Programmatic Parties and the Politics of Bureaucratic Reform

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Abstract: In many countries, politicians neglect the basic financial and personnel management systems that are essential to political oversight of bureaucratic performance. To explain this, we present a new perspective on the political economy of bureaucracy, arguing that politicians organized into programmatic political parties have stronger incentives to pursue public policies that require a well-functioning public administration. They are also better able to act collectively to demand that the executive provide such an administration. We find robust support for this argument with novel evidence: ratings of 511 World Bank public sector reform loans in 109 countries are systematically higher in countries with programmatic political parties.

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Programmatic Parties and the Politics of Public Sector Reform

An important puzzle in the political economy of public sector organization and development is the indifference of politicians in many countries to the performance of the public administration. They neither insist on public sector financial management systems that allow them to track agency spending, nor care that personnel management practices give them scant control over the number and quality of staff in the public administration. Instead, they allow lax financial controls and significant leakage, on the one hand, and patronage-based personnel systems and weak capacity, on the other. The analysis here develops an original explanation of this phenomenon: where politicians are not collectively organized, particularly into programmatic political parties, they have weak incentives to pursue broad public policies that are particularly sensitive to the quality of public administration and are less capable of obliging the executive to implement financial controls and meritocratic personnel systems. We find support for this argument in tests that use unique data, evaluations of the performance of World Bank loans to support public sector reform.

These tests provide the first systematic evidence that sophisticated systems of financial and personnel management are associated with political organization. The evidence supports the argument advanced here: organized politicians are more likely to insist on transparent, rule-bound systems of public sector management. This conclusion contrasts with the bulk of the literature on the political economy of bureaucracy. Much of the US-focused research takes for granted that politicians care intensely about shirking in the public administration. More historical and comparative research concludes that bureaucracies shape political incentives and mobilization strategies, rather than the reverse (Shefter 1994 and Chandra 2004). Tilly (1990) and others argue that politicians only permit strong

bureaucracies when dramatic threats, particularly war, oblige them to do so, while our evidence points to political incentives to reform under more benign circumstances.

The next section details the argument more thoroughly. A significant contribution of the research is to use new and unique data on public administration reform projects from World Bank lending data to examine the politics of public sector reform; we describe these data in the following section. The remainder of the paper reports numerous tests using these data, supporting the conclusion that programmatic parties increase political incentives to pursue public sector reform. The paper concludes by outlining the implications of this conclusion for research on the politics of public sector reform.

Public administration and programmatic political parties

Our argument links the political demand for rule-based financial and personnel management systems in the public sector to the organization of politicians into programmatic political parties. The argument explains the demand of both non-executive politicians (members of the legislature or the ruling party), the usual focus of the political economy literature, and of the executive itself; it applies both to elected and non-elected rulers.

The argument proceeds in four steps. First, transparent, rule-based systems of financial and personnel management allow politicians to monitor shirking by the public administration in the implementation of public policies. Second, shirking is most difficult for politicians to monitor, and these systems offer the greatest benefits, in the case of policies that affect more citizens, such as the provision of public goods. Third, groups of politicians who are organized to overcome free rider problems are more likely to prefer such policies and are better able to demand the financial and personnel management systems necessary to oversee them. Fourth, programmatic political parties – those with the capacity

to convey a credible policy stance to citizens – require that politicians be organized to overcome free rider problems. As a consequence, countries with programmatic political parties are more likely to adopt and exhibit financial and personnel management systems.

It is straightforward that transparent and rule-bound public sector management systems reduce the costs to politicians of observing administrative shirking. Financial management systems allow politicians to observe the possible diversion of financial resources away from their priorities.[1] Meritocratic recruitment standards reassure politicians that public officials are capable of implementing their priorities, allowing them to more easily identify when performance failures are due to shirking rather than incompetence. Consistent with the model of Huber and McCarty (2004) shows, civil service reforms that establish transparent hiring and promotion standards and require employees to have expertise and training in the pursuit of politicians' objectives reduce this potential ambiguity.

These financial and administrative systems are most useful to politicians in the case of public policies for which shirking is more difficult to detect. Politicians can easily verify whether narrowly targeted policies have been implemented, even without strong systems of personnel and financial management. They may even implement such policies themselves, as with constituency development funds (Keefer and Khemani 2009). However, when the

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[1] On May 25, 2012, the director of the United States National Weather Service, an agency in the Department of Commerce, resigned after an audit found that the NWS had diverted approximately $30 million per year to 122 weather offices around the country without notifying Congress. Senator Olympia Snowe called the report "deeply troubling." (*The Washington Post*, "Weather Service director retires after critical investigation of the agency," p. A-2).

number of targeted beneficiaries is large, politicians require correspondingly more information to judge whether the policy is successful.

It is particularly difficult for politicians to monitor the implementation of public goods, a particular type of policy that benefits large groups. With transfer payments, for example, the policy is fully implemented if the payments reach the targeted beneficiary. Public goods tend to provide services for which implementation is judged by the achievement of outcomes that are the product of multiple influences. Only one of these is the effort of public employees. Student learning, for example, is also a function of unobservable family and student effort; not only the effort of public employees, but also environmental conditions and household behavior determine public health. To assess public employees' efforts to provide public goods, as opposed to private transfers, politicians are more likely to need the assistance of systems that assess the outcomes experienced by all citizens and disentangle the contribution that public employees' effort plays in generating those outcomes.[2]

The question, then, is under what conditions politicians prefer public goods and other policies that benefit large groups of citizens and, by implication, are therefore more likely to demand these oversight systems. A standard result in a large literature is that political incentives to provide public goods depend on whether they need the support of large constituencies to remain in office (e.g., Persson and Tabellini 2000). The larger the constituency, the more politically efficient it is to deliver benefits in the form of public goods

[2] Consistent with this line of argument, Johnson and Libecap (1994) argue that Congress professionalized the civil service after the Civil War and its aftermath had increased the scope and complexity of government activity.

rather than private transfers. Money spent on a public health program to control infectious disease in a large group can raise average citizen welfare by much more than if politicians use the same resources to deliver small cash transfers to each citizen. If the group is small, however, the same resources translate into large cash transfers and the benefits of private transfers may exceed those offered by the public health program.

Prior research has identified several determinants of political preferences to appeal to larger or smaller groups of citizens; all rest on the degree to which groups of politicians can mobilize support in their collective interest. For example, McCubbins and Rosenbluth (1995) emphasize that when politicians' careers depend on their personal characteristics (e.g., because they are elected in single-member districts) rather than on the characteristics of the group of politicians with which they are affiliated, public policy is more likely to favor policies targeted at narrow constituencies. Keefer and Vlaicu (2008) argue that political appeals to larger groups depend on the degree to which politicians can make broadly credible pre-electoral commitments. "Clientelist" politicians, those who can make credible pre-electoral commitments only to narrow constituencies, prefer narrowly targeted policies to public good provision, in contrast to politicians who can make credible pre-electoral commitments to broad groups of citizens.

The ability of a group of politicians to campaign on their collective achievements, including their ability to make credible commitments to large groups of citizens, depends on whether they are sufficiently well-organized to overcome individual politicians' incentives to free-ride (Keefer 2011). Free-riding incentives exist when individual politicians can gain office by pursuing policies that benefit their narrow constituencies, at the expense of the efforts of their political group to to mobilize the support of a broad constituency. Curbing free-riding by politicians also limits free-riding by citizens. Individually, citizens may prefer

to support individual politicians who provide them with narrow benefits at the expense of public goods that would benefit all citizens. To the extent that individual politicians succeed in making narrow transfers to their supporters, they undermine the ability of citizens to act collectively to punish political groups that fail to provide public promised goods.

Collective action is also necessary if legislators or members of the ruling party have to compel the executive branch to implement their policy preferences, including public sector reform. Moe (1987) and Cox and McCubbins (1994) both emphasize that, absent the ability of non-executive politicians to act collectively, executives can use selective punishments and inducements to persuade individual legislators to give up their proposals to reform the public administration. If politicians can act collectively, they can resist threats of selective punishment by withdrawing their collective support from the executive; they can respond to selective inducements by punishing the politician who accepts them.

This argument predicts that politicians who have succeeded in overcoming their collective action problems are more likely to commit to the provision of public goods to broad groups of citizens and, as a consequence, more likely to support transparent and rule-bound systems of public administration. The tests below take this prediction to the data using, as a proxy for politician organization, the presence of programmatic political parties in countries. This section concludes, therefore, by arguing that parties capable of making credible policy commitments to large groups of voters – programmatic parties – address both obstacles to collective action.

Parties capable of making credible programmatic policy promises to broad groups of voters recruit like-minded citizens as members and invest in mobilizing the political participation of these citizens, facilitating citizen coordination to remove politicians who free-ride. They also reduce free-riding by politicians by applying litmus tests to potential

candidates to ensure that they share common policy preferences, imposing sanctions on those who deviate from the party line, and facilitating collective action by party members to remove leaders who shirk in the pursuit of the party's programmatic objectives (Keefer 2011).

Such parties make it easier for citizens to hold politicians collectively accountable for their actions, encouraging politicians to care less about the particularistic benefits they deliver to voters and more about broadly distributed benefits (e.g., Aldrich 1995). The sanctions imposed by such parties are meaningful, because these parties offer voters credible reasons to take into account both party affiliation and candidate characteristics in making their electoral decisions. Expulsion, for example, costs such politicians the support of all those citizens who value the party's programmatic stance (see, e.g., Snyder and Ting 2002).

Machine parties are also well-organized. However, relative to programmatic parties, they have less interest in improving the quality of the state public administration for the purpose of providing public goods; they are more concerned with the administrative apparatus of the party and with building up the party's own capacity to deliver benefits to voters. Hence, the comparison in the analysis below is between countries with programmatic political parties and all others.

Programmatic parties and executive incentives to reform public administration in democracies and non-democracies

Most analyses of the political economy of public administration focus on politicians outside of the executive branch, typically the legislative branch of government in democracies. Executives themselves, though, whether elected or unelected, also confront challenges in overseeing the bureaucracy over which they preside. They also have a choice about whether to meet these challenges by adopting transparent, rule-bound financial and

personnel management systems; this choice depends, in turn, on whether they mobilize political support with credible promises to providing public goods or narrowly targeted, more clientelist transfers to citizens.

If executives promise public goods and renege on them, the absence of a programmatic party makes it more difficult for citizens or other politicians to act collectively to remove them from office. Like non-executive politicians, then, in the absence of programmatic parties, elected executives are more likely to rely on narrowly targeted policies to retain power and are less likely to demand sophisticated management systems to supervise the public sector. Joaquín Balaguer, for example, the president of the Dominican Republic for many years, did not represent a programmatic party and personally directed the spending of as much as 50 percent of the national budget (Keefer and Vlaicu 2008).

A similar logic extends to unelected executives who attempt to remain in power by committing to policies that benefit broad constituencies, raising the costs of revolt by challengers who cannot credibly match this commitment. The ruler commitment to broad policy benefits is not credible, though, unless rulers can be punished for reneging. Rulers can solve their credibility problem by promising rewards to members of the ruling party in exchange for implementation of the strategy, and allowing ruling party members to organize collectively to impose sanctions on them if they fail to deliver those rewards (Gehlbach and Keefer 2010). Following the death of Mao, for example, who had undermined the ability of Communist Party members to organize collectively, Deng Xiaoping undertook personnel reforms that facilitated collective action, including systematic standards of promotion for party cadres that both explicitly linked their performance to broader party objectives and made arbitrary treatment of cadres by leaders more transparent (Gehlbach and Keefer 2010).

Testable Hypotheses

The theory advanced here points to a causal effect of programmatic parties on the presence of transparent, rule-bound administrative practices. Shefter (1994) and Chandra (2004) make the reverse argument, that parties turn to programmatic appeals in countries where bureaucracies are independent, well-functioning and resist the implementation of arbitrary, clientelist policies. These theories, together, point to the first testable hypothesis, that programmatic parties and transparent and rule-bound administrative systems should be systematically associated. The empirical tests below provide the first systematic evidence of such an association.

Historical and comparative evidence suggest that strong bureaucracies often do not constrain political strategies, warranting a closer look at the specific argument that we advance here. For example, despite the strong bureaucratic legacy of British colonial rule in India and Kenya, clientelist appeals are pervasive. Van de Walle (2003) argues that in the 1990s, parties in African democracies switched to programmatic appeals not because strong bureaucracies pushed them away from clientelist strategies, but because politicians themselves found it difficult to manage clientelist handouts.

Systematic evidence for the argument advanced here can be found in tests of two hypotheses. First, in countries with programmatic political parties, we should observe greater emphasis on public policies that benefit citizens broadly. Keefer (2010) finds evidence for this conclusion: programmatic political parties give stronger incentives to both legislators and executives (elected or unelected) to pursue broadly targeted policies. Second, the focus here, politicians in countries with programmatic parties should prefer financial and personnel management systems that facilitate politician oversight of the public

administration. Efforts to introduce these systems into a country are more likely to succeed in the presence of programmatic parties.

Measuring public sector reform: Evaluations of World Bank public sector loans

The large literature examining both the causes and effects of bureaucratic quality (see, e.g., Keefer and Knack 1995, Rauch and Evans 2000) has relied on subjective and broad evaluations of bureaucratic quality, particularly measures of corruption and bureaucratic quality in *International Country Risk Guide*. Keefer (2011) shows that these are, in fact, associated with programmatic parties. However, the focus on the *performance* of the public sector means that evaluators do not explicitly rate or even characterize the bureaucratic systems that underlie performance: whether public sector financial management systems are capable of tracking spending, or whether personnel management systems are designed to attract and retain the best and brightest candidates for public sector work.

The analysis here exploits a new source of data that give a precise characterization of the public sector reforms undertaken by countries. These are evaluations of World Bank public sector reform loans, produced by the Independent Evaluation Group, an independent unit of the Bank that reports to the Bank Board of Executive Directors and not to Bank management. IEG evaluations are commissioned by the Board or decided upon unilaterally by the IEG. Bank management cannot require any changes in the wording or conclusion of the IEG document or its underlying ratings.

The IEG selected 467 loans that began in 1987 or later and ended in 2006 or earlier. World Bank loans often have multiple, cross-sectoral objectives. IEG therefore classified as "public sector" (as opposed to education, infrastructure, health, etc.) those projects that met two criteria. First, at least 25 percent of the loan amount had to be related to themes or

sectors tied to public sector reform. Second, loans must be disbursed when at least three of the conditions for disbursement fall under the public sector rubric.

For projects active since December 2001, the Bank's management information system classifies projects according both to the sectors (public sector, economic policy, education, etc.) and up to five sub-sector themes (e.g., tertiary education).[3] The most frequently assigned sub-sector themes in loans classified as public sector are public expenditure and financial management, appearing in 307 projects; administrative and civil service reform (249); state enterprise reform (144); and tax policy and administration (120). No others appear more than 90 times (e.g., regulation and competition policy, 90; debt management and fiscal sustainability, 87; and macroeconomic management, 83).

Public sector reform in the World Bank includes themes (e.g., decentralization and judicial reform) that fit only loosely with the arguments here. In our base regressions we therefore restrict the analysis only to those loans for which at least one sub-sector theme was public expenditure and financial management; administrative and civil service reform; or tax policy and administration.

Public expenditure and financial management includes budget planning and execution, procurement, auditing, and monitoring and evaluation. Administrative and civil service reform involves all aspects of the management and organization of personnel, including personnel information systems, career paths, and pay systems. Finally, tax administration is defined as including the key aspects of revenue administration, particularly the institutional setting and development of operational processes, including automation and interaction with taxpayers (World Bank 2008, 4-7).

[3] Prior to December 2001, only sectoral classifications are available.

These particular public sector reform areas closely match the foregoing theoretical arguments. However, results reported below are robust to alternative samples, including the whole sample of loans (based on the argument that the World Bank classifies all of these as public sector loans); or after excluding tax policy and administration (since, although tax administration itself is entirely within the scope of our analysis, loans to assist in the revision of the tax code itself are less so).

Having chosen the 467 (511 in the updated database used in this study) public sector reform loans, the IEG subjected them to several evaluations, as it does to all loans that it evaluates. Two are most appropriate for the analysis here. First, the IEG ratings evaluate institutional development impact. This is the extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources. For loans in most sectors, the main objectives of the projects can be achieved with little attention to institutional development (dams can be built successfully even if the ministry in charge of them remains a shambles). In the case of public sector reforms, however, institutional development is precisely the point. Moreover, in loans with mixed objectives, some public sector and some not, the institutional development rating is likely to weight the public sector components most highly.

The second IEG rating used here is that of a loan's overall outcomes, ranging from highly satisfactory (the program achieved at least acceptable progress toward all major relevant objectives and had best practice development impact on one or more of them); to satisfactory (progress on all relevant objectives, none best practice and no major shortcomings) to moderately satisfactory (major progress on most objectives and no major shortcomings) to moderately unsatisfactory (no progress on most major objectives or progress on all, but with a major shortcoming, such as a violation of a safeguard (e.g., such

as the improper resettlement of communities in an area to be dammed); and unsatisfactory – did not make acceptable progress on most objectives and produced a major shortcoming. The "overall outcome" rating formed the basis of the IEG's own evaluation of public sector reform loans.

The IEG evaluations of public sector loans have two advantages over the standard, broad and subjective measures of bureaucratic quality. First, they are precisely-defined indicators of the rules and systems of public administration. They allow us to test the hypotheses advanced here, that specific financial and personnel management reforms depend on the incentives of political actors interested in oversight of executive implementation of their policy priorities.

Second, they are less subject to endogeneity concerns. Broad and subjective measures of bureaucratic quality focus on bureaucratic performance. Performance is a function of many factors, including administrative structure, but also historical legacies and the socio-economic environment. These factors, many of which are unobserved, are likely to influence both performance and whether countries have programmatic political parties. In contrast, the decision of countries to accept a loan from the World Bank to pursue specific administrative reforms is less likely to be influenced by these deeper underlying characteristics of countries.

Independent variables

The main correlate of interest, the fraction of parties in a country that are programmatic, is constructed from variables in the *Database of Political Institutions* (DPI, Beck et al. 2001). They identify whether each of the largest three government parties and the largest opposition party are right, left or center in their orientation or whether, on the contrary, their orientation is either not discernible in the sources employed or unrelated to

economic policy. Our key variable is the share of these parties that is programmatic (can be coded as right, left or center, or *rlc_avg*). Across all the loans in our sample, only half of parties were programmatic, on average. We use the value for *rlc_avg* that corresponds to the first year of the loan, which is unlikely to be influenced by the successful or failed implementation of the loan and makes it more difficult to attribute our findings to a pattern of causality running from bureaucratic quality to programmatic parties. Results are robust to other timing assumptions. [4]

Information from other sources supports the interpretation of the DPI indicator as a measure of a party's ability to make credible programmatic appeals to citizens. The Duke political parties database has extensive information on parties in 80 democracies in 2009. One can compare these variables to the average DPI programmatic variable of sample countries with projects during period since 2000. The comparison points to a high correspondence between *rlc_avg* and the more detailed party characteristics identified by expert respondents in the Duke database. For example, if parties are programmatic, one would expect them to have more stable factional groups in the legislature – party-switching is more difficult for politicians when ideological labels are attached to party affiliation. The correlation with factional instability variable in the Duke database (question A.7) with *rlc_avg* is -.42 for the 48 countries that are common to our database and the Duke database over this period. Programmatic parties should also rely less on charismatic leaders to mobilize voters. The Duke variable indicating whether parties are led by charismatic leaders (E1) is significantly negatively correlated with *rlc_avg* (-0.28).

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[4] Such as averaging *rlc_avg* over the project period or using 3 and 5 year backward averages.

Poorer countries with badly educated citizens are less able to accumulate the human capital needed to run an efficient public sector and to implement public sector reforms successfully. All regressions therefore control for the log of per capita income and the rate of progression to secondary school, both from the *World Development Indicators*. Log of per capita income is averaged over the duration of the loan, and rate of progression to secondary school is a country average.[5]

The size of a loan can also affect its ratings. The larger a loan, the greater are the resources that are potentially applied to public sector reform, which may improve ratings. Larger loans may exhibit greater sectoral diversity, making the ratings noisier measures of public sector reform success. On the other hand, larger loans may attract stricter and more accurate scrutiny by the IEG, making them less noisy. All regressions therefore control for the loan amount and the percentage of the loan amount that is allocated to the public sector.

Estimations also include a control for the duration of the loan. Longer duration loans could imply a more conscientious effort by countries to pursue loan objectives (consistent with the frequently-voiced argument that institutional reform takes longer). However, within the World Bank, slow loan disbursements can also be a red flag, indicating difficulties with implementation. In either case, duration is a rigorous control variable, since it may capture variation in IEG ratings that is actually due to political decisions linked to the presence or absence of programmatic political parties.

Larger countries may be more difficult to administer; on the other hand, there may be economies of scale in administering more populous countries (holding area constant).

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[5] The main results hold when we use project start year values instead of averages over the term of the loan.

There is, in fact, some evidence that public sector reform is more likely to succeed in countries with more people. Therefore, all regressions control for population and land area, from *World Development Indicators*, as well as for region dummies, using the UN standard regions.

Countries' initial level of bureaucratic quality may influence their ability to earn a successful rating from the IEG. Moreover, the specific characteristics of public sector reforms may depend on initial bureaucratic quality. Our main results are robust to controlling for the beginning-of-period evaluation of bureaucratic quality found in Political Risk Services' *International Country Risk Guide*.

Results are robust, as well, to controls for IEG's rating of quality at entry. Donor agencies argue that project outcomes depend on project preparation; the better is project preparation, the higher should be the IEG rating of quality at entry. This is a conservative test, since the quality of loan preparation is related not only to Bank inputs, but also to country engagement with the lending process. Engagement, though, should be a function of political incentives. Quality at entry could therefore also capture variation in loan success ratings that is properly attributed to the presence or absence of programmatic political parties.

A large literature argues that formal political and electoral institutions influence political incentives to pursue particularistic versus public goods. Nearly all of that literature assumes that political parties are able to credibly promise public goods, and are therefore programmatic. The effects of these institutions in settings where political parties are weak and politicians are not collectively organized are less clear. Results are robust to controlling for whether a system is presidential, semi-presidential or parliamentary, whether the electoral

system is proportional or plurality, as well as average district magnitude. These variables are taken from the *Database of Political Institutions*.

Institutional controls introduce the possibility that the hypothesis will be spuriously rejected, since many theories suggest that these institutions influence political incentives to build programmatic political parties. For example, Cox (1997), Strom (1990), and Cox and McCubbins (1993) all argue that electoral rules affect the cohesion and discipline of parties. Bowler, Farrell, and Katz (1999), Cox (1997) and Cox and McCubbins (1993) also emphasize that parliamentary systems increase incentives for party cohesion. However, although the political system variable is, in particular, significantly related to our measure of programmatic parties, results are robust to controls for all these variables.

Table 1: Summary Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Programmatic Parties (Full Sample)	415	0.5171888	0.3828382	0	1
Programmatic Parties (Democracies)	214	0.651947	0.3531845	0	1
Programmatic Parties (Non-democracies)	164	0.3974594	0.3534068	0	1
Log GDP per capita	418	1.271757	1.659389	0.0825486	9.024541
Log Population	418	16.59085	1.469631	12.9496	20.94271
Log Land Area	426	12.63474	1.644888	5.828946	16.61196
Progression to Secondary School (%)	380	75.74639	21.62246	25.98069	99.80688
Funding Amount	439	99.25689	198.3292	0.4933589	2525.25
Project Duration	439	3.776765	2.533845	1	12
Loan % Allocated to PSR	439	44.64237	21.00635	11	100
IEG Quality at Entry	305	4.213115	1.420188	1	6
Initial ICRG Bureaucratic Quality	354	2.512307	1.134971	0	6
PR	401	0.535469	0.4824109	0	1
Political System	423	0.3904903	0.742379	0	2
Mean District Magnitude	397	31.6449	107.382	0.7	888
Democracy (ACLP)	423	0.5462203	0.4815177	0	1
Newspaper Circulation	321	34.54603	42.17872	0.09	200.1508
Natural Resource Exports (% GDP)	365	2.691767	5.38174	0	49.19149

Most discussions of public sector organization and conflicts of interest between executive and legislature emphasize information asymmetries. We use newspaper circulation in countries, taken from *World Development Indicators*, to account for this effect. Gehlbach and Keefer (2010) argue that leader willingness to allow for collective action (by a ruling party or by a bureaucracy) is attenuated when natural resource rents are high. Knack (2008) shows that natural resource exports weaken government incentives to design efficient tax systems. We therefore control for natural resources as a percent of exports, from WDI. All of these variables are summarized in Table 1.

Specification and results

We use a logistic specification to estimate the following, $IEG_i = \beta_0 + \beta_1 * (programmatic\ parties) + X_i \beta_2 + \varepsilon_i$. Each observation *i* is a loan. The variable IEG_i is the IEG rating of either institutional development or overall loan success. The institutional development indicator variable takes the value of 1 when the institutional development impact of the project is "substantial" or higher; 0 otherwise. The overall outcome indicator variable takes the value of 1 when the outcome of the project is "satisfactory" or higher; 0 otherwise. The main results are robust to alternative thresholds for project success and to the use of ordered logit regressions using the full ratings scales. We estimate only clustered standard errors, assuming that errors are distributed independently across countries, not across loans within countries. $\boldsymbol{X}_i$ is a vector of covariates; ε_i is an error term; and β_0, β_1, and β_2, are (vectors of) parameters to be estimated.

Table 2. Logistic Regression: Programmatic Parties and Project Ratings for Public Sector Reform

	Inst. Dev. Impact Rating		Overall Outcome Rating	
	Base Model	Full Model	Base Model	Full Model
Programmatic Parties	4.019**	5.893**	2.915**	3.504*
	(0.002)	(0.003)	(0.006)	(0.029)
Log GDP per capita	1.196	1.108	1.088	1.079
	(0.303)	(0.531)	(0.483)	(0.585)
Log Population	1.623+	1.763	1.249	1.386
	(0.086)	(0.196)	(0.216)	(0.211)
Log Land Area	0.840	0.804	0.915	0.879
	(0.397)	(0.429)	(0.552)	(0.565)
Progression to Secondary School (%)	0.976	0.974	0.993	0.996
	(0.144)	(0.156)	(0.610)	(0.816)
Funding Amount	0.998+	0.998*	0.998*	0.998*
	(0.083)	(0.049)	(0.032)	(0.011)
Project Duration	0.981	1.059	0.887+	1.018
	(0.780)	(0.440)	(0.086)	(0.799)
Loan % Allocated to PSR	1.006	1.008	1.009	1.014
	(0.367)	(0.334)	(0.199)	(0.129)
IEG Quality at Entry		1.925***		3.603***
		(0.000)		(0.000)
Initial ICRG Bureaucratic Quality		0.790		0.612*
		(0.336)		(0.050)
Region Dummies	Yes	Yes	Yes	Yes
Observations	255	214	259	218
Pseudo R^2	0.174	0.289	0.083	0.300

Odds ratios reported; p-values in parentheses + $p < 0.10$, * $p < 0.05$, ** $p < .01$, *** $p < .001$
GDP per capita and population are averaged over the project period; progression to secondary school is a country average; programmatic parties and ICRG bureaucratic quality are measured at the project start year

Table 2 reports the results of logistic regression for the baseline and full models. The baseline control variables include country characteristics (GDP per capita, population, land area, progression to secondary school) and project characteristics (project duration, funding amount, loan percentage allocated to public sector reform), and the full model adds IEG quality at entry and initial bureaucratic quality to the base model. All tables report odds ratios, the ratio of the odds that a project earns a successful rating to the odds that it earns an unsuccessful rating, adjusted for the simultaneous effect of the other explanatory

variables.[6] Odds ratios greater than one imply that increases in the independent variable increase the probability of success; less than one, reduce it.

The odds ratios for programmatic politics in the base model are 4.02 for institutional development impact and 2.92 for overall project outcome. This implies that a one unit change in the proportion of programmatic parties increases the odds of a project earning a successful institutional development impact rating by a factor of 4.02, and a successful overall outcome rating by a factor of 2.92. When controlling for initial bureaucratic quality and the quality of the project design in the full model, the odds ratios are slightly larger: 5.89 for institutional development impact and 3.5 for overall project outcome. Holding all other variables at their mean values, increasing the proportion of programmatic political parties from 0 to 1 increases the probability of institutional development impact success from .240 to .560 in the base model and from .197 to .591 in the full model. For overall project outcome ratings, the probability of earning a successful rating increases from .275 to .525 in the base model and from .188 to .449 in the full model.

The only baseline control variable significant across both models is funding amount: larger loans are associated with a lower probability of loan success. This is not due to a dilution effect – that public sector reforms play a smaller role in larger loans – because we control for the percent of the loan that the Bank attributes to the PSR component. Of the two additional variables in the full model, the IEG rating for quality at entry is significant

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[6] For all countries in the sample, the odds of success relative to the odds of failure is .653 for institutional development impact and .797 for overall outcome. The corresponding probability that a project will earn a successful rating is .395 for institutional development impact and .445 for overall outcome.

and positive for both the project outcome and institutional development impact ratings. On the other hand, initial bureaucratic quality is associated with a *decrease* in the probability of a project earning a successful outcome rating. This estimated effect is consistent with at least three possibilities: that reform is more difficult in more advanced bureaucracies; that the Bank may hold countries with lower quality bureaucracies to more lax standards; and that public officials in more institutionalized bureaucratic settings may have greater ability to resist reform.

The results in Table 2 are not driven by extreme observations. If anything, the exclusion of outliers strengthens them. This is true excluding those observations that had the largest residuals after plotting actual versus predicted values; those that, according to Cook's D, have the greatest overall influence on the regression results; and those with large dfBetas, which have the largest influence specifically on the programmatic party coefficient (results not reported). The results are also robust to controls for newspaper circulation and natural resource exports (not reported in the interests of length, but neither of these additional controls is significant).

Table 3 demonstrates robustness to the inclusion of a broad range of additional control variables. The main results hold even when controlling for newspaper circulation and natural resource exports, and for the inclusion of political controls (whether the electoral system is proportional representation; whether the political system is presidential, semi-presidential or parliamentary; mean district magnitude; and democracy, as determined by ACLP). Other results (not reported) reject two additional alternative hypotheses. One is that countries with programmatic parties have different policy preferences than those without and that it is these preferences that drive the public sector reform results. We

investigate this possibility by controlling for whether the main government party is right, left or center; our main variable of interest remains highly significant.

Table 3. Logistic Regression: Programmatic Parties and Project Ratings for Public Sector Reform--Additional Controls

	Inst. Dev. Impact Rating		Overall Outcome Rating	
	Media and Resources	Political Controls	Media and Resources	Political Controls
Programmatic Parties	7.237***	2.632*	3.486**	2.862*
	(0.000)	(0.038)	(0.005)	(0.017)
Newspaper circulation	0.996		1.001	
	(0.475)		(0.845)	
Natural Resource Exports (% GDP)	1.056		0.946	
	(0.227)		(0.368)	
PR		1.143		1.687
		(0.767)		(0.244)
Political System		1.384		1.191
		(0.217)		(0.392)
Mean District Magnitude		0.994		1.005
		(0.482)		(0.480)
Democracy (ACLP)		1.552		0.856
		(0.450)		(0.662)
Baseline controls	Yes	Yes	Yes	Yes
Region Dummies	Yes	Yes	Yes	Yes
Observations	185	230	188	234
Pseudo R^2	0.246	0.182	0.129	0.100

Odds ratios reported; p-values in parentheses + $p < 0.10$, * $p < 0.05$, ** $p < .01$, *** $p < .001$
Programmatic parties and ICRG bureaucratic quality are measured at the project start year; all other variables are averaged over the project period

Second, it might also be the case that programmatic parties are more likely to introduce conflicts of interest between different branches of government, increasing the demand for public sector reform. Our results are robust, however, to controls for party fractionalization and divided government (defined as whether the executive is from a different party than the majority party in the legislature).

The base regressions pool all countries, more and less democratic, since our hypotheses apply equally to both. Table 4 shows that the results are robust, however, to restricting the sample to countries that have exhibited competitive elections and have had at

least one democratic change of government; the definition follows, and the data are taken from, ACLP (Alvarez et. al. 1996, Cheibub et. al. 2009). Within democracies and controlling for IEG quality at entry rating and initial bureaucratic quality, a unit increase in the proportion of programmatic parties is associated with an increase in the odds of successful institutional development impact rating by a factor of 10.32 and an increase in the odds of successful overall outcome rating by a factor of 11.69.

Table 4: Logistic Regression: Programmatic Parties and Project Ratings, Democracy Subsample

	Inst. Dev. Impact Rating		Overall Outcome Rating	
Programmatic Parties	7.362*	10.32*	6.334**	11.69*
	(0.012)	(0.016)	(0.003)	(0.012)
IEG Quality at Entry		2.181***		3.397**
		(0.000)		(0.003)
Initial ICRG Bureaucratic Quality		0.981		0.418**
		(0.935)		(0.009)
Baseline controls	Yes	Yes	Yes	Yes
Region Dummies	Yes	Yes	Yes	Yes
Observations	145	131	148	134
Pseudo R^2	0.266	0.337	0.142	0.337

Odds ratios reported; p-values in parentheses + p < 0.10, * p < 0.05, ** p < .01, *** p < .001
GDP per capita and population are averaged over the project period; progression to secondary school is a country average; programmatic parties and ICRG bureaucratic quality are measured at the project start year

Identifying a causal interpretation: programmatic parties increase the chances of successful public sector reform

The estimates in Tables 2 - 4 are the first robust evidence of an association between programmatic political parties and the success of personnel and financial management reforms of a country's public administration. The comprehensive controls discussed above make it unlikely that the association is spurious and unrelated either to the theory advanced here, that programmatic parties increase political preferences for systems that allow better oversight of the public administration, or for the argument that emerges from the literature,

that the bureaucracies that embrace these reforms also oblige politicians to choose programmatic political strategies.

However, the specifications in Tables 2 and 3, and further evidence presented in this section, support a stronger conclusion: the causal inference that programmatic parties increase the chances that bureaucratic reform succeeds.[7] For two reasons, reverse causality is an implausible explanation for the results. First, we measure programmatic parties the year that the public sector reform project was approved, well in advance of the start of the project and disbursement of funds. It is therefore difficult to argue that successful reforms are a contributing factor to whether parties are programmatic. Second, the strong bureaucracies that Shefter or Tilly have in mind are largely absent in the sample. Indeed, this is one reason why the World Bank extends loans to them to encourage public sector reform. It is, therefore, implausible that strong bureaucracies prompted politicians to pursue public sector reform in these countries.

Omitted variable bias can emerge if countries that receive good ratings on their public sector reform projects because of unobserved characteristics that also make them more likely to have programmatic political parties. These characteristics could manifest themselves as evaluator bias. Indeed, it is possible that World Bank evaluations are themselves endogenous to the presence of programmatic political parties.[8] One reason why

[7] One indication that endogeneity bias does not drive our results is that the Wald statistic for the test of exogeneity is insignificant: there is insufficient information in the sample to reject the null hypothesis that the programmatic parties variable in Tables 2 and 3 is exogenous.

[8] This is unlikely. No project or other Bank document that we reviewed, including the IEG Report (2008), even mentioned political parties.

measurement bias is implausible is that the estimates in Table 2 control for the IEG rating of quality at entry; this variable should capture the omitted country effects that might introduce evaluator bias.

However, if omitted country characteristics nevertheless influence our two dependent variables, they should also influence other IEG ratings, including those that are unrelated to the domestic political conditions in the borrowing country. If omitted variable bias is significant, programmatic parties would be expected to have a significant effect on all IEG ratings, even those on which, in theory, they should have no influence. One of these is the IEG rating of the quality of Bank supervision. Once a loan is signed, Bank staff supervise country progress towards meeting loan objectives. The second is the IEG rating of overall Bank performance, which takes into account both project design and supervision; the distribution of responses is nearly identical to that for supervision. Using these two IEG variables as the dependent variables in the base model of Table 2, however, indicates that programmatic parties are *not* significant determinants of IEG ratings of World Bank supervision and overall performance (results not reported in the interests of length). That is, the programmatic party variable is not related to ratings with which it should, in fact, have no association. This reduces the concern that the relationship between programmatic parties and project success is driven by some unobserved factor or IEG bias that should influence all ratings.

Our sample consists only of countries that have World Bank public sector loans. We do not, however, observe the political process that leads to countries asking for World Bank loans. Legislative processes for adopting World Bank loans could differ systematically between countries with programmatic parties and those without. For example, countries that have programmatic parties may only ask for loans after they have obtained broad

support for them, creating a potentially spurious bias in favor of finding that programmatic parties lead to public sector reform success.

In fact, though, all the countries in our sample share a similar legislative starting point. Legal authority to sign loan agreements with the World Bank rests with the executive branch and, within the executive, with the responsible sectoral minister and the finance minister. In the case of a health loan, for example, the minister of health and the minister of finance are the usual Bank counter-parties. Very rarely do national legislatures, or even cabinets, approve World Bank loans. For essentially all of the sample countries and loans, therefore, loan agreements have proceeded after similar levels of support have been exhibited by officials occupying similar positions.

In fact, our focus only on reform countries is likely to introduce a bias *against* our hypothesis. We argue that politicians in countries with programmatic parties should be more enthusiastic about adopting public sector reform loans than politicians that lack such parties. The countries with non-programmatic parties in our sample must therefore have unobserved characteristics that make them more likely to apply for a public sector reform loan than the average country without programmatic parties. Those same unobserved characteristics might make also them more likely to succeed in implementing the loan than other countries without programmatic parties, narrowing the observed differences between the countries with and without programmatic parties and biasing our results towards a finding of no difference in their success with respect to public sector reform.

As a final check on endogeneity bias, we investigate the robustness of our results to an instrumental variable estimation. Latitude is one of a number of possible instruments used by researchers to control for the possible endogeneity of institutions. Others, such as settler mortality and colonial history, do not predict programmatic parties. Latitude is a

theoretically reasonable instrument, for reasons similar to those advanced by Acemoglu, Johnson and Robinson (2001) for settler mortality: where mortality risks are greater (proximity to the equator is associated with more infectious disease), incentives to form institutions – such as programmatic political parties – are fewer. The identification argument is also similar to that for settler mortality: programmatic parties cannot affect latitude, just as current measures of institutional quality could not have influenced settler mortality many generations before. Just as settler mortality is a valid instrument if it affects income only through its influence on institutional quality, latitude is valid only if it influences IEG ratings of public sector reform through its effect on programmatic parties. Nevertheless, because questions can always be raised about exclusion assumptions, we present the IV results simply as additional supporting evidence of our causal interpretation of the results in Table 2.

Table 5. Instrumental Variables Probit Regression: Programmatic Parties and Project Ratings for Public Sector Reform

	Inst. Dev. Impact Rating	Overall Outcome Rating
Programmatic Parties	8.725^{**}	4.322^{+}
	(0.001)	(0.072)
Baseline controls	Yes	Yes
Region Dummies	Yes	Yes
First Stage: Programmatic Parties		
Latitude	1.017^{***}	1.018^{***}
	(0.000)	(0.000)
Baseline controls	Yes	Yes
Region Dummies	Yes	Yes
Observations	250	254
Craig-Donald F-statistic, first stage	20.3	20.57

Odds ratios reported; p-values in parentheses + $p < 0.10$, * $p < 0.05$, ** $p < .01$, *** $p < .001$
GDP per capita and population are averaged over the project period; progression to secondary school is a country average; programmatic parties and ICRG bureaucratic quality are measured at the project start year.

Table 5 reports the results of these IV estimates. Latitude is a highly significant predictor of programmatic parties and the predicted value of programmatic parties from the first stage regression is a significant correlate of IEG ratings in the second. The instrument

is strong, with the Cragg-Donald F-test yielding an F-statistic of 20.3, well above the Stock-Yogo threshold of 10 (Cragg and Donald 1993, Stock and Yogo 2004). The instrumented programmatic parties variable has a significant and positive effect on the success of public sector reform efforts.

Discussion and implications for the literature on the political economy of public sector reform

The analysis offers a new perspective on the political economy of politicians' oversight of the bureaucracy. Prior research (e.g., McCubbins and Schwartz 1984, Moe 1987, Calvert, McCubbins and Weingast 1989, Thies 1989, Epstein and O'Halloran 1999) focuses on *how* legislators control administrative decisions of the executive branch, asking whether politicians rely on *ex ante* prescriptions (e.g., precise directions to the bureaucracy on what decisions to make under a range of specific circumstances) or *ex post* supervision (e.g., oversight committees and judicial review of administrative decisions). These control mechanisms share the common characteristic that they are systemic and assume that politicians can act collectively to enforce them. In the absence of programmatic political parties, however, none of these methods is credible; legislators have limited ability to act collectively to punish executives who ignore them. For example, the arguments here indicate considerably less interest in *ex ante* institutional rules among politicians who are not organized into programmatic parties. They are more likely to rely on personal contacts with affected constituents to find out whether adverse regulatory decisions have been made and to use their personal contacts with the bureaucracy, rather than formal legislative action, to monitor implementation and seek redress.

Other research (e.g., Huber and McCarthy 2004) predicts that dysfunctional public administration, particularly agencies staffed with less capable employees, distorts politicians'

policy choices. The analysis here suggests that underlying political circumstances distort both political decisions regarding the bureaucracy and public policies more generally. Where politicians are not organized into programmatic political parties, they prefer clientelist public policies (Keefer 2011) and rely on clientelist interactions with the public administration to ensure that these policies are carried out.

The analysis here also extends the existing literature on the political economy of public administration to non-democracies. Autocrats vary in the degree to which they choose to fend off potential challengers by providing benefits to large groups of citizens. Those that choose to provide broadly distributed benefits to citizens must make credible commitments to reward members of the ruling party, who implement these policies. As Gehlbach and Keefer (2010) argue, the credibility of ruler commitments to party members depends on whether party members can act collectively to limit the scope for ruler shirking. However, party members able to act collectively are also more likely to demand such administrative reforms to facilitate oversight of the ruler's pursuit of party goals. Public sector reforms are therefore also more likely to succeed in non-democracies with programmatic parties.

Conclusion

This paper develops a new argument that relates public sector organization to the presence of programmatic parties: the more organized are politicians, the more likely are voters to hold them accountable for public sector failures and the better able are politicians to enforce rules governing public sector performance. Organizational arrangements to overcome free-riding are essential for politicians in programmatic parties; such politicians are more likely to value public policy outcomes that depend on the efficiency of public sector organizations. New evidence on World Bank public sector loans allows us to conduct an

exact test of the proposition that programmatic parties promote more efficient public sector organization, yielding strong and robust evidence for the proposition.

Our results have significant implications for public sector reform. In discussing the timing of reform and of donor collaboration with client countries, practitioners and donors emphasize the importance of windows of opportunity. Those windows are usually considered open when influential politicians demonstrate enthusiasm for reform. The analysis here holds enthusiasm constant: all loans generated enough enthusiasm to persuade a few top ministers, including the one in charge of the relevant sector, to approve the loan. The individual commitment of a few turns out to be insufficient, however. In addition, and critically, reform succeeds when a larger group of politicians benefits collectively from it – when politicians are gathered under the umbrella of a programmatic political party.

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