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**Kurt Weyland: Bounded Rationality and Policy Diffusion**

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## The Puzzle of Policy Diffusion

WHY DO DISSIMILAR countries adopt similar policy innovations? Why do some new policy models therefore diffuse across regions of the world, spreading like wildfire from the originating nation to countries with different economic, social, or political characteristics? Examples of such striking waves of diffusion abound. The social security system enacted by Otto von Bismarck in Imperial Germany quickly found emulators, first inside Europe, but soon on other continents as well. In this way, a policy scheme designed to pacify a powerful, well-organized, and increasingly militant working class spread to countries where workers constituted a small minority—sometimes noisy, but certainly without much clout. In subsequent decades, the Bismarckian model was imitated by nations at ever lower levels of socioeconomic development, which clearly lacked the domestic needs accounting for its initial adoption in Germany. Why would such different countries enact the same basic model?

Similarly, Ronald Reagan's income tax simplification of 1986 found imitators in countries with very different socioeconomic structures. For instance, Brazil adopted a similar reform in 1988 despite its exceptionally high degree of income inequality, which the reduction of marginal tax rates threatened to exacerbate. Also, since only a small number of middle- and upper-class Brazilians earn enough income to be liable for tax payments, lowering their tax rates jeopardized state revenues. Yet despite the divergent socioeconomic context, Brazil imitated a reform designed for the more developed United States.

Last but not least, the pension privatization enacted by Chile in the early 1980s has spread in Latin America and beyond. Strikingly, even poor countries such as Bolivia and El Salvador have privatized their social security systems although they seem to lack important preconditions for making private pension funds operate successfully. For instance, the formal labor market comprises only a small part of the workforce, severely restricting the coverage of the new social security system. Capital markets may be too underdeveloped to invest affiliates' individual pension funds profitably. And the state's institutional capacities for regulating private pension funds are limited as well. Yet despite the absence of presumed prerequisites for drastic pension reform (WB 1994a: 231, 245,

280; WB IEG 2006: x, xv, xvii, 18–29), these underdeveloped nations followed the lead of the more advanced frontrunner.

The spread of similarity amid diversity that policy diffusion entails raises a puzzle. Why do countries eagerly emulate foreign models that do not seem to fit their own domestic characteristics? Why do they adopt innovations despite lacking crucial prerequisites for making the new policy scheme work (cf. Collier and Messick 1975)? As functional needs cannot account for this rush to imitation, what drives waves of diffusion? Why do so many countries follow the leader, although this herd-like behavior may not be best suited for their specific needs? In short, what causal mechanisms underlie the diffusion of policy innovations across countries?

The present study addresses these important questions by analyzing the spread of pension privatization and health reform in Latin America. The difference between these two issue areas and the variation across the five countries under investigation—Bolivia, Brazil, Costa Rica, El Salvador, and Peru—provide analytical leverage for unearthing the causal mechanisms that drive innovations' spread. Diffusion plays out differently in an area such as social security in which a singular policy model exists, compared to a highly complex field such as health care, where various sources of inspiration exist.

The topic of policy diffusion is of great importance in this era of globalization. Because continuing improvements in communication and transportation intensify the cross-national exchange of information, inspiration from foreign models and principles affects more and more issue areas in more and more countries. As the world grows smaller, policy-making is no longer a domestic affair, but increasingly shaped by external inputs. Nowadays, many decision-makers participate in transnational networks that strongly influence choices at the national level, and they engage in ever denser cooperation and rule making at the international level (Haas 1992; Risse-Kappen 1994; Slaughter 2004). Moreover, a multitude of international organizations seeks to persuade, coax, push, or force governments to adopt policy blueprints or ideas they advocate (Barnett and Finnemore 2004; Pincus and Winters 2002; Vreeland 2003).

Above and beyond this welter of specific exchanges and influences, which often pull in divergent directions (Rosenau 2003), there has been a worldwide advance of liberal economic and political arrangements during the last three decades. The international diffusion of democracy and markets has forged increasing homogeneity as alternative systems such as communism have collapsed and lost adherents (Simmons, Dobbin, and Garrett 2006; Meseguer 2002; Levi-Faur 2005; Domínguez 1998). The range of political choice has shrunk, although scholars con-

tinue to debate how narrow it has become; for instance, can Europe's generous welfare states withstand the onslaught of market forces (Pierson 1994; Garrett 1998; Huber and Stephens 2001; Swank 2002; Hall and Soskice 2001; Campbell and Pedersen 2001)?

The present study helps assess how far market mechanisms are likely to advance. Neoliberal principles spread first in the economy yet soon expanded to the social sectors as well, prompting efforts to improve efficiency through increased competition or outright privatization. But in the social sphere, opposition to neoliberalism is particularly strong; many people do not want the profit motive to determine the fulfillment of basic human needs such as health. By analyzing the diffusion of reforms in social security and health care, the current frontiers of the market project, this book examines the strength of the neoliberal wave. Has it already crested and stalled, or is it continuing its advance, extending the logic of competitiveness to ever wider spheres of life? Will society soon be governed by uniform market principles, or do alternative goals and mechanisms, such as social equity and public provision, retain support, puncturing the trend toward global homogeneity and preserving sectoral and national diversity?

Beyond addressing this crucial substantive theme, my study elucidates what is perhaps *the* major theoretical issue in the social sciences, namely, the question of rationality. Do decisions emerge from the best possible pursuit of clear and firm self-interests, as the rational choice framework postulates, which according to some authors has sought to gain a hegemonic position in political science (Lichbach 2003)? Or does this interest-maximizing scheme offer an unsatisfactory account of political action because actors do not have an effective margin of choice; are not guided by clear, firm interests; or do not pursue such interests in optimal ways? That is, do structural pressures determine decisions and suppress choice? If there is latitude, are actors driven more by other-regarding motives such as appropriateness and legitimacy than by self-interests? Or if interests indeed prevail, do actors lack the cognitive capacity and computational resources to pursue them in a systematic, unbiased, comprehensively rational way and rely instead on the cognitive shortcuts of bounded rationality? By using the study of policy diffusion to analyze these three aspects of the rationality issue, my book sheds light on a controversial question that has attracted enormous scholarly attention (Cook and Levi 1990; McFadden 1999; Gigerenzer and Selten 2001; Lupia, McCubbins, and Popkin 2001; Gilovich, Griffin, and Kahneman 2002).

First, do international forces overwhelm domestic actors in the era of globalization, or do countries retain a significant degree of autonomy? Authors such as Armada, Muntaner, and Navarro (2001) argue that

waves of diffusion result from the pressures of powerful international actors, which push new policy models on weak developing countries. International financial institutions (IFIs) like the World Bank (WB) and International Monetary Fund (IMF) use their tremendous leverage—especially loan conditionality—to impose reforms on dependent nations. Thus, diffusion emerges from central coordination. As external pressures have great force, globalization undermines national sovereignty. In this view, domestic actors do not have an effective choice; the question of their rationality is moot.

The alternative position argues that external pressures matter but are far from decisive (e.g., Nelson 1996). Even in the era of globalization, national sovereignty persists and gives countries—including weak underdeveloped countries—significant room for maneuver. Due to this autonomy, nations retain a considerable margin of choice in deciding whether to adopt a foreign model or not. In this view, IFI demands backed up by loan conditionality constrain governmental decision making but by no means determine its outputs. Given that domestic actors do have effective choices, analyzing the rationality of their decisions is meaningful.

To the extent that Third World governments enjoy policy latitude, scholars need to examine the motives guiding their decisions. Is the emulation of innovations driven mostly by self-interests, as the rational actor framework assumes, or do other-regarding considerations play a significant role as well? Embracing the latter view, sociologists and constructivists argue that normative appeal and the quest for international legitimacy prompt the emulation of foreign innovations. To look good in the eyes of global public opinion, decision-makers want to be modern and up-to-date and therefore imitate new policy models. They are determined to avoid the stigma of being backward and therefore try hard to keep up with the latest trend. On a deeper level, they are influenced by new international norms that redefine proper state action. An innovation raises the standards of appropriate behavior, and decision-makers urgently try to catch up to this new benchmark. Accordingly, political action—including the adoption of foreign models—cannot be reduced to rational interest calculation.

Many political scientists claim, by contrast, that appropriateness and legitimacy are pushed into the background by considerations of self-interest. These interests are essentially given, reflecting decision-makers' institutional position and the incentives and constraints facing them; for instance, all policy-makers need to be concerned about maintaining their power, a universally shared instrumental goal. Decision-makers therefore imitate foreign models not if they look modern and normatively appropriate, but if cost/benefit calculations suggest that they help to reach

clear, preexisting interests. Utilitarian notions of goal attainment—not symbolic and normative concerns for legitimacy—drive policy diffusion. Which view is closer to the truth? By analyzing actor motivations, my study of policy diffusion sheds new light on this important aspect of the rationality issue.

To the extent that interests do matter—and who would deny them any role in human motivation?—the question shifts to the procedures with which actors pursue their goals. Do they make decisions in a comprehensively rational way, processing the relevant information with systematic and unbiased procedures? To learn from foreign experiences, do they proactively scan the environment for promising models, tally their advantages and disadvantages, and maximize their expected utility by adopting the option that scores highest in their cost/benefit assessment, as theorists of comprehensive rationality assume (e.g., Meseguer 2002)? Alternatively, actors may be overwhelmed by abundant information and save computational costs by resorting to cognitive shortcuts that turn decision making more efficient, but at the risk of distorting inferences substantially. In this view, rationality is distinctly bounded as hard-pressed decision-makers regularly and automatically rely on heuristics that facilitate the complicated process of making choices, but that can also cause significant biases.<sup>1</sup>

These three specific issues—external imposition vs. latitude for choice; legitimacy vs. self-interest; and comprehensive cost/benefit calculation vs. reliance on cognitive shortcuts—lie at the heart of the debate about rationality in politics, which has agitated political science during the last two decades. To make a contribution, my study examines the three aspects through an in-depth analysis of the policymaking process. This approach is particularly well-suited for assessing how “realistic” the contending frameworks are (cf. Tsebelis 1990: chap. 2). Thus, while focused on a specific topic—the diffusion of social policy innovations in Latin America—the present book hopes to elucidate a much broader question.

#### THE MAIN ARGUMENT

My research finds that a distinctly bounded form of rationality prevails in the cross-national diffusion of policy innovations. While decision-makers do have an effective choice, and while they largely pursue fixed and clear interests, they do so in ways that differ greatly from the as-

<sup>1</sup> Bendor (2003), Jones (1999), Kahneman (2003), and Simon (1985) provide excellent background on theories of bounded rationality.

sumptions underlying conventional rational-choice approaches. Even the impressive specialists involved in Latin American pension and health care reform, whose professional training should make them “most likely cases” (cf. Eckstein 1975) for conducting ample, systematic cost/benefit analyses, lack the time and the informational, computational, and financial resources to follow the ideal-typical norms of comprehensive rationality.<sup>2</sup> As numerous interviews with leading policy-makers and their rich paper trail demonstrate, they do not proactively scan the international environment and engage in a wide-ranging search for promising external models. Instead, they are attracted to certain foreign experiences for more “accidental,” logically arbitrary reasons, including geographic and temporary proximity. And rather than evaluating the models that grab their attention through systematic, balanced cost/benefit analyses, they tend to assess the promise of foreign innovations more haphazardly.

Especially where a bold, integrated, coherent, and simple reform model such as Chilean-style pension privatization has emerged, policy-makers commonly rely on the main inferential shortcuts that cognitive psychologists have documented, namely, the heuristics of availability, representativeness, and anchoring (Kahneman, Slovic, and Tversky 1982; Gilovich, Griffin, and Kahneman 2002). These automatically used shortcuts facilitate the processing of overabundant information by focusing—and thus limiting—people’s attention and by supplying simple inferential rules that lower computational costs and allow actors to navigate uncertainty. In this way, they enable people to cope with the flood of information that besieges them and that leaves little time for proactive efforts to search for even more information, as the postulates of comprehensive rationality would demand. By filtering information and channeling inferences, however, these heuristics can also introduce biases and distort the conclusions that people draw from the evidence. Therefore, despite people’s best efforts, the outputs of humanly feasible decision making often diverge from the results that the ideal-type of comprehensive information processing and systematic cost/benefit analysis would yield. In sum, cognitive heuristics are crucial for allowing people to arrive at decisions, but they can significantly impair the quality of those decisions.

As this book documents, the heuristics of availability, representativeness, and anchoring shape the diffusion of social policy models. The availability heuristic induces people to assign disproportionate weight to particularly striking, vivid, memorable information and to overestimate the significance or relative frequency of such cognitively available infor-

<sup>2</sup> For a well-documented similar finding, see Tetlock (2005: chap. 4).

mation (Kahneman, Slovic, and Tversky 1982: chaps. 1, 11–14, 33; Gilovich, Griffin, and Kahneman 2002: chaps. 3–5). In the paradigmatic case of this heuristic, most drivers slow down after witnessing a car crash—although in strictly logical terms, seeing one accident should not affect their assessment of the risks of driving. But the drastic experience of seeing an accident has an immediate impact on most drivers' behavior—until the memory fades away and people speed up again.

In a similar vein, having close knowledge of Chile's dramatic, bold introduction of a novel pension system grabbed the attention of Latin American decision-makers and turned social security privatization into an obligatory point of reference for all experts in the region. Its special availability in Latin America put this innovative model on the policy agenda in the region, much more so than in other areas of the world. Thus, the availability heuristic helps explain why pension privatization spread first and foremost inside Latin America; it helps account for the geographical clustering of policy diffusion, a typical characteristic of this process. While no similarly clear, neat, and integrated policy model emerged in the complex area of health care, decision-makers also followed the availability heuristic and paid disproportionate attention to recent changes in neighboring countries. Rather than concentrating on one singular model, however, they often learned from the experiences of several countries in the region. Thus, in both policy arenas, the availability heuristic focused policy-makers' attention in geographic and temporal terms and thus skewed the process of policy diffusion.

Once a new model has appeared on policy-makers' radar screen, the representativeness heuristic shapes assessments of its quality and promise. This inferential shortcut induces people to overestimate the extent to which a small sample represents true population values; for instance, they tend to draw excessively firm conclusions from a limited set of data, such as a short time series (Kahneman, Slovic, and Tversky 1982: chaps. 1–6; Gilovich, Griffin, and Kahneman 2002: chaps. 1–2). In this vein, many social security experts inferred from the initial success of Chile's privatized social security system—such as the high rates of return achieved by private pension funds—and from its coincidence with the country's striking growth spurt that this new model was of inherently superior quality. Therefore, a number of countries soon rushed to emulate this seemingly successful model. In health care, the absence of a single comprehensive model made assessments of success more diffuse, but an innovative change like Colombia's health reform of 1993 also attained an aura of success—before its serious implementation problems, which reflected its complicated design, became obvious. The Colombian reform therefore triggered emulation efforts, but they were not as widespread and strong as in the case of Chilean-style pension privati-

zation. Thus, to the extent that early success gives rise to impressions of high promise, the representativeness heuristic induces policy-makers to jump on the bandwagon of a diffusion process. It thus helps account for the upsurge in policy emulation that underlies the wavelike nature of innovations' spread.

Finally, the heuristic of anchoring limits the adjustment that policy-makers introduce to adapt a foreign import to the specific characteristics of their own country. According to this inferential shortcut, initially provided information—even of an arbitrary nature—significantly ties down later judgments; while not precluding modifications, it keeps them limited and confines them to peripheral aspects (Kahneman, Slovic, and Tversky 1982: chaps. 1, 33; Gilovich, Griffin, and Kahneman 2002: chaps. 6–8). In this vein, all Latin American countries that enacted structural pension reform during the 1990s instituted the central innovation encapsulated in the Chilean model, namely, pension privatization and the creation of individual retirement accounts in the mandatory social security system. While the absence of a single outstanding model left more room for adjustments in health care, anchoring led to some copying even in this policy arena, including sometimes the very names of new institutions. Thus, by keeping adjustments limited, the heuristic of anchoring helps to account for the spread of similarity amid diversity, a defining characteristic of policy diffusion.

In sum, cognitive shortcuts significantly shape the spread of innovations in Latin American social sector reform. The heuristics of availability, representativeness, and anchoring help account for the geographical clustering, wavelike progression, and basic nature of diffusion. As interviews and documents show, policy-makers did not follow the ideal-typical postulates of comprehensive rationality but applied the inferential strategies of bounded rationality. These shortcuts were required for processing the flood of information facing them but created the risk of significant distortions and biases.

As regards the second aspect of the rationality issue—the main motivation driving policy reform—my research suggests that utilitarian goals have been significantly more important than symbolic and normative considerations, especially in the area of social security reform. Depending on the maturity of a country's pension system, policy-makers confronted long-standing financial problems and a virtual collapse of the social security system (as in Argentina); growing pension deficits that required increasing budget subsidies (as in Bolivia); or actuarial projections that foresaw such difficulties in the future (as in Costa Rica). By enacting pension reform, all of these nations addressed clear, "given" problems that were obvious to experts; they did not search for a problem in order to rationalize the enactment of a new model to which they

had become attracted for symbolic or normative reasons, as sociological institutionalists surmise (March and Olsen 1976; cf. Kingdon 1984).

The need to find a definite solution for a pressing preexisting problem was the main argument used by reform-minded experts to justify the adoption of pension privatization. This utilitarian argument was most important for garnering broad political support for reform. Given the high stakes that major societal groups had in social security reform, a typical “redistributive” issue area (cf. Lowi 1964), normative and symbolic considerations did not play a major role. Instead, interests prevailed, and instrumental arguments about problem solving therefore carried the day. The same is true for efficiency-oriented reform efforts in health care, which were designed to cope with the financial constraints tightened by the debt crisis of the 1980s and the adjustment measures of the 1990s. Proposals to introduce competition and performance incentives or to privatize parts of the health system responded to clear problems, such as waste, low productivity, inefficiency, and corruption; and since they affected crucial interests of powerful societal groups and bureaucratic agencies, they elicited strong, often fierce conflict. These redistributive struggles were driven by clashing interests, leaving little room for symbolic and normative concerns.

Equity-enhancing reforms in health care, especially efforts to extend effective coverage to long-neglected poor sectors of the population, could often be pursued through add-on programs that instituted new benefits without imposing visible costs. In political terms, these pro-poor initiatives therefore had a distributive character (cf. Lowi 1964; Corrales 1999: 5–6). Since these measures did not face much political opposition, normative developments could exert significant influence on their adoption. Specifically, financially weak but highly legitimate international organizations like the World Health Organization (WHO) and the United Nations Children’s Fund (UNICEF) had since the late 1970s promoted the goal of “health for all by the year 2000.” This new normative message helped to trigger the reform wave that sought to expand (“universalize”) health care coverage in Latin America during the 1990s. Economic conjunctures, namely the attainment of economic stability and return to growth, provided a permissive condition for this reform wave. The region’s recovery made new financial resources available, allowed for “distributive” add-on programs that extended benefits to the poor without taxing the better-off, and thus paved the way for new norms to drive policy change.

Thus, under specific conditions, the normative appeals stressed by sociological institutionalists and constructivists did make a difference. Usually, however, utilitarian efforts to resolve pressing “given” problems and advance clear, preexisting interests played a much more impor-

tant role. Overall, interest-based, pragmatic problem orientation predominated. Thus, although decision-makers apply a distinctly bounded form of rationality, they are guided primarily by self-regarding goals.

Turning to the third aspect of the rationality issue, political actors also seem to have a significant margin of choice. My research shows that policy diffusion did not result from external imposition. Certainly, external pressures, especially the general policy guidelines and specific reform recommendations advanced by international financial institutions (IFIs), played a significant role in the spread of social policy innovations in contemporary Latin America. By the mid-1990s, pension privatization and efficiency-enhancing health reforms were part of the neoliberal policy package promoted by the World Bank and IMF. To support such reforms, the IFIs offered substantial financial aid, generous technical assistance, and frequent normative exhortations.

But while contributing to innovations' spread, these forms of influence by no means determined the outputs of national decision making or eliminated the latitude for choice. The very variety of policy changes enacted in Latin America, especially in health care, shows that the IFIs did not impose a uniform blueprint on the region; domestic factors clearly mattered. In fact, the IFIs' most powerful instrument of coercion, loan conditionality, has proven to be a blunt weapon in the enactment of complex institutional reforms. Reforms of social security and health systems involve a wide range of actors. This multiplicity of "veto players" and the resulting need for political negotiations make it difficult for external actors that lack democratic legitimation to exert much influence. Thus, the IFIs cannot impose such institutional reforms but seek to influence them through financial incentives, technical assistance, and persuasion—often with limited success (Nelson 1996; Brooks 2004).

Furthermore, IFI influence was most important when a wave of diffusion was already under way. Pension privatization started to spread from Chile to other Latin American countries before the World Bank placed major emphasis on this reform in the mid-1990s (cf. WB 1994a). And as the case studies below show, external conditions were often requested by domestic experts, who sought to enhance their leverage with domestic political actors. Thus, the very distinction of external vs. internal agency is much less clear-cut than external pressure arguments assume (see in general Vreeland 2003). For all these reasons, the IFIs have had only limited influence on the spread of innovations in Latin American social sector reform. In particular, they have certainly not managed to impose concrete policy models, such as Chilean-style pension privatization. And while they have succeeded in pushing countries to advance toward general policy goals, especially efficiency in health care, governments have differed greatly in how far they have moved and in what

specific way they have implemented these broad guidelines; in fact, efficiency-oriented reforms have encountered much greater resistance than equity-enhancing efforts. Thus, domestic decision-makers have enjoyed considerable latitude for making real choices; they have often resisted IFI exhortations or failed to implement them.

Therefore, national sovereignty seems to be alive and well in the age of globalization, at least in the area of social policy reform. While external pressures undoubtedly influence domestic decision making, they are usually not the driving force behind social policy reforms and therefore cannot account for the wavelike spread of innovations. As the IFIs' promotion of pension privatization and efficiency goals in health care attained only limited success, diffusion resulted more from horizontal contagion—mediated by cognitive heuristics—or new normative appeals than from central coordination and imposition.

In sum, this study arrives at a clear conclusion on the rationality question. Political actors do have choices, and they make those choices guided more by interests than by legitimacy considerations. But they commonly rely on cognitive shortcuts that deviate from comprehensive rationality. Thus, conventional rational-actor approaches inspired by “economic” versions of rationality need to be modified in light of the consistent findings of cognitive psychology, which the present analysis corroborates.

#### A FOCUS ON PUBLIC POLICY

In analyzing the diffusion of innovations in public policy, this study pays sustained attention to a subject area that has long been neglected in political science, namely, the output side of politics. The more scientific the discipline has tried to become, the more it has looked down upon public policy as an allegedly atheoretical, largely descriptive field. The present book trespasses on this division between political science and policy studies. In my view, public policy is a proper topic for political science inquiry. It can and should be analyzed from a broader theoretical perspective that goes beyond the specificities of the issue area. As just explained, this study brings three major theoretical questions, which are all aspects of the fundamental rationality issue, to bear on the analysis of social policy: the relative weight of international vs. domestic forces; the role of symbolic vs. utilitarian motives; and the prevalence of comprehensive vs. bounded rationality. I hope to show that the in-depth investigation of social policy in faraway countries can suggest important insights on these crucial questions. The output side of politics definitely lends itself to theoretically driven inquiry.

Furthermore, public policy can and should be the subject of explanatory analysis, not mere description. The present study seeks to unearth the causal mechanisms that drive the cross-country diffusion of innovations and therefore applies process tracing based on intensive field research (Hall 2003; Brady and Collier 2004; see Bates, Greif, et al. 1998). Utilizing a different strategy of inference than statistics (George and Bennett 2005; Abell 2001; Collier, Brady, and Seawright 2004), this case-study method systematically examines a wealth of information that escapes quantification. It thus yields a particularly rich, comprehensive understanding of the factors that shape political decision making.

Political science indeed may be well advised to pay more attention to public policy. The long-standing and increasing overemphasis on the input side of politics that prevails in the discipline threatens to diminish the relevance of its findings. Political parties and elections are certainly crucial aspects of politics, but so are policy programs that affect the lives of millions of citizens. In fact, parties and elections are important in part because of their potential impact on policy outputs. As political scientists of various stripes stress (e.g., Ames 1987: chap. 3), many politicians pursue not only instrumental interests of power preservation and reelection, but also substantive goals that require the creation or transformation of public policy programs. Partisan actors thus want to shape political outputs. And in evaluating parties, governments, and even political regimes, citizens strongly consider policy performance. For these reasons, the output side of politics deserves more scholarly attention than it has received in recent decades.

A reorientation toward public policy is especially important for the field of comparative politics. By contrast to the “limited government” prevailing in American politics, the state is much more active in most countries investigated by comparativists, even after the wave of neoliberal reforms. In those nations, governmental decision making—i.e., public policy—deeply affects vast areas of economic, social, and political development. This obvious fact receded into the background during the “third wave of democratization,” when the regime issue attracted most scholarly attention. As elections turned into the decisive mechanism of political choice and as the redefinition of institutional rules seemed pivotal for the new democracies’ future, large numbers of scholars were understandably drawn to the input side of politics, away from public policy.

But by now, the third wave of democratization has come to an end. Many new democracies are either consolidating (especially in Latin America and Eastern Europe) or decaying into old or new forms of authoritarian rule (especially in the former Soviet Union, Africa, and the Middle East). As the special politics of regime transition has passed and

political life has returned to more normal, regular patterns, scholars should moderate the excessive focus on institutional issues and pay more attention to substantive questions, namely, decision making on the important subjects that are in the purview of states—that is, public policy.

A direct focus on public policy and the decision-making process is especially important because despite some promising contributions (e.g., Tsebelis 1995; Haggard and McCubbins 2001), the institutionalist analyses stimulated by the third wave of democratization cannot account well for policy outputs. For instance, both “potentially dominant” and “potentially marginal” presidents (cf. Shugart and Mainwaring 1997: 49) have managed to pass pension privatization in Congress, and chief executives with an equally wide range of legislative powers have failed to achieve this reform. Moreover, political parties and congressional politicians, the actors highlighted by institutionalist approaches, have played a strikingly limited role in health and social security policy, as the secondary literature and my extensive field research show (Piola, Vianna, and Consuelo 2001: 56; Kaufman and Nelson 2004a: 489–504; Nelson 2004: 31–32; Grindle 2004: 55–57; Ewig 2000: 490–96; Weyland 1996a: chaps. 6–7). While parliamentarians retain “the last word” over crucial institutional changes, such as pension privatization, many important policy decisions are made directly through presidential decree or ministerial regulation and thus bypass congressional deliberation.

Where parliamentary approval is required, the initiation, elaboration, and negotiation of crucial bills lie largely in the hands of technical experts and political appointees inside the executive branch. Congressional politicians may serve as “veto actors,” but they rarely play any role as “proposal actors” (Orenstein 2000). They usually do not set the political agenda, choose among available policy options, and design the content of bills. Certainly, parliamentarians can reshape bills in committee, but most amendments focus on specific aspects (often particular benefits or exemptions for certain groups of constituents) and leave the framework of the law for an up-or-down vote. For these reasons, policy analysts stress “the modest role of legislatures” in Latin America (Kaufman and Nelson 2004a: 504). Because assemblies are mostly reactive, the process through which the region’s proactive presidents (cf. Cox and Morgenstern 2001) initiate and elaborate bills and other norms deserves particular scholarly attention. The case studies below therefore analyze the policymaking process, which unfolds largely inside the bureaucratic agencies of the state and is not driven in any direct way by electoral incentives and calculations (see, e.g., Sugiyama 2008).

Even partisan politics matter surprisingly little in social policymaking. Many Latin American parties lack well-defined programmatic positions on issues such as health care. They often care more about patronage

than policy; as a result, their support is effectively “for sale.” And where parties do engage in policy debates, as in Costa Rica, they normally leave it to party-linked experts inside the state to define their issue positions (interviews with Céspedes 2004 and Durán 2004). For these reasons, the opposition’s ascent to power rarely brought great change in the content and direction of social policymaking. As the case studies show, there was strong continuity in pension and health reform projects between governments headed by rival parties in Bolivia, Brazil, Costa Rica, and Peru.<sup>3</sup> Experts inside the state bureaucracy promoted similar proposals regardless of partisan politics and often managed to attain their goals sooner or later (e.g., Martínez Franzoni 1999; cf. Hecló 1974).

By focusing on public policymaking, especially proposal design and negotiations inside the state, this book thus analyzes a neglected topic that merits much greater scholarly attention. It helps to fill a gap that contemporary political science with its predominant input focus and its embrace of institutionalist approaches has left wide open. Furthermore, the study concentrates on major theoretical issues and thus hopes to contribute insights that are of central interest to political scientists.

#### RESEARCH DESIGN

To examine the causal mechanisms that drive policy diffusion, this study draws on in-depth field research, especially personal interviews with leading decision-makers and a close reading of the numerous documents that they processed and produced. I apply a qualitative approach because a number of the theoretical factors investigated in this book, such as the above-mentioned cognitive heuristics, would be difficult to quantify properly. In fact, the burgeoning statistical analyses of policy diffusion, which have undoubtedly made important contributions, often suffer from indicators of questionable validity. For instance, authors commonly operationalize external pressures via the presence of a loan agreement with an IFI. But as mentioned above, such an agreement is by no means proof of external imposition; instead, domestic experts often request IFI conditionality to boost their own bargaining power in internal policy disputes. Only in-depth field research can uncover whether an IMF agreement resulted from such deliberate domestic self-restriction or from external imposition. Thus, case studies are crucial for the present effort to uncover the causal mechanisms that propel the spread of innovations.

<sup>3</sup> In El Salvador, the same party led the government during the period under investigation.

In methodological terms, a focus on causal mechanisms means that “positive cases” in which innovations have actually spread are of particular interest. These cases allow for examining in depth the operation of diffusion’s engines. But this special attention to positive cases does not imply a no-variance design, which has drawn ferocious criticism (King, Keohane, and Verba 1994; Geddes 1990). Instead, any analysis of diffusion seeks to account for intertemporal variation: Why do many countries enact dramatic *change* by emulating the same reform model or advancing toward the same principle? Furthermore, this study examines geographic variation: Why do countries emulate primarily models that emerge in their own region while often ignoring interesting innovations developed in faraway places? In sum, the book seeks to account for significant variation by investigating the causal mechanisms that drive diffusion and thus create commonality amid diversity.

Moreover, the present study deliberately analyzes two issue areas that differ in important ways. In social security, a bold, neat, well-integrated model has arisen and triggered a wave of reforms, namely, Chilean-style privatization. By contrast, the highly complex, multifaceted health arena has not allowed for a single, coherent, encompassing model to emerge; instead, the diffusion of reforms has been stimulated by various factors, including IFI exhortations, new international norms, and recent experiments in neighboring countries. This difference across issue areas offers analytical leverage on the operation of crucial causal mechanisms, especially external pressures, normative appeal, and cognitive heuristics.

These methodological considerations inform my case selection. Logistics requires confining field research to one region. Since pension privatization spread first in Latin America, this region deserves special attention. It also experienced a series of health reforms that offer sufficient material for examining diffusion in that issue area. While the study’s regional scope holds constant various context factors, it also encapsulates substantial differences among the countries under investigation.

Bolivia, Brazil, Costa Rica, El Salvador, and Peru diverged in the institutional features of their prereform welfare states, such as the extension of social security coverage and the relationship of the public and private health sector; in the financial and administrative problems plaguing the established schemes and in the preconditions for reform, such as the extent of capital market development; in their reservoir of technical expertise; and in the relative strength of various social and political forces with a crucial stake in pension and health reform. If, despite these differences, the study uncovers important similarities—such as limited IFI influence and a common focus on the highly available Chilean model of pension privatization coupled with a neglect of alternative reform models—these findings are likely to have broader applicability. Thus, in try-

ing to unearth the causal mechanisms underlying diffusion, this book gains analytical leverage from the points of agreement among diverse countries inside the Latin American context.

But the same causal mechanism can produce different end results when operating in different contexts (McAdam, Tarrow, and Tilly 2001). A tornado devastates a trailer park while leaving a fortress unharmed, and a virus may kill a poor, malnourished child but not a well-fed, strapping youngster. Similarly, diffusion processes in Latin American social policy produced different end states. Many countries emulated Chilean-style pension privatization, but several did not. Health reform advanced even more unevenly. In fact, while diffusion entails the spread of similarity amid diversity, emulating countries often introduced limited modifications to the model they imported. Despite crucial similarities, postreform systems therefore differed in some characteristics.

The selection of Bolivia, Brazil, Costa Rica, El Salvador, and Peru captures these two levels of variation, namely, diffusion vs. nondiffusion and second-order differences among cases of diffusion. The five countries represent the whole gamut of outcomes in the pension arena (Mesa-Lago 1997), namely, a substitutive private system (Bolivia, El Salvador); parallel public and private systems (Peru); a mixed public-private system (Costa Rica); and a reformed public system (Brazil). In the complex health arena, the five countries also adopted different reforms, ranging from more social-democratic measures (Brazil, Costa Rica) to a more neoliberal policy course (Bolivia, El Salvador, Peru). The case studies below seek to uncover the different initial conditions and intervening factors that made the causal mechanisms driving diffusion produce these specific outcomes.

Thus, in explaining why many different countries adopted similar reforms, this analysis of policy diffusion focuses on commonalities. But it also encapsulates several types of variation. In particular, the effort to unearth the causal mechanisms that propel innovations' spread seeks to account for change over time and regional differences while stressing points of agreement among diverse countries inside one region. And the variegated end results of these diffusion processes suggest that divergences among Bolivia, Brazil, Costa Rica, El Salvador, and Peru also mattered.

#### THE CONCEPT, TYPES, AND CHARACTERISTICS OF DIFFUSION

##### *Definition*

This study applies a broad concept of diffusion that includes various horizontal and vertical patterns of propagation. Accordingly, diffusion

takes place if the likelihood that a reasonably autonomous decision-making unit (A) will adopt an institutional or policy innovation is significantly increased by influences that emanate from outside this decision-making unit, especially by the adoption decision of another such unit (B); the influence of a promoting actor that contributed to B's adoption decision; or the proselytizing efforts of the unit (C) that first created and enacted the innovation (see also Levi-Faur 2005: 23; Elkins and Simmons 2005).

To allow for an assessment of the above-mentioned theoretical frameworks, this definition deliberately casts a wide net. In particular, it includes not only horizontal influences among units that adopt an innovation, which rational-learning and cognitive-heuristics arguments emphasize, but also vertical influences, such as pressure or "teaching" by international organizations, which normative-imitation and especially external-pressure theories stress. In fact, elements of vertical pressure often interact with horizontal linkages; for instance, from the mid-1990s onward, the World Bank strongly encouraged and supported the emulation of Chilean pension privatization by other Latin American countries, which had started first in a horizontal fashion. Given this synergy of various causal mechanisms, a narrow definition of diffusion may hide more than it reveals. The present study therefore uses a broad conceptualization.

#### *Model Diffusion vs. Principle Diffusion*

The prototypical instances of diffusion involve the wavelike spread of a compact policy model, such as the Bismarckian social security scheme, Chilean-style pension privatization, the Bangladeshi microlending institution Grameen Bank, the Bolivian Emergency Social Fund, or the Brazilian cash stipends conditioned upon school attendance (Goodman 2004). In these cases, a growing number of emulators import a neat, concrete, well-defined blueprint, largely replicating the original model. The innovation thus spreads in a rapidly expanding wave that sweeps across whole regions of the world.

But diffusion can also take a looser form, in which decision-making units enact a principle adopted by a frontrunner, such as capital account liberalization, central bank autonomy, or universal access to primary health care. They emulate a new guideline but enact it in various concrete incarnations. The basic thrust of these adoption decisions is the same, leading to a recognizable wave of reforms, but specific design features and institutional characteristics differ.<sup>4</sup> While principles can thus

<sup>4</sup> Certainly, however, model diffusion can be nested inside principle diffusion. Countries may imitate the specific institutional way in which a frontrunner enacted a new principle.

spread to large numbers of countries, the resulting pattern of change is not as profound and uniform as the contagion effect unleashed by a neat, clear policy model.

While model diffusion constitutes the most striking form of innovations' spread, has a particularly strong impact on the emulating countries, and therefore attracts disproportionate attention from scholars (Strang and Soule 1998: 285; Meseguer and Gilardi 2005: 4, 17, 22–23), principle diffusion is probably more common because the complexity of many issue areas prevents a singular, neat, well-integrated policy model from emerging. Besides the pension arena, where such a bold, compact model did arise, the present book therefore analyzes the vast and disparate field of health care, where principle diffusion predominated. Thus, my study deliberately analyzes different forms of diffusion. The contrast between model and principle diffusion provides additional analytical leverage on the causal mechanisms driving innovations' spread.

To clarify the distinction between model and principle diffusion, it is necessary to define both terms. A principle is a general guideline for designing programs or institutions. Such a maxim provides a broad orientation for policy-makers that encompasses several specific design options. It charts an overall direction but not a specific course of action. By contrast, a model is one specific option from the menu offered by a policy principle; a model embodies a general guideline and turns it into a concrete, specific blueprint. It prescribes a coherent, integrated way of organizing a policy program or designing an institution. Such a neat, unified blueprint condenses a broad policy orientation or paradigm into a specific incarnation. It crystallizes a policy maxim into a neat, simple package. Thus, whereas a principle is general and vague on details, a model is specific and concrete.

### *Characteristics of Diffusion*

The ample empirical literature on diffusion across countries and across the U.S. states has consistently documented three main features that characterize the spread of innovations. They are especially pronounced in model diffusion but are common in principle diffusion as well.

First, diffusion tends to occur in waves. It usually starts slowly as a few countries or states try out a new model; then it picks up steam as large numbers of nations or states jump on the bandwagon; and finally it levels off as most countries or states have already adopted the change or as the reform wave hits an insurmountable barrier. As a result of this wavelike pattern, the cumulative frequency of reform adoption over time follows an S-shaped curve (Rogers 1995: 11, 22–23; Li and Thompson 1975: 65; Berry 1994: 443; Strang and Soule 1998: 283; Lazer 1999:

466–67, 473; Kogut and Macpherson 2003: 19, 32; Levi-Faur 2005: 18; Orenstein 2003: 179–80; Brooks 2005: 275).

Second, diffusion often displays strong geographical clustering. Neighborhood and regional effects are usually pronounced.<sup>5</sup> New institutions or policies enacted in one country are much more likely to stimulate emulation in a close-by nation than halfway around the globe (Collier and Messick 1975: 1311–13; Starr 1991; Berry 1994: 442; Mintrom and Vergari 1998: 129, 139–44; Strang and Soule 1998: 275; Kopstein and Reilly 2000; Walt 2000: 41; Guisinger 2003: 4, 9, 31–34; Simmons and Elkins 2004: 172; Way 2005: 132, 137–40; see also Mooney 2001). It is noteworthy that this geographical clustering prevails even in the age of globalization, when advanced information technologies facilitate access to innovations on a worldwide basis. In fact, the most powerful international financial institutions, the World Bank and International Monetary Fund, have a global mandate and deliberately advertise interesting innovations worldwide. Nevertheless, even recent instances of policy diffusion, such as the spread of Chilean-style pension privatization, have continued to display clear geographical clustering (Orenstein 2003: 174, 178, 185–86).

Finally, diffusion produces the spread of similarity amid diversity. A number of countries with variegated socioeconomic, political, and cultural characteristics adopt the same basic institutional feature or policy framework. While they may well introduce some modifications to adapt the external import to their specific needs, they replicate the fundamental design of the foreign innovation. Diffusion thus causes convergence.

These three patterns are clearly observable in the spread of social security reform because privatization decisions constitute focal events whose temporal unfolding and geographical clustering are easy to document. Thus, pension reform in Latin America (and Eastern Europe) has followed the typical S-shaped curve of diffusion (fig. 1.1). It actually spread faster than the Bismarckian social security system (Orenstein 2003: 181, 185–86), despite a somewhat delayed start: Only when Chile returned to democracy yet maintained the private pension system did its association with the brutal Pinochet regime ease, allowing the new democracies in the region to import this innovation. The privatization wave then surged quickly, as soon as the regime divergence was overcome.

Pension privatization has also displayed strong geographical clustering. Almost all of the first emulators were located inside Chile's subregion, South America; in fact, three of the first six importing countries

<sup>5</sup> Bonds of cultural, political or historical similarity—for instance, among the Anglo-Saxon countries or among Communist countries—can overpower the effects of geographical proximity.

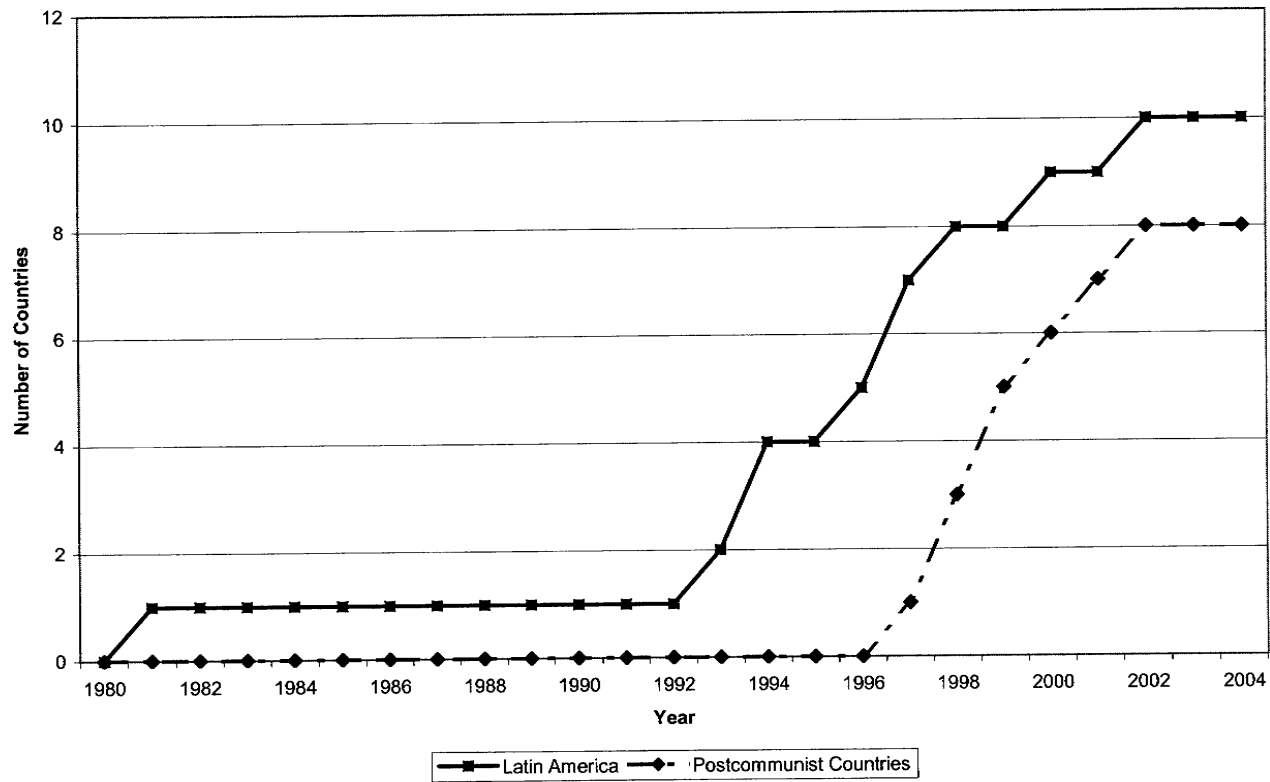


Figure 1.1. The Diffusion of Pension Privatization

(Argentina, Peru, and Bolivia) were Chile's next-door neighbors, and two more (Colombia and Uruguay) shared borders with initial adopters. After Mexico privatized its social security system in 1995, the wave of diffusion reached the Caribbean Basin, affecting El Salvador, Costa Rica, Nicaragua,<sup>6</sup> and the Dominican Republic. Thus neighborhood effects have been pronounced. Finally, while introducing significant modifications, all of these countries instituted the core of the Chilean model of pension privatization by creating individual retirement accounts in the obligatory social security system and by making social security benefits dependent on accumulated contributions and investment returns. As these countries differed considerably in socioeconomic development level, the wave of pension privatization thus entailed the spread of similarity amid diversity.

In the complex area of health care, no singular neat, integrated proposal of a comprehensive revamping has emerged.<sup>7</sup> Reforms have therefore advanced in a more disparate and piecemeal fashion. Yet the three features of diffusion are nevertheless visible. As regards temporal patterns, there has been a clear upsurge in efforts to privatize parts of the health system or introduce competitive principles during the 1990s, inspired in part by Chile's introduction of private health insurance in the early 1980s. Similarly, after a slow start in the 1980s, programs to extend primary health care to the poor have proliferated in the 1990s. Thus, the initially gradual, but then rapid spread of reforms that is captured in the S-shaped curve of cumulative frequencies is observable in health care.

Neighborhood effects have also been significant. For instance, Chile's partial health privatization had an impact primarily on other Latin American countries, such as Argentina, Colombia, and Peru. Similarly, Colombia's health reform affected its neighbor Peru, which also learned from Bolivian innovations. Thus, geographical proximity stimulates emulation efforts in health care. Finally, while the absence of a singular outstanding model allows for less spread of similarity amid diversity in the health arena, basic policy principles, such as the introduction of private competition or the extension of primary care to the poor, did affect many dissimilar countries in similar ways. In sum, while less clear-cut than in social security, health reform has also displayed the three features of diffusion, namely, its S-shaped temporal unfolding, its geographical clustering, and the spread of similarity amid diversity.

<sup>6</sup> Nicaragua adopted a privatization law in 2000 but has postponed implementation and may well backtrack (Enríquez and Bow 2004; interview with Bonilla 2005).

<sup>7</sup> As chapter 6 discusses, Colombia's ambitious reform of 1993 was widely seen as overly complex, contrasting with the simple Chilean model of pension privatization.

## DIFFUSION IN LATIN AMERICAN SOCIAL POLICY

*Model Diffusion in Pension Reform*

What are the main innovations in pension and health policy that have spread across Latin American countries during the last two decades? In both issue areas, the most important reform impulse arose from the new paradigm of neoliberalism, that is, the effort to introduce or strengthen market mechanisms in economy and society. After combating economic crises through orthodox stabilization and structural adjustment, many governments, often under IFI prodding, sought to extend market reform to the social sectors (see recently Corrales 2003; Wise 2003a). These attempts to enhance efficiency through competition or privatization thus formed part of the broad wave of liberal change that has swept across many world regions in the last thirty years.

In social security, Chile's radical privatization of 1981 constituted a neat, compact model that attracted widespread attention inside Latin America and beyond. This bold change comprehensively restructured a national pension system along the lines proposed by neoliberalism. Chile's reform diverged strikingly from the principles and models that had guided international pension policy since the inception of national social protection in Bismarck's Germany and that had shaped Latin American social security systems.

While differing significantly in coverage, generosity of benefits, and specific institutional features, the region's prereform pension systems shared many fundamental characteristics. In particular, they were obligatory, publicly administered defined-benefit schemes, financed largely by payroll contributions. As current workers and their employers funded a large proportion of benefit payments, these schemes rested on intergenerational redistribution and approximated "pay-as-you-go" (PAYG) systems. In financing the pensions of retirees, the present generation trusted that their offspring would pay for their own future benefits. To guarantee a reasonable standard of living in old age and forestall a stark income drop upon retirement, these benefits were calculated as a fixed percentage of a worker's last few salaries. This predictability of benefits, combined with the PAYG financing scheme, meant that any resource shortfalls had to be covered by increased contributions from current workers. To enforce this intergenerational contract, the state mandated affiliation and monopolistically administered the pension system, mostly via more or less autonomous social security institutes. Effective coverage was limited, however, to the formal sector of the economy, where official labor registration and regular, predictable wages made the withholding of social security contributions feasible. Since the system was financed mostly

out of payroll contributions (not general taxes), urban informal workers and the rural poor, who received irregular incomes “off the books,” in most cases remained excluded (see especially Mesa-Lago 1978; also Malloy 1979).

These PAYG systems easily guaranteed social protection for old workers and employees when Latin America’s populations grew rapidly and the dependency ratio was therefore favorable. As long as there were substantial numbers of current workers paying social security taxes per retiree receiving benefits, reasonably generous pensions could be funded out of social security taxes that were not too onerous. But in the course of Latin America’s demographic transition, falling birth rates led to fewer people joining the workforce, while population aging increased the proportion of retirees. This secular shift, which sooner or later affected all countries in the region, threatened the actuarial balance of the PAYG system. With falling dependency ratios, governments undertook parametric reforms: They began to raise contributions and tighten entitlement conditions; outright benefit cuts usually proved too costly in political terms. Thus, financial problems in and political conflicts over the social security system were on the rise across the region (Mesa-Lago 1989).

In this context, Chile’s pension privatization created a radical alternative to the PAYG system, namely, a defined-contribution system run by competitive private pension fund administrators (*administradoras de fondos de pensiones*—AFPs). Affiliated workers and employees had their social security contributions deposited in individual accounts, which the AFPs invested in the capital market. Upon the account owner’s retirement, the amount of the accumulated funds and investment returns determined the value of each individual’s pension benefit. Thus, contrary to the intergenerational solidarity underlying the prereform systems, the Chilean model embodied purely individualistic principles: Every person would receive in old age what they had saved in the course of their own work life and what they had gained in the form of investment returns. While this new system made the value of the future benefit uncertain, it provided a clear incentive for people to contribute to their own pension funds. Since the Chilean model rested purely on self-interest, the state could take a residual role and transfer the administration of pension funds to private firms, which freely competed for affiliates. This market system was designed to improve efficiency, boost investment returns, and lower administrative costs, partly by precluding any political manipulation of the social security system. Privatization also gave individuals freedom of choice, which allowed them to sign up with the pension fund administrator that best served their interests. And by giving up most responsibility for social security, the state unloaded a

thorny task and depoliticized an issue area that had given rise to innumerable demands from special interests.

In sum, the Chilean model instituted a radical alternative to established pension systems. Embodying the main maxims of neoliberalism, it differed in its basic philosophy and in several important design principles. Yet while the pension reform debate in Latin America has focused almost exclusively on the two polar opposites of PAYG vs. privatized systems, European countries have developed notional defined-contribution (NDC) schemes that ingeniously combined features of both extremes. Like the Chilean model, NDC systems make pension benefits dependent on individuals' accumulated contributions. But rather than investing those funds in the capital market and crediting individuals' accounts with actual investment returns, NDC systems create virtual accounts that are remunerated with an interest rate defined by the government. Instead of accumulating in their own capital accounts, workers' contributions are used to fund current retirement benefits—just as in a PAYG system.

Thus, the NDC scheme is similar in its individualistic system of benefit calculation to the Chilean model while emulating the PAYG system in its mechanics of benefit payment, which retains an intergenerational contract. Since it does not invest individuals' contributions in the capital market and since affiliates would therefore benefit little from competition, it is administered by the state. And since it does not channel individuals' contributions into private pension funds, it does not create the fiscal transition cost that plagues full-scale privatization. But due to the lack of capitalization, the NDC scheme does not hold the promise of boosting national savings and productive investment that economists attributed to the Chilean model: Individual contributions are not capitalized in forced savings accounts, but credited to notional accounts and used to fund current retirement pensions. In sum, NDC schemes are novel hybrids that open up a “third way” between the PAYG system and the Chilean model; but the latter blueprint has inspired most pension reformers in Latin America since the late 1980s.

#### *Principle Diffusion in Health Care*

By contrast to the clear focus on the Chilean privatization model in social security, the field of health care is highly complex, and reform efforts have therefore varied. But two basic maxims have stood out as guidelines of Latin American health policy during the last twenty years, giving rise to considerable principle diffusion. One group of reform efforts has sought to guarantee universal health coverage by extending effective medical attention to the urban and rural poor. Since in Latin

America, publicly provided health care emerged as a complement of social security coverage, it traditionally included workers in the formal sector, who paid social security contributions and were therefore entitled to the services provided by the relatively well-endowed social security institutes. To the present day, these sectors have much better access to medical facilities than the poor because the countryside and urban squatter settlements are covered precariously by the ministry of health out of general budget funds, which are notoriously scarce. The poor therefore have difficult access to health care, which tends to be substandard. Thus, Latin American health systems have been deeply segmented and structurally unjust.

In response, one group of reforms has sought to establish universal coverage by extending decent health care to the poor. These efforts have tried to turn good services from a privilege acquired through social security contributions into a general right guaranteed to all people as citizens. To advance toward this equity goal, states have tried to “raise the bottom” by expanding coverage through add-on programs targeted at the rural poor and marginal urban sectors. Yet financial constraints have often prompted efforts to draw on resources controlled by the well-endowed social security institutes; therefore, efficiency-oriented reforms (see below) have been seen—and depicted—as preconditions for helping the poor by universalizing health coverage.

Usually, equity-enhancing reforms have also included efforts to change the allocation of resources among different levels of the health system. Reformers have deemphasized complicated, expensive curative treatments, which are accessible disproportionately to the better-off, and have assigned priority to improving primary care, which addresses the simple but pressing health needs of poorer people. In many Latin American countries, for instance, a shocking number of children in rural and marginal urban areas still die of easily preventable or treatable diseases, such as gastrointestinal or respiratory infections, against which the middle and upper class can protect themselves. In the eyes of reformers, the state should therefore concentrate on extinguishing these simple but deadly scourges for the sake of social equity.

This primary care strategy also enhances the cost-effectiveness of the health system: Each dollar spent on simple preventive and basic curative measures yields a much greater benefit for human well-being than increased investment in expensive hospital treatments, which help relatively few people, disproportionately from better-off sectors. Thus, improving primary care promises to enhance social equity as well as economic efficiency.

The efficiency goal inspires a second strand of reform efforts, which seeks to contain the constant increase in medical spending and to pro-

duce more and better services with the available resources. The underlying push factor for rising health expenditures arises from continued technological progress, which makes ever more sophisticated yet costly treatments feasible. Desperate patients demand as much medical help as possible, putting political or legal pressure on governments by invoking generous declarations of principles enshrined in constitutions. Thus, technical possibility and human need create pressure to disregard fiscal limitations.

Governments' economic agencies and international financial institutions therefore see efforts to enhance efficiency and productivity as imperative. This economic concern, which is often inspired or reinforced by neoliberal thinking, is fairly new in the health arena, which has traditionally concentrated on need satisfaction—that is efficacy, not efficiency. Accordingly, medical doctors, who used to fill all administrative positions in the health field, resent the attempts of economic experts from the finance or planning ministry to establish financial control over this area and to reshape service provision in accordance with efficiency criteria. Despite this tenacious active and passive resistance, clear fiscal constraints have prompted numerous efficiency-enhancing reform efforts. In a variety of ways, governments have sought to control costs, limit waste and corruption, monitor performance, offer incentives for higher productivity, and outsource some services. These changes have remained disparate and piecemeal as governments have used “salami tactics” to limit opposition and as only some proposals have passed.

The efficiency agenda is particularly controversial because it raises the specter of privatization. Neoliberal economists and health specialists argue that the public sector is inherently inefficient due to weak economic incentives and excessive politicization; only a transfer of part of the health system—especially service provision, but also insurance and financing—to the private sector can bring significant improvements. These experts take inspiration from the Chilean experiment with health privatization and advocate its emulation by other countries. By contrast, a majority of social sector specialists claim that the introduction or extension of the profit motive would further increase costs; it would also threaten social equity because the vast number of less well-off people could not afford to buy quality medical insurance in the market. And the “exit” of the middle and upper class from the public health system would hurt poorer sectors by depleting the state's revenues for health care. Given these polarized viewpoints, steps toward privatization, which a number of Latin American countries have attempted to take, have mostly remained circumscribed to specific aspects of the health system.

A diverse group of health specialists has tried to find a compromise in

the acrimonious privatization debate. They have sought to strengthen the public sector by instituting efficiency-oriented incentives and competitive mechanisms inside it. They have called for introducing quasi-markets, especially negotiated, contractual relationships between public and private service providers and the governmental institutions that administer health care finances and insurance. They have also pushed for decentralization as a means to make medical personnel more attuned to the specific needs of their patients and give them more flexibility in service provision. In their view, greater autonomy and stronger incentives should replace the rigid bureaucratic commands and controls that had turned established health systems into slow-moving dinosaurs. Many Latin American countries have indeed introduced quasi-contractual mechanisms and have decentralized their medical systems.

In sum, the health arena has seen a large number of variegated reform initiatives. Change has mostly been gradual, limited, and fragmented, affecting only specific aspects of this complicated issue area; a comprehensive restructuring like Colombia's ambitious reform of 1993 has remained the exception (Nelson 1999). Contrary to the pension arena, no single, neat, compact model has emerged that has stimulated widespread emulation. Nevertheless, these disparate, not always cumulative reform efforts have followed two main tracks, which lead toward social equity and economic efficiency. As these goals have given rise to a range of efforts to extend health care to the poor, emphasize preventive and primary care, strengthen incentives for service providers, introduce competition inside the public sector, etc., health policy has been characterized primarily by principle diffusion, not model diffusion.

#### ORGANIZATION OF THE VOLUME

Chapter 2 discusses the theoretical ideas guiding this study. To establish a clear focus, it first examines the causal mechanisms driving the diffusion of Chile's compact model of pension privatization. External pressures and normative concerns were not decisive in propelling this innovation's spread. Furthermore, decision-makers diverged significantly from comprehensive rationality and followed the shortcuts documented by cognitive psychologists. By contrast, principle diffusion in health care is influenced by various factors. External pressures are more effective in promoting general guidelines than concrete models; they helped induce governments to adopt efficiency-enhancing reforms. And international norms motivated governments to improve equity by giving the poor access to health services. Last not least, cognitive heuristics shaped the frequent yet disparate diffusion of specific health reform experiences.

Finally, the chapter analyzes the context factors that condition the outcomes produced by these causal mechanisms in specific settings. It thus explains why the moving causes of diffusion can yield different end results—for instance, why some countries do not adopt a foreign model or principle emulated by their neighbors.

Given the differences between model diffusion in social security and principle diffusion in health reform, the study then analyzes the two issue areas separately, yet in a comparative perspective. Chapters 3 and 4 examine the spread of Chilean-style pension privatization, while chapters 5 and 6 analyze the dissemination of equity and efficiency principles in health care. Chapter 3 investigates the impact of external pressures and international norms on the diffusion of pension privatization. It shows that the IFIs did not set off this reform wave in the late 1980s. Moreover, they exerted limited pressure on countries that emulated the Chilean model, namely, Bolivia, El Salvador, and Peru, and had little success in pushing reluctant nations, namely, Costa Rica and Brazil. Normative and symbolic concerns also had modest effect. Advocates of social security privatization like the World Bank did not reshape policymakers' interests by emphasizing new goals but merely highlighted new means for pursuing old goals.

Chapter 4 probes the crucial issue of comprehensive vs. bounded rationality. Extensive field research shows that decision-makers in Bolivia, El Salvador, and Peru did not actively search for the relevant information and process it in a systematic, balanced fashion. Instead, they relied on cognitive shortcuts. Following the availability heuristic, they paid disproportionate attention to the Chilean model and neglected other valuable sources of information. In line with the representativeness heuristic, they drew excessively sanguine conclusions from Chile's initial success and rushed to emulation. And anchoring led them to imitate the Chilean model closely and limit adaptations. In Costa Rica and Brazil, the Chilean model also was uniquely available, and powerful actors followed the representativeness heuristic in extolling its success. But higher levels of technical capacity widened the bounds of rationality and allowed forces concerned with social equity to stress the downsides of the Chilean model. In Costa Rica, the absence of an acute pension crisis and the strength of social-democratic commitments limited the reform impulse and gave rise to a mixed model. Similar aversion to neoliberalism, combined with multiple institutional obstacles to radical change, caused a lengthy stalemate on pension privatization in Brazil. An escape from this impasse opened up only when the European NDC scheme suddenly became cognitively available. In sum, cognitive heuristics deeply shaped the reform process in all five nations, although they produced different outcomes in these specific settings.

Chapter 5 investigates the impact of IFI exhortations and new normative trends on health reform. By contrast to model diffusion in social security, external pressures played a greater—but far from overwhelming—role in driving principle diffusion in health care, especially in advancing efficiency-seeking changes. The IFIs also supported equity-oriented efforts to improve basic services for the poor. But the driving force was a global norm shift, namely, the codification of the maxim “health for all” in the late 1970s. Since governments could pursue this new goal through distributive add-on programs, legitimacy considerations carried the day.

Chapter 6 demonstrates that rather than approximating the postulates of comprehensive rationality, health policy-makers relied strongly on cognitive shortcuts. Due to the absence of a singular, neat, and compact model, however, the heuristics of availability, representativeness, and especially anchoring did not exert as strong an effect as in the pension arena. Certainly, the Chilean and Colombian experiences with health privatization attracted significant attention in Latin America, but their moderate success and complicated nature limited emulation. Various other reform experiences also attracted and influenced policy-making. Due to the availability heuristic, these effects were confined mostly to neighboring countries. Bounded rationality thus led to a more dispersed, “decentered” process of learning in health policy, which contrasted with the wavelike spread of a singular model in social security.

Chapter 7 draws theoretical conclusions and places the empirical findings in a broader comparative perspective. The first section highlights the main results emerging from the case studies. The second section addresses the debate about the nature of rationality in politics and develops the theoretical and methodological implications of my bounded rationality approach. The last section discusses the implications of my study for theories of globalization and the worldwide advance of economic liberalism. The present analysis of policy diffusion suggests that despite homogenizing pressures toward global convergence, significant regional and national diversity in institutional arrangements and policy programs will persist. The resulting complexity reinforces the need for policy-makers to rely on cognitive heuristics in order to process the growing flood of decision inputs. Thus, while information flows are becoming ever more unbounded, rationality remains bounded.