

THE POLITICAL ECONOMY OF REFORM 3.0

Chronicle of a Personal and Regional Journey

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IMF-OECD High-Level Conference

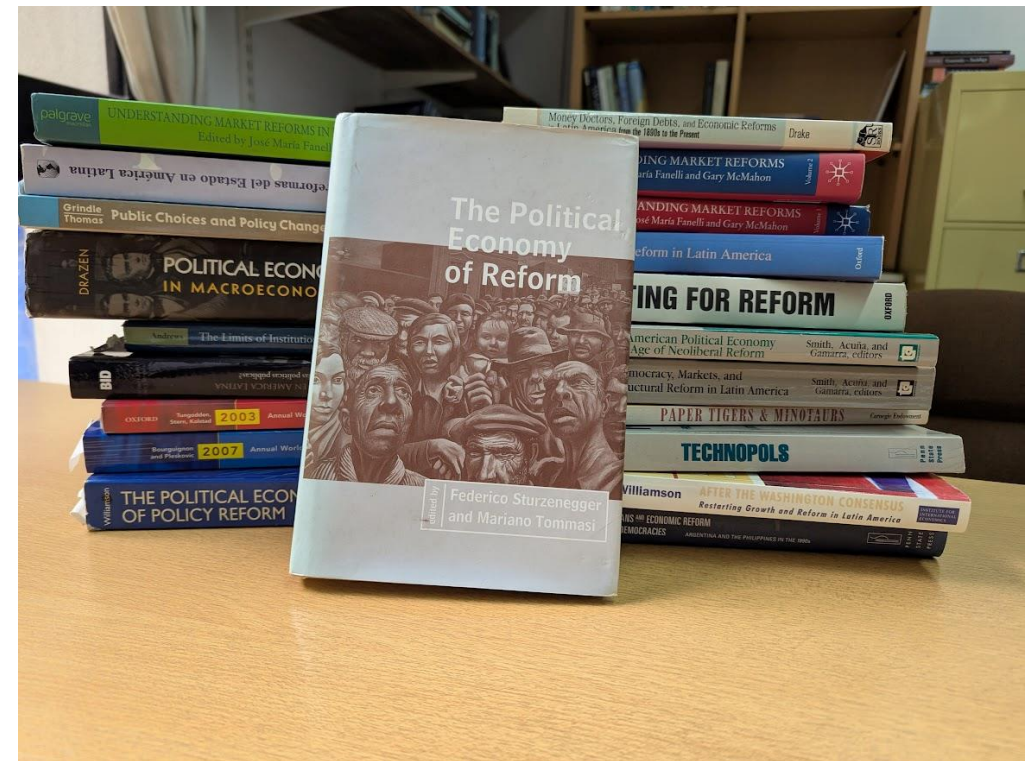
November 17–18, 2025 ~ Montevideo, Uruguay

Making Reforms Happen in Latin America

THE POLITICAL ECONOMY OF REFORM

- 40 years-old question
- (my) answer varies every 5/10 years
 - Intellectual journey of the last 35 years. (mine and of others)

Context: The recent political and economic history of Latin America



The Political Economy of Reform 1.0 (1990s)

The Heroic Moment and Political Constraints

*POLITICAL ECONOMY OF POLICY REFORM:
IS THERE A SECOND BEST?†*

Secrets of Success: A Handful of Heroes

By ARNOLD C. HARBERGER*

This paper has its origins in my long-standing conviction that successful economic policy in developing countries is very far from being the product of pure forces of history—something that happens when it happens because its time has come. Far from it, in every case about which I have close knowledge, the policy would in all likelihood have failed (or never got started)

harvest reaped by another. Such was the case in Brazil in the mid-1960's. There is today a substantial consensus that much of the credit for the so-called "Brazilian Miracle," an average growth rate of some 10 percent per annum from 1968 through 1974, belongs to Roberto Campos, whose term as planning minister ended before the miracle started. Og Leme, one of Campos's collabo-

ECONOMICS
& POLITICS

Sequencing of Economic Reforms in the Presence of Political Constraints

C. Martinelli, M. Tommasi

- Overcoming Political Barriers to Sustainable Growth in Latin America and the Caribbean - Carlos Scartascini, Lead Economist, Research Department, IDB

1 Reform as a Collective Action Problem

- Reform delayed/blocked - **distributional conflicts** prevent coordination social / political actors.
 - Each group waits for others to bear the cost (Alesina & Drazen; Fernandez & Rodrik).
- Reform requires mechanisms to overcome **status quo bias** and **coordination failure**.

2 Design under Uncertainty and Incomplete Information

- Given these conflicts, how to **design** change:
 - Big Bang vs. Gradualism (Dewatripont & Roland)
 - Sequencing of reforms to build credibility and learning (Martinelli & Tommasi).

3 Credibility and the Identity of Reformers

- The same policy credible or not depending on the reformer's reputation / political identity
 - “It takes a Nixon to go to China” (Cukierman & Tommasi) — credibility can come from unexpected actors.

4 Political Constraints and Windows of Opportunity

- **Crises** open windows for change but also raise political risk.
- Reformers must form coalitions, signal credibility, and manage losers.
- Hence, many reforms are **delayed—or never undertaken** despite inefficiency.
(Tommasi & Velasco)

Political Economy of Reform 1.0 – Lessons for Reformers

1 Face the Political Constraints

- Understand the interests, veto players, and credibility limits of your context

2 Build Coalitions and Compensate Losers

- Sequence and package reforms to build support and diffuse resistance

3 Choose the Right Tempo

- Big Bang or Gradualism?

4 Manage Credibility and Commitment

- Use identity, reputation, and rules to make promises credible

5 Use Crises Wisely

- Exploit urgency, then institutionalize cooperation fast

6 Reform is a Process, Not a Moment

- Don't aim for a heroic "one-shot" fix. Embed policies in institutions that make cooperation sustainable

Starting to switch (early 2000s)

CRISIS, POLITICAL INSTITUTIONS, AND POLICY REFORM IT IS NOT THE POLICY, IT IS THE POLITY, STUPID

Mariano Tommasi*

Documento 73

Junio 2002



Crisis, Political Institutions, and Policy Reform: The Good, the Bad, and the Ugly

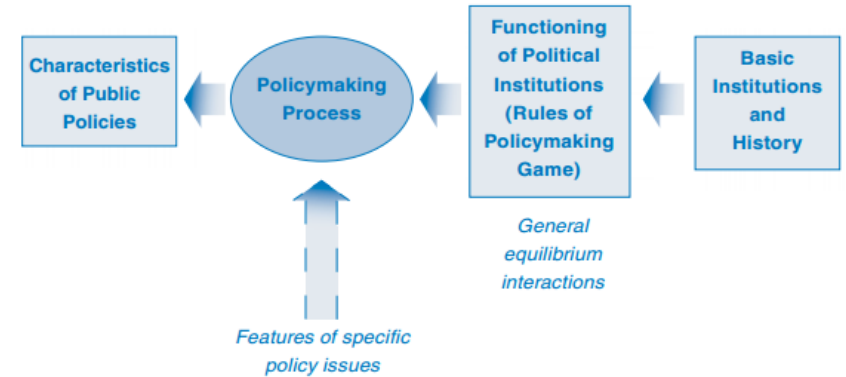
MARIANO TOMMASI

- After heroic moments turn sour
- “Magical moments” → intertemporal cooperation
- Credible commitments to compensate losers → intertemporal political transactions as foundations of sound policymaking (at all times)
 - Time inconsistency microfoundation led to search for institutional arrangements
 - The political / institutional basis of cooperation

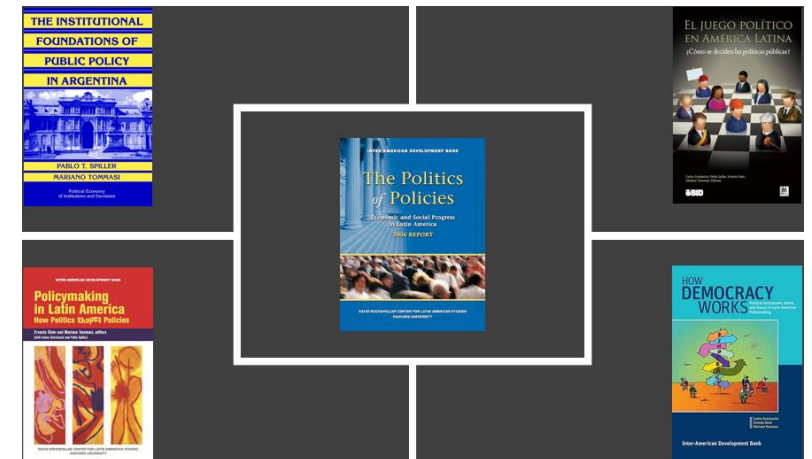
The Institutional Turn: From Policy Content to the Policymaking Process

- After reform euphoria, attention shifted from **what** policies to **how they were made** and sustained.
- What matters is not labels (public or private) but policy qualities — credibility, sustainability, inclusion.
- “Sound policies emerge from sound institutions, not from heroism and good intentions.”

Figure 2.1 Political Institutions, Policymaking Process, and Policy Outcomes



Source: Spiller and Tommasi (2003).



Inside the Machinery: How Institutions Shape Policy Outcomes

Mapping the Arenas of Cooperation and Conflict

- **Parties:** Organization and discipline foster intertemporal cooperation.
- **Congress:** Arena for exchange, oversight, and policy continuity.
- **Federalism:** Vertical coordination across levels of government.
- **Judiciary:** Enforcement and credibility of commitments.
- **Bureaucracy:** Translating decisions into effective implementation.

Each arena can function as:

- ✓ A credible cooperative mechanism, or
- ✓ A source of short-term opportunism.

From Arenas to Policy Qualities

Policy Quality	Institutional Source
Stability	Strong parties, institutionalized Congress, credible enforcement
Adaptability	Capable bureaucracy, open consultation mechanisms
Coherence	Coordination across ministries and federal levels
Public-Regardedness	Checks and balances, inclusive participation

Institutionalization: From Institutions as Rules to Institutions as Equilibria

G. Caruso et al. / European Journal of Political Economy 38 (2015) 212–228

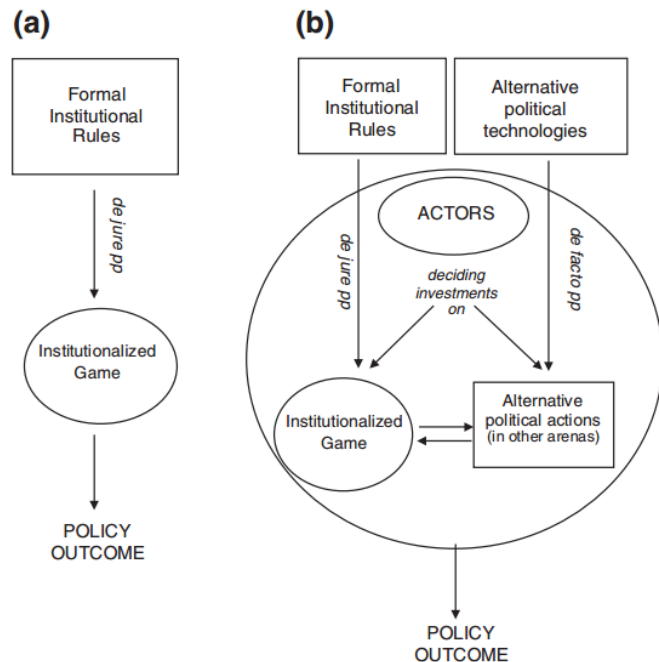


Fig. 1. Summary of the framework. Panel (a). Traditional framework. Panel (b). Enlarged framework.

- When actors believe others will respect the rules, they **choose to play within institutions**.
 - When trust is absent they resort to **Alternative Political Technologies** — force, protests, decrees, informal deals (Scartascini & Tommasi 2012).
- Moving toward development requires moving from ad hoc policymaking toward **rule-based, cooperative governance**.

DETOUR:

If We Were in Berkeley or in Paris... — Competing Meanings of “Reform”

Washington

Reform = Market Opening + Fiscal Discipline + Structural Adjustment (IMF)

- Priority: *Efficiency, stabilization, credibility*
- Reformers as technocratic agents of modernization
- Risks: top-down, socially thin, politically fragile

Berkeley / Paris

Reform = Redistribution, Inclusion, Rights, Participation (Stiglitz, Piketty)

- Priority: *Equity, social incorporation, democratic deepening*
- Reformers as social architects
- Risks: populist drift, fiscal unsustainability, poor coordination

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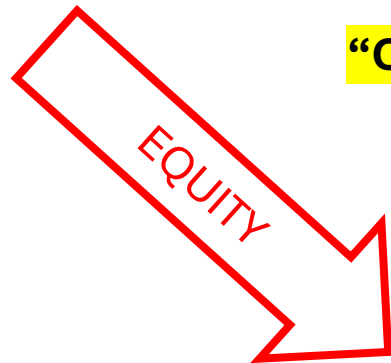
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“Constructive Diagonals”



The Governance Frontier

Making Democracy Work with More Players

- Democratization and social mobilization expanded the number of players
 - unions, social movements, indigenous groups, civil society, new parties
- Yet *institutions of cooperation* have not adapted at the same pace.
- Result → **Inclusion without synthesis**: many voices, weak aggregation, fragile trust.
- Latin America's current discontent reflects coordination gap between societal activation and institutional responsiveness.

≠ LACIR



Oxford Open Economics, 2025, 4, i571–i584
<https://doi.org/10.1093/ooec/odae019>
Research Article

The political economy of redistribution and (in)efficiency in Latin America and the Caribbean

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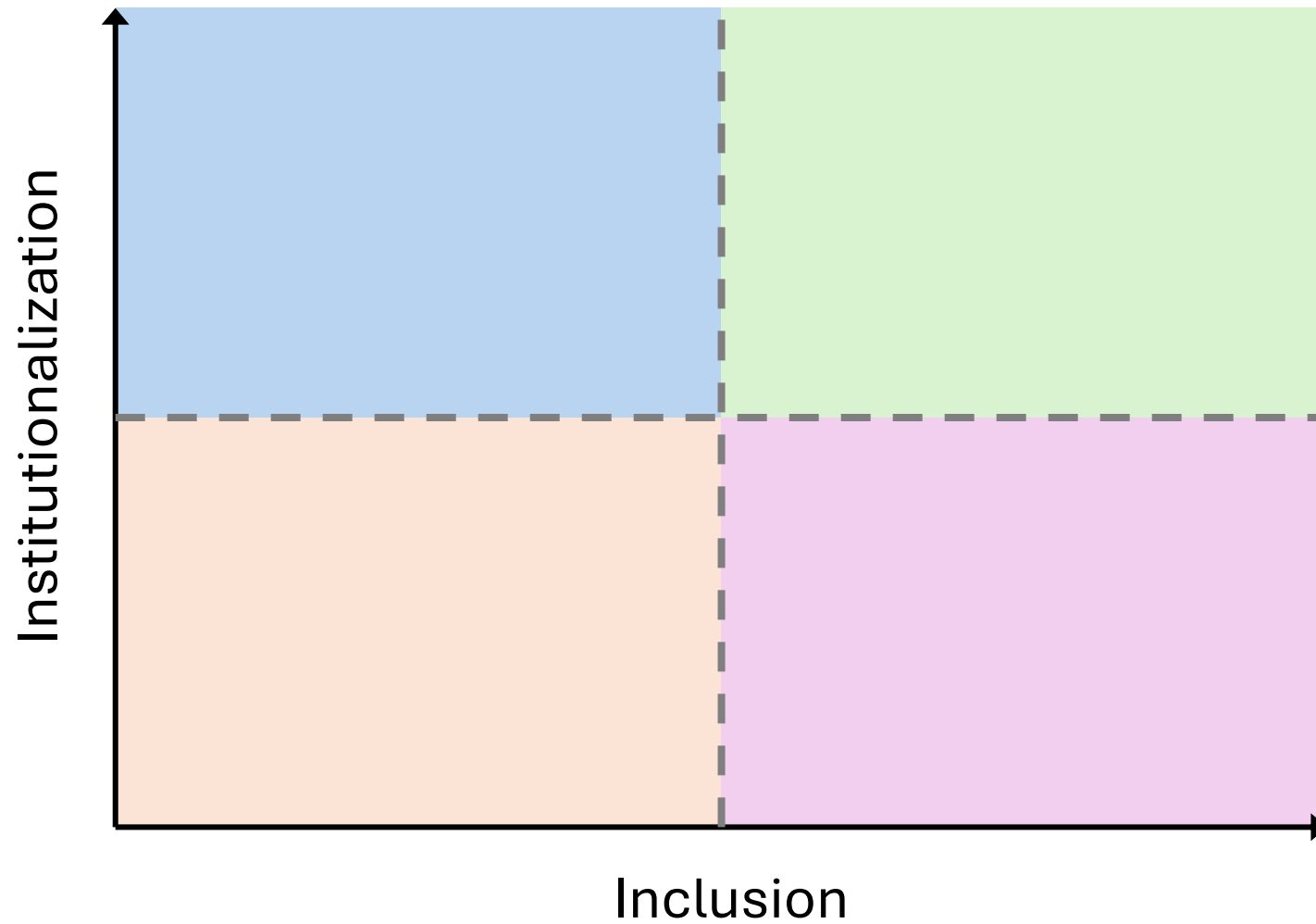
**Incorporation Without Synthesis:
Discontent and the Politics of Inclusion in Latin America¹**

Mariano Tommasi
Universidad de San Andrés

October 2025

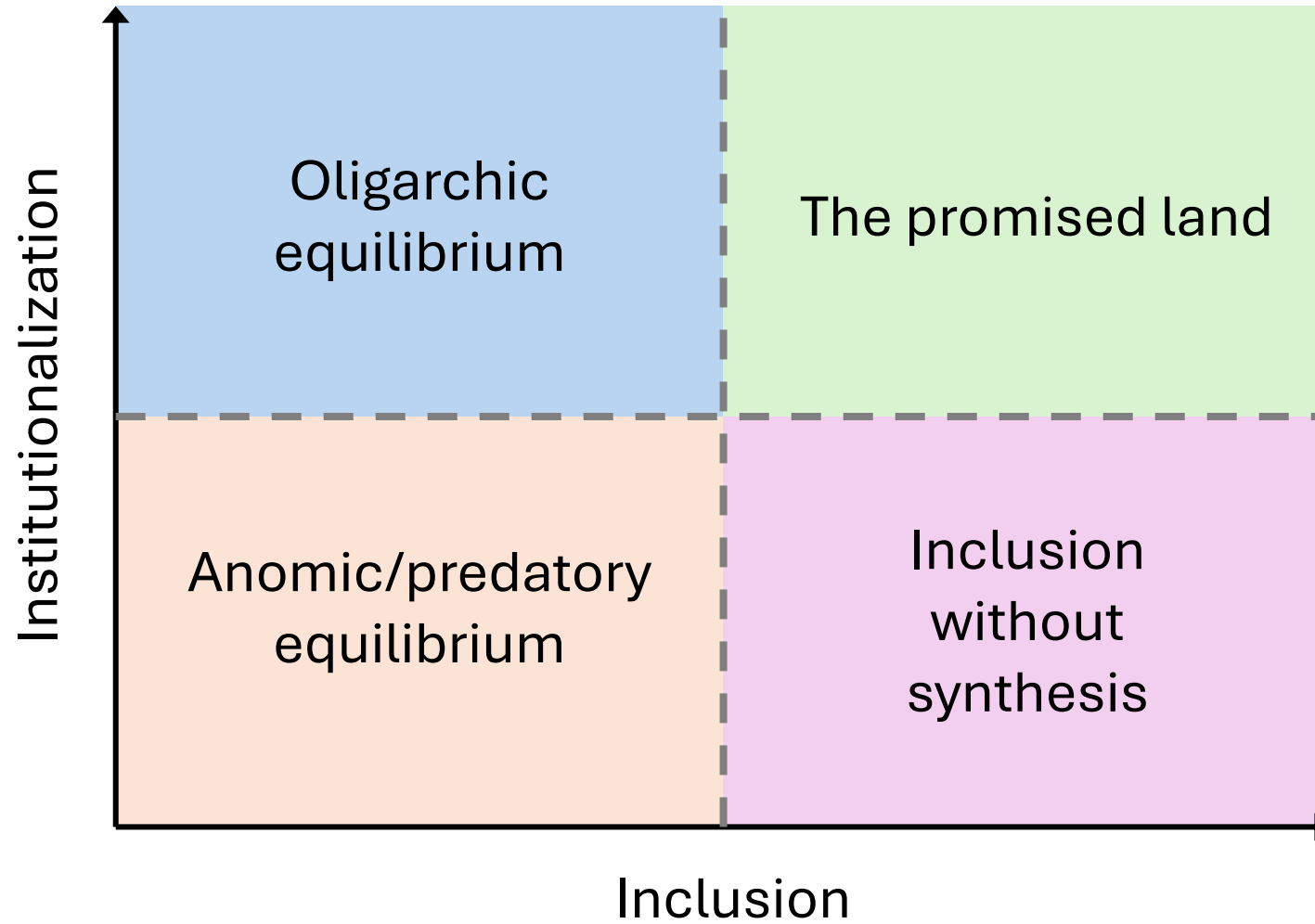
The Governance Frontier

Inclusion + Institutionalization



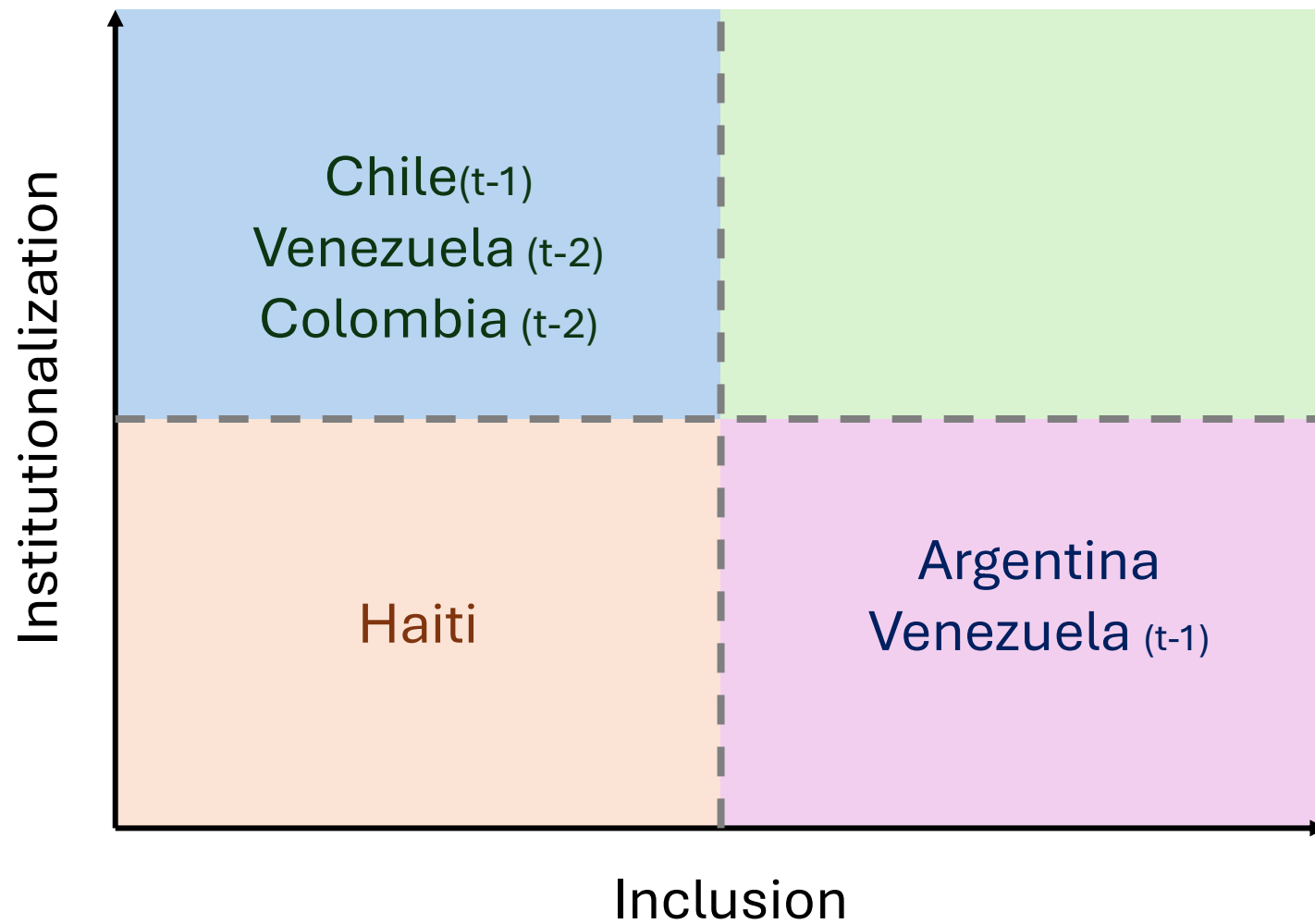
The Governance Frontier

Inclusion + Institutionalization



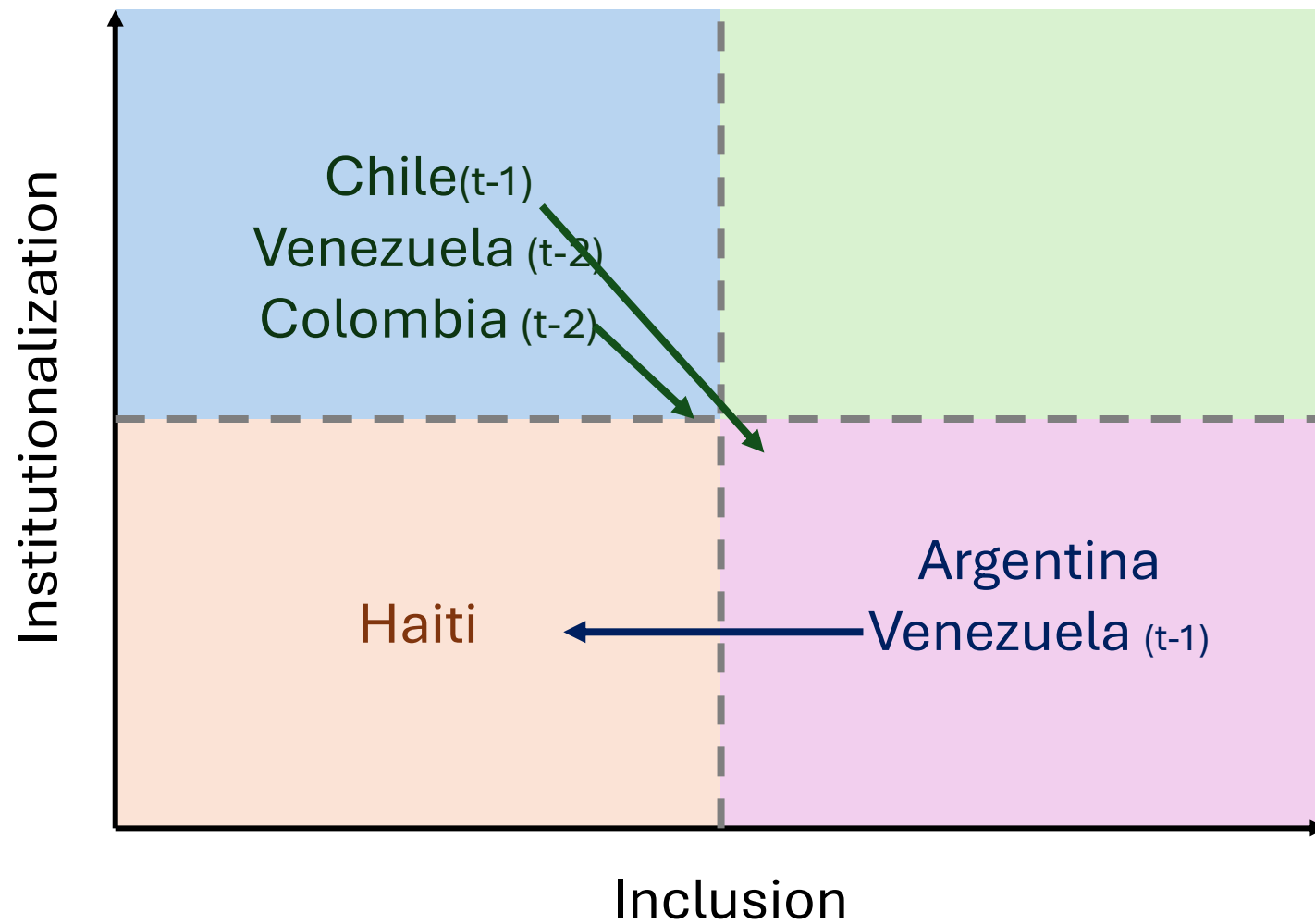
The Governance Frontier

Inclusion + Institutionalization



The Governance Frontier

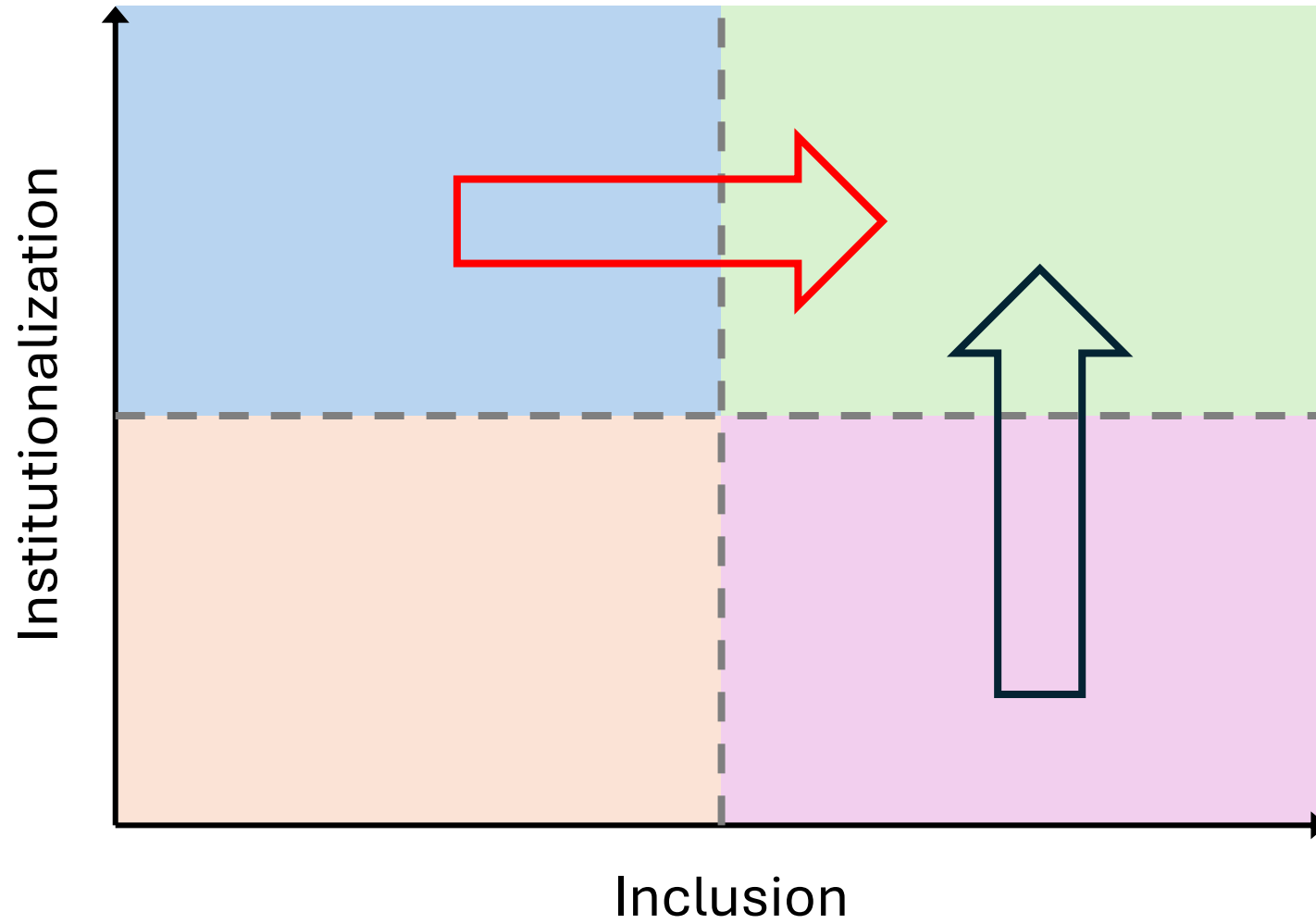
Inclusion + Institutionalization



The Governance Frontier

Inclusion + Institutionalization

“Constructive Diagonals”



Towards the Promised Land: From Reform to Inclusive Cooperation

- ✓ Reform without cooperation is fragile
- ✓ Cooperation without inclusion is hollow
- The frontier is **Inclusive Institutionalization** —
the politics of credible cooperation in plural societies

Constructive Diagonals

- sometimes the path forward comes from *unexpected alignments* — reformist lefts, pragmatic rights, cross-class coalitions.

The London Consensus, Latin American edition
Narrow Corridor of balancing state capacity and social power

THANK YOU