

1. Introduction

Although the actions carried out by his government during its first six months in office refute it, the election of Ollanta Humala to the presidency of Peru last year seemed to reaffirm the tendency towards authoritarian populism that can be noted in Latin America since the closing years of the past century. Unquestionably, his initial governmental agenda indicated a larger, stronger role for government, one more involved in running the economy – vertically – similar to the style of Hugo Chávez in Venezuela, Evo Morales in Bolivia, and Cristina Kirchner in Argentina.

The purpose of this paper, however, is not debating the risks inherent in that type of government. I hold the risks to be evident, as authoritarian populism contradicts the concepts of rule of law, limited government, regulatory efficiency, and free markets – the concepts on which economic growth depends.<sup>2</sup> No economy in the world has experienced durable growth in confluence with policies that rely on intervention and gimmicks – even less so when such policies are implemented in regimes where checks to government action are weak or inexistent.

Rather, the purpose of this paper is to argue that the origins of this phenomenon lie in the conception of democracy without political parties, since this conception has a

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<sup>2</sup> See Miller, Terry, Kim R. Holmes y Edwing J. Feulner (eds.) (2012). *Índice de libertad económica 2012: fomento de la oportunidad y la prosperidad económicas*. Washington DC: The Heritage Foundation / The Wall Street Journal. See also Gwartney, James, Joshua Hall y Robert Lawson (eds.) (2011), *Libertad económica en el mundo: informe anual 2010*. Madrid: Fraser Institute.

dual effect: on one side, it generates demand by citizens for more predictability in political processes; on the other, it creates incentives for leaders to become much more attentive to timely results, as it makes their continued participation in the political arena uncertain. In order to avoid providing the basis for authoritarian populism, then, political competition must be structured in terms of parties.

Democracies based on political parties represent the lesser evil with regards different types of political organization, not heaven on earth. Inasmuch as the access to the political market – the market of votes and public policies – is limited in them, they risk becoming sclerotic. As Mancur Olson argues, this kind of situation makes it possible for groups to pressure governments into designing and implementing policies that only benefit their private interests.<sup>3</sup>

There are in the world today – especially in Asia –authoritarian regimes that conceive and carry out public policies that are responsible, not populist. These regimes, however, must not serve as examples for Latin America, given that much of what they achieve occurs through taking advantage of what is designed and developed in Western democracies with a party system. Since it combines the incentives for competence and continuity in government, such party-based democracy constitutes the model to which Latin American countries should look in order to overcome the threat of authoritarian populism.

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<sup>3</sup> See Olson, Mancur, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, Yale University Press (1982).

## 2. Comparing Experiences

The importance of political parties and party systems becomes evident when contrasting the United States and Latin America. Throughout its republican history, the party system in the United States has undergone moments of crisis, during which the parties are become unaligned and are subsequently realigned in a new order. In the country during the 20<sup>th</sup> century, however, two parties alternated in the exercise of power in an orderly fashion, and even more importantly, its index of legislative fragmentation – which measures the probability that two representatives chosen randomly from the House of Representative will be from different parties – has always remained near 0.50.<sup>4</sup>

The bi-party system of the United States has no wont for criticism from either the left or the right: Lani Guinier on one side and Andrew Napolitano from the other coincide in accusing it of being hardly democratic or open.<sup>5</sup> From their differing ideological perspectives, they accuse the bipartisan system of having ended up constituting a cartel that does not represent the beliefs and interests of the citizens but rather those of an elite entrenched in positions of power. From this perspective, the only difference between Republicans and Democrats is how the two words are spelt.

Still, despite the economic crisis and the destruction of the dollar that we are currently witnessing, the contrast between the economic performance of the United States and that of Latin America is telling. In present-day dollars, the per capita GDP of the

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<sup>4</sup> See Sardón, José Luis, *Libertad económico y régimen político: un estudio transnacional comparativo, 1994-2009*. Lima: UPC (2010).

<sup>5</sup> See Guinier, Lani, *The Tyranny of the Majority: Fundamental Fairness in Representative Democracy*. New York: The Free Press (1994). See also <http://www.youtube.com/watch?v=0fZliGQROqU&feature=related>

United States, for example, is nearly nine times that of Peru: US\$47,199 vs. US\$5,401.<sup>6</sup> The disparity results from the difference between what was achieved in each country in terms of rule of law, limited government, regulatory efficiency, and free markets. Inasmuch as public policies can be explained in terms of political structures, the party-based democracy of the United States has played an important role in the evolution of the difference in economic activity.

By creating repetitive political contests, party-based democracy incentivizes participants to develop strategies to obtain prestige. Non-party-based democracies in Latin America, however, generate political contests that are not repetitive, which lead to the development of predatory strategies. According to Michael Coppedge, approximately 1,200 different political parties were represented in the parliaments of eleven Latin American countries in the 20<sup>th</sup> century.<sup>7</sup> The volatile character of Latin American political parties favors a fixation on the short-term by both rulers and ruled, which leads to authoritarian populism.

The fragmentation of the Peruvian party system explains the recent victory of Ollanta Humala. In 2011, eleven parties nominated candidates for the Presidency of the Republic and it was not easy to differentiate between them; Alejandro Toledo and Pedro Pablo Kuczynski, for example, despite having led the government together from 2001 – 2006, ran separately. The subsequent puzzlement this caused many people played to the advantage of more polarized candidates, with Humala and Keiko Fujimori making it into

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<sup>6</sup> See The World Bank Group (2012), <http://databank.worldbank.org>

<sup>7</sup> See Coppedge, Michael, “Latin American Parties: Political Darwinism in the Lost Decade” in Larry Diamond and Richard Gunther (eds.), *Political Parties and Democracy*. Baltimore: Johns Hopkins University Press (2001), pp. 173-205.

the run-off election. In that election, the more populist message of Humala ended up earning him the victory by a narrow margin.

### 3. Party Formation

It is less important, however, to recognize the relevance of political parties than to understand how they are formed. In the current trends of political thinking it is difficult to find anyone who maintains that political parties are irrelevant to the political organization of society. The consensus is so broad in this respect that even the remaining totalitarian states such as Cuba and North Korea assert that they have them; the only countries that openly dare do without them are proprietary states that lack parliaments such as Saudi Arabia and Brunei.

Regrettably, no such consensus exists with regards the price one should be ready to pay to have a functioning party system. Many people do not accept arguments derived from pure political theory or the empirical evidence that proves there is a relationship between the existence of political parties and certain systems of representation and rules governing political action. These people then propose institutional schemes that, when implemented, have serious political and economic consequences.

During the past twenty years in Latin America, this vision of political institutions has inspired misguided constitutional reforms. Moderate examples of this are the Colombia's 1991 Constitution and Peru's 1993 one, the extreme example being the 1999 Venezuelan Constitution. In all of these cases, the reforms deepened the proportional character of the preexisting representative system, making it more difficult for parties to

bolster their strength and favoring the rise of or consolidation of power by polarizing leaders like Alvaro Uribe, Alberto Fujimori, and, in the extreme, Hugo Chávez.

In contemporary political science, the functional perspective of political institutions is provided by Maurice Duverger and Giovanni Sartori.<sup>8</sup> Both have observed that political parties tend to consolidate where small districts elect the members of congress. In the context of such districts, if votes are split among several parties, the district's leaders have fewer chances of being elected to Congress, for there are a very small number of congressional seats per district available. Contrariwise, holding congressional elections in large districts promotes the fragmentation of political parties, inasmuch as fragmentation in these districts does not impede the leaders of the various parties from winning a seat in Congress. The larger the district is, the lower the diminishing effect on the number of parties.

In places marked by the separation of powers, the character of congressional elections, whether favorable or unfavorable to the consolidation of political parties, affects presidential elections. In the United States right now, for example, in designating its candidate for the 2012 presidential election, the Republicans must not only consider which candidate they prefer most, but also which candidate is capable of defeating Barack Obama. If they do not, they will simply lose the election.

In party-based democracy, decisions regarding the course of action each party advocates are bound by what the other party does or intends to do, thus producing a sort of fortuitous collaboration in which the deficiencies of each party are limited or

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<sup>8</sup>See Duverger, Maurice, *Los partidos políticos*. Spanish edition, Mexico DF: FCE, 1987(1951). See also Giovanni Sartori, *Ingeniería constitucional comparada: una investigación de estructuras, incentivos y resultados*. Spanish edition, México DF: FCE (1994).

compensated by its rival, the end result being greater than the sum of the parts. By treating political parties as the “hinges” connecting society and the State, it becomes possible to realize the most profound system of weights and counterweights within reach of a given society.<sup>9</sup>

#### 4. Criticism of Majority Representation

Concern for the lack of pluralism that results from the election of congress members using the system of majority representation on the basis of small districts has a traditional formulation, expressed by John Stuart Mill, as well as a contemporary one, principally manifested by Arendt Lijphart.<sup>10</sup> Mill was worried by the lack of ideological pluralism that impoverishes the debate over public policies; Lijphart, on the other hand, is troubled by the lack of social pluralism that results from this system of representation.

The latter reservation, however, assumes that voters primarily make their decisions based on factors such as the race and gender of candidates, rather than on the basis of the candidates’ ideas and behavior. It is not necessarily the case, however, that electors choose their representatives on the basis of these criteria: a white man, for example, may prefer to vote for a female of mixed race if she promises to lower taxes and is honest. As Jana Kunicová and Susan Rose-Ackerman have observed, the capacity for monitoring the behavior of representatives is in any case greater in smaller districts.<sup>11</sup>

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<sup>9</sup> The phrase was coined by Luis Alberto Sánchez, one of the historic leaders of Apra in Peru.

<sup>10</sup> See Mill, John Stuart, *Consideration on Representative Government*, New York: Prometheus 1999(1860). See also Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Countries*, New Haven: Yale University Press (1984).

<sup>11</sup> See Kunicová, Jana and Susan Rose-Ackerman, “Electoral Rules and Constitutional Structures as Constraints on Corruption”, *British Journal of Political Science*, 35 (2005), pp. 573-606.

It is more complicated to dismiss the concern for the reduced spectrum of ideas and proposals that are generated in small districts. As the United States demonstrates, the political parties that have endured the process of uninominal congressional elections have given rise to the establishment of a stable political process that is relatively predictable, but the parties themselves end up resembling each other too much. The only reason to prefer this system, then, lies in the observation that, in the long run, the probability of the instauration of authoritarian populism is lessened as a consequence of the political dynamics that stem from it.

In this respect, it is important to remember that it is not necessarily possible to extrapolate economic criteria to analyze political realities. In the sphere of economic activity, there can be no doubt that competition, or the threat of it, has positive consequences: it controls the appetite for profit of producers and induces them to charge reasonable prices. Notwithstanding, although both economic and political activities share a social nature, they are distinguished by the horizontal or vertical character of the relationships involved. Open access to political markets does not necessarily have the same positive effects, given that, as they involve vertical relationships, such access may not lead to the production of goods.<sup>12</sup>

As Harold Demsetz has noted, if concentration in the political sectors of Western democracies is evaluated using the Herfindahl–Hirschman Index (HHI), a higher concentration is found than in the unregulated industries.<sup>13</sup> It so happens, however, that this situation is related to the implementation of serious, responsible public policies that,

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<sup>12</sup>See Hans-Hermann, Hoppe, *Democracy: The God that Failed: The Economics and Politics of Monarchy, Democracy, and Natural Order*. New Brunswick: Transaction (2001).

<sup>13</sup> See Demsetz, Harold, *La competencia: aspectos económicos, jurídicos y políticos*. Spanish edition, Madrid: Alisanza Editorial (1986).

by consequence, lead to the greater economic performance of those countries. This occurs as a result of the combination of the incentives of competition and continuity in political activity.

##### 5. Disturbing European References

Why is it that Latin American countries do not follow the example of the United States? The answer has something to do with what we will call the disturbing European references. Three of the five major European countries elect members of the lower chamber of their Parliaments uninominally: the United Kingdom, of course, but also France and Germany, following the constitutional reforms carried out in 1958 and 1949, respectively. Among the most populated European countries, only Spain and Italy employ large electoral districts for the lower house.

Yet all of the Nordic countries of Europe – both the Scandinavian countries and Holland and Belgium – use large electoral districts in their systems of proportional representation. Regrettably, these are the countries that serve as models for Latin America, despite the fact that there are other variables – political and non-political – that operate in such a way as to provide a source for the stability and continuity of the political process.

The political institutions that facilitate the rise of a vision for stability and continuity in the political process in these countries include their constitutional monarchies. In addition, they are helped by their parliamentary system of government, which enables close, flexible interaction between the executive and legislature. In a governmental system of this type there does not, properly speaking, exist separation of

powers, as the government is only a commission of the Parliament. Bipartisanship is more relevant for the republics that have separation of powers following the U.S. mode.

Furthermore, according to the findings developed in my book, *Economic Freedom and Political Regimes*, several different factors – social, cultural, demographic, and even geographic – help explain why populist public policies did not take root in Northern Europe.<sup>14</sup> Using panel data taken over 15 years for 150 countries, I found in the course of my research that the level of urban population, colonial origin, ethnic fragmentation, demographic density, size, and latitude of each country have some bearing on this type of policy.

In accordance with their effect on social integration, social, demographic, and geographic variables account for certain perspectives regarding the rule of law, limited government, regulatory efficiency, and free markets: greater levels of urban population and demographic density, less ethnic fragmentation, and smaller size all contribute to the phenomenon. Moreover, Anglo-Saxon colonial origin – used as a dummy variable – also has a slight explicative value, as does the distance of the country in question from the Equator.

The most important finding of this research, however, is that, no matter what combination of variables advanced by the corresponding econometric models, the political regime – considered with a 5-year delay compared to economic freedom – demonstrates the expected quality: the further the country is from perfect bipartisanship – that is, the ideal level of legislative fragmentation that corresponds to 0.5 – the less likely

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<sup>14</sup> Sardón (2010). The corresponding econometric tables are included in an appendix to this piece.

such serious, responsible public policies will be implemented as time passes. One could say that although party-based democracy definitely cannot be wholly credited for the implementation of correct public policies, it *always* plays a part.

#### 6. Natural versus Feigned Bipartisanship

Institutional explanations for the success of the United States stress the norms contained in its Constitution: in its organic aspect, the horizontal and vertical dismantling of government via the separation of powers and federalism; in its doctrinal aspect, the rule of law and the protection of civil liberties. Rarely, however, is attention paid to one of the by-products of these norms: bipartisanship.

The Constitution of the United States does not establish that only two parties will in orderly fashion alternate in power, nor that the seats in Congress will be equally divided between the representatives of only two parties, but it does establish that the members of the House of Representatives will be elected individually, following the pattern set for the election of the members of the House of Commons in the United Kingdom. As Duverger and Sartori have explained, this system of uninominal election generates the characteristic bipartisanship of these Anglo-Saxon countries.

In 20<sup>th</sup>-century Latin America, on the contrary, the dominant system for proportional representation is the election of congress members in plurinominal districts. It could even be said that Peru and Ecuador have achieved a system of purely proportional representation deriving from the election of congress members in one single national district, similar to the system for senate elections in Holland and Belgium. Other

Latin American countries have not gone as far in this direction, but in any case do elect their deputies in plurinominal districts.

In this context the efforts to instill party systems have been in vain, whether they have taken the form of a pact by two parties to take turns in power, as occurred in Colombia, or the form of an agreement with regards basic State policies, such as the one that existed in Venezuela during the second half of the 20<sup>th</sup> century. In the absence of a system for the election of congress members in small districts, one strategy after another has been attempted to impose from above some party system.

Even more misguided is the strategy represented by the 2003 Law of Political Parties in Peru, which designates the electoral organisms – the National Election Commission and, above all, the National Office of Electoral Procedure – to monitor the consolidation of parties, ascertaining that they are authentic and that their finances are clean. Assessing its effectiveness in the elections of 2006 and 2011, however, has led to disappointment, as it was subsequently discovered that the parties were neither as consolidated nor the finances as clean as had been indicated.

Political parties, then, must grow from the bottom up as a consequence of representative systems or rules for political action that create incentives for political leaders to come together rather than scatter apart. Being as it is politicians' desire to be elected which defines them, the key is to be found in the electoral rules established by a Constitution or by electoral law.<sup>15</sup> More than any Law of Political Parties, then, what

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<sup>15</sup> See Buchanan, James M. and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Ann Arbor: The University of Michigan Press (1962).

Latin American countries need is electoral reform capable of bringing about party consolidation.

### 7. Populism and Authoritarianism

Populism and authoritarianism do not necessarily go hand in hand; certainly both democratic populism and non-populist authoritarianism can exist. The term *populism* is used to describe demagogic public policies that seek to offer immediate gratification to popular demands and end up undermining the well-being of the population in the long run, whereas the term *authoritarianism* refers to the vertical character of a political regime. Following the lead of William H. Riker, we may hold liberalism as the opposite of populism,<sup>16</sup> while the opposite of authoritarianism is democracy.

The causes of authoritarianism are principally political; it is a backswing that takes place in democracies without political parties. Populism, however, has primarily ideological causes, as it results from a deficient understanding of the economy, but also has a source in perverse incentives that lead to the predomination of short-term interests. As has been argued in this paper, democracy without political parties eventually produces, in a fashion similar to the process by which bacteria are cultured, the conditions from which both authoritarianism and populism naturally arise.

The primary vaccination against populism is the education afforded by historically bad experiences. Thus, just as what led China to liberalize its economy were the lessons of its Communist years from 1948-78, what is preventing Ollanta Humala from dismantling the market reforms of the last two decades is the memory of Peru's

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<sup>16</sup> See Riker, William H., *Liberalism Against Populism: A Confrontation Between the Theory of Democracy and the Theory of Social Choice*. Waveland Pr. Inc. (1988).

experience of governmental intervention in the economy of the 1970s and 1980s. After Cuba under Fidel, Peru was the country that “advanced” the farthest in establishing a state-run economy under the government of General Juan Velasco (1968-75).

Still, the lessons learned from historical experiences may fade with the passage of time; living through hyperinflation is much different than reading about it in textbooks. The next generations could easily forget what it means. That is why the slight difference that having a party-based democracy makes can in the end become important.

Appendix

The following tables incorporate five econometric models to demonstrate the affirmation regarding economic freedom over time. They are taken from Sardón (2010).

Table 1  
THE EFFECT OF POLITICAL REGIME ON ECONOMIC FREEDOM

Dependent variable: Economic freedom

	(1)	(2)	(3)	(4)	(5)
reg_pol	- 4.09 *	- 3.96 *	- 3.51 *	- 3.45 *	- 3.92 *
	(0.90)	(0.94)	(0.90)	(0.90)	(0.94)
urbpop		0.19 *	0.17 *	0.18 *	0.19 *
		(0.03)	(0.03)	(0.03)	(0.03)
col_orig		3.56 **	4.13 **	4.02 **	3.58 **
		(1.62)	(1.83)	(1.87)	(1.63)
etfra		- 5.10 **			- 4.52 ***
		(2.59)			(2.66)
densi		2.06 **	2.41 **		
		(1.04)	(1.13)		
lat_abst			9.07 **	8.05 ***	
			(4.31)	(4.36)	

ln_area				- 0.72 ***	- 0.74 **
				(0.39)	(0.38)
constant	59.94 *	51.89 *	46.55 *	55.61 *	60.61 *
	(0.87)	(2.11)	(1.98)	(5.33)	(4.94)
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Observations	1943	1777	1943	1943	1777
Groups	148	136	148	148	136
R - squared	0.06	0.35	0.27	0.26	0.35
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Table 2  
 THE EFFECT OF THE SYSTEM OF GOVERNMENT AND THE VARIABILITY OF  
 LEGISLATIVE FRAGMENTATION ON ECONOMIC FREEDOM

Dependent variable: Economic freedom

	(1)	(2)	(3)	(4)	(5)
reg_pol					- 3.52 *
					(0.90)
presid_reg_pol	- 6.35 *	- 5.51 *	- 5.25 *		
	(0.99)	(0.99)	(0.99)		
var_tf				- 36.05 ***	- 38.58 **
				(20.81)	(19.69)
urbpop		0.16 *	0.18 *	0.18 *	0.16 *
		(0.03)	(0.02)	(0.03)	(0.03)
col_orig		3.55 **	3.21 **	3.47 ***	
		(1.76)	(1.54)	(1.85)	
etfra			- 4.74 ***		

			(2.46)		
densi		2.32 **	1.95 ***	2.18 ***	2.45 **
		(1.11)	(1.00)	(1.19)	(1.12)
lat_abst		8.23 **			
		(4.14)			
constant	59.99 *	47.68 *	52.19 *	49.01 *	51.83 *
	(0.79)	(1.93)	(2.02)	(2.10)	(1.90)
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Observations	1935	1935	1769	2133	1943
Groups	148	148	136	150	148
R - squared	0.18	0.30	0.37	0.22	0.25
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