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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.¹

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-

¹ 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.² 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-

² 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.³ 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.

³ 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

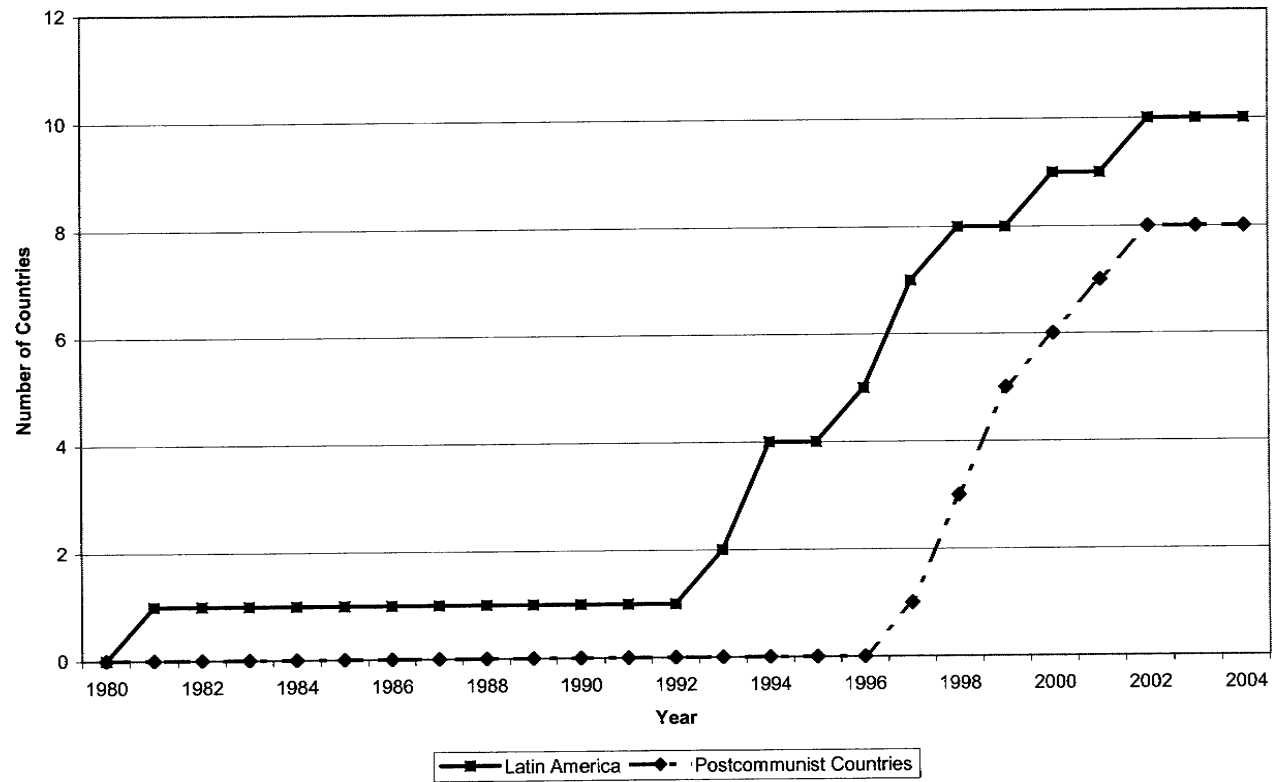


Figure 1.1. The Diffusion of Pension Privatization

