators in the constitution that together limited the ability of redistributionist political forces to control economic policy following the restoration of democratic government. Why have more elites not tried to provide such institutional guarantees, securing property rights for all but insulating the elite from the threat of redistribution?

One way to resolve these puzzles is to examine the underlying imperfections in political markets that might distort politician incentives. Even when the franchise is universal, institutional checks and balances are pervasive, and veto players have divergent interests, these imperfections may lead veto players to conclude that there is little electoral payoff to exerting effort on behalf of citizens whose rights are jeopardized by the government. These same political market imperfections seem to explain systematic policy differences between poorer and richer countries.

Imperfections in Political Markets—Credibility and Information as Explanations for Policy Failures in Developing Countries

Of the many imperfections in political markets that scholars have identified, this essay closes with a discussion of just two: information and credibility. Embedded in the models discussed above are assumptions about the extent of voters' information about candidate characteristics or performance and the extent to which voters can believe the pre-electoral promises of candidates. Lack of either makes it more difficult for voters to hold candidates responsible for poor performance. Information and credibility imperfections encourage political actors to focus on a narrow group of constituents to the exclusion of all other citizens, or to ignore voters altogether.[22] The impact on policy predictions can be significant. Persson & Tabellini (2000) show that majoritarian electoral systems are less corrupt when promises are credible, since majoritarianism forces candidates to compete more fiercely with each other in the swing district. They are more corrupt when promises are not credible, because they force voters to compete more fiercely with each other for benefits from governments.

[22]Information solves an important problem in models of gridlock: Why do two veto players delay coming to an agreement that would make them both better off? Alesina & Drazen (1991) argue that delay gives both sides information about the other side's willingness to tolerate crisis, and therefore a potential advantage in any final settlement that offsets the benefits of early agreement.

IMPERFECT INFORMATION IN ELECTORAL MARKETS One branch of the information literature focuses on voters who are uninformed about candidate characteristics. These voters' decisions are swayed by political campaigns and advertisements, so special interests seek to purchase narrowly targeted policies by providing campaign finance (Baron 1994, Grossman & Helpman 1996). One policy consequence is that uninformed voters are simply less well served by government. In addition, governments accountable only to uninformed voters can be more vigorous in the pursuit of their own private interests. Because uninformed voters cannot easily identify the effect of rent seeking on their welfare, politicians have greater scope to extract rents (Persson & Tabellini 2000). Adserà et al. (2003) document exactly this: Corruption is significantly higher in countries with lower newspaper circulation. Low newspaper circulation is also associated with low security of property rights (Keefer 2003b). Newspaper circulation is dramatically lower in poorer countries than in richer.

In other approaches, voters prefer to choose the most "competent" candidate but are imperfectly informed about candidate competency. Under these circumstances, officials bias resource allocation against those public goods whose outcomes are more "noisy" and harder to use to assess politician ability and toward those that are better signals of high ability (Mani & Mukand 2002). They would, for example, favor construction over education.

Finally, evidence suggests that when voters are informed about particular policies, they are able to extract greater resources and better performance from political agents. Strömberg (2001) demonstrates that between 1933 and 1935, federal assistance to low-income households in the United States was greater in counties where more households had radios and were thus more likely to be informed about government policies and programs. Besley & Burgess (2002) document that state governments in India increase public food distribution and calamity relief expenditure in response to declines in food production and crop flood damage when newspaper circulation, particularly in local languages, is greater. However, this evidence does not inform the broader question of whether policy is more socially beneficial when voters are more informed. It could, for example, be the case that the mass media better enabled politicians to take credit for targeted payoffs to particular constituencies, leading them to reduce expenditures on public goods or on broad-based social programs.

LACK OF CREDIBILITY IN ELECTORAL MARKETS The ability of politicians to make credible pre-electoral promises also provides a persuasive explanation of why policy failures are more likely in some countries than in others. When campaign promises are not credible—when it costs election winners little to abandon them—electoral competition does little to spur politician incentives to satisfy constituents. In young or poor democracies, political party development and other indicators of credibility in political systems are often weak. Parties have little history and no identifiable positions on issues. Individual candidates may be credible on one or two issue dimensions (e.g., religion) but rarely on the broad issues that define efficient government performance.

Researchers have taken two approaches to the analysis of noncredibility in electoral politics. In the first approach (Ferejohn 1986, Persson & Tabellini 2000), voters can coordinate on ex post performance standards and reject incumbents that fail to meet them. Politicians provide no targeted private goods. They underprovide public goods and engage in greater rent seeking relative to when they are fully credible. In the second approach (Robinson & Verdier 2002), voters cannot coordinate on such performance standards and no public goods are provided at all. In this case, challengers are irrelevant, since they are never credible, and incumbent performance has no effect on voter behavior.

Both approaches explain the poor provision of public goods in developing countries, including the rule of law and the security of property rights, but they are at odds with another characteristic of developing countries. Specifically, these models predict indifference on the part of politicians to the provision of targeted goods—except to voters from whose consumption candidates directly derive utility (Robinson & Verdier 2000). However, in most developing-country democracies, politicians are intensely concerned about delivering targeted transfers.

Keefer (2002) suggests a third credibility scenario, rooted in the literature on clientelism that describes patron-client relationships as repeated, personalized interactions between patrons and clients. Based on such interactions, politicians can make credible promises to some voters but not to others. Repeated interaction constitutes a basis for reputation building. Politicians with personalized reputations with some voters can make credible promises to those voters, even if to no others. In countries that exhibit "partial" credibility, the foundation of a politician's credibility is not the policy record of party or politician. Instead, voters believe the politicians who have, for example, shown themselves to be reliable sources of personal assistance. These might be locally influential people who have helped families with loans or jobs or provided assistance with legal or bureaucratic difficulties. In the absence of well-developed political parties or national party leaders who are more broadly credible to voters, voters can only rely on the promises of such influential people in making electoral choices.[23]

Partial credibility explains many of the policy outcomes observed in democracies that might be labeled less credible (or less developed in general). Because the only policy promises that matter prior to elections are those that "clients" (voters) believe, promises of private goods to clients are more politically attractive than public goods that benefit both clients and nonclients. Promises of public works and government jobs become the currency of political competition at the expense of universal access to high-quality education and health care. The former can be targeted to individuals and small groups of clients. Universal access is by definition not easily targeted. Corruption or rent seeking is also high, since an individual

[23]Stokes (2001) and contributors use public opinion polls to evaluate simultaneously the political impact of citizen information and political credibility. Polling information allows them to assess implicitly whether citizens believe candidate promises, whether they use past performance to judge future actions of politicians, and how economic shocks influence their evaluation of candidates.

client is unlikely to have two patrons; most voters do not have politicians competing for their votes.

Keefer (2003a) documents that young democracies exhibit greater than average public investment (targeted infrastructure investment), lower secondary school enrollment (nontargetable), less secure property rights, and greater corruption. This pattern can be explained by the greater prevalence among young democracies of partially credible political actors. Young democracies are more likely to exhibit noncredible political parties and reliance among political competitors on clientelist promises to the small groups of voters to whom they can make credible promises.

The pre-electoral credibility of politicians is useful to examine not only because it seems to explain many of the policy failures observed in poor countries but also because it explains why so few countries have managed to sustain long periods of economic growth and prosperity. Reputations are fragile and difficult to develop. For example, as Keefer (2002) argues, some countries (such as Great Britain or the United States) began their periods of democracy and a near universal franchise with political parties that had clearly established differences on issues ranging from religion to land reform and trade policy. This is not the experience of most countries. Instead, most parties need to start building reputations after democracy is established. In the year 2000, the average age of political parties in half of the 96 countries in the *Database of Political Institutions* with competitive legislative and executive elections was less than 26 years. These countries were disproportionately poor. Unfortunately, the reputation-building process is fraught with multiple equilibria, many of which involve no reputation at all, or a reputation for policies that are probably irrelevant for development (e.g., valor in the battle for independence or religious righteousness).

CONCLUSION

The rich literature in political economy has vastly improved our ability to understand who wins and loses in the process of economic policy making. It has clearly shown the absence of any necessary connection between political decision making and efficiency or equity objectives, and it offers explanations of frequent deviations of policy from the socially optimal that are not rooted in policy-maker error or ignorance. Applied to developing countries, political economy analyses have demonstrated that often catastrophic policy choices and living conditions do not result primarily from a shortage of resources or an oppressive international economic order, but rather from local political and social conditions and the distorted incentives with which these conditions endow government decision makers.

Theory and evidence suggest that development is only weakly influenced by constitutional choices, such as whether parliamentary systems are presidential or parliamentary or whether electoral systems are proportional or majoritarian. Elections and the universal franchise appear to have similarly little impact on economic development. Instead, theory and evidence point to one type of institutional arrangement—elections *cum* political checks and balances—as important for growth and development.

Even among countries that exhibit these institutional arrangements, though, the range of development experiences is wide. Imperfections in electoral and political markets offer an explanation for this. Both voter information and politician credibility differ substantially between developed and developing countries and explain why politically induced development distortions are greater in some countries than others. At the same time, these imperfections explain why development is difficult to achieve. Reputation is difficult to build and subject to a multitude of possible adverse equilibria. It not surprising, then, that politics so rarely supports sustained development.

Ample work remains. We do not know how reputation is built, even in successful countries. There is no analysis of the conditions under which politicians translate noneconomic reputations (e.g., for successfully fighting colonial occupiers) into a reputation for pursuing growth-promoting policies. Evidence on the role of information in politics and development relies on newspaper circulation rather than direct measures of the supply and demand for voter information. The literature provides little insight as to how incomplete information affects politicians' tradeoffs between public, nontargeted and private, targeted goods. The origins of an informed electorate are almost entirely unknown. All of these are relevant questions in every country, developed or not. However, it is in the examination of underdevelopment that their importance in a complete theory of political economy has become especially clear.

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