

Governance Crisis and the Andean Region:
A Political Economy Analysis

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1. Introduction

As of the early 21st century, the Andean region of Latin America is experiencing governance and economic difficulties that compound its structural problems of poverty, slow growth, inequality and financial volatility. Governance difficulties are manifested in a high turnover of authorities, low rankings in international indices of institutional effectiveness, recurrent political crisis, and potential fragility of democracy. Moreover, violence is serious in Colombia -- over 40,000 people die per year for violent causes (political and criminal)--- as the country lives through a four decade old internal conflict¹.

The last few years have been punctuated by political instability in the Andean region. Recently, on April of 2002, a failed coup'd'état took place in which Venezuelan President Chávez was temporarily ousted of power to regain the Presidency a day later in a rather confusing set of events involving the military and some leaders of the main business association. In Ecuador, in January of 2000, the democratically elected President Jamil Mauhad was deposed by the military following an indigenous uprising in which a short lived military- indigenous junta took power for a few hours, to eventually turn power, under strong foreign pressure, to Vice President Gustavo Noboa. In 2000 Peru 's President Alberto Fujimori flew the country after a corruption and political intimidation scandal involving its chief of security Vladimiro Montesinos that made the Fujimori administration to lose all remaining credibility.

¹ The paper is part of a multi-country project on the political economy of the Andean region co-executed by ECLAC and the InterAmerican Dialogue with the financial support of Ford Foundation.

The economy of the Andean countries has been also affected by governance and instability problems. In the 1990s and early 2000s the average rate of economic growth for the five Andean countries² (Bolivia, Colombia, Ecuador, Peru and Venezuela) was lower than the growth rate of the Latin American region. At individual country level, Colombia has seen a deterioration of its historically stable economy giving rise to slow growth and financial vulnerability. Ecuador, in turn, suffered a severe economic and financial crisis in 1998-99 experiencing recurrent currency depreciation and escalating inflation complicated further by a severe banking system crisis³. The solution for stabilization was a radical change in the currency regime and the adoption of the US dollar as the official currency in early 2000. Official dollarization, supportive fiscal and financial policies and better external conditions helped Ecuador to restore, albeit gradually, domestic confidence and resume economic growth in the last two years. Output growth slowed down in Peru during the political turbulence associated with the demise of the Fujimori regime. Venezuela has experienced a volatile growth record that follows the fluctuations in international oil prices. In turn, domestic political polarization has introduced large uncertainties that affect private investment and growth. Bolivia's economy also has been affected by the regional slow-down and by internal social unrest, although during the 1990s the country increased its growth rate.

The main focus of this paper, is on understanding better the impact of political and constitutional regimes, quality of institutions, social inequality and ethnic diversity in generating certain governance and development

² By "Andean Countries" we refer to the countries that are currently members of the CAN (Andean community of nations)

outcomes in the Andean region. For that purpose a conceptual framework is developed (section 2) that distinguishes the role of political regimes, constitutional rules, the quality of institutions, patterns of social conflict in generating certain governance and economic outcomes. The empirical analysis of the paper (section 3) combines long run evidence on frequency of constitutional reform, presidential crisis and political regimes in the 20th century in the Andean region along with more recent indicators of governance and quality institutions in the 1990s and early 2000s prepared independently by the World Bank and the World Economic Forum–Harvard University. Indicators of social inequality, ethnic diversity and economic performance for each of the five Andean countries are provided in this section. Section 4 gives an interpretation of the governance and economic record in the Andean region and section 5 concludes.

2.3. Political Regimes, Institutions and Social Conflict: A Conceptual Framework

The conceptual framework adopted in this paper makes the governance and economic outcomes the result of the interplay of three set of variables:

- a) The nature and stability of the political regime and the constitution.
- b) The quality of state institutions.
- c) The pattern of social conflict and cooperation in society related to inequality and ethnic diversity.

³ See Beckerman and Solimano (2002)

The political regime and constitutional rules constitute the highest echelon in the hierarchy of institutions⁴. The judiciary, regulatory bodies, the ministries, the budgetary process and others are second in the hierarchy of institutions. Complex agent-principal problems, rent-seeking, corruption and violence are identified in this paper as important factors that weaken state institutions. The third set of variables goes beyond formal institutions and focuses on patterns of social behavior such as cooperation and conflict, largely related to inequality of income and wealth and to ethnic diversity. This framework highlights the impact (and interaction effects) of each of these three set of variables in generating certain political economy outcomes.

a) Political Regimes and Constitutions

The *public choice school or contractarian approach*⁵ championed by Nobel prize James Buchanan focuses on a social contract such as the constitution that defines the overall political framework under which society evolves. Buchanan (1988) distinguishes between writing up a constitution, say setting –up the basic rules of the game in society and the specific policy-making process that unfolds under the rules established by the constitution. In the words of game theory, the constitution is the first stage establishing the rules of the game: the second stage is playing the game. The normative analysis would enter in the first phase (writing the constitution and establishing the basic institutions) the positive analysis, in turn, focuses on

⁴ See Tommasi (2002) for a discussion of the concept of “hierarchy of institutions”.

⁵ See Buchanan and Tullock (1962) and Buchanan (1988).

playing the game⁶. Under ideal conditions, constitutions, are written under the “veil of ignorance” regarding initial resources and interests as a way to minimize the uncertainty that the writers of the constitution end up in a worsen position in society. This assumption in turn has been criticized as unrealistic as the drawers of constitutions often consider their interest in the process of writing the constitution⁷.

In political theory an important tradition focuses on the design of the main political institutions of the state. This institutional design includes electoral rules, division of powers, checks and balances among different branches of the state, etc. The constitution is the main legal chart that establishes basic rights and responsibilities of individuals and the working of the political system. In democracies, a main distinction is between *parliamentary* and *presidential systems* with semi-presidential regimes (e.g. France) lying in between. In presidential systems presidents are elected either by direct vote or by an electoral college, have fix terms and the presidency is often endowed with considerable powers to present legislation to congress besides administering the executive branch of government. Presidents cannot be removed from office before the expiration of their official term, except for impeachment or resignation; in addition, they often have legislative initiative. Presidential regimes do not require legislative majorities. In contrast, in parliamentary regimes, heads of government or prime-ministers are elected by parliament. They can be removed through a non-confidence vote in case of main political crisis and the head of

⁶ Dixit (1996) stresses that , in practice, the distinction between rule-making and actions is more a continuum rather than a discrete choice binary category. Specific policies can have long run permanent effects comparable to the impact of rule-making decisions.

⁷ See Dixit 1999a).

government (i.e. the Prime Minister) needs a parliamentary majority to sustain its government.

Important criteria to compare presidential versus parliamentary regimes are their contribution to the continuity and stability of democracy and the avoidance of 'regime breakdowns' in the event of a major political crisis. Authors such as Juan Linz and Arturo Valenzuela (1994) argue that issues of "dual legitimacy" between presidency and parliaments, the alleged tendencies towards "winners take-all" in presidential regimes, the role of outsiders in bidding for the presidency and term rigidity make presidential regimes more prone to generate political crisis than parliamentary democracies⁸. From an economic viewpoint the choice of political regime and above all its stability over time are important factors that affect the degree of political stability, a variable that is found to influence investment and the rate of economic growth.

b) Institutions of the State: Quality, Strengths and Weakening Factors

Once the basic political framework of a country has been defined by its constitution, there is a vast array of institutions some economic other political whose quality of functioning is of critical importance for ensuring appropriate governance and ultimately good economic outcomes. Positive political economy (PPE) applies economic principles of individualism, incentives, rationality and constraints to the analysis of institutions and their

⁸ See Linz and Valenzuela (1994) and Mainwaring and Shugart (1997) for alternative views on presidentialism and parliamentarianism.

impact on economic performance⁹. In this view institutions are formed to reduce transactions costs both in the economic and political realms¹⁰.

A political-economy approach that has gained considerable attention in recent years is the *transaction costs politics* (TCP) theory developed by North (1990b) and Dixit, (1996, 2001a, 2001b). This approach evaluates how different political governance structures (constitutions, government agencies, laws) cope with “transactions costs”. In an analogy with transaction cost economics (TCE), transaction costs politics takes as unit of analysis the contract. While in economics a contract (e.g. renting a house or lending to a firm) is a verifiable process, in politics contracts are more complex. The definition of a “political contract” is often diffuse: a president or senator may be elected with a platform that is vague making the monitoring of the fulfillment of the initial promises very difficult. Besides, there are incentives to change policies along the way and renege on initial commitments (e.g. the phenomena known as “time inconsistency”¹¹). These agency problems are further complicated by the existence of several principals (the general public, voters, specific interest groups); those multiple - principals lead agents (the government, parliament, public agencies) to face several mandates that are often inconsistent. The enforcement of “political contracts” is difficult as enforcing mechanisms (elections, the supreme court, referendums) can not be activated at every deviation from initial commitments. In recognition of all these difficulties,

⁹ See North (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge University Press.

¹⁰ An alternative view of the origin of institutions is provided by Olsen (2000) who puts forward a theory of power and compulsory compliance to explain the origin of the state and institutions. In Olsen’s framework institutions are not necessarily created for efficiency reasons to reduce transactions costs but for purposes of redistributing resources towards those in power. In this vein institutions can be dysfunctional and consistent with bad social outcomes such as economic decline and recurrent crisis.

¹¹ See Drazen (2001).

modern political economy theories have devised new concepts such as reputation, commitments, rules and delegation (e.g. a typical case is independent central banks to conduct non-inflationary monetary policy). This literature see these institutional mechanisms as ways to cope with incentives for non-compliance by agents facing incentives for dynamic inconsistency, conflicting mandates and limited accountability. An important message is the need for appropriate institutions to deal with governance problems derived from these complex principal agent relations.

Rent-seeking , corruption and violence as institutions-weakening factors.

Under ideal conditions institutions and organizations must have clarity of goals, be properly funded, have a sound financial and human resource base, be free of undue political interference; at a “general equilibrium level” they must be part of a certain institutional architecture based on adequate governance principles that, among other things, foster economic prosperity. In the previous section we identified several causes why institutions fail to function properly, related to agent-principal problems, particularly serious in the case of “political transactions”. Here we identify three phenomena that occur because of institutional weaknesses of the state but that, at the same time, their existence weaken further those institutions, in a downward spiral of weakening of the state leading , at the limit , to its collapse. These factors are:

- i) Rent-seeking behavior
- ii) Corruption
- iii) Violence

Rent-seeking and Corruption. The *rent-seeking approach*¹² in political economy sees society as formed by individuals organized in special interest groups (or acting alone) motivated by their particular interests rather than by the general interest of society. Favorite examples are farmers seeking price support schemes, industrialists wanting import protection, bankers pressing for protective regulation and less competition from new intermediaries, etc. In this world, the state is seen as an institutional machinery that, among other things, dispenses economic favors and transfers income among groups in exchange for political support.

Rent seeking behavior leads some groups to attempt the *capture* of key state institutions such as customs, tax administration authorities, public contracts agencies where they can extract rents. These rents can be obtained by lobbying (rent-seeking) or simply by illegally appropriating public assets for their personal benefit. In this later case we are referring to *corruption*. In a limit case these groups may intent to capture the whole state- apparatuses and corruption becomes the outcome of predatory groups (e.g. the kleptocracy) that have captured the state. Corruption and the stealing of state-assets (like “spontaneous privatization” in post-soviet Russia) tend to flourish in weak states in which the rule of law is curtailed, due to poorly working mechanisms of accountability of government officials by the public, parliament and the courts. Clearly corruption and rent seeking are highly destructive of state institutions.

¹² See Krueger, 1974.

Violence. In a world of voluntary exchange and compliance with the rule of law there is no role for violence, as normal individual behavior, and less so for internal armed conflict entailing armed groups different from the official army. However, an important feature of several contemporary societies¹³ is the pervasive existence of violence and internal conflict that severely weaken the state and can lead to its collapse. In these cases, there is a breach of the monopoly of force by the state and the rule of law is severely limited or simply inexistent. In the case of armed conflicts it is interesting to see the motivation of rebel groups. These may be a mix of political motives (rebellion as justice-seeking) and quasi-criminal motives (rebellion as crime)¹⁴. The view of rebellion as dominated by greed considerations emphasizes the quasi-criminal features of rebel organizations that share several motivations of criminal organizations although they are not exactly the same¹⁵. The scale of rebellion and armed conflict is much larger than crime, including organized crime¹⁶.

The view of rebellion as “justice-seeking” emphasizes “grievance factors” such as income inequality, ethnic, religious fractionalization, and political motivation as the most important motivation of the groups engaged in internal conflict.

¹³ Currently around 40 countries, included Colombia, are experiencing some sort of internal conflict, civil war or significant rebellions within their own territories.

¹⁴ Collier and Hoeffler, (2001), using data for 78 large civil conflicts between 1960 and 1999 find econometric evidence that the risk (probability) that a civil war will start during a five-year period is better explained by a set of determinants known as greed factors than by ‘grievance’ factors¹⁴.

¹⁵ In general the determinants of crime are not the same determinants of rebellions and civil wars, although crime and rebellion often intertwine in complex ways.

¹⁶ Empirically the literature identifies a civil war as a conflict involving at least 1,000 battle deaths per year, with deaths taking place in a context of violence between a government and an identifiable organized group; moreover, at least 5 % of the deaths must be on each side. In turn, while criminal organizations, gangs and mafias, typically range from around 20 to 500 members, rebel organizations have between 500 to 5,000 and more combatants.

Rebel groups with a mix of political and quasi-criminal motivation consistently behave in a way oriented to *weaken* and even *destroy* the state, so as to pursue more easily, and with impunity, their predatory activities. It is interesting to note that in many cases, rebel organizations do not want victory against the government (i.e. the seizure of power). They are often interested in preserving a very weak state and profit from that situation. In these conditions, an armed conflict becomes an “equilibrium” phenomena or at least a stable one that can last for a long time (see Collier, 2000)¹⁷. Interestingly this prediction fits very well with the long-duration internal conflict (4 decades-old) of Colombia.

c) Social Cooperation and Conflict, Inequality and Ethnic fragmentation.

Beyond formal institutions we add the role of social cooperation and conflict in generating governance and economic outcomes. Individuals, groups and social classes have different economic interests and motivations. Society, in turn, is an arena in which co-exist conflict and cooperation with

¹⁷ Rebel movements may have several sources of funding: i) criminal activities such as kidnapping, extortion and ransom to raise revenues to finance their activities along with alliances or taxes on criminal organizations (e.g. it is found that guerrilla groups in Colombia derive an important part of their income from taxes to drug-cartels), ii) predation of natural resources that they control, iii) funding coming from foreign governments hostile to the adversaries of those rebel groups, iv) funding from diasporas (often living in developed economies) formed by nationals that left their home countries because of civil wars or extended conflict and send financial contributions to support rebel groups they identified for historical reasons with their exit.

the political system performs the role of mediator of different demands and claims from different social groups¹⁸. Social conflict can be of different nature: one is distributive-conflict in which groups (or economic classes) fight over their shares of national income¹⁹. In this view, inflation can be seen as the result of distributive conflict over real income in which each groups manages a price (wages, mark-ups, etc.) which combined with an accommodative monetary policy generate inflation. Another area of distributive conflict is about taxes, transfers and spending with low income groups pressing for higher taxation to finance social spending and income transfers. In contrast, the upper- middle class and the wealthy tend to favor lower taxation of income, financial assets and productive wealth. In practice conflict and cooperation alternate; for example the approval of tax and spending laws, with different distributive implications, require some degree of cooperation and consensus in parliament.

The endogenous growth theory investigates the role of inequality on economic growth and finds that more unequal societies, say countries with more income and wealth inequality among its members, tend to generate more social polarization and political conflict than more egalitarian societies. Thus economic growth, controlling by development levels, would be higher in more egalitarian societies than in unequal and polarized ones as in the later the pressures for higher taxation tends to be higher and the quality of labor-capital relations lower than in the more egalitarian society²⁰.

¹⁸ Marxian theory puts considerable emphasis on the conflicting nature of capitalist development , although its main channel is conflict between capital and labor. Other theories identify other actors and channels of social conflict that go beyond the simple capital-labor dichotomy.

¹⁹ See Taylor , L (1991).

Another dimension of social differentiation is ethnic diversity more relevant for Bolivia, Peru and Ecuador. The question arises on whether multi-ethnic societies have more difficulties in reaching consensus than ethnically homogeneous societies. Empirical studies of the impact of ethno-linguistic fractionalization on economic performance (growth) give different answers to this questions. On one hand, authors such as Easterly and Levine (1997) attach a central role to ethno-linguistic fractionalization in explaining the poor growth performance of multi-ethnic Africa. In contrast, other analysts such as Collier (2001) find that ethnically differentiated societies do not necessarily lead to worse economic performance and greater risk of civil conflict than more ethnically homogeneous societies. For Collier the political regime and the degree of ethnic dominance are more important than simple ethnic differentiation in explaining growth performance in Africa.

3. Empirical Analysis

In this section we investigate empirically, the role of political regimes and constitutional change, the quality of institutions and social conflict on governance and economics in the Andean countries.

a) Frequency of Constitutional Reforms, Presidential Crisis and Political Regimes.

We start our analysis of governance in the Andean Countries (AC) by looking first at the stability of the constitutional framework. For this we investigate the frequency of major changes in the constitution leading to the approval of a new constitution in each AC during the 20th century (see table

²⁰ See Solimano (1998).

G1). This is an important indicator of the frequency of changes in the basic rules of the game in society and therefore a crucial indicator of instability in rule-making institutions. The Andean country that has experienced the highest number of new constitutions in the period running from 1900 to 2000 is Venezuela with 8 constitutions approved in that period, (six out of those eight constitutions were approved between 1903 and 1953, table G2). Then it is followed by Ecuador with 7 constitutions (3 approved since 1967) ; Bolivia (5 constitutions), Peru (4 constitutions) and Colombia (just one new constitution approved in 1991). Table G2 shows also the number of new constitutions in the 20th century in three countries that are often considered as the politically most stable countries in Latin America: Costa Rica, Chile and Uruguay. A similar computation is done for four OECD countries: the United States, Germany, Great Britain and Italy. All the Latin American countries analyzed as well as the U.S. have presidential regimes in the same period of analysis. In contrast, Germany, the U.K. and Italy have parliamentary regimes.

For the five Andean countries, the average number of new constitutions in the 20th century is 5, certainly a high number when considered from an international perspective. In the same time period, the average number of new constitutions for Costa Rica, Chile and Uruguay was 2.5²¹. In turn, the average number of constitutional reforms in the U.S, U.K. Italy and Germany, was 0.8 (in the 20th century). Neither the United States nor the United Kingdom had new constitutions approved in the last century.

²¹ Uruguay had the highest number of constitutional reform of the three most "stable" countries in Latin America.

In turn, Germany, approved a new constitution in 1919 and another in 1949, after world war I and II , respectively.

TABLE G1 and G2

Another measure of political instability is the frequency of Presidential crisis (turnover). By presidential crisis we mean the case of a head of state (President) that does not complete his/her constitutional term for various reasons: forced removals by a coup d'état, resignation, etc. Table G1 provides the number of such presidential crisis in the five Andean countries in the period 1950-2002.

The country with the highest number of presidential crisis in this period is Bolivia with 16 such crisis between 1950 and 2002. Most of those crises (11) took place in the period 1969-1982. Clearly the 1970s (and adjunct years) were of high political instability for Bolivia. Another country with a high frequency of presidential crisis is Ecuador with 10 such crisis, mostly concentrated both in the 1970s and in the 1990s. In contrast, Colombia registered only two presidential crisis in the last half century, both in the 1950s. Interestingly, Colombia in spite of its internal armed conflict, displays a remarkable degree of democratic continuity (low frequency of presidential crisis).

The last column of table G1 shows the political regime (democratic, authoritarian) prevailing at the time of the presidential crisis in each of the five Andean countries. There seems to be no clear correlation between the nature of the political regime and the frequency of presidential crisis although the nature of the relationship varies across countries. In fact, in

Bolivia, most of the presidential crisis took place within non-elected military regimes, basically a story of generals turned presidents replacing generals turned presidents, all this taking place mostly in the 1970s. In contrast, in Ecuador the second highest frequency country in terms of presidential crisis had several presidential crisis in democracy, mostly in the 1990s (i.e. Abdalah Bucaram and Jamil Mahuad were two presidents that were democratically elected but both were ousted from office for different reasons before the expiration of their constitutional mandates). Both democratic, and non-democratic political regimes may have their fair share of presidential crisis. Another important dimension of political regime is the distinction between presidential versus parliamentary regimes. countries included)²². As mentioned before Linz and Valenzuela (1994) have argued that presidential regimes are more prone to generate political crisis and regimes breakdowns than parliamentary systems. We have noted that the frequency of presidential crisis has been very high in Ecuador and Bolivia, low to moderate in Peru and Venezuela and lower in Colombia.

An interesting case of a high turnover of Prime-Ministers (a different concept to that of presidential crisis) in a parliamentary regime is provided by Italy, a country that has had 58 prime-ministers in the last 52 years (on average more than one prime minister per year). The Italian case shows the perplexing result that a exceedingly high frequency of change in prime-ministers can take place without constitutional and economy crisis, in a parliamentary regime.

Coming back to the Andean region, the degree of continuity of democracy (absence of constitutional breakdowns) in the last forty years has been much higher in Colombia and Venezuela than in Peru, Bolivia and

²² Jamaica, a parliamentary democracy, is an exception.

Ecuador. In fact, while these countries had several military interventions in the 1960s and 1970s, Colombia and Venezuela managed to avoid military regimes since the 1950s. This is not to say that these two countries have had complete political stability in those years. In fact, Venezuela had a Presidential crisis with Carlos Andrés Pérez in 1993 and a coup attempt against Chávez in 2002; however, this turbulence did not led to a collapse of democracy (at least so far)²³ .

b) Subjective Indicators of Quality of Institutions and Governance: the World Bank Indices

Let us turn now to the issue of governance and quality of institutions. Drawing from a data set for over 150 countries, Kaufmann, Kraay and Zoido-Lobaton (1999, 2002) of the World Bank provide six governance indicators for each Andean country in two years: 1998 and 2001. Using the indices of Kaufman et.al. table 3 provides the values of these indices for Costa Rica, Chile and Uruguay, the average of Latin America and OECD countries. These governance indicators are based on qualitative-response surveys answered taken on citizens, investors, users of public services comprise the following dimensions²⁴:

- Voice and Accountability
- Political Instability and Violence
- Government Effectiveness
- Regulatory Quality

²³ See Hartlyn (1994) and Coppedge (1994) for analysis of presidentialism in Venezuela.

²⁴ Studies of the relationship between institutional quality and growth performance are Barro (1996), Mauro (1995), Knack and Keefer (1995). A useful survey of this literature is Aron (2000)

- Rule of Law
- Control of Corruption

These variables reflect several aspects of “good governance”²⁵. For example voice and accountability are important in allowing the operation of feed-back mechanism from users to providers of public services, or between principals (voters) and agents (government, politicians) regarding the compliance of public mandates. In turn, the existence of political instability and violence are indicative of governance problems besides being correlated with poor economic performance²⁶. The other variables listed above are also identified by the literature as indicators of quality of government and stability of institutions. From a development perspective, there is a growing literature that finds a positive correlation between economic performance and quality of government and institutions (see Mauro (1995), Knaack and Keefer, 1995, Barro, (1996) and others).

TABLE G3

Table G3 shows that the Andean group as a whole ranks lower (in the sense of lower performance of institutions) than the average of the Latin America and Caribbean region in the different governance measures. This is so in the indices of voice and accountability, degree of political instability and violence, government effectiveness, rule of law and control of corruption. Their rankings is lower when compared with Chile, Costa Rica

²⁵ See La Porta, Lopez de Silanes, Shleifer and Vishny (1998) for an interesting discussion of “quality of government ”and its determinants.

²⁶ See Serven and Solimano, 1993 and Pyndick and Solimano (1993) for analytical discussion and empirical evidence of the adverse effects of (mainly economic) instability on private capital formation, an important determinant of the rate of economic growth. Studies of the effects of political instability on growth are Alesina and Rodrik (1994), Barro, (1991), Alesina et.al. (1996)

and Uruguay and the OECD. Within the Andean countries there are also cross-country differences in the value of the indices. For example in terms of regulatory burden Bolivia appears closer to OECD levels. There are however, some changes in the rankings between 1998 and 2001 such as voice and accountability that improves in Peru in 2001 compared to 1998 (e.g. probably associated with greater government accountability after the demise of President Fujimori). However, voice and accountability worsens in Colombia, Ecuador and Venezuela between 1998 and 2001. Political instability and violence increases (lower place in the ranking) in Bolivia, Colombia and Venezuela but improves in Peru. In turn, the control of corruption improves in Colombia, Peru and Venezuela in 2001 compared to 1998.

World Economic Forum-Harvard University Indices

Another set of governance indices that include the five Andean countries is the *Global Competitiveness Report* prepared jointly by the World Economic Forum and Harvard University. This Report computes a "Growth Competitiveness Index" for 75 countries including developed nations, transition economies and developing countries. This index assesses the medium term potential of sustained economic growth for a given country as a function of three set of sub-indices: (i) technology index, (ii) quality of public institutions index and (iii) macroeconomic environment index.

The growth competitiveness index²⁷ for 2000/2001 is calculated for a group of 18 "core economies" including countries with higher income per

²⁷ *The Global Competitiveness Report*, 2001-2002, World Economic Forum – Center for International Development, Harvard University, chapter 1.

capita levels and more advanced level of technological capabilities (measured by number of patents per million population). The index includes also a group of “non-core economies” of low to intermediate income per-capita levels and less advanced technological development. For the group of non-core economies , among which we find the Andean group, the index is computed giving equal weights (1/3) to the technology, quality of public institutions and macroeconomic environment sub-indices. In the core group, the technology sub-index has a higher share, 40 % versus 33 %, reflecting the higher contribution of technology improvements to output growth in higher per capita income economies.

TABLE G4

In order to highlight the links between growth potential and quality of institutions, table G4 presents the rankings of the Growth Competitiveness Index, and the public institutions index. This later index is composed by a: (i) contracts and law sub-index and a (ii) corruption sub-index. These two sub-indices are based entirely on survey-questions and measure the average scores given to judicial independence, government procurement practices, law enforcement and costs related to organized crime. In turn, the corruption sub-index measures the pervasiveness of bribery practices in three key public services areas: import and exports agencies, public utilities and tax collection. Table G4 shows that on average, for the 5 Andean Countries, there is a close association between their ranking in the Growth Competitiveness Index (ranking 63 out of 75 nations) and their ranking in the Public Institutions index (59 out of 75) suggesting a direct positive correlation between medium term growth potential and the quality of public

institutions . In turn, the Andean countries, on average, occupy the place 67 in the ranking for Contracts and Law index and 50 in the corruption index. Cross country differences among Andean Countries are not very large except for the corruption index in which Peru appears as the best in the ranking and Ecuador the worst (in 2000/2001).

Finally another piece of information on governance is citizen's attitudes towards democracy. A measure of public attitudes is provided by Latin Barometro, a survey conducted on annual basis in several Latin American countries. Table G5 shows that, on average, the degree of public support for democracy has been declining since 1997, with a sharper decline in 2001. In 2001, within the Andean group, the country with the lowest public support for democracy is Colombia (30%) a country hit by severe violence; in turn, the highest degree of support for democracy is found in Peru (62%). Also the degree of support for the democratic system was low in Ecuador in the late 1990s and early 2000s. It is interesting to note that the lower support to democracy after 1997 coincides with a worsening in economic conditions in these countries since 1997, associated with the Asian crisis and other internal economic developments.

c) Social Inequality and Ethnic Diversity.

The Andean countries have a stratified social structure characterized by high inequality and a large incidence of poverty. This social situation is bound to affect patterns of social conflict and cooperation in society. Another important element of their social structure that is more relevant in Bolivia,

Ecuador and Peru is ethnic diversity²⁸. In fact, the share of indigenous population in total population for Bolivia, Ecuador and Peru, in the early 1990s (last census available) is 44 percent (see table G5). In contrast, the average share of indigenous population in Colombia and Venezuela is very low, less than 1 percent. Ethnic diversity often comes along with linguistic and cultural differentiation among different ethnic groups within the same state. Ethnic diversity has some important implications for the capacity of the political system to articulate consensus within society. The ability to reach consensus depends on a host of factors such as the levels of political participation of the different groups, their rights, their organization, the quality of the leadership and others.

Returning to the social indicators, table E6 provides poverty levels, the values of Gini coefficients measuring inequality and the ratio between the top and bottom quintiles in the income distribution for selected years in the 1980s and 1990s. These social indicators show a significant incidence of poverty in the Andean countries, over 40 percent in recent years (above the average poverty levels for Latin America). The highest incidence of poverty are found in Ecuador and Bolivia. Moreover, poverty is on the rise in Venezuela a country that in the past had relatively lower poverty rates within the Andean region. The Gini coefficients are higher than the rest in Colombia, Bolivia and rising in Venezuela, although the values of the Gini is on the high side in all five Andean countries.

TABLE G5 and E6

d) Economic Performance

²⁸ An analysis of ethnicity and governance for Latin America and Andean countries is De Gregori (1998)

In the second half of the 20th century (1950-2000), the five Andean Countries grew at an average rate of 3.9% per year, below the average rate of growth of 4.2% for the whole Latin American and Caribbean region in the same period (ECLAC, statistical data base).

In the 1990s the economic growth performance in the Andean group was moderate although important economic reforms were undertaken in several of them. Average annual growth for the 5 Andean countries declined from 4 percent in 1960-1990 to 2.9 percent in 1990-99 and 2.3% in 2000-2001. The countries that experienced the largest deceleration in growth rates were Colombia and Ecuador (see table E.1)²⁹. In fact while Ecuador managed to grow at an annual rate of 5.3 percent in the period 1960-90, its annual growth rate of the 1990s was only 1.9 percent per year. Colombia decelerated its average rate of growth from 4.7 percent in 1960-90 to 2.9 percent in 1990-99 and 2.2 in 2000-2001³⁰. In contrast, Bolivia accelerated, albeit moderately, its growth rate in the 1990s (4 percent per year versus 3.3 percent in the 1960-90 period)³¹. The average per capita income level of the Andean group is around U\$ 2,000 (year 2001, see table E5) below the average of Latin America of U\$ 3,900 for the same year. No doubt, the modest governance and political instability already documented is correlated with this economic growth performance.

TABLES E1-E6, TABLE G4

4. Interpreting Andean Countries Governance Performance

²⁹ See Beckerman and Solimano (2002) and Solimano (2000)

³⁰ See Ocampo (2002) for an analysis of the economic performance of Colombia in recent years.

³¹ The individual country story of the evolution of the economy of each Andean countries is told in the country papers of the Political Economy of the Andean Region's project.

In line with the conceptual framework of section 2 and the empirical analysis in section 3 we can highlight three main factors that are important to explain governance patterns observed in the Andean region:

- a) Characteristics of the political system.
- b) Weaknesses of the state.
- c) The impact of high inequality and the ethnic structure.

a) The political system.

One hypothesis is that at the root of the governance problems of the Andean region lie the nature of its political system. An important feature dimension of the political system is the presidential regime ruling in all the Andean Countries. As mentioned before it is argued that presidential systems with their rigidity of fixed presidential terms, the tendency for winners to take all, dual legitimacy with legislatures and other features, tend to be associated with a high frequency of presidential crisis that in some cases can lead to "regimes breakdowns" that is, the collapse of democracy and the disruption of constitutional rule. This argument has validity although it needs qualification. All Andean Countries have presidential regimes but not all of them have the same high frequency of presidential crisis such as the one observed, in recent history, in Bolivia, Ecuador and Peru nor the same record of regime break-down although. On the later, however, the potential fragility of democracy can be a real problem for Colombia and Venezuela, two countries that in the past four decades have avoided the interruption of democratic rule.

Another important indicator of problems in the political system is the relatively high frequency of constitutional reforms (higher than other Latin-American and OECD countries) observed in several Andean countries during the last century already documented in section 3. This high frequency of constitutional reform is indicative of certain instability in the core rules of the game in Andean countries. Regarding the perception of the presidential system it is worth noting that in the last two new constitutions, Ecuador in 1998 and Venezuela in 1999, both reinforced the authority of the President ("more Presidentialism"). New constitutions addressed the indigenous population problem by increasing their political and economic rights. In fact, the Colombian and Ecuadorian more recent constitutions, encouraged decentralization and a greater access to social services such as education and health services to excluded groups. The Venezuelan constitution approved in 1999, besides strengthening the presidency, also had an explicit redistribute objective pursued through increased social rights and entitlements (see del Bufalo and Rios (2002)).

Another feature of the political system in some Andean countries is the fragmentation and weakening of political parties. Ecuador, for example, has more than 12 political parties; there was an attempt to change this situation in the constitution of 1998 by putting a minimum vote requirement (5 percent) to form and legally maintain a political party. A large number of parties in Ecuador, some reflecting strong regional interests, makes difficult reaching a consensus in parliament and other instances fractionalizing national politics (see Hurtado and Arteta, 2002). In contrast, in Colombia and Venezuela, historically, the political system traditionally gravitated around two large parties: liberals and conservatives in Colombia and

ADECO and COPEI in Venezuela although in recent years these parties have severely weakened. In Colombia internal factionalism affect conservatives and liberals. In Venezuela, the Chávez administration presided over the virtual disintegration of ADECO and COPEI, although without being replaced by new strong parties or movements. In Peru the traditional APRA party suffered in the early 1990s a considerable loss of influence after the government of Alan García in the late 1980s (García made a strong return a decade later in the presidential election of 2001).

b) The weak state hypothesis.

The state must be able to provide public goods such as law and order, infrastructure, contract enforcement, control of the territory. A “weak state” is one that fails to provide the required amounts of these public goods with the consequences that individual security becomes precarious, the rule of law is partial and incomplete, and respect for civil rights and property rights limited. In turn, physical and institutional infrastructures are weak and economic prosperity fails to develop.

Colombia is an interesting case in this regard. On the one hand, it has high levels of violence (political and criminal), there is an ongoing internal conflict that has lasted for more than four decades and there is an important illegal drug industry. On the other hand, Colombia in the last 40 years has maintained normal and regular elections, presidents complete their constitutional terms and democratic institutions operate with apparent normalcy. The state is “weak” in some governance dimensions but relatively "strong" in others.

Our empirical analysis of quality of institutions based on surveys - indices suggest several problems of governance and institutional weaknesses already discussed that fit in the description of weak state although the concept has its complexities worth to keep in mind.

c) Social Inequality and Ethnic Structure

A third hypothesis that contribute to explain the governance problems of the Andean nations is their high levels of income and wealth inequality and, in three out of five countries, significant ethnic diversity. Historically during the first 3 to 4 decades of the 20th century these countries were predominantly rural societies with a concentrated structure of land ownership and wide income differential between land-owners, small land holders and peasants. Inequality was predominantly a rural phenomena associated largely to the prevailing land tenure patterns³². As the process of rural-urban migration and urbanization took place in greater intensity around the mid 20th century following the development of local manufacturing, the expansion of the state sector and the adoption of import substitution policies, a middle class formed (varying across countries in size and importance) that helped to stabilize societies. In this new setting, social inequalities remained but revolve around the ownership of productive capital, access to credit, access to education opportunities and to the instances of political decision-making. As mentioned before various strands of social theory, including recent endogenous growth models, predict that

³² See Thorpe, Rose Mary (2000)

countries with high inequality tend to have higher levels of social conflict, polarization and political instability than more egalitarian countries³³.

To income and wealth inequality we have to add a significant degree of ethnic diversity in Bolivia, Ecuador and Peru. As table G4 shows between 34 and 59 percent of the population in the three countries is of indigenous origin. Gray Molina and Chávez (2002) show that only 58 percent of the population of Bolivia speaks Spanish, followed by Quechua, (22.9 percent), Aymara (15.7 percent) and other languages³⁴. In Bolivia, the pattern of indigenous population participation in national civic life went from exclusion and marginalization to active demands of ethnic rights and nationalistic claims such as Aymara Nationalism. Also the presidential candidates supported by several indigenous groups obtained a high voting in the recent presidential election. The indigenous movement became also an important political actor in Ecuador in 1998 and 1999 during the Mahuad administration. The CONAIE, the largest confederation of indigenous population of Ecuador, waged several journeys of mass protests in 1999 culminating in January of 2000 with an indigenous uprising that was joined by colonels of the army leading to the ousting of President Mahuad. The main point here is that indigenous groups have become an important political force in some Andean countries. These indigenous movements demand economic and civic rights and entertain, at times, a nationalistic agenda.

5. Concluding Remarks

The Andean countries, a region with abundance of natural resources and other valuable assets, exhibit a variety of governance problems that

³³ See Solimano (1998), Alesina and Rodrik (1994), Persson and Tabellini (2000).

³⁴ According to the last published national population census of population (1992).

hinder its potential for social peace, stability and economic prosperity. Their governance record, past and present, although varies from country to country has been characterized by political instability, considerable frequency of constitutional reforms, presidential crisis, volatility of democratic institutions and violence. In turn, the empirical evidence on quality of institutions put the Andean region in a low place in international rankings of (survey-based) indices of voice and accountability, rule of law, regulatory burden, control of corruption, political instability and violence although improvements are also detected in some of these governance dimensions.

The paper highlights that governance problems can be decomposed at three levels: the politico-constitutional regime, the working of intermediate level institutions and the levels of social conflict, inequality and ethnic diversity. Important features of the political regime in the Andean countries need further scrutiny in any broad agenda of institutional reform. These features comprise the scope and limits of presidential regimes to handle political crises, the working of the party system and other constitutional provisions. At the level of intermediate institutions complex principal-agents problems combine with chronic problems of rent-seeking, corruption and violence, that governments have tried to tackle but whose severity still remains serious. Organizational principles of goal-clarity, adequate resources, freedom from undue political interference must be reinforced. Income and wealth inequality although not a new phenomena in the Andean region, (neither in Latin America) needs to be addressed as high inequality is often correlated with social conflict, political polarization and slow economic growth. Although radical redistribution of existing assets can be destabilizing and growth retarding, policies to foster a more egalitarian access to capital, credit, education and political representation can have a

good medium term pay-off in terms of enhanced stability and more rapid economic growth. Ethnic diversity is another important social feature in countries such as Bolivia, Ecuador and Peru that needs to be addressed through creative political and economic reforms with an ethnically-inclusive component. The analysis suggests that for realizing the economic potential of the Andean region an adequate tackling of its complex political and institutional problems is required.

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ANNEX

TABLE G1
Constitutional, Presidential Crisis and Political Regimes
Andean Countries

Countries	Number of Constitutions [a] 1900-2000		Presidential [b] Crisis 1950 - 2002		Number of presidential Crisis in the period 1950-2002	Prevailing Political Regime Before Presidential Crisis
	Year	Number of constitutional reforms in the 20th century	Crisis Year and President	Presidential Period Until Crisis		
Bolivia	1938 1945 1960 1967 1994	5	1951 (Mamerto Urriolaquitoia) 1952 (Gral. Huco Ballivián) 1964 (Victor Paz) 1969 (Gral. René Barrientos) [d] 1969 (Luis Siles) 1970 (Gral. Alfredo Ovando) 1971 (Gral. Juan José Torres) 1978 (Gral. Juan Pereda) 1979 (Walter Guevara) 1979 (Gral. Alberto Natusch) 1980 (Lidia Gueillier) 1981 (Gral. Luis García) 1982 (Gral. Celso Torrelio) 1982 (Gral. Guido Vildoso) 1985 (Hernán Siles) 2001 (Hugo Banzer) [c]	1949-1951 1951-1952 1960-1964 1966-1969 1969 1969-1970 1970-1971 1978 1979 1979 1979-1980 1908-1981 1981-1982 1982 1982-1985 1997-2002	16	Democracy Authoritarian, military Democracy Authoritarian, military Authoritarian, civilian Authoritarian, military Authoritarian, military Democracy Authoritarian, military Democracy Authoritarian, military Authoritarian, military Authoritarian, military Democracy Democracy
Colombia	1991	1	1953 (Laureano Gómez) 1957 (Gustavo Rojas)	1953-1958	2	Democracy Authoritarian, military
Ecuador	1929 1938 1945 1946 1967 1979 1998	7	1961 (José María Velasco) 1963 (Carlos Arosemena) 1970 (José María Velasco) [e] 1972 (José María Velasco) 1976 (Gral. Guillermo Rodríguez) 1981 (Jaime Roldás) [e] 1997 (Abdalá Bucaram) 1997 (Rosalia Arteaga) 2000 (Jamil Mahuad) 2000 (Solórzano, Mendoza, Vargas)	1960-1961 1961-1963 1968-1970 1970-1972 1972-1976 1979-1981 1996-1997 1997 1998-2000 2000	10	Democracy Democracy Democracy Authoritarian, civilian Authoritarian, military Democracy Democracy Democracy Democracy Democracy
Peru	1920 1933 1979 1993	4	1962 (Manuel Prado) 1963 (Ricardo Pérez) 1968 (Fernando Belaude) 1975 (Juan Velasco) 1992 (Alberto Fujimori) [e] 2001 (Alberto Fujimori)	1956-1962 1962-1962 1963-1968 1968-1975 1990-1992 1995-2000	6	Democracy Authoritarian, military Democracy Authoritarian, military Democracy Democracy
Venezuela	1901 1909 1931 1945 1947 1953 1961 1999	8	1950 (Carlos Delgado) [d] 1958 (Marcos Pérez) 1993 (Carlos Andrés Pérez) 2002 (Hugo Chavez) [f]	1948-1950 1952-1958 1989-1993 1999-	4	Authoritarian, military Authoritarian, military Democracy Democracy

[a] New constitution approved.

[b] Presidents that did not complete their constitutional periods by coups, resignation and non-voluntary removals.

[c] By illness of the President

[d] Death of the President

[e] Self - Coup

[f] Failed Coup

Source: http://geocities.yahoo.com.br/escritoriorm/historia/index_b.html, <http://es.geocities.com/datalia2002/colombia.htm>,
<http://www.explored.com.ec/ecuador/1960.htm>, http://www.tierra-inca.com/presidents/index_es.html, <http://www.aldeaeeducativa.com>

TABLE G2
Constitutional Reforms, Presidential Crisis and Turnover of Prime- Minister,
Selected Countries

Countries	Number of Constitutions [a] 1900-2000		Presidential [b] Crisis 1950 - 2002		Number of presidential Crisis in the period 1950-2002	Prevailing Political Regime Before Presidential Crisis
	Year	Number of constitutional reforms in the 20th century	Crisis Year and President	Presidential Period Until Crisis		
Chile	1925 1980	2	1973 (Salvador Allende)	1970-1973	1	Democracy
Costa Rica	1949	1			0	
Uruguay	1918 1934 1942 1952 1967	5	1976 (Juan M. Bordaberry) 1976 (Alberto Demichelli)	1972-1976 1976	2	Democracy Authoritarian, civilian
USA		0	1963 (John F. Kennedy) 1974 (Richard Nixon)	1961-1963 1969-1974	2	Democracy Democracy
PARLIAMENTARY REGIMES					Turnover of Prime-Minister 1950-2002	
Germany	1919 1949	2			5	Democracy
Italy	1948	1			58	Democracy
United Kingdom		0			12	Democracy

[a] New constitution approved.

[b] Presidents that did not complete their constitutional periods by coups, resignation and non-voluntary removals.

Source: <http://icarito.tercera.cl>, <http://www.observa.com.uy/eluruguay/historia/1presidentes.html>, <http://www.guiascostarica.com/h02.htm#republica>, <http://www.inter-naciones.de/d/frames/presse/sonder/s/brjabre-s-11.html>, <http://www.fmmeduacion.com.ar/historia/notas/prestadosunidos.htm>, <http://www.bbc.co.uk/portuguesa/noticias/2001/01/010509-italiatempo.shtml>, <http://es.geocities.com/datalia2002/inglaterra.htm>

TABLE G3
Ranking of Governance Indicators for the Andean

Countries	Voice and Accountability		Political Instability and Violence		Government Effectiveness		Regulatory Quality		Rule of Law		Control of Corruption	
	1998	2001	1998	2001	1998	2001	1998	2001	1998	2001	1998	2001
Number of	170	173	152	161	153	159	163	168	167	169	152	160
Bolivia	63	67	87	122	83	101	22	39	97	100	95	119
Colombia	91	112	140	149	74	95	69	93	128	132	102	89
Ecuador	66	92	108	131	110	129	61	95	121	130	123	140
Peru	124	70	111	95	54	93	37	61	110	109	73	72
Venezuela, RB	68	106	92	100	131	124	91	115	117	136	114	107
Andean	82	89	108	119	90	108	56	81	115	121	101	105
Top Latin												
Chile	54	52	51	30	23	23	18	13	24	24	25	17
Costa Rica	21	16	30	24	42	37	16	26	48	50	37	32
Uruguay	46	32	58	25	37	44	13	22	61	48	45	37
Latin America	83	81	83	91	92	83	79	61	105	101	91	89
OECD	24	23	28	26	24	25	28	29	27	27	25	23

Source: Kaufmann D., Kraay A., and Zoido-Lobaton P.(1999-2002). "Governance Matters", Policy Research Working Paper 2196 and "Governance Matters", Policy Research Working Paper 2772,

TABLE G4
Competitiveness and Governance Indicators Rankings
Andean Group, 2001-2002

Countries	Growth Competitiveness Index Rank	Public Institutions Rank	Contracts and Law Subindex Rank	Corruption Subindex Rank
Number of Countries	75	75	75	75
Peru	55	45	60	30
Venezuela	62	65	71	61
Colombia	65	57	67	40
Bolivia	67	62	62	56
Ecuador	68	68	73	63
Andean Countries	63	59	67	50
Top Latin America				
Chile	27	21	26	13
Costa Rica	35	37	35	43
Uruguay	46	31	27	38
Latin America	56	55	57	51
OECD	20	21	21	23

Note: Growth Competitiveness Index = 1/3 technology index + 1/3 public institutions index + 1/3 macro-economic environment index. Public Institutions Index = 1/2 contracts and law subindex + 1/2 corruption subindex. The Rank is of 75 countries.

Source: The Global Competitiveness Report 2001-2001, World Economic Forum, Harvard University.

TABLE G5
Democracy is preferable to any other political regime (%)
 (percent of public support)

Countries	1996	1997	1998	2000	2001
Bolivia	64	66	55	62	54
Colombia	60	69	55	50	36
Ecuador	52	41	57	54	40
Peru	63	60	63	64	62
Venezuela	62	64	60	61	57
Andean Group	60.2	60.0	58.0	58.2	49.8
Latin America	60.6	62.8	61.6	59.8	47.4

Source: Latinobarometro.

TABLE G6
Indigenous Population in the
Andean Countries

Countries	Year	Total Population	Indigenous Population	%
Bolivia	1992	5183403	3058208	59.0
Colombia	1985	29719875	237759	0.8
Ecuador	1992	11078717	3800000	34.3
Peru*	1992	22500000	9000000	40.0
Venezuela	1992	34974667	314772	0.9

Source: Based on last census, CELADE.

(*) Estimation.

Table E1
Economic Growth in the Andean Countries 1950-2001

(annual rate of change, %)

Countries	1950-00	1950-90	1990-95	1995-99	1990-99	2000-01(a)
Bolivia	2.8	2.5	4.2	3.9	4.0	1.2
Colombia	4.3	4.7	4.5	1.4	2.9	2.2
Ecuador	4.5	5.2	3.4	0.2	1.9	3.7
Peru	3.6	3.5	3.9	3.6	3.3	1.3
Venezuela	4.1	4.6	4.0	0.9	2.4	3.0
Andean Group	3.9	4.1	4.0	2.0	2.9	2.3
Latin America	4.2	4.5	2.6	2.5	2.7	2.3

(a) 2001 Preliminary estimates.

Source: Economic Commission for Latin America and the Caribbean.

Table E2
Rate of Inflation in the Andean Countries 1980-2001

(annual rate of change, %)

Countries	1980-89	1990-95	1995-99	1990-99	2000	2001(a)
Bolivia	9.6	11.9	6.9	9.6	3.4	1.1
Colombia	10.6	24.8	16.9	21.4	8.8	7.8
Ecuador	29.1	39.6	36.7	39.8	90.7	24.6
Peru	880.3	1318.0	7.7	793.6	3.7	0.1
Venezuela	42.8	45.5	49.5	46.4	13.4	12.7
Andean Group	194.5	287.96	23.54	182.15	24.0	9.3
Latin America	388.4	509.75	14.84	310.69	9.3	7.0

(a) Preliminary estimates.

Source: Economic Commission for Latin America and the Caribbean.

Table E3
Current Account Deficit in the Andean Countries 1970-2001
 (% of GDP)

Countries	1970-89	1990-95	1995-99	1990-99	2000	2001 (a)
Bolivia	-5.9	-6.0	-6.2	-6.2	-7.0	-4.4
Colombia	-2.0	-0.9	-4.1	-2.1	-0.2	-2.5
Ecuador	-5.2	-3.9	-2.2	-3.0	10.7	-5.8
Peru	-3.4	-5.8	-5.8	-5.6	-3.0	2.0
Venezuela	1.3	3.0	3.9	3.4	12.0	4.1
Andean Group	-3.0	-2.7	-2.9	-2.7	2.5	-1.3
Latin America	-2.4	-2.2	-3.1	-2.6	-2.5	-2.6

(a) Preliminary estimates.

Source: Economic Commission for Latin America and the Caribbean.

Table E4
Fiscal Deficit in the Andean Countries 1980-2001
 (% of GDP)

Countries	1980-89	1990-95	1995-99	1990-99	2000	2001 (a)
Bolivia	-10.2	-4.0	-3.0	-3.7	-4.1	-4.0
Colombia	-3.7	0.0	-2.8	-1.4	-4.1	-3.3
Ecuador	-5.1	-0.5	-3.6	-1.9	0.4	0.3
Peru	-4.4	-3.2	-2.0	-2.6	-2.5	-2.4
Venezuela	-2.3	-3.6	-1.7	-2.6	-1.7	-3.5
Andean Group	-5.1	-2.3	-2.6	-2.4	-2.4	-2.6
Latin America and Caribbean	-----	-1.4	-2.0	-1.7	-2.7	-3.1

(a) Preliminary estimates.

Source: Economic Commission for Latin America and the Caribbean.

Table E5
GDP per capita in the Andean Countries 1970-2001

(Dólares a precios constantes de 1995/número de personas)

Countries	1970-89	1990-95	1995-99	1990-99	2000	2001 (a)
Bolivia	934.0	868.0	940.6	900.5	955.6	930.0
Colombia	1815.5	2229.9	2382.6	2289.2	2285.8	2275.8
Ecuador	1367.4	1530.1	1538.4	1530.7	1424.1	1460.7
Peru	2734.3	2199.5	2579.4	2351.4	2601.3	2190.3
Venezuela	3523.0	3258.8	3179.6	3227.1	3026.4	3123.6
Andean Group	2074.8	2017.2	2124.1	2059.8	2058.6	1996.1
Latin America	3325.2	3455.0	3708.7	3570.1	3856.9	3934.4

(a) Preliminary estimates.

Source: Economic Commission for Latin America and the Caribbean and CELADE

Table E6 Poverty and inequality in the Andean Countries 1990-1997				
Countries		% households below the poverty line	Gini coefficient	Ratio Q5/Q1
Bolivia (a)	1989	49	0.484	0.062
	1994	46	0.435	0.104
	1997	47	0.455	0.088
Colombia	1980	39	0.518	0.058
	1991	50	0.403	0.117
	1994	47	0.505	0.104
	1997	45	0.477	0.088
Ecuador (a)	1990	56	0.381	0.128
	1994	52	0.397	0.108
	1997	50	0.388	0.125
Perú	1979	46		
	1986	52		
	1990		0.438 (a)	
	1991		0.370 (a)	
	1994		0.350 (a)	
	1995	41		
Venezuela	1981	22	0.306	0.184
	1990	34	0.378	0.127
	1994	42	0.387	0.132
	1997	42	0.425	0.101
Latin America	1980	35		
	1990	41		
	1994	38		
	1997	36		

(a) Zonas Urbanas
Q5/Q1 = Ratio of the poorest quintile to the richest quintile.
Source: Economic Commission for Latin America and the Caribbean and The World Bank.