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Book Review

Alesina, A. (ed.): Institutional Reforms. The Case of Colombia. X, 373 pp. MIT Press. Cambridge, Mass. 2005. Paperback £ 22.95.

Expectations are high, when one of the world's leading economists, chairman of the Department of Economics at Harvard University, publishes a book on one of the most preoccupying failing states, namely Colombia, with its record numbers of homicides, its pernicious syndrome of political *violencia* and its cue role in the global drug complex, which in the last few years, has increasingly been attacked by the USA and its allies with military means under the label of anti-terrorism. The editor is joined by colleagues from other US and European universities.

The Colombian partners and authors gather around FEDESARROLLO, the long-standing economics think tank and recruiting ground for academics and politicians with leanings toward the Liberal Party which has been the leading political force of the country since the 1930's, only temporarily forced into opposition by military rule in the 1950's and into a junior partner role during one presidential election victory of the Conservatives in the 1990's (President Pastrana from 1998 to 2002), whereas the "National Front" of both of these traditional parties from 1958 to 1982 provided for alternate presidents, in spite of liberal majorities in parliament (Congress and Senate). One of the authors, Alberto Carrasquilla, has since become Finance Minister of Colombia, and another one, Roberto Steiner, Alternate Executive Director of the IMF. Since the book grew out of an international project to study institutional problems in Colombia with a view to suggest possible solutions, it is not only an academic exercise, but also a think tank product, directed toward institutional reform in the spirit of the leading politicians of the land. No wonder that very few, if any, historical and structural questions and responsibilities are considered which would pinpoint to the partisan (Liberal-Conservative) power-struggle origins of the institutional flaws being detected by the group.

The book contains a survey of recent economic history, chapters on political institutions (separation of powers, electoral and party system, and "understanding crime"), and on economic institutions (fiscal decentralization, budgetary process, educational reform, public spending on social protection, and central bank independence), with a rather comprehensive introduction and summary by Alberto Alesina himself. Every list of "institutional reforms" like that, for a country as a whole, is bound to be incomplete; however, the nearly total absence of guerrilla and paramilitary warfare should be mentioned, as well as the scarcity of information and analysis about the *narcos*, their networks of organized crime, money laundering, and the US involvement within the famous "Plan Colombia", which is so controversial because it is said to militarize the country without really coping with the drug problems.

If the title of the book promises a country "case" study of institutional reforms, the selection of the institutions to be dealt with, or to be left out, becomes a highly important task and part of the research. At first sight, the omissions seem to reflect a bias toward the views of the ruling elite group, and unfortunately Alesina's introductory summary does not dispel this suspicion, since he subsumes terrorism and narcotrafficking under "a special case of crime and violence" (p. 3) instead of stressing their economic importance with regard to trade and monetary affairs as well as their international dimensions. However, his second point is rather valid, since certainly "some of the roots of

the violence have to do with discontent about governance in Colombia” (ibid.). Again, one could argue, though, that the roots of discontent reach into much deeper ground than governance with regard to the constitutional checks and balances between political institutions.

The background paper on Colombia’s recent economic history since the 1960’s by the FEDESARROLLO group around Juan José Echavarría gives an overview of the “growth ‘fundamentals’” (pp. 36f.) stressing “low government consumption and democratic institutions, partially countered by the general lawlessness” (p. 36), – without even mentioning the significant export proceeds from drug trafficking since the early 1970’s. For the 1990’s, the authors center their attention on the question what might have caused the crisis of 1995–2000 when income per capita fell. They attribute this lack of economic dynamism to increased government spending, the spectacular rise of kidnappings, which scared away investors and managers, and the burst of a land-housing bubble in 1995. On the institutional side, the new Constitution of 1991 is held responsible for deadlocks and lack of fiscal discipline, and the recommendations are resumed in the reduction of public expenditure, the reform of institutions and the reduction of violence (p. 67), – albeit without mentioning the rather probable implication that more rather than less public expenditure is needed to combat guerrilla, paramilitary and banditry violence as well as organized crime and to create a climate of confidence and trust in the State and its public services.

The chapter on the constitutional “checks and balances” by Maurice Kugler (Southampton University) and Howard Rosenthal (Princeton University) comes to the conclusion that “due to its constitutional structure, Colombia is governed in a manner that is both unchecked and unbalanced” (p. 75). This statement runs counter to the general belief that Latin American countries have beautiful constitutions and laws, but that it would be their implementation which made reality so unlawful. The authors paint an interesting and detailed picture of the negotiations which led to the Constitution of 1991 when the former revolutionary group M-19 introduced articles for a welfare state model and even uncompensated expropriation for reasons of “equity”, whereas the governments of the 1990’s initiated market-oriented economic reforms along the Washington Consensus. Particular emphasis is put on the activist role of the Constitutional Court which is seen as a consequence of the appointment terms laid down in the Constitution, namely eight years, without re-election. For lawyers with ambition, a political career after that period is the logical outcome of this arrangement so that highly political decisions, overruling Congress and the President, create unnecessary legislative chaos. Life-time appointments and more restrictive, clear rules for challenging the constitutionality of laws are recommended as a way out of that trap. Other recommendations with regard to the separation of powers and the introduction of referenda follow similar lines.

Colombia’s electoral and party systems are analyzed by Gerard Roland from Berkeley University and Juan Gonzalo Zapata, FEDESARROLLO. Their arguments follow again similar lines: “Its flawed electoral system ... encourages the proliferation of hundreds of different electoral lists and discourages the formation of any serious party system. ... Such a system creates ... an incentive to cater to very narrow clientelistic interests ...” (p. 104). Their proposed package of reforms is rather comprehensive and well argued. However, it lacks owners, principals or agents in whose immediate interests such a package would lie. In their introductory paragraph, the authors promise to overcome the model of the “benevolent planner” (p. 103) in political economics, but in the end they turn out to be just that, since public choice reasons for introducing the proposed reforms are largely missing.

Steven Levitt, University of Chicago, and Mauricio Rubio, Universidad Carlos III, Madrid, undertake the difficult task to “understand crime in Colombia”, and they “feel that the best way to lower crime in Colombia is to fix the beleaguered and overburdened criminal justice system” (p. 131). Statistical time series about crime rates in different countries indicate extraordinarily high homicide and kidnapping numbers, and the authors come up with figures between 3 and 14 per-

cent of Colombian GDP for the value of cocaine exports (p. 147). They also refer to “Plan Colombia” as the main program of the government to combat narco-trafficking, but they hardly mention US involvement, neither on the demand side of the drug trade nor on the foreign aid side with its large military and police as well as development aid expenditures and the concomitant political ties between the US and Colombian governments. And no endeavour is made to disentangle the clandestine trans-national drug complex and its institutions and links within Colombia. “Increase in prison capacity” (p. 166) sounds like a rather resigned recommendation.

The chapters on economic institutions reflect the present global discussion in mainstream economics on fiscal federalism and the independence of central banks. Alberto Alesina and his partners Alberto Carrasquilla and Juan José Echavarría from FEDESARROLLO provide an excellent overview of the fiscal transfer system and the efforts of decentralization, with a strong and convincing plea against the issue of local debt and deficits. With regard to the central bank (with Roberto Steiner, Universidad de los Andes, Bogotá), the usual recommendation is given – to ensure independence; particular emphasis is given to the advice that the minister of finance should not be chairman of the central bank’s board. It is not known, though, whether Carrasquilla followed that recommendation when, shortly after writing the paper, he himself became Minister of Finance.

The budgetary process is the subject of the late Ulpiana Ayala’s (FEDESARROLLO) and Roberto Perotti’s (Università Bocconi, Italy) paper. Lack of transparency and an overstretched definition of “investment” are their main points of criticism and advice in order to ensure fiscal discipline, fair public debate and democratic decision-making. The remaining articles on educational reform, by George J. Borjas (Harvard University) and Olga Lucía Acosta (FEDESARROLLO) and public spending on social protection (again Roberto Perotti) refer to very special fields and institutions, and they cover on a rather limited ground. Education is restricted to primary and secondary levels, leaving out universities, and a somewhat surprising emphasis is given to teachers’ salaries and pensions, – in the paper on social protection, too. Detailed painstaking statistical evidence shows that teachers are somewhat privileged, but no link is indicated with the fundamental institutional and political reform necessities elaborated in the other articles – or left out altogether.

Social expenditure institutions might have been a case in point to understand the deep alienation of the people from the State and its agencies. After all, since World War II, Colombia has gone through a thorough transformation from a traditional oligarchic society, organized around the Ibero-corporatist model of traditional Catholic social doctrines, to an actively interventionist, developmentalist state which fomented first import substitution and exports, foreign direct investment and social security for the urban working class, then “integrated” rural development and urban informal sector poverty eradication, until nobody was left to finance those interventions so that the ruling elite turned to the neo-liberal path of market-oriented reforms and privatizations abandoning the welfare-state promises of the Constitution of 1991. In view of this trajectory, Perotti’s insistence on targeting and overcoming fragmentation, “fire-fighting” and pomposity points toward interesting and certainly critical traits of the matrix of social institutions, however, it leaves out the questions of the institutional grand design of Colombian society.

The book follows an interesting but limited methodology which deserves a critical comment: On the first page, Alesina stresses the “new” political economics framework as the authors’ “common intellectual ground”. Using (or even coining?) the term “political economics” instead of “political economy”, he distances himself and his collaborators even more than usual from classical – “old” – political economy with its concern for collectivities, classes, modes of production, and economic “order” on the one hand, and personalities and belief systems on the other. Unfortunately, methodological individualism, rather uniform *homo oeconomicus* assumptions and statistics as the principal means to

form inter-subjective entities of study and comparison in “new” political economics, tend to level off holistic, “order” approaches to the specific regime constellations of a given country, and to make history faceless. In addition, new institutional economics tends to identify “failures” and to prescribe remedies rather than induce curiosity for detecting the wisdom, not primarily the failure, of the existing order and dynamics of social phenomena so that their inherent potential could be helped to develop. Albert O. Hirschman and his quest for understanding come to mind as an alternative approach, - particularly with regard to Colombia, where his “Strategy of Economic Development” of 1958 and some more seminal publications of his originated.

All in all, in accordance with the title of the book, Colombia is presented as a “case” of standard (neo)institutional reforms rather than a special case of endangered statehood and citizenship, of socio-economic modernization *sui generis* or of multi-faceted cultural dynamics which is overshadowed by the irresistible pull from the drug markets abroad. Readers will find outstanding research findings on specific Colombian institutions and their interactions, but should not expect too much of an overall picture.

Manfred Nitsch, Free University of Berlin, Berlin, Germany