6 *Developing coalitions in Italy, Spain, Brazil, and Botswana*

The credible constraints framework helps explain India's growth performance, and finds confirmation in cross-national statistical patterns as well. The principal claim is that constraints on arbitrary and capricious policymaking enhances policy stability which engenders greater confidence on the part of economic actors. In particular, coalition governments in parliamentary systems have been identified as especially useful for providing such "credible constraints". The central mechanisms in generating the status quo bias in policymaking that leads to favorable economic outcomes have been two: first, coalitions require compromise among members of the ruling coalition to obtain the support required for successful legislation, and, second, the process of government formation privileges centrist parties as potential government formateurs (Strøm 1990, Strøm and Müller 1999).

In this chapter, I analyze the growth experiences of four countries to illustrate better the logic of the theoretical argument. The emphasis in each – admittedly cursory – case study is to understand the within-country experience with the dynamics of coalition politics and their effects on national economic performance. Therefore, the purpose is not to compare across cases since too many other factors affecting volatility and growth exist than can be controlled. That after all was the purpose of the statistical analysis in Chapter 3 since regression is an ideal tool for providing just such control. But the limits of statistics are just as clear in their inability to illuminate the mechanisms at work in producing the varied outcomes that form our dependent variables. The case studies offered here, coupled with the more detailed analysis of India in the previous chapter, hopefully add more to our understanding.

I begin by considering the post-war Italian experience since both the volatility of its politics and rich experience with coalition governments are well-documented. Next, I turn to Spain, a developed

NOORUDIN: "CHAP06" — 2010/8/2 — 19:36 — PAGE 148 — #1

democracy but with memories of dictatorship in its not so distant past. The Spanish case is especially useful for illustrating the advantages of competitive democracy over dictatorship. Finally, I turn to the experiences of two developing countries – Brazil and Botswana. Brazil provides an example of a presidential system whose institutional structure is often criticized for the gridlock it creates, while Botswana is a Westminster system often hailed as an African success story. The four cases thus vary interestingly in their domestic political-institutional configurations. To the degree the argument travels across these four cases, our confidence in its generalizability and veracity is bolstered considerably.

Italy

Italian politics has always been characterized by relatively high political fragmentation and frequently-changing coalition governments (Strom 1990: Ch. 5). On the face of it the high levels of government instability in Italy would lead one to predict that Italy should have very high levels of growth-rate volatility. But such a prediction ignores the fact that Italy's party system has made coalition governments a constant feature of Italian politics, and that the ideologically-central location of the Christian Democratic Party (DC) has allowed it to dominate the country's coalition governments for most of the post-World War II period. The influence of the DC began to wane in the early 1980s amid widespread corruption scandals. By the early 1990s, the DC no longer dominated Italian politics and the effective number of political parties has increased since that time. While any single case case does not provide a conclusive test of any causal relationship, as in India, the trend towards an increasing effective number of Italian parties in the 1990s is correlated with a decline in growth-rate volatility. In particular, the Italian case highlights an instance in which the exclusion of certain interests, notably those of the Left and labor, may be responsible for producing policies that promoted more unstable growth.

Like Spain, which I will discuss next, Italy demonstrates the virtues of democratic rule. Prior to 1945, when Italy was ruled by dictators, growth rates were quite volatile. After 1945 and the transition to democracy, Italian growth rates became remarkably stable and

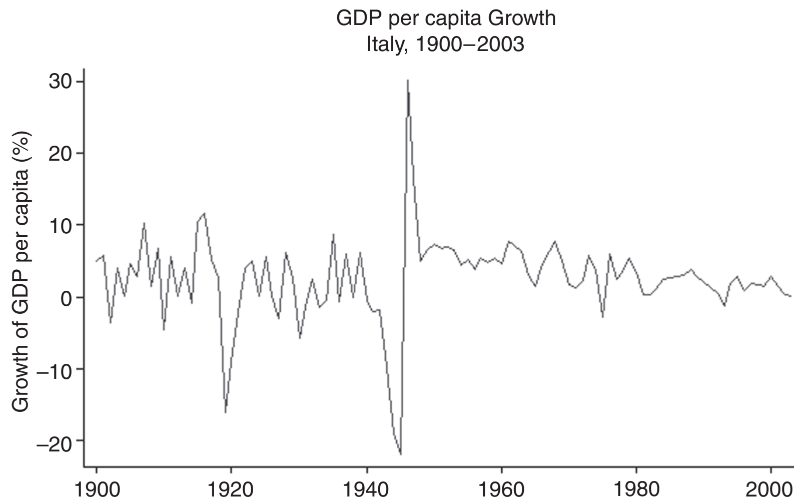

Figure 6.1 Growth-rate volatility in Italy, 1900–2003 (source: Maddison 2007).

remained so throughout the remainder of the twentieth century (see Figure 6.1).[1]

The persistence of low growth-rate volatility has occurred in spite of remarkable instability in governments in Italy. Indeed, for conventional theories linking politics to economic development, Italy's stable growth would appear a paradox. But the theoretical framework presented in this book provides a plausible solution to this paradox through its emphasis on coalition governments and their tendency to produce stable policies and to prevent drastic policy changes. In Italy's case, the key factor has been that the ideological center of Italy's myriad coalition governments has been stable, which has resulted in stability in economic policy too. The Christian Democratic (DC) Party deserves a large share of the credit for this stability. Indeed, despite the existence of a number of political parties, the DC dominated Italian coalition governments from 1948 until the early 1990s. From 1948 through the 1960s, the DC won a plurality of votes in every general election and

[1] Throughout this chapter data on GDP per capita are provided by Angus Maddison, and are in 1990 International Geary-Khamis dollars (Maddison 2007).

established a broad political base that included supporters from different classes and regions so that some scholars have referred to it as an "aggregative" political party (Zariski 1965). Until 1981, every prime minister had been selected by the DC. While governments never lasted more than a few years, there was great stability despite frequent alternations in power because the "cost" of forming a coalition was cheap in light of DC dominance (Mershon 1996, 2002).

The trends in growth-rate volatility apparent in Figure 6.1 roughly correspond to the three phases of Italian political life discussed in Morlino (2001). First, during the post-war period (1948–1960) there were a large number of parties of which the DC and the Italian Communist Party (PCI) are the most influential. Second, the main consolidation phase occurred in the early 1960s and lasted until the early 1990s during which time the DC expanded its base in an "opening to the left." Third, electoral reforms passed in 1993 marked the beginning of a third phase of Italian politics. During this final stage, political fragmentation has increased as the dominance of the DC has waned.

From 1945 to 1977, the DC relied on patronage politics to maintain their influence throughout the country with corruption being pervasive enough to extend into the industry and and commerce sectors. During the early post-war period, the De Gasperi government pursued a policy of fiscal austerity and stabilization intended to prevent inflation (the Einaudi plan). These policies are credited with promoting growth in the 1950s. Despite its center-right tendencies, in the 1950s the DC promoted the expansion of state-controlled industrial and and commercial enterprises (Posner 1977).

Economic policymaking was highly centralized although different actors controlled policy depending on the sector. The DC governments relied on monetary policy whose course was determined by the Central Bank. By giving the Bank extensive control over monetary power, the intention was to depoliticize monetary policy. Likewise, industrial and commercial policy were largely determined by state-controlled enterprises and large, private corporations both of which were strongly tied to the DC (Posner 1977). Although power was highly centralized, Posner notes that the government's decision to defer to these groups on economic policy reflected the "passivity and lack of direction engendered by Italy's coalition politics" (1977: 828). Furthermore, the "macroeconomic-monetarist" approach of the Central Bank was incongruous with the "microinterventionist strategy" of the

state enterprises ultimately creating an incoherent national economic policy (Locke 1995). As a result, Italy's economic policy during this period has been criticized for lacking coherence and direction.

A number of interests were excluded from 1947 to 1960. The direct involvement of businesses was limited. Private business interests were forced to try to negotiate with the DC, however, because the Italian Liberal Party (PLI) had been excluded from the coalition (Posner 1977). The DC excluded the PCI, labor, and business interests, but in the early 1960s these groups gained increasing influence. In 1956, the DC allowed for the establishment of a public enterprise employers' organization called Intersind. The early 1960s marked moves towards bargaining at the industry and firm level. This was part of a larger trend of an "Opening to the Left" in the 1960s (Posner 1977). During this period, the DC created a center-left coalition in which the PCI played a central role (Morlino 2001). Including the PCI was a strategic move to broaden the political bases of the DC and bring the PCI within its patronage system. In the 1990s, the influence of labor has continued to improve as there has been a trend towards more institutionalization of collective bargaining practices over labor and wage issues (Perez 2000).

The Italian political system has considerable problems that hinder the government's ability to rule efficiently. Widespread charges of corruption within political parties hurts the legitimacy of the political process, and for much of the post-1945 period, the government has been a revolving door for parties as coalition governments were extremely fragile and short-lived. However, as (Strom 1990:138) makes clear, this apparent churning of governments masked a considerable stability in Italian politics:

> The volatility of Italian governments is customarily noted, and the underlying continuity of the postwar record is almost equally commonplace. Italy accounts for a large number of governments than any other country in my sample ... On the other hand, just as evidently partisan composition and personnel have changed very little from government to government.

Thus, in spite of the very real weaknesses in its political system that has made government survival difficult, Italy has had a stable growth rate (less volatile even than Spain, but more on that below) throughout the post-war period, which is hard to explain via conventional theories that explain growth-rate volatility by focusing on getting policies

"right" or risk-averse political agents. Instead, focusing on the stability of policy induced by a system that encouraged the formation of coalition governments, and of the centrality of the Christian Democrats in any viable coalition, yields a more plausible explanation of this apparent paradox of Italian stability.

Spain

The Spanish political experience marks a sharp contrast to the Italian one surveyed above. Political competition in Spain is quintessentially Downsian with two major parties competing for office. On the surface then it might seem a strange case to study given the argument made in this book. Yet, Spain is useful on two fronts. First, as a comparison to Italy's chronic coalition and minority governments, it is striking to find that Italy has actually had a lower level of growth-rate volatility than Spain, whether one considers only Spain's democratic era or the entire period for which comparable data exist.[2] A clearer confirmation of the utility of the credible constraints framework is difficult to imagine.

Second, and more relevant to my interests here, the case of Spain allows a clear assessment of the differences between dictatorship and democracy, and of the importance of political competition for understanding national economic performance. In the modern period, Spain was ruled until 1975 by a dictator, Francisco Franco, and after that as a parliamentary monarchy with two major parties – the Union of the Democratic Center (UCD) and the Socialist Party (PSOE) – competing for power. The sharp break with its dictatorial past allows a clear comparison before and after the introduction of democracy, and of the consequences of such a break for growth-rate volatility.

Spain experienced an "economic miracle" during the 1960s and 1970s; from 1960 to 1973, the last decade and half or so of Franco's dictatorship, Spain had the fastest growing economy in Europe. Growth ended abruptly as a result of the 1973 energy crisis, and while the Spanish economy continues to provide a high standard of living to citizens, economic growth rates have been, on average, lower than they were in the 1960s (see Figure 6.2). The slightly lower growth

[2] Using the measure of growth-rate volatility described in Chapter 3, the results are as follows. Since 1975, Spain's growth-rate volatility score is 0.52 while Italy's is 0.31.

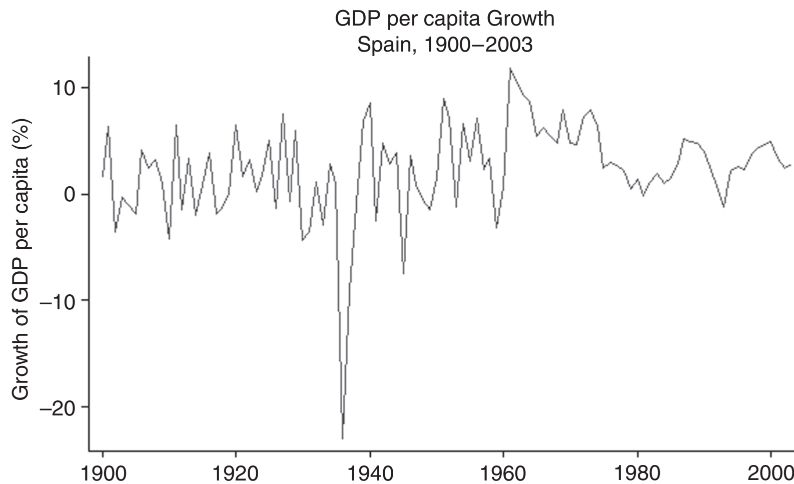

Figure 6.2 Growth-rate volatility in Spain, 1900–2003 (source: Maddison (2007)).

rates in the democratic period are only one part of the story, however. Compared to the Franquist regime, Spain today also has much lower growth-rate volatility than it did under dictatorship (for the 1965–75 non-democratic period, Spain's growth rate-volatility score is 2.14; since 1975, it has been 1.31). In fact, even if one takes the long view and considers the last 100 years of national economic performance, it is quite clear that Spain's economy was least volatile during the twenty-five years at the end of the twentieth century, at which time it had democratic institutions (see Figure 6.2).

Gunther (1996) describes four periods of government from 1977 to 1996 during which two parties dominated politics – the Union of the Democratic Center (UCD) and the Socialist Party (PSOE). During the first period from 1977 to 1979, Spain's newly elected President Adolfo Suarez led a UCD-majority government. The Suarez administration pursued a consensus building model that incorporated opposition groups as well as labor interests in determining economic policy. The UCD followed traditional Keynesian methods including attempting to stimulate demand in order to pre-empt the effects of recession. As part of this strategy, the UCD negotiated neocorporatist deals with labor and business interests in order to limit the rate of inflation.

The second period (1979 to 1982) was a period of "'dissensus" during which there was a UCD-led minority government. The PSOE actively fought the UCD and factions within the UCD in turn battled each other. The UCD led a minority government that was unable to build broad support for economic reforms (Gunther 1996). Despite some policy changes that did decrease inflation, this Socialist regime (1979 to 1982) was unable to alter negative economic outcomes such as rising public spending and increasing unemployment (Perez-Diaz 1986).

From 1982 to 1989 was the third period of Spanish government during which there was a breakdown of neocorporatist, labor–government negotiations under a PSOE majority government. Under the Gonzalez administration, the government had very limited constraints on its policy options and chose to make the Spanish economy a priority. In a switch from the demand-side Keynesian politics of the UCD, the PSOE implemented a strategy that mixed demand- and supply-side strategies (Gunther 1996). The PSOE also pursued a restrictive monetary policy and limited market reform including the curtailment of government regulations thought to hurt competitiveness. The PSOE sought approval from certain groups, negotiating with the centrist Catalan coalition, Convergencia i Unio, as well as the opposition party, Alianza Popular/Partido Popular (AP/PP). Fearing future losses in power, the PSOE at least made an effort to appear to make concession to these groups. However, these negotiations occurred privately, outside of the public political sphere (Gunther 1996). While decision-making was not entirely centralized, unlike the Brazilian government, the PSOE was not forced to make significant changes in legislation because of opposition pressures. Policymaking was certainly more decentralized than during the Franquist era and democracy did introduce some incentives for the party in power to consider outside criticism, but policymaking was nonetheless dominated by two political parties.

From 1990 to 1996, a PSOE-minority-led government formed a coalition with the Catalan's popular leader, Jordi Pujol. Decision-making was so highly centralized between the PSOE and Pujol that the latter was even referred to by one newspaper as the "Co-President of the Government" (Gunther 1996). Despite this coalition, the PSOE remained a highly disciplined and coherent party (Montero 2001). While the PSOE was forced to include one significant outside interest, the Catalan nationalists, it did not have to form a broad coalition based

on multiple, competing parties and could largely pursue its desired policies with limited modifications.

While decision-making power in post-Franquist Spain was substantially less centralized then before, politics was dominated by two parties. After the first period during which the UCD promoted a consensus-based policymaking model, relatively few opposition or outside interests were included in the process. Unlike Brazil, Spain's relatively non-fragmented party system made it easier to change economic policy precisely because the diversity of interests included in the policy process was limited. Although Spanish politics was characterized by centralized decision-making that scholars previously thought facilitated policymaking, the centralization of power coupled with regular democratic alternations in power produced changing economic policies that were not built on a broad consensus. The dangers of such alternation in economic policy, however, were mitigated by the fact that both major parties in Spain are quite similar in their policy preferences, and so policy changes are not dramatic but rather gradual. This is built into the structure of the system to some degree for, as Montero (2001) notes, Spanish institutions, in sharp contrast to those of Brazil, promote coherent, stable party rule that is resistant to particularism and ad hoc coalitions. The benefits of this stability are apparent when one considers the much lower growth-rate volatility enjoyed by Spain compared to Brazil's frequent crises and high instability.

Brazil

Brazil is a classic example of chronic high growth-rate volatility and political gridlock caused by a politically fragmented presidential system. Policymaking has been criticized for being slow and cumbersome as proposals are contested among the diverse interests represented in the Brazilian Congress (Ames 2001). Nonetheless, the package of economic reforms that was ultimately successful required extensive coalition building and cooperation between the executive and the legislature thereby producing widely supported policies that would be difficult to change.[3] As a result, the reforms were successful in reducing inflation, increasing surpluses, and bolstering investor confidence.

[3] Figueiredo and Limongi (2000) and Limongi (2006) describe in interesting detail the incentives for party discipline and coalition formation in the Brazilian system.

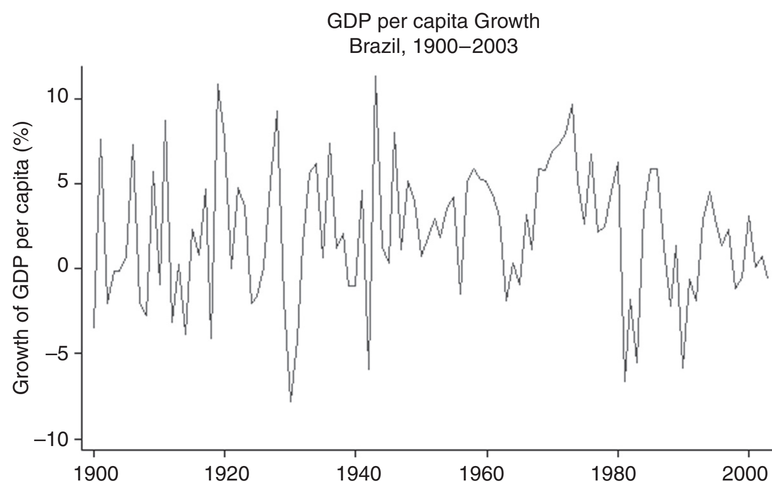

Figure 6.3 Growth-rate volatility in Brazil, 1900–2003 (source: Maddison (2007)).

Despite Brazil's "governability crisis" resulting from an abundance of veto points (Ames 2001) and some uncertainty when power was transferred to a new president in 2002 (Alston *et al.* 2006), in 2006 *Latin Finance* reported that, "'the turbulence and volatility that marked the 2002 elections have been absent this time around as investors feel that regardless of the outcome, Brazil will remain fiscally responsible, market friendly and keep inflation in check" (Brooks and Mosley 2008; Johnson 2006). While Brazil's political institutions arguably could cause a number of serious governance problems, policies that are successfully passed are likely to be quite stable because of the consensus-building required in order to enact any legislation, and growth-rate volatility appears to be declining.

Macroeconomic crises in Brazil have been attributed to high deficit spending at the national and sub-national level (Samuels 2003). In the 1970s, the volatility of growth rates increased rapidly. With the rise of democratization in the 1980s, governors and mayors further increased spending in response to electoral pressures. Still worse, sub-national leaders frequently took advantage of government-owned banks, refusing to pay back loans borrowed to cover rising spending.

Figure 6.3 presents the changes in the levels of GDP per capita from 1900 to 2003. Brazil's growth rates have been volatile throughout

the twentieth century, and crises are a fact of life. The 1980s, and the debt crisis that afflicted the entire region, saw frequent crises and high volatility in Brazil that persisted into the 1990s. The most recent decade of growth, however, has been more stable, as policymakers have worked hard to reform some of the pathologies of Brazil's policymaking process. For the period between 1965 and 1985, Brazil's growth-rate volatility was 3.61; in the two decades following that, its volatility dropped to 2.71. This is still considerably higher than the volatility scores of either Italy or Spain, which is to be expected given that we know volatility tends to be higher in the developing world, and because both European countries have political systems that encourage policy compromise relatively. In Brazil's case, the fundamental institutional framework, namely a presidential system that promotes policy "gridlock" and electoral dynamics that promote narrow particularistic interests, remains intact and unlikely to change. Therefore, according to the framework outlined in this book, one should expect volatility to persist into the future, though the maturation of Brazil's parties documented by Figueiredo and Limongi (2000) suggests a more optimistic outlook might also be justified. Whether my pessimism about Brazil's future is more warranted will be for future scholars to evaluate, but for now I turn to the past to consider Brazil's growth experiences in the second half of the twentieth century.

The rampant growth-rate volatility Brazil has experienced in recent decades has severely impacted a population poorly equipped to adjust to such unpredictable economic changes. Brazil has one of the largest rich–poor gaps in the world, and the ability of the poor to influence politics is limited by an extremely fragmented party system (Weyland 1996). Indeed, since 1990, Brazil has had one of the most fragmented party systems in the world. A low electoral threshold in combination with a high district magnitude allows a large number of parties to win representation in the Congress. From 1985 to 1995, Brazil had fifteen major political parties spanning across the left-right political spectrum (Mainwaring 1997). The effective number of parties in Brazil's lower house, the Chamber of Deputies, more than doubled from 2.83 in 1986 to 8.13 in 1994. Likewise, in Brazil's upper house the effective number of parties increased from 2.27 in 1986 to 6.08 in 1994 (cited in Mainwaring 1997). While the effective number of electoral parties tells us nothing about the ideological orientation of these parties, it does indicate the trend of increasing Brazilian party fragmentation.

Furthermore, coalition building is difficult because undisciplined catch-all parties allow politicians to switch their alliances frequently and to act independently of their parties. More importantly, the dynamics of presidentialism exacerbate these pathologies (Ames 2001), though Cheibub's research suggests that these are not inevitable (Cheibub 2007, Cheibub *et al.* 2004). Party system fragmentation, presidentialism, and the absence of any sense of coalition "dharma," poses serious challenges for policymaking. Despite economic crises, failing social services, and rampant crime, legislative proposals are hampered by concessions and delays. In the rare event that legislation passes, it often requires a great deal of patronage and pork to grease its path (Ames 2001).

While the Brazilian president is endowed with a number of significant powers, the Congress also reserves important powers, including veto authority, which make policymaking more difficult than in other presidential systems. The president has broad constitutional powers including veto and partial veto authority, the ability to legislate, and even the power to shape the congressional agenda. Presidential decrees have been used to institute parts of controversial economic policies such as Collor's 1990 economic plan and Cardoso's *Real* Plan in 1994. However, even presidential decrees must be approved by the legislature within thirty days of their passage (Mainwaring 1997).[4] Brazil's institutions ensure that a diverse set of interests are represented and even influential enough to stall policymaking. Long-term policy changes require the cooperation of a broad range of interests.

The need for economic reform was apparent in the late 1980s. In fact, Brazil was the last Latin American country to adopt and maintain a stabilization program (Ames 2001). Cardoso's *Real* Plan provides an example of how fragmentation can produce stable policy outcomes. Despite the consensus on the need for reform, Cardoso's *Real* Plan required significant negotiations between the executive and the legislature before its acceptance in 1994. As the Minister of Finance, Fernando Henrique Cardoso worked to build support for the economic plan. The first major step in the Cardoso Plan required a constitutional amendment to eliminate the constitutionally-mandated earmarks for a

[4] By law, Congress must pass all presidential decrees within twenty days of issuance. In practice, however, presidential decrees have often been allowed to remain in effect unless the Congress chooses to reject them.

large percentage of tax revenue in order to establish the Social Emergency Fund (FSE). The FSE necessitated a constitutional amendments which required a 60 percent approval from both houses of the Brazilian Congress. To gain the necessary political support, Cardoso's center-left Social Democratic Party (Partido da Social Democracia Brasileira or PSDB) had to gain the support for the large center-right Liberal Front Party (Partido da Frente Liberal or PFL). The PFL and PSDB had electoral incentives to cooperate in order to form a viable opposition to the Worker's Party (Partido dos Trabalhadores, PT) ahead of upcoming presidential elections.

This coalition proved extremely beneficial for President Cardoso after his election enabling him to pass the *Real* Plan as well as additional necessary reforms. A worsening of the finances of Brazil's state governments strengthened the federal government's bargaining power. Cardoso took advantage. For instance, the "Camata Law" required states to limit payroll expenditures if they wished to keep federal funding and additional legislation required states to stop issuing bonds to cover their debt. Reforms also successfully limited the ability of regional governments to rely on loans from state banks to finance expenditures, only to default on these loans later (Samuels 2003).

The *Real* Plan has been credited with reducing inflation, generating budget surpluses (through tax reform), and limiting government expenditures. Despite high fragmentation and the election of the leftist PT party in 2002, the reforms were not reversed. One might argue that Cardoso got lucky and his plan was passed despite high fragmentation. However, the *Real* Plan was unarguably the product of negotiations and concessions. While Cardoso may have been exceptional in his ability to negotiate legislation, once passed the policy proved very very difficult to change. Research suggests that only particular types of policies are likely to be volatile in the Brazilian system. Programs such as those with an ideological component (the environment, poverty alleviation, and land reform) or those requiring approval at the Congressional district level are likely to be volatile (Alston *et al.* 2006). In contrast, nationally mandated policies limiting government deficits and implementing tax reforms are actually likely to be quite stable.

Although broadly successful, Cardoso's economic reforms provided no guarantee of long-term growth and investor confidence and were criticized on several accounts. While Cardoso implemented important

restrictions on spending, surpluses were primarily generated because of improved tax collection, not reduced spending. Additionally, as part of the negotiations required to pass a reform plan, Cardoso had to offer sub-national governments compensation, a practice derided by some as an unstable bargaining tactic that relied on "horsetrading" (de Souza 1999). Scholars have criticized the reforms because Brazil's debt is still short-term, increasing the risk of a liquidity crisis, and the debt is tied to the dollar (Samuels 2003). Cardoso's policies may also be problematic because they relied on maintaining high interest rates and strict control over the exchange rate (Da Fonseca 1998). In the end, whether or not the particular choices of macroeconomic policy were flawless may be less important than the fact that investors do not fear a sudden reversal. While the run-up to Lula's election in 2002 induced some jitters among investors, markets appear to have grown more confident that fundamental policy changes will not occur, which is reflected in a lowering of Brazil's sovereign risk ratings (Brooks and Mosley 2008).

Brazil appears to have gotten some of its institutions "right" in the sense that the bargaining required to implement long-term changes in economic policy ensured the policy stability desired by investors. Notably, growth-rate volatility has declined since 1995 to 1.85, two points lower than in the previous decade and three points lower than in the disastrous decade between 1975 and 1985. The advantages of Brazilian institutions, however, should not be overstated as its institutions have been touted, with good reason, as an example of how political fragmentation in presidential systems has the potential to hinder efficient policymaking by inducing policy gridlock (Ames 2001). The Brazilian system has also been criticized for its "predatory federalism" under which sub-national governments used their powerful leverage to demand financing from the central government. A hyper-presidential system also allows the executive to take action without legislative approval, at least in the short-term. Additionally, a strong presidency with minimal party control may mean that once legislation is passed it is difficult to change, but there is no guarantee that a president (or other political leader) can successfully negotiate a compromise. While Brazil's institutions pose serious challenges on some issues, at least in this instance, slower policymaking due to the inclusion of a broad range of interests ultimately produced stable policies that investors were confident would remain in place for a long time.

Botswana

The final case, Botswana, the other developing country considered here, offers an interesting contrast to the Brazilian political experience. It has had none of the fluctuations in political freedoms that Brazil has experienced, has a parliamentary system of government compared to Brazil's presidential system, and power is largely concentrated in a single ruling party. Africa's record of economic and political development yields precious few success stories, perhaps making clear why observers have hailed Botswana as an example for the rest of the continent. While other states have struggled to develop and maintain legitimate democratic institutions, suffering frequent civil wars and violent coups by would-be dictators, Botswana has managed to sustain uninterrupted democratic rule since its independence from British rule in 1966. Moreover, the country has gone from being one of the poorest countries in the world forty years ago to a solidly middle-income country today with a GDP per capita around $15,000. Botswana's high average growth rates, however, mask a high level of growth-rate volatility for much of the post-independent era, although volatility has declined considerably in the last fifteen years. Between 1995 and 2005, Botswana's growth-rate volatility dropped to 1.17 – comparable to the rates experienced by Italy and Spain and other middle-income countries – which is almost three points lower than it was in the decade prior. Given what we know of volatility's impact on growth in Africa (World Bank 2008), this factor alone might explain Botswana's success. Interestingly, as in Spain, this decline in volatility has coincided with the increasing competitiveness of Botswana's electoral system that has forced the ruling party to consider alternative perspectives in policymaking.

Botswana adopted a parliamentary democracy to organize its politics, and political power in independent Botswana has been centralized in the Botswana Democratic Party (BDP). Mineral resources, primarily diamonds, drove rapid growth in the 1970s. By the mid-1970s, however, growth rates began to fluctuate wildly and were declining by the early 1980s. Corruption stemming from BDP management ultimately fueled a rash of bankruptcies and defaulted loans. Arguably, concentrated power in a single party allowed flawed economic policies to be enacted without debate. Unlike Brazil, therefore, in Botswana problems with economic policy did not arise because of policy gridlock caused

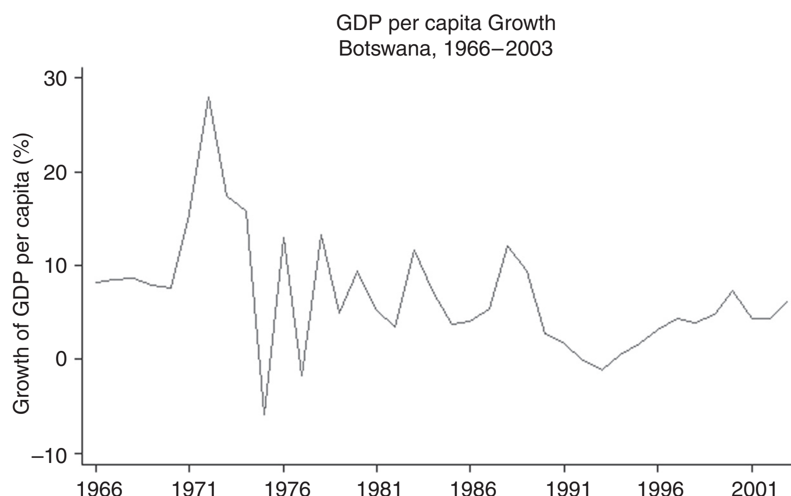

Figure 6.4 Growth-rate volatility in Botswana, 1966–2003 (source: Maddison (2007)).

by political parties that refuse to cooperate with each other, but rather from the abuse of resources by the dominant party.

In the early 1970s, growth rates began to fluctuate widely in Botswana and volatility continued to be a problem through the 1980s (see Figure 6.4).

Despite this volatility in the rate of growth, Botswana's overall growth was positive through the 1970s during the natural resource boom and high diamond prices. The country suffered, however, in the early 1980s when the price of diamonds fell. Botswana is often touted as the "African miracle" in which sound macroeconomic policy in combination with natural resources allowed for sustained growth over time. Despite Botswana's relative success in comparison to its African neighbors, growth-rate volatility persisted until 1990 and was in part the product of the misuse of centralized power (Leith 2005).

The first modern political party – the Botswana People's Party (BPP) – came to prominence in the early 1960s. Since its inception, the BPP has been plagued by in-fighting. The Botswana Democratic Party (BDP) formed in response to the BPP and by 1969 had become the country's dominant party due to the internal squabbling in the BPP; two BPP splinter parties – the Botswana Independence Party (BIP) and

the Botswana National Front (BNF) – eventually formed (Charlton 1993). Today, although several political parties contest elections in Botswana, the Botswana Democratic Party (BDP) remains dominant, consistently winning a majority of National Assembly seats, though competition has been increasing in recent years.

The BDP dominated politics from 1969 to 1984, because it developed an effective system of centralized patronage. While the opposition, primarily the BPP, argued that the BDP used unfair electoral practices, international sources have argued that elections were generally considered free and fair (Tsie 1996). Charlton (1993) refers to the BDP's tactics as an "alternative patronage strategy" in which the government maintained tight central control over decisions regarding resource allocation. Opposition parties were largely unsuccessful as they did not have access to government resources with which to reward constituencies.

As of 1984, the BDP began to face more significant electoral challenges from a better organized BNF. Despite a more effective opposition, for a decade the BDP used its incumbency advantage to continue winning elections (Charlton 1993). However, in the 1994 parliamentary elections, a two-party system appeared to emerge as the BNF won thirteen of the forty seats in the National Assembly and some hailed the end of a dominant party system (Tsie 1996). In the 1999 elections, the BDP won thirty-three of the forty possible seats in the National Assembly. The BNF won six seats and the remaining seat went to the Botswana Congress Party. In 2004, the BDP still dominated, winning forty-four out of fifty-seven possible seats. However, the BNF fared much better, winning twelve seats with the Botswana Congress Party again winning a single seat (Leith 2005). Thus, while political competition has steadily increased, the BDP's grip on power has not yet been threatened, though its smaller majorities over the last decade or so have necessitated greater cooperation with opposition parties for the purposes of implementing policy.

Decisions about economic reform are made by the ruling BDP party. Botswana has been praised for its role in deepening the Southern African Customs Union (SACU) via the 2002 SACU Agreement, which established new rules for joint decision-making processes and revenue sharing, and which recognized the need for better management of external (non-SACU) trade. When diamond earnings dropped suddenly in 1981, the government of Botswana responded rapidly and effectively

by devaluing the currency and avoiding exchange controls (Rodrik 1997c). Two significant policy problems, however, were difficulty in restricting expenditures and in net lending (Leith 2005, Lewis 1993). Government efficiency was brought into question by the irresponsible borrowing practices of the political elite. For instance, Botswana's National Development Bank (NDB) was created to manage the distribution of loans from the government and external sources to the agricultural sector and other high priority development areas. Because of a rapid increases in lending in the 1980s, by 1993 the NDB was nearly bankrupt. The government ultimately spent millions to cover unpaid loans which risked signaling to borrowers that loans need not be repaid. Misuse of the Small Borrowers Fund (SDF) and the Botswana Cooperative Bank were also indicative of the irresponsible borrowing on the part of elites (Good 1994). While BDP dominance may have allowed a coherent macroeconomic policy, it also allowed political elites to take advantage of domestic lending institutions with few consequences.

Botswana has been praised for adhering to sound macroeconomic policy that promoted growth through the 1970s and most of the 1980s. Nonetheless, Botswana's experience was also marked by extreme growth-rate volatility. The level of corruption and mismanagement in Botswana may be lower than in other sub-Saharan countries, but the centralization of power and elite predominance led to a number of bankruptcies and loan defaults in the early 1990s (Good 1994). While the BDP is less dominant than in the past because of the emergence of the BPP and the BNF as successful opposition parties, there has not been significant variation in the number of influential parties over time. As a result, some of Botswana's macroeconomic successes have been undermined by corruption among the elites in the form of irresponsible lending and spending.

Botswana is an interesting case for this book. First, it exemplifies the mixed virtues of concentrated power even in democratic systems, and the advantages of growing competitiveness in the political system. Unchecked by viable opposition, the BDP was able to implement economic policy and begin the process of development, but the same lack of constraints meant that it was able to succumb to the temptations of power and use control over the government apparatus to further its hold over power. Increasing corruption and unilateral policymaking generated high growth-rate volatility through the 1980s

and into the 1990s. In the most recent decades, however, the BDP has begun to face genuine competition for office. While its opponents are still some way away from dethroning the BDP, their growing strength has forced the incumbents to consider alternative perspectives when designing policy, and to enact policies that appeal more broadly. Competition thus forces policymaking towards the center, and is correlated with reduced levels of growth-rate volatility. Second, in a comparative perspective, Botswana is also an exemplar for the virtues of genuine political continuity and stability. Compared to its regional neighbors, Botswana has enjoyed uninterrupted democracy over the past forty years, while others have struggled with violent internal conflict and coups that fuel political instability. This core stability of Botswana's political system has played no small part in making it an exemplar for the rest of the continent (Rodrik 1997*c*). Thus, given the argument of this book, as Botswana's internal political competition continues to grow more robust, the strong institutional framework it possesses will provide a firm basis for continued economic growth and development.

Conclusion

The previous three empirical chapters have provided strong empirical support for the hypothesis that the compromise engendered by coalition governments reduces policy uncertainty and growth-rate volatility while improving overall economic growth. This chapter has applied the main theoretical framework to four different countries, allowing me to explicate important nuances in the argument. Brazil, for instance, makes clear that presidential systems face genuine problems when they are fragmented politically, as the gridlock in policy that is created is qualitatively different from the compromise we see in coalition government systems like India. Botswana demonstrates the virtues of long-term political stability which has enabled it to move comfortably into the category of middle-income states; yet, even as Botswana is appropriately praised for its economic success, a closer look reveals that concentration of political power in a single dominant political party allowed policy excesses to occur and growth-rate volatility to persist. The gradual increase in political competition in recent years appears to be correlated with a reduction in growth volatility.

Finally, two developed democracies, Spain and Italy, show both the tremendous advantages of democracy over dictatorship for providing stable national economic performance, but also how different dynamics of parliamentary politics affect volatility. Spain has a stable two-party system today, but this can generate alternations in economic policy as the parties take turns in power. However, when the Spanish parties work more with other societal groups to build consensus over policy, stability is increased. Italy, by contrast, has an extremely fragmented political system, yet has managed to maintain very stable growth rates in spite of various problems politically because coalition governments have made policy change gradual. These cases thus support the central argument of this book that political fragmentation and the consensus and coalition building that it necessitates can produce stable, predictable economic policies on which economic agents can rely, and thereby improve national economic performance. The conclusion develops this point more fully.